# Berkeley Leadership Case Series

# Working Remotely: Building SFOX's Decentralized Team and Culture

> *"The number one challenge for a founder is to build a team. Especially in the early days of any startup, execution is everything. More so than the idea, than the product you are working on. If you have a team that can execute, you can overcome any problems a product might have."*
>
> *- George Melika*

In late 2019, SFOX founder Akbar Thobani picked up the phone for an interview on a sunny Friday afternoon. While most founders would call from an office in their headquarters, Thobhani called from the comfort of his home. He and his co-founder George Melika, like all the 38 employees that work for SFOX, had worked remotely for the past five years. Their company SFOX, a cryptocurrency trading platform, had grown explosively due to the recruitment of smart, independent, and capable employees drawn to the unique remote structure and management philosophy of SFOX. As Thobhani spoke on the phone, he reflected on the company growth and the $22.7 million in Series A funding that they had raised in 2018[1]. They had seen a high rate of success and, with that success, a growing concern. Could SFOX's remote culture, distributed structure, and unconventional philosophy scale beyond Series A?

## The Problem of Sending Money Across Multiple Borders

In 2006, Akbar Thobhani had been finishing up his fourth year as a Project Manager for stamps.com. Despite enjoying the job, Thobhani was eager for change, and decided it was time he take his career to a higher level. He began applying to business schools and, in the midst of this, met George Melika, a new Software Engineer hire at Stamps.com. Despite their positions on separate teams, the two met and quickly hit it off. "Our backgrounds and interests just aligned," Melika recalled. Thobhani felt the same way, adding that, "[George] was in the top 1% of engineers." A year later, Thobhani left Stamps.com to pursue an MBA at MIT's Sloan School of

Management. Meanwhile Melika stayed at Stamps.com as a Senior Software Engineer. Though they went their separate ways, the two regularly kept in touch.

Upon completion of his MBA, Thobhani joined Airbnb in its early stages as Head of Business Development. "We were making a lot of transactions," he noted thoughtfully. "One of the challenges was that we were sending money across 193 countries...[and] traditional methods of money sending weren't working." This problem prompted Thobhani to start exploring non-traditional methods of money exchange. He had learned of cryptocurrency and could see its potential to revolutionize value exchange, but in his role at Airbnb, Thobhani was not afforded the freedom to pursue such a high-risk venture, "90% of the work would still be about Airbnb growth," he recalled.

At the same time, Melika began to develop an interest in cryptocurrency. "The very first time I heard about bitcoin, it was failing," he said. Despite the bitcoin crash, Melika's background in fintech and equity trading gave him the notion that blockchain technology and cryptocurrency showed huge promise for the future. As the stars aligned, both Melika and Thobhani found themselves simultaneously eager to start a company in this space. They sat down together to debate the problems and ask themselves "Are we are the right people to do it?"

A long discussion pointed to yes. Thobhani left Airbnb, and the two started the San Francisco Open Exchange, or SFOX, with a vision to "build an open platform for financial products."

## The Promise of Cryptocurrency

The two knew that they wanted to go into cryptocurrency, but like many early founders, had a hard time finding their product-market fit. In its earliest iteration, SFOX started out as a cryptocurrency wallet, a software program that stores the keys that the wallet owner uses to monitor their currencies. While people liked the wallet, they were not entirely satisfied. As Thobani recalled:

> "Every person that we showed the idea to said 'Oh, this is great, how do I buy bitcoin though?' Clearly the need was trading. Given that this was a problem everyone would face and given that we wanted to solve the global payment problem, we realized the right solution was actually a good *trading platform*, not just a *wallet* solution."

*The Perfectly-Timed Pivot*

SFOX's pivot came in 2014 when Mt. Gox, the biggest cryptocurrency exchange in the world, abruptly went bankrupt, reporting that they had lost over 750,000 of their client's bitcoins and 100,000 of their own because of a cyberattack. This massive failure was estimated to be around 7% of the world's bitcoins at the time[2]. While some of today's biggest exchanges such as Kraken, Coinbase, and the Singapore-based Huobi already existed, back then, they were still young and attempting to find their own footing. In the midst of this platform uncertainty, SFOX rigorously tested their trading platform for six months with a select group of customers. Finally, testing was complete, and SFOX was ready to launch to the public.

## The Business Model

When SFOX launched in 2014, the only crypto asset they had listed was Bitcoin. As of 2019, that number has grown to 6, including Litecoin, Ethereum, Bitcoin Cash, Ethereum Classic, and Bitcoin SV (Exhibit 1). The largest factors the founders consider when adding new assets onto their exchange are the governance of the crypto asset, the technology behind it, and whether it has a large community of users. The most important of which is the governance behind the coin.

SFOX generates revenue by taking a percentage of each trade made on the exchange. This number ranges from 0.25% to 0.75%, depending on the volume of the trade. Instead of servicing low-volume beginner traders, SFOX targets high volume traders and institutions. As a result, many of the tools and features SFOX has built into their exchange are targeted towards individuals or teams that trade in large quantities.

*Troubles with Regulation*

From the very beginning, SFOX operated in a dynamic regulatory space.  In the U.S., the Securities and Exchange Commission (SEC) is the primary regulator of all types of securities trading. This includes anything that can be bought and sold with a contract, and cryptocurrencies technically fall under that description. However, many popular crypto assets are not considered securities because they do not require an entity to manage trades. As such, this type of asset exchange is *not* regulated by the SEC, meaning that a platform like SFOX does not need a license to trade them[3]. This status holds today, but as legislative bodies race to understand the new technology, SEC rulings could radically change how trading platforms such as SFOX are monitored and regulated.

## Making Distributive Culture Work

SFOX's workforce is unique in several ways. At less than 40 employees, they are small compared to other tech startups of similar maturity, yet nearly all of the employees are working remotely. One employee describes SFOX's "distributive culture" as mirroring the distributive nature of blockchain technology. However, the problems with this "blockchain culture" is the same with any company dealing with remote employees--the stereotype being one of general laziness and lack of productivity due to minimal oversight. At SFOX, one would think these problems should be even more magnified as it is a fully distributed company. However, Thobani and Melika have somehow managed to navigate successful operation with a completely remote workforce. In the 5 years since the company launched, SFOX has serviced 175,000 traders, and hosts more than 20 different crypto-asset exchanges, brokers, and liquidity providers (Exhibit 2). Between April of 2017 and April of 2018, SFOX saw $5.4 billion in trades and brought in around $15 million in revenue[4]. At that time, SFOX was less than 25 employees[4]. For the founders, it was important that SFOX not outpace themselves in terms of employee growth. So how did they accomplish so much with a relatively small team of remote workers?

## Building Remote Teams: Hiring the Right People

For SFOX, the problem of hiring employees went beyond just finding people who could execute. Being full remote, Thobhani and Melika had to also find people who would thrive in their distributed culture.

*Scorecard for Remote Talent*

From the very start of the company, the founders were clear on the requirements of new hires. A passion for blockchain, self-discipline, and the raw skills to develop the product were necessary for consideration and were qualities that a re-engineered interview process were able to highlight. For applicants that checked these boxes, two qualities much harder to measure through interviews were scoped to make the final decision: open-mindedness and absolute intellect.

The founders identified the first quality, open-mindedness, as essential to collaborate and work at the dynamic fast-paced and remote culture at SFOX. As a startup exploring a new space, novel problems awaited at every turn. The founders realized that a candidate with narrow expertise or problem-solving ability would neither be useful, nor would they enjoy their time at SFOX. As Thobhani puts it:

"We want to make sure when people join us that they are able to solve problems and keep an open mind. You don't know the problems you are going to face. We can never hire people for a specific problem. Sometimes you can, but most of the time you just don't know. So you can hire people for their raw skills, you can hire people for their empathy, but if they have an open mind to come up with their own ideas and solve problems, to me that's number one."

Thobhani and Melika thoroughly examined the background of each candidate, from hobbies, travel, food interests, and personal projects with subtle interview questions intended to gauge the personal and professional open-mindedness of a candidate.

The founders identified a second quality, absolute intellect in the candidate's field, as key to elevating the standard and improving the culture of the company. They followed a simple rule: any candidate hired must be smarter than the person hiring them. In order to gauge the candidates' technical knowledge and creativity, SFOX conducted one-on-one interviews in which experts in their respective fields would ask rigorous questions to prospective employees. This simple rule established a culture of "hiring up" at SFOX. This strong culture allowed the company to embrace a distributed management system such that no management was needed; every employee was already the best at doing their job at SFOX.

While testing technical skills in an interview was fairly straightforward, it was harder to tell if an employee would be independent, disciplined, empathetic, and open minded. For open mindedness, Thobhani liked to ask the candidates about their experiences, projects they had done, places they had been, food they had tried, etc. By engaging with the candidate personally, he found it much easier to determine if they have the right personality for the job. However, these types of questions can only do so much in evaluating whether a person will actually perform well on the job. To solve this problem, SFOX adopts a "hire slow, fire fast" strategy. Instead of determining if an employee will be a good fit in SFOX through a series of interviews, the founders sometimes hire candidates as contractors for a few months before converting them to full-time employees as a strategy to ensure that they retain top talent.

## Building Remote Culture: Shared Interests and Incentives

Due to the longstanding remote working policy, SFOX attracts people who enjoy the flexibility to work whenever they desire. Although the company is small, many of the employees have never even met each other. One employee compared his relationship with his co-workers like having "internet friends", people who you only know through your computer. Many of the employees like this culture because the experience, like meeting friends over social media or online gaming, is similar to what they experienced in their adolescence. Additionally, it helps with maintaining work-life balance for many workers, including Thobhani and Melika, who have families and responsibilities outside of work.

Another common trait that the founders tried to promote in their company culture was personal investment in the product. In the founders' eyes, the ideal SFOX employees should of course be passionate about cryptocurrencies and blockchain, but more importantly they should be passionate about the success of the company. Instead of giving direct monetary raises, Melika and Thobhani prefer to over-compensate their employees with stock options. The two founders also do not have their own separate hoard of founder stock set aside for themselves, all the options that the founders own come from the same pool as everyone else.

## Successful Remote Teams: Communication and Organizational Design

Communication is key for the success of any startup, but with SFOX's dispersed culture, communication is vastly more important than normal companies. Without in-person oversight, the founders have to make sure that their digital conversations with their employees are as

clear and transparent as possible. For starters, since Melika is based in Los Angeles while Thobhani is based in San Francisco, the founders meet remotely every other day to discuss issues facing the company. Employees also meet every week with their project managers. During this time, they are free to talk about anything; however, if there are performance issues, this is where it would be brought up to the employee.

Melika and Thobhani try to stay very approachable. Melika likes to keep an "open door" policy while he is online, always trying to have his finger on the pulse of the company by asking about his employees and keeping up with their personal lives. Thobhani stresses transparency in everything he does so that employees do not feel left out. An important company policy to ensure this transparency is that any employee can join any call not related to legal issues. In this way, every employee has the option to be informed about almost every aspect of the company.

To support productivity and innovation, SFOX has tried implementing programs to encourage pet projects and open architecture within the company. The amount of freedom employees enjoy also comes with a massive amount of trust from Melika and Thobhani. As Thobhani puts it:

> "There are no secrets. We are not guaranteeing success, but we guarantee that if the company is successful, [employees] will participate in it without any tricks. We are all in this together. Structurally we've done that, but real trust is gained over time."

## Scaling a Decentralized Team and Culture

In just five years, SFOX grew its product massively and raised $22.7 million in new funding from Tribe Capital and Social Capital – all while maintaining a relatively small staff. As of November 2019, SFOX has 14 engineers on their team, but not a single engineering manager.

While SFOX hopes to maintain its distributive culture, they know that they cannot guarantee it. Thobhani noted:

> "The culture has to evolve and grow, but SFOX is ready for it. What's important to us is being open minded and being ready to solve any problem."

Distributed workspace models have historically been broken when subjected to growth that Silicon Valley startups tend to experience. However, just because there is not a cookie-cutter framework to do this successfully does not mean that it is impossible. The team feels that their distributed culture enables their employees to thrive, and so despite the rate of growth they plan to stay true to this culture over time.

## Conclusion

Thobhani paused to think about the company's inflection point. Could SFOX's unique culture, inherited from the blockchain ideals of decentralization and self-discipline, potentially scale?

SFOX succeeded as a remote company because the founders doubled down on their distributed culture – they selected top tier employees who were passionate about blockchain, open-minded to innovation, and driven to work for success.

As they scale beyond their current comfort levels, founders must ask themselves one burning question: Is what we're doing now going to work in the long run?

For SFOX in particular, will the founders be able to maintain a strong culture as the company continues to grow? Will current hiring practices and management structures falter or remain strong?
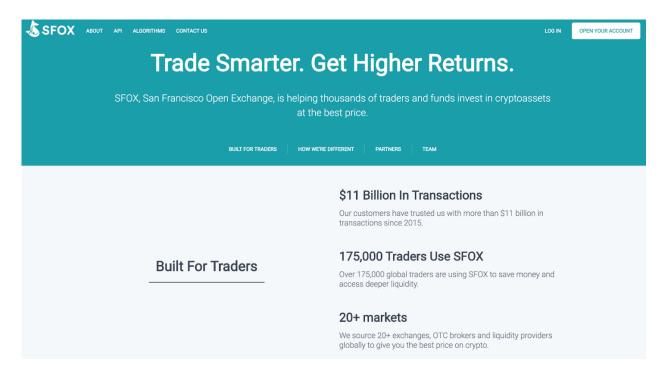
Thobhani, reflecting on SFOX's past performance, felt confident that the distributive culture was critical to success. He stood ready to lead SFOX into 2020 knowing that this unique culture would help the company navigate the highly complex and rapidly changing market.

**Exhibit 1      Snapshot of SFOX's Trading Interface (November 21, 2019)**



**Exhibit 2      "About" page from SFOX's website (November 21, 2019)**

https://www.sfox.com/about.html

## Endnotes

[1]Kauflin, Jeff; *Startup Raises $23 Million To Make Crypto Trades Faster And Stealthier;* August 16th, 2018; https://www.forbes.com/sites/jeffkauflin/2018/08/16/startup-raises-23-million-to-make-crypto-trades-faster-and-stealthier/#2a8266301b29

[2]Takemoto, Yoshifumi; Knight, Sophie; *Mt. Gox files for bankruptcy, hit with lawsuit,* Febuary 28th, 2014; https://www.reuters.com/article/us-bitcoin-mtgox-bankruptcy/mt-gox-files-for-bankruptcy-hit-with-lawsuit-idUSBREA1R0FX20140228

[3] Hinman, Bill; *Statement on "Framework for 'Investment Contract' Analysis of Digital Assets*, April 3rd, 2019; https://www.sec.gov/news/public-statement/statement-framework-investment-contract-analysis-digital-assets

[4]YCombinator; *Q&A with George Melika and Akbar Thobhani, Cofounders of SFOX;* published October 17th, 2018; https://blog.ycombinator.com/qa-with-george-melika-and-akbar-thobhani-cofound_ers-of-sfox/