In 2006, *Time Magazine* famously named “You” its Person of the Year, claiming that the rise of the internet was “a story about community and collaboration on a scale never seen before. . . . It’s about the many wrestling power from the few and helping one another for nothing and how that will not only change the world, but also change the way the world changes.”

The free flow of information, it was said, would revolutionize how people communicated and collaborated. Durable social hierarchies would be replaced by decentralized networks. A revival of democratic discourse would return power to the people, toppling dictatorships and challenging political corruption around the globe. And corporate gatekeepers would no longer hold the key to employment—anyone, anywhere, could turn their passion or free time into a job by using the internet to instantly connect with customers or find an audience.

Silicon Valley had assumed its place near the center of the economic universe, and an explosion of tech startups were the stars in its firmament. During the dot-com boom, companies like Yahoo!, eBay, and Netscape combined emerging technologies with ambitious ideas to develop products beloved by millions, while generating massive wealth in the process. People flocked to the San Francisco Bay Area to find jobs, investors poured
money into new ventures, and startups went public on the stock market at a record rate. In the five-year span between March 1995 and March 2000, the tech-centered NASDAQ composite more than quintupled in value, signaling the rise of a “new” economy powered by innovation. The high-tech hype came crashing down to earth at the dawn of the new millennium, after the stock market collapsed under the weight of a glut of unproven and unprofitable companies. But techno-optimism quickly came roaring back as a new wave of startups emerged, embodying the hope that visionary founders and the companies they led would change the world for the better.

Over the last few years, however, dreams about our technological future have turned into nightmares. Today it is commonly understood that even as Silicon Valley has overcome technical bottlenecks, it has simultaneously created massive social problems. The old corporate elite has indeed been unseated, but it has not been replaced by empowered citizens. Instead, the plucky and idealistic upstarts of yesterday have become today’s formidably entrenched tech titans. Google, a company once guided by computer scientists whose missionary motto was “don’t be evil,” mines and exploits personal data from almost every aspect of our lives for profit. Instead of giving rise to democratic resurgence and resilience, Facebook has facilitated the global weaponization and spread of misinformation, contributing to the breakdown of the public sphere, vaccine skepticism, and even genocide in Myanmar. Uber flouted longstanding laws and regulations as it sought to conquer the personal transportation sector, worsening urban traffic congestion and pollution while building a business worth tens of billions of dollars on the backs of its poorly compensated, precarious workforce. And this is only a small sample of the critiques leveled at just three once-revered tech companies. What went wrong? Why do startups that promise to change the world for the better create so many problems as they grow?

As the public’s infatuation with tech startups has faded, scholars and commentators have produced scores of texts attempting to explain what happened. One set of critiques focuses on the design of the software itself. These accounts show how social disparities and biases get baked into the data that powers algorithmic systems, and how those systems can end up producing unfair and discriminatory outcomes.
the role of toxic founders and CEOs, producing entertaining yet horrifying profiles of the leaders of companies like Theranos, WeWork, and Uber. A third set of critiques views the rise of AI, algorithms, big data, and metrics as coincident with a shift in the structure of capitalism and processes of capital accumulation. But the leading theories of “platform capitalism” are pitched at a high level of abstraction, distanced from the organizational processes, investment patterns, and actors who make—and are affected by—technology choices. Their explanations rarely specify the mechanisms through which financial actors’ interests, activities, and mandates come to define the shape of innovation.

This book builds on these structural approaches to understanding tech companies by bringing readers inside the day-to-day operations of a successful startup. I was fortunate to gain incredible access to a company I refer to as AllDone—which ran a platform connecting buyers and sellers of hundreds of local services like landscaping, wedding photography, and piano lessons—just as it was beginning its ascent. After entering the field as a participant-observer conducting research while simultaneously working for AllDone as an intern, I quickly worked my way into a middle-management role that afforded me a comprehensive and in-depth view of the entire operation, from the activities of top executives to the bottom of the org chart. From this vantage point I witnessed the early stages of the platform’s growth, when an entrepreneurial idea began to make a real impact in the world. My insider access afforded me a unique perspective into how startups generate social problems.

What I saw was not a case of algorithms run amok. In fact, many of AllDone’s core algorithmic processes were performed not by computers, but by human workers laboring on a digital assembly line. Nor was it the story of a solitary genius confidently executing his vision to lead a fledgling firm into new stratospheres of success. AllDone’s three cofounders relied on over 225 people distributed across three locations to keep its product functioning as the company lurched from crisis to crisis.

Instead, I saw how investors’ logics structured everyday life inside a fast-growing venture. The need to scale as quickly as possible presented managers with a series of organizational problems. The decisions managers made—and consequently the experiences of AllDone’s workforce and its users—were driven by the need to optimize everything to meet
the expectations of the financiers who could fuel AllDone’s growth. Each problem was addressed by reconfiguring the relationship between the company’s technology and its workforce. But the costs and benefits of involvement in an ever-changing organization were unequally distributed across AllDone’s three work teams in San Francisco, the Philippines, and Las Vegas. The internal instability generated by venture capital was then pushed out onto hundreds of thousands of external participants—the sellers of local services who used AllDone’s platform to find work. Frequent changes to AllDone’s rules and payment models caused significant disruptions in users’ rules and livelihoods.

In this book I argue that it’s time for us to center capital in our investigations of innovation and its impact on societies. A robust account of what tech startups do must include not only how their products affect their users, but also the institutions and incentives driving software development. Technologies are typically produced inside organizations, and organizations exist within institutional ecologies that shape the expectations and possibilities for action.9 The structure of capital thus shapes and constrains what the people who inhabit organizations do. Instead of taking capitalism for granted as the static background against which technological change plays out, we need to interrogate the motives, goals, and perspectives of the actors who drive the outcomes we observe. What do investors want? How do they go about accomplishing their aims? And how do these imperatives structure the landscape of technological change at this particular moment in history, in the age of algorithms and AI?

HOW TO GET RICH IN TECH

This book examines the dynamics and consequences of venture capitalism.10 Venture capital is what turns today’s startups into tomorrow’s Big Tech. The structure of the venture capital financing model incentivizes startups to make specific types of choices that come with pervasive downstream effects, constraining the direction of technological development and channeling idealistic visions of a better future for all into a narrow set of outcomes that disproportionately benefit a small number of powerful stakeholders.
Firms adopting the venture capitalism paradigm are founded with the goal of rapidly and precipitously inflating the company’s valuation, allowing owners of equity in the startup to achieve a massively profitable “exit” via a lucrative corporate acquisition or initial public stock offering (IPO). Contrasting venture capitalism with traditional entrepreneurship illuminates its core principles.

Imagine an entrepreneur named Michelle who applies for a bank loan to start a limousine service in her city. Michelle’s marketing is targeted toward members of her community. To beat out the competition, she focuses on keeping her customers happy by providing high-quality service at a competitive price. Michelle’s goal is to establish positive cash flow and steadily build a profitable business. This will allow her to repay the principal and interest on her loan and provide for her family while contributing to the local economy. If she is wildly successful, she may eventually be able to expand her operations into additional locations across the country. In this model, Michelle makes money by convincing her customers to pay more for her service than it costs her to offer that service. Her small business is valuable, in other words, because it generates profit.

Venture capitalism describes a different—and in many ways peculiar—system for creating enterprises. Instead of seeking a traditional bank loan, an entrepreneur might trade an ownership stake in her new company for money she needs to grow her business. Venture capital investors fund startups that they believe have the potential to yield enormous returns, banking on the fact that, in the future, someone else may be willing to pay far more for equity in the company than they initially paid.11

Like other investor-owned companies, such as publicly traded corporations, venture-backed startups are not just capitalist organizations that produce and sell goods or services. They also represent a financial asset: a particular type of investment for a particular type of financial actor that imposes a particular logic on its portfolio of firms. As economic sociologist Jens Beckert notes, “credit has a disciplinary effect: it pressures the debtor to act in ways conducive to repaying the loan.”12 Similarly, the venture capital business model is predicated on the expectation that the companies venture capitalists fund will generate profits for investors—in this case, by dramatically increasing their valuation as quickly as possible.
The “general partners” of venture capital firms—also known as “venture capitalists” or “VCs”—are investors who create and manage venture capital funds. Venture capital funds are largely comprised of substantial outlays from “limited partners” such as public and private pension funds, university endowments and foundations, insurance companies, and wealthy families and individuals. General partners often invest some of their own money in the funds they manage as well. Venture capital funds are designed to liquidate their assets and distribute returns to investors within a limited time horizon—typically ten years, but sometimes more or fewer.

Changes in public policy during the late 1970s set the stage for the VC industry’s explosive growth. In 1978, the federal tax rate on capital gains was slashed from 49 to 28 percent. A year later, a Department of Labor ruling allowed private pension managers to include riskier investments in their portfolios. In the early 1980s, American VC funds collectively raised between $100 and $200 million per year; by the decade’s end, the annual total had reached $4 billion. As the Great Recession of 2007–2009 receded from view, wealthy investors shifted their portfolios from mortgages and credit default swaps to companies founded by hoodie-clad programmers. By 2021, US venture capital firms were investing an annual sum of $311 billion. Globally, venture capitalists plowed $621 billion into nearly thirty-five thousand deals—almost six times as much money as investors sank into dot-coms during the boom in 2000. Over nine hundred startups were valued at over $1 billion, compared to just eighty in 2015.

The list of organizations and people with a stake in the venture capital system stretches far beyond a small cadre of professional investors: because venture capital funds have become a standard component of the portfolios of institutional investors, their profits and losses can affect millions of people who invest in public and private employee retirement funds.

Like other financial institutions, venture capital leverages corporations’ dependence on external funds to advance its own interests. Venture capital firms build portfolios of high-risk and potentially high-reward startups. VCs expect that most of their investments will either result in losses or yield little to no profit. One or two out of every ten, however, will ideally be incredible successes. A single successful startup can multiply in value by a factor of tens, hundreds, or even thousands, potentially generating billions of dollars in profits for financiers. For
example, Sequoia Capital’s initial $585,000 investment in Airbnb was worth $4 billion following the company’s initial public offering in 2020, representing a 7,000-times gain; its total investment of $260 million across multiple rounds of funding yielded $11.76 billion.\textsuperscript{19} The small fraction of highly successful startups that participate in the most lucrative acquisitions and IPOs cover investors’ losses and generate the vast majority of returns.

Competition for venture capital funding can be fierce: VCs commonly claim that they receive hundreds or even thousands of pitches from entrepreneurs for every startup they choose to fund. In exchange for their services, general partners extract substantial fees from limited partners, including an annual management fee of 1.5 to 3 percent of funds committed and 20 to 35 percent of the fund’s returns over a predefined benchmark. (A “two and twenty” model is most common.) Given these high fees and the risk involved, investors expect substantial profits: top VC funds may net investors an annual return of over 20 percent.\textsuperscript{20} In comparison, during the 2010s, annual economic growth in the United States typically hovered around 2 percent.\textsuperscript{21}

To help offset the risks they assume when investing in new companies, venture capitalists take an active role in the startups they fund. The lead investor of each VC deal is typically awarded a seat on the startup’s board of directors. From this position, investors monitor the firm’s performance and participate in corporate governance, pushing each of the companies in their portfolio to attempt to become one of its rare successes. Board members’ voting rights afford them direct input into the company’s decision-making processes. They use this authority to protect their investments and ensure that the company acts in ways that will maximize the financial interests of their limited partners. Board members control the firm’s most important decisions, including when and how to change corporate strategy, when to raise additional funds, and whether to replace the company’s executive team. It is also common for VCs to be directly involved in recruiting executive-level managers for growing firms.\textsuperscript{22} Consequently, when entrepreneurs accept VC funding, they cede a significant degree of control over the firm’s strategy to investors who favor risk-taking over efficiency and emphasize relentless innovation geared toward rapid—and even arguably reckless—growth.\textsuperscript{23}
The case of Uber, one of the most influential venture-backed startups the world has ever seen, illustrates how the model works. In 2008, Garrett Camp had an idea for a new digital platform that could revolutionize the personal transportation industry by allowing customers to instantly summon a private car using a smartphone app. Instead of securing a bank loan to jumpstart their business, as did Michelle in the hypothetical example above, Camp and cofounder Travis Kalanick sought funding from venture capital investors who took a bet on a risky proposition and offered millions of dollars in exchange for an ownership stake in the fledgling startup.

Because Uber’s cofounders and investors dreamed of someday selling the company for billions of dollars, their primary commitment was to “scale”—creating a product that could accommodate an ever-expanding network of users who would come to rely on the platform’s services. Uber publicly launched its app in 2011 in San Francisco. In 2014, Uber had a presence in one hundred cities around the globe; a mere two years later, it was in five hundred cities. By the beginning of 2016, Uber had facilitated a total of one billion trips; within another year, that figure had increased to five billion, and a year after that it stood at ten billion. The company’s aggressive expansion was fueled by venture capital investors who were eager to share in Uber’s success: VCs repeatedly pumped millions—and then billions—of dollars into the fast-growing firm. When Uber held its initial public stock offering in 2019, the company was valued at $69 billion, with its top five shareholders (three investment funds and two cofounders) owning stock worth a combined $27.1 billion.

Yet, for all its successes, one curious fact about Uber demands our attention: at the time of this writing, the company had yet to log a year in which its revenue outpaced its losses. In fact, it has famously lost billions of dollars per year, with no clear path to profitability. And Uber is not alone. During the first three quarters of 2018, a record 83 percent of US IPOs were of companies that had been unprofitable at the time of their listing, the highest proportion since recordkeeping began in 1980. According to one recent analysis, over half of the publicly traded companies that VCs once valued at over $1 billion have registered more than $500 million in cumulative losses. For many startup founders, building a sustainable, efficiently run business is a distant goal. Their more immediate
motivation is to turn their ideas into blockbuster deals by achieving scale at all costs—hence the common refrain of “growth first, profits later.” On this front, founders’ interests are aligned with those of venture capital funds, which generate profits not from a company’s operating revenue, but instead when the firms in which they invest appreciate in value.

In sum, venture capitalism describes a system for funding new enterprises aimed at scaling rapidly and precipitously. Whether or not a VC-backed firm makes more money than it takes in is largely irrelevant from the perspective of its investors; what is most important is its ability to cultivate the perception that it can push its funders toward a massively profitable exit that leaves other parties—either a larger corporation or the public markets—holding the bag.

This book is about venture capital’s imprint on technology companies—not about venture capitalists themselves. Their story has already been told by journalists, scholars, and industry insiders. Instead, Behind the Startup proceeds like the film Jaws, in which the powerful figure of the shark remains largely unseen, and the audience comes to know it through people’s responses to it. Venture capital produces imaginaries and incentives that nudge individuals and narrow their choices. This book offers an intimate look at the evolution of a tech startup to uncover both the social processes that drive the VC system and its consequences for entrepreneurs, workers, and societies. Readers will see what VC’s influence does to an organization as it mobilizes different groups to co-construct its power.

**Funding Innovation**

Innovation—or “the profitable combination of new or existing knowledge, resources, and/or technologies”—is one of the key drivers of capitalist economies. New tech companies are inherently uncertain propositions. Startups typically develop novel and unproven applications of technologies and are often founded without a product in hand or evidence that there will be a market for that product. At multiple stages of their development, entrepreneurs need money to commercialize their ideas and fuel their companies’ operations. Enter venture capitalism, with its insatiable appetite for high-risk, high-reward investments. VC firms provide
funding to nascent innovation-based enterprises—as well as advice, access to a network of resources, and reputational benefits—in exchange for equity in the startups they fund.

If the goal of venture capitalism is pursuing scale to rapidly inflate a startup’s valuation, it employs distinctive techniques in support of that goal. These practices have been most succinctly described by Facebook’s longtime motto: “Move fast and break things.” This approach to innovation rewards a willingness to experiment over proven results. A startup’s software engineers often release product features rapidly and with relatively minimal testing, then track user engagement to continually repair and refine them through iterative, data-driven processes.\textsuperscript{32} Relentless experimentation helps nascent tech companies figure out exactly what their product is, how it will work, and where they can find a market for that product. As early-stage startups struggle to define themselves, nothing is nailed down and everything is up for grabs. Those that outlast the competition and secure a quasi-monopolistic position in the market can achieve massive gains for investors as their valuations skyrocket.\textsuperscript{33}

Just as venture capitalism prescribes a startup’s goals and techniques, it also advances a particular set of ideas about how business should be done, and about the moral status of the startup in our world. Founders and investors typically buy into an ethos of “techno-solutionism,” which holds that technology can solve even the world’s most intractable social problems. Failure is good, provided that it’s framed as the outcome of an “experiment” that yields experiences and data to inform the development of future product features or ventures.\textsuperscript{34} The ideal worker is someone who takes on an “entrepreneurial” mindset and eagerly embraces risk in a fast, flexible, and ever-changing work environment—regardless of her eventual share of the rewards.\textsuperscript{35} The “disruption” of existing markets—and the destruction of industries, jobs, and livelihoods associated with the old ways of doing things—are justified on the grounds that innovation represents progress toward a better world for all.\textsuperscript{36} By combining unbelievable wealth with the assurance that entrepreneurs can get rich while doing good, the promise of venture capitalism has captured the imagination of countless people around the globe.

The world of the venture capitalist is defined by “radical uncertainty.”\textsuperscript{37} The VC’s job is, as noted investor Brook Byers has said, “to see the future,”