Learn to be radically open-minded to allow others to point out what you might be missing
1. Seek out the smartest people who disagreed with me so I could try to understand their reasoning.
2. Know when not to have an opinion.
3. Develop, test, and systemize timeless and universal principles.
4. Balance risks in ways that keep the big upside while reducing the downside

Investors : Because most people are more emotional than logical, they tend to overreact to short-term results; they give up and sell low when times are bad and buy too high when times are good.

wise people stick with sound fundamentals through the ups and downs
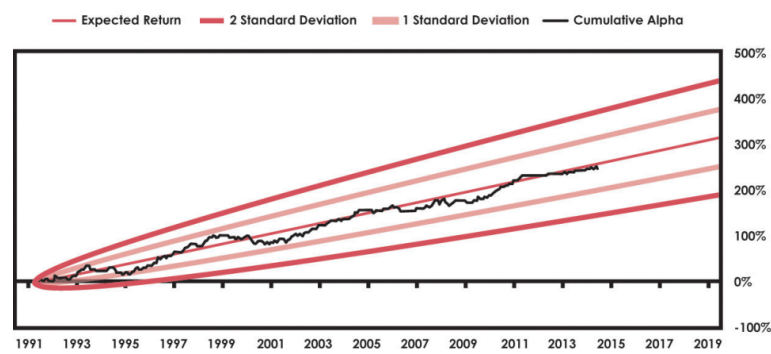
Advice : Value character, creativity, and common sense more than experience

Holy Grail of Investing : Having a few good uncorrelated return streams is better than having just one, and knowing how to combine return streams is even more effective than being able to choose good ones (though of course you have to do both).
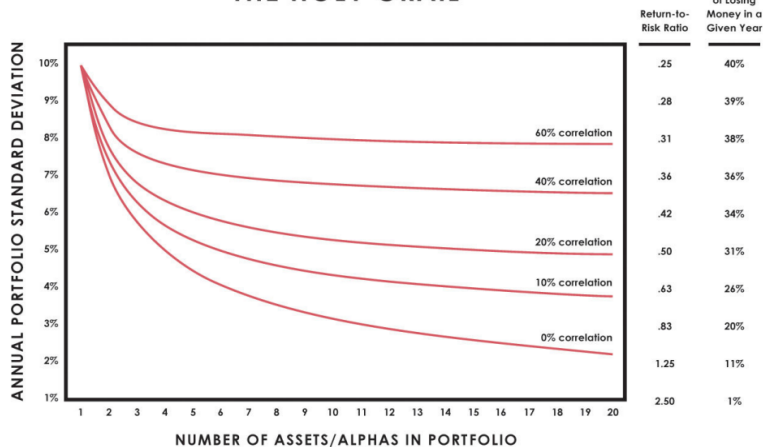
Bridgewater :
1. wrestling with the markets, thinking independently and creatively about how to make our bets, making mistakes, bringing those mistakes to the surface, diagnosing them to get at their root causes, designing new and better ways of doing things, systematically implementing the changes, making new mistakes, and so on
2. This iterative, evolutionary approach allowed us to continually refine the investment systems
3. As number of decision rules and the amount of data in our systems grew more complex, we hired young programmers who were better than us in converting our instructions into code
4. invested in more and more powerful computers

Shifts in the economic environment- growth and inflation

CG People

1. They are all independent thinkers who do not let anything or anyone stand in the way of achieving their audacious goals
2. They have very strong mental maps of how things should be done, and at the same time a willingness to test those mental maps in the world of reality and change the ways they do things to make them work better.
3. They are extremely resilient, because their need to achieve what they envision is stronger than the pain they experience as they struggle to achieve it.
4. They have a wider range of vision than most people, either because they have that vision themselves or because they know how to get it from others who can see what they can't and are able to see both big pictures and granular details, synthesize the perspectives they gain at those different levels
5. They are simultaneously creative, systematic, and practical. They are assertive and open-minded at the same time.
6. They want to have a big, beneficial impact on the world.
7. When faced with a choice between achieving their goal or pleasing (or not disappointing) others, they would choose achieving their goal every time.

<u>Leading Investment Firm</u>- the investment decision-making process is effective because the investment principles have been put into decision rules that make decisions that people then follow while the management decision-making process is less effective because the management principles have not been put into decision rules that people can follow to make management decisions

<u>Family</u>-view our donations as investments and want to make sure that we have high philanthropic returns on our money

<u>Management Expert</u>-*"to transition well, there are only two things that you need to do: Put capable CEOs in place and have a capable governance system to replace the CEOs if they're not capable."*

<u>Work Principles</u>-Look to the patterns of those things that affect you in order to understand the cause-effect relationships that drive them and to learn principles for dealing with them effectively.

<u>Life Principles</u>

Embrace Reality and Deal with It

1. Be a hyperrealist (Dreams + Reality + Determination = A Successful Life)
2. Truth or, more precisely, an accurate understanding of reality—is the essential foundation for any good outcome
3. Be radically open-minded and radically transparent for rapid learning and effective change -Don't let fears of what others think of you stand in your way, Embracing radical truth and radical transparency will bring more meaningful work and more meaningful relationships.
4. Look to nature to learn how reality works-By trying to find the one code/law that drives them all

- Don't get hung up on your views of how things "should" be because you will miss out on learning how they really are, Change is constant and it drives the human world, Evolve or die, Adapting to change is life's greatest accomplishment and its greatest reward
- To be "good" something must operate consistently with the laws of reality and contribute to the evolution of the whole; that is what is most rewarded-if you come up with something the world values, you almost can't help but be rewarded.
- Contribute to the whole and you will likely be rewarded. Realize that you are simultaneously everything and nothing—and decide what you want to be. What you will be will depend on the perspective you have.

5. Understand nature's practical lessons. Maximize your evolution-the need to have meaningful work is connected to man's innate desire to improve

- Remember "no pain, no gain.", in order to gain strength one has to push one's limits, which is painful (frustration, mental struggle, embarrassment, shame one has to endure this to get something bigger than this)

6. Pain + Reflection = Progress-The challenges you face will test and strengthen you. If you're not failing, you're not pushing your limits, and if you're not pushing your limits, you're not maximizing your potential. Go to the pain rather than avoid it. Embrace tough love

7. The evolutionary process of productive adaptation and ascent-the process of seeking, obtaining, and pursuing more and more ambitious goals pertains to how individuals, society move forward and dealing with setbacks. The quality of your life will depend on the choices you make at those painful moments. No matter what you want out of life, your ability to adapt and move quickly and efficiently through the process of personal evolution will determine your success and your happiness.

8. Weigh second and third order consequences-people who choose what they really want, and avoid the temptations and get over the pains that drive them away from what they really want, are much more likely to have successful lives.

9. Own your outcomes-Whatever circumstances life brings you, you will be more likely to succeed and find happiness if you take responsibility for making your decisions well instead of complaining about things being beyond your control. Don't worry about whether you like your situation or not. Life doesn't give a damn about what you like. It's up to you to connect what you want with what you need to do to get it and then find the courage to carry it through.

10. Look at the machine from the higher level-Higher-level thinking gives you the ability to study and influence the cause-effect relationships at play in your life and use them to get the outcomes you want. Think of yourself as a machine operating within a machine and know that you have the ability to alter your machines to produce better outcomes. By comparing your outcomes with your goals, you can determine how to modify your machine. Looking at how to improve or change the design or people to achieve your goals.

- Distinguish between you as the designer of your machine and you as a worker with your machine. The biggest mistake most people make is to not see themselves and others objectively, which leads them to bump into their own and others' weaknesses again and again. Successful people are those who can go above themselves to see things objectively and manage those things to shape change. Asking others who are strong in areas where you are weak to help you is a great skill that you should develop no matter what, as it will help you develop guardrails that will prevent you from doing what you shouldn't be doing. If you are open-minded enough and determined, you can get virtually anything you want. So I certainly don't want to dissuade you from going after whatever you want

An organization is a machine consisting of two major parts: culture and people.
1. A great organization has both great people and a great culture.
2. Great people have both great character and great capabilities: great character- radically truthful, radically transparent, and deeply committed to the mission of the organization. great capabilities- have the abilities and skills to do their jobs excellently.
3. Great cultures bring problems and disagreements to the surface and solve them well, and they love imagining and building great things that haven't been built before
Tough love is effective for achieving both great work and great relationships: In order to be great, one can't compromise the uncompromisable
A believability-weighted idea meritocracy is the best system for making effective decisions:
pervasive Idea Meritocracy = Radical Truth+ Radical Transparency + Believability-Weighted Decision Making. (MAKE YOUR IDEA MERITOCRACY WORK IN A WAY THAT SUITS YOU)

Forces behind Bridgewater's self-reinforcing evolutionary spiral:
1. We went from one independent thinker who wanted to achieve audacious goals to a group of independent thinkers who wanted to achieve audacious goals.
2. To enable these independent thinkers to have effective collective decision making, we created an idea meritocracy based on principles that ensured we would be radically honest and transparent with each other, have thoughtful disagreements, and have idea-meritocratic ways of getting past our disagreements to make decisions.
3. We recorded these decision-making principles on paper and later encoded them into computers and made our decisions based on them.
4. This produced our successes and failures, which produced more learnings, which were written into more principles that were systemized and acted upon.
5. This process resulted in excellent work and excellent relationships that led us to having well-rewarded and happy employees and clients.

6. That led us to be able to bring in more audacious independent thinkers with more audacious goals to strengthen this self-reinforcing upward spiral.

Trust in and adapting to Radical Truth and Radical Transparency

Realize that you have nothing to fear from knowing the truth

Have integrity and demand it from others

1. Never say anything about someone that you wouldn't say to them directly and don't try people without accusing them to their faces

2. Don't let loyalty to people stand in the way of truth and the well-being of the organization: when mistakes and weaknesses are hidden, unhealthy character is rewarded instead.

Create an environment in which everyone has the right to understand what makes sense and no one has the right to hold a critical opinion without speaking up.

1. Speak up, own it, or get out

2. Don't be naive about dishonesty: Dishonest people are dangerous, so keeping them around isn't smart.

Be radically transparent: forces issues to the surface

People whose opinions matter most are those who know us best

1. Use transparency to help enforce justice.

2. Share the things that are hardest to share

3. Keep exceptions to radical transparency very rare

a) Where the information is of a private, personal, or confidential nature and doesn't meaningfully impact the community at large.

b) Where sharing and managing such information puts the long-term interests of the Bridgewater community, its clients, and our ability to uphold our principles at risk (for instance, our proprietary investment logic or a legal dispute).

c) Where the value of sharing the information broadly with the community is very low and the distraction it would cause would be significant (compensation, for instance)

4. Make sure those who are given radical transparency recognize their responsibilities to handle it well and to weigh things intelligently.

5. Provide transparency to people who handle it well and either deny it to people who don't handle it well or remove those people from the organization. Don't share sensitive information with the organization's enemies

Meaningful relationships and meaningful work are mutually reinforcing, especially when supported by radical truth and radical transparency

Cultivate Meaningful Work and Meaningful Relationships

Be loyal to the common mission and not to anyone who is not operating consistently with it

Be crystal clear on what the deal is
1. Make sure people give more consideration to others than they demand for themselves
2. Make sure that people understand the difference between fairness and generosity
3. Know where the line is and be on the far side of fair
4. Pay for work

Recognize that the size of the organization can pose a threat to meaningful relationships
Remember that most people will pretend to operate in your interest while operating in their own
Treasure honorable people who are capable and will treat you well even when you're not looking

Create a Culture in Which It Is Okay to Make Mistakes and Unacceptable Not to Learn from Them
Recognize that mistakes are a natural part of the evolutionary process.
1. Recognize that mistakes are a natural part of the evolutionary process.
2. Don't feel bad about your mistakes or those of others.

Don't worry about looking good-worry about achieving your goals: Get over "blame" and "credit" and get on with "accurate" and "inaccurate."
Observe the patterns of mistakes to see if they are products of weaknesses
Remember to reflect when you experience pain(Pain+REflection=Progess)
1. Be self-reflective and make sure your people are self-reflective.
2. Know that nobody can see themselves objectively
3. Teach and reinforce the merits of mistake-based learning

Know what types of mistakes are acceptable and what types are unacceptable, and don't allow the people who work for you to make the unacceptable ones.

Get and Stay in Sync
Recognize that conflicts are essential for great relationships because they are how people determine whether their principles are aligned and resolve their differences-Spend lavishly on the time and energy you devote to getting in sync, because it's the best investment you can make
Know how to get in sync and disagree well
1. Surface areas of possible out-of-syncness. If you and others don't raise your perspectives, there's no way you will resolve your disputes.
2. Distinguish between idle complaints and complaints meant to lead to improvement
3. Remember that every story has another side

Be open-minded and assertive at the same time.
1. Distinguish open-minded people from closed-minded people. Open-minded people seek to learn by asking questions; they realize how little they know in relation to what there is to know and recognize that they might be wrong;they are thrilled to be around people who know more than

they do because it represents an opportunity to learn something. Closed-minded people always tell you what they know, even if they know hardly anything.

2. Don't have anything to do with closed-minded people.
3. Watch out for people who think it's embarrassing not to know
4. Make sure that those in charge are open-minded about the questions and comments of others
5. Recognize that getting in sync is a two-way responsibility
6. Worry more about substance than style
7. Be reasonable and expect others to be reasonable
8. Making suggestions and questioning are not the same as criticizing, so don't treat them as if they are.

If it is your meeting to run, manage the conversation.

1. Make it clear who is directing the meeting and whom it is meant to serve
2. Be precise in what you're talking about to avoid confusion.
3. Make clear what type of communication you are going to have in light of the objectives and priorities
4. Lead the discussion by being assertive and open-minded
5. Navigate between the different levels of the conversation
6. Watch out for "topic slip." -Topic slip is random drifting from topic to topic without achieving completion on any of them
7. Enforce the logic of conversations- People's emotions tend to heat up when there is disagreement. Remain calm and analytical at all times; it is more difficult to shut down a logical exchange than an emotional one. Remember too that emotions can shade how people see reality.
8. Be careful not to lose personal responsibility via group decision making.
9. Utilize the "two-minute rule" to avoid persistent interruptions- The two-minute rule specifies that you have to give someone an uninterrupted two minutes to explain their thinking before jumping in with your own. This ensures that everyone has time to fully crystallize and communicate their thoughts without worrying they will be misunderstood
10. Watch out for assertive "fast talkers."- "Sorry for being stupid, but I'm going to need to slow you down so I can make sense of what you're saying." Then ask your questions. All of them.
11. Achieve completion in conversations- The main purpose of discussion is to achieve completion and get in sync, which leads to decisions and/or actions.
12. Leverage your communication. While open communication is very important, the challenge is to do it in a time-efficient way—you can't have individual conversations with everyone. It is helpful to identify easy ways of sharing, like open emails posted

Great collaboration feels like playing jazz.

1. 1+1=3. Two people who collaborate well will be about three times as effective as each of them operating independently

2. 3 to 5 is more than 20. Three to five smart, conceptual people seeking the right answers in an open-minded way will generally lead to the best answers. When you have alignment, cherish it: While there is nobody in the world who will share your point of view on everything, there are people who will share your most important values and the ways in which you choose to live them out

If you find you can't reconcile major differences especially in values consider whether the relationship is worth preserving.- A lack of common values will lead to a lot of pain and other harmful consequences and may ultimately drive you apart

Believability Weight Your Decision Making

Recognize that having an effective idea meritocracy requires that you understand the merit of each person's ideas.
1. If you can't successfully do something, don't think you can tell others how it should be done.
2. Remember that everyone has opinions and they are often bad.

Find the most believable people possible who disagree with you and try to understand their reasoning.
1. Think about people's believability in order to assess the likelihood that their opinions are good- the quality of the life you get will depend largely on the quality of the decisions that you make as you pursue your goals. The best way to make great decisions is to know how to triangulate with other, more knowledgeable people
2. Remember that believable opinions are most likely to come from people 1) who have successfully accomplished the thing in question at least three times, and 2) who have great explanations of the cause-effect relationships that lead them to their conclusions.
3. If someone hasn't done something but has a theory that seems logical and can be stress tested, then by all means test it- Keep in mind that you are playing probabilities.
4. Don't pay as much attention to people's conclusions as to the reasoning that led them to their conclusions.
5. Everyone should be up-front in expressing how confident they are in their thoughts.

Think about whether you are playing the role of a teacher, a student, or a peer and whether you should be teaching, asking questions, or debating.
1. It's more important that the student understand the teacher than that the teacher understand the student, though both are important.
2. Recognize that while everyone has the right and responsibility to try to make sense of important things, they must do so with humility and radical open-mindedness

Understand how people came by their opinions
1. If you ask someone a question, they will probably give you an answer, so think through to whom you should address your questions
2. Having everyone randomly probe everyone else is an unproductive waste of time.

3. Beware of statements that begin with "I think that . . ."
4. Assess believability by systematically capturing people's track records over time

Disagreeing must be done efficiently
1. Know when to stop debating and move on to agreeing about what should be done
2. Use believability weighting as a tool rather than a substitute for decision making by

Responsible Parties-Believability-weighted decision making is a way of supplementing and challenging the decisions of Responsible Parties, not overruling them
1. Since you don't have the time to thoroughly examine everyone's thinking yourself, choose your believable people wisely
2. When you're responsible for a decision, compare the believability- weighted decision making of the crowd to what you believe

Recognize that everyone has the right and responsibility to try to make sense of important things.
1. Communications aimed at getting the best answer should involve the most relevant people.
2. Communication aimed at educating or boosting cohesion should involve a broader set of people than would be needed if the aim were just getting the best answer
3. Recognize that you don't need to make judgments about everything

Recognize How to Get Beyond Disagreements

Remember: Principles can't be ignored by mutual agreement.-The same standards of behavior apply to everyone

Make sure people don't confuse the right to complain, give advice, and openly debate with the right to make decisions-When challenging a decision and/or a decision maker, consider the broader context.

Don't leave important conflicts unresolved
1. Don't let the little things divide you when your agreement on the big things should bind you
2. Don't get stuck in disagreement—escalate or vote!

Once a decision is made, everyone should get behind it even though individuals may still disagree
1. See things from the higher level
2. Never allow the idea meritocracy to slip into anarchy
3. Don't allow lynch mobs or mob rule

Remember that if the idea meritocracy comes into conflict with the well-being of the organization, it will inevitably suffer
1. Declare "martial law" only in rare or extreme circumstances when the principles need to be suspended.
2. Be wary of people who argue for the suspension of the idea meritocracy for the "good of the organization."

Recognize that if the people who have the power don't want to operate by principles, the principled way of operating will fail

Remember That the WHO Is More Important than the WHAT

1. Remember the goal.

2. Give the goal to people who can achieve it (which is best) or tell them what to do to achieve it (which is micromanaging and therefore less good).

3. Hold them accountable.

4. If they still can't do the job after you've trained them and given them time to learn, get rid of them.

Recognize that the most important decision for you to make is who you choose as your Responsible Parties- Understand that the most important RPs are those responsible for the goals, outcomes, and machines at the highest levels

Know that the ultimate Responsible Party will be the person who bears the consequences of what is done- Make sure that everyone has someone they report to

Remember the force(qualities of people) behind the thing- Change the people and you change how things develop

Hire Right, Because the Penalties for Hiring Wrong Are Huge

Match the person to the design- create a clear mental image of the attributes required for each person to do their job well

1. Create a clear mental image of the attributes required for each person to do their job well- Values are the deep-seated beliefs that motivate behaviors and determine people's compatibilities with each other. People will fight for their values, and they are likely to fight with people who don't share them. Abilities are ways of thinking and behaving. Some people are great learners and fast processors; others possess the ability to see things at a higher level. Some focus more on the particulars; still others think creatively or logically or with supreme organization. Skills are learned tools, such as being able to speak a foreign language or write computer code. While values and abilities are unlikely to change much, most skills can be acquired in a limited amount of time (e.g., software proficiency can be learned) and often change in worth (today's most in-demand programming language is likely to be obsolete in a few years). Value people most who have three C's: character, common sense, and creativity.

2. Make finding the right people systematic and scientific-process for choosing people should be systematically built out and evidence-based. You need to have a people-hiring machine in which the goals are clearly stated so that the outcomes can be compared with them and the machine (the design and the people) producing the outcomes can evolve to improve.

3. Hear the click: Find the right fit between the role and the person- understand the responsibilities of the role and the qualities needed to fulfill them, then ascertain whether an individual has them.

4. Look for people who sparkle, not just "any ol' one of those."

5. Don't use your pull to get someone a job-

<u>Remember that people are built very differently</u> and that different ways of seeing and thinking make people suitable for different jobs.

1. Understand how to use and interpret personality assessments- Personality assessments are valuable tools for getting a quick picture of what people are like in terms of their abilities, preferences, and style. They are often more objective and reliable than interviews.
2. Remember that people tend to pick people like themselves, so choose interviewers who can identify what you are looking for. If you're looking for a visionary, pick a visionary to do the interview in which you probe for vision.
3. Look for people who are willing to look at themselves objectively- Everybody has strengths and weaknesses. The key to success is understanding one's weaknesses and successfully compensating for them.
4. Remember that people typically don't change all that much.

<u>Think of your teams the way that sports managers do:</u> No one person possesses everything required to produce success, yet everyone must excel.

<u>Pay attention to people's track records</u>

1. Check references- Don't rely exclusively on the candidate for information about their track record: Talk to believable people who know them, look for documented evidence
2. Recognize that performance in school doesn't tell you much about whether a person has the values and abilities you are looking for.
3. While it's best to have great conceptual thinkers, understand that great experience and a great track record also count for a lot
4. Beware of the impractical idealist- to know where people's interests lie and how to design machines that produce results, as well as metrics that measure those benefits in relation to the costs
5. Don't assume that a person who has been successful elsewhere will be successful in the job you're giving them.
6. Make sure your people have character and are capable- most organizations overvalue the abilities piece and undervalue the character piece because of a shortsighted focus on getting the job done

<u>Don't hire people just to fit the first job they will do;</u> hire people you want to share your life with.

1. Look for people who have lots of great questions- Smart people are the ones who ask the most thoughtful questions, as opposed to thinking they have all the answers. Great questions are a much better indicator of future success than great answers.
2. Show candidates your warts- Show your job prospects the real picture, especially the bad stuff
3. Play jazz with people with whom you are compatible but who will also challenge you- You need people who share your tastes and style but who can also push and challenge each other

<u>When considering compensation, provide both stability and opportunity.</u>

1. Pay for the person, not the job

2. Have performance metrics tied at least loosely to compensation- Tying performance metrics to compensation will help crystallize your understanding of your deal with people, provide good ongoing feedback, and influence how the person behaves on an ongoing basis.
3. Pay north of fair. By being generous or at least a little north of fair with others I have enhanced both our work and our relationships and most people have responded in kind
4. Focus more on making the pie bigger than on exactly how to slice it so that you or anyone else gets the biggest piece. The best negotiations are the ones with someone in which I say, "You should take more," and they argue back, "No you should take more!"

Remember that in great partnerships, consideration and generosity are more important than money- Be generous and expect generosity from others

Great people are hard to find so make sure you think about how to keep them- When you know what someone is like, you know what you can expect from them

Constantly Train, Test, Evaluate, and Sort People : Changing someone's values is something you should never count on

Understand that you and the people you manage will go through a process of personal evolution.

1. Recognize that personal evolution should be relatively rapid and a natural consequence of discovering one's strengths and weaknesses; as a result, career paths are not planned at the outset
2. Understand that training guides the process of personal evolution.Trainees must be open-minded; the process requires them to suspend their egos while they discover what they are doing well and what they are doing poorly and decide what to do about it.
3. Teach your people to fish rather than give them fish, even if that means letting them make some mistakes.- Give people your thoughts on how they might approach their decisions, but don't dictate to them. The most useful thing you can do is to get in sync with them, exploring how they are doing things and why.
4. Recognize that experience creates internalized learning that book learning can't replace. Provide constant feedback.

Evaluate accurately, not kindly- Rise to a higher level and keep your eye on the bigger picture

1. In the end, accuracy and kindness are the same thing. What might seem kind but isn't accurate is harmful to the person
2. Put your compliments and criticisms in perspective
3. Think about accuracy, not implications
4. Make accurate assessments- Speak frankly, listen with an open mind, consider the views of other believable and honest people, and try to get in sync about what's going on with the person and why. Remember not to be overconfident in your assessments, as it's possible you are wrong.
5. Learn from success as well as from failure.

6. Know that most everyone thinks that what they did, and what they are doing, is much more important than it really is.

Recognize that tough love is both the hardest and the most important type of love to give (because it is so rarely welcomed)- Recognize that while most people prefer compliments, accurate criticism is more valuable, most powerful personal transformations come from experiencing the pain from mistakes that a person never wants to have again

Don't hide your observations about people.

1. Build your synthesis from the specifics up (converting a lot of data into an accurate picture)
2. Squeeze the dots- collected systematically and put into perspective over time, they can be extremely valuable when it's time to step back and synthesize the picture of a person.
3. Don't over squeeze a dot.
4. Use evaluation tools such as performance surveys, metrics, and formal reviews to document all aspects of a person's performance.

Make the process of learning what someone is like open, evolutionary, and iterative.

1. Make your metrics clear and impartial
2. Encourage people to be objectively reflective about their performance
3. Look at the whole picture- see the patterns and to understand the whole picture
4. For performance reviews, start from specific cases, look for patterns, and get in sync with the person being reviewed by looking at the evidence together
5. Remember that when it comes to assessing people, the two biggest mistakes you can make are being overconfident in your assessment and failing to get in sync on it.
6. Get in sync on assessments in a nonhierarchical way
7. Learn about your people and have them learn about you through frank conversations about mistakes and their root causes
8. Understand that making sure people are doing a good job doesn't require watching everything that everybody is doing at all times.
9. Recognize that change is difficult
10. Help people through the pain that comes with exploring their weaknesses

Knowing how people operate and being able to judge whether that way of operating will lead to good results is more important than knowing what they did.

1. If someone is doing their job poorly, consider whether it is due to inadequate learning or inadequate ability
2. Training and testing a poor performer to see if he or she can acquire the required skills without simultaneously trying to assess their abilities is a common mistake.

Recognize that when you are really in sync with someone about their weaknesses, the weaknesses are probably true.

1. When judging people, remember that you don't have to get to the point of "beyond a shadow of a doubt."
2. It should take you no more than a year to learn what a person is like and whether they are a click for their job.
3. Continue assessing people throughout their tenure
4. Evaluate employees with the same rigor as you evaluate job candidates

Train, guardrail, or remove people; don't rehabilitate them
1. Don't collect people.
2. Be willing to "shoot the people you love."
3. When someone is "without a box," consider whether there is an open box that would be a better fit or whether you need to get them out of the company.
4. Be cautious about allowing people to step back to another role after failing

Remember that the goal of a transfer is the best, highest use of the person in a way that benefits the community as a whole- Have people "complete their swings" before moving on to new roles.

Don't lower the bar- Tough love is both the hardest and the most important type of love to give.

Manage as Someone Operating a Machine to Achieve a Goal

Look down on your machine and yourself within it from the higher level
1. Constantly compare your outcomes to your goals.
2. Understand that a great manager is essentially an organizational engineer
3. Build great metrics- Metrics show how the machine is working by providing numbers and setting off alert lights in a dashboard.
4. Beware of paying too much attention to what is coming at you and not enough attention to your machine- pay attention to building and managing your machines, you will be rewarded many times over.
5. Don't get distracted by shiny objects

Remember that for every case you deal with, your approach should have two purposes to move you closer to your goal, and to train and test your machine (i.e., your people and your design).
1. Everything is a case study and what principles apply to that type of case
2. When a problem occurs, conduct the discussion at two levels: 1) the machine level (why that outcome was produced) and 2) the case-at-hand level (what to do about it).
3. When making rules, explain the principles behind them.
4. Your policies should be natural extensions of your principles.
5. While good principles and policies almost always provide good guidance, remember that there are exceptions to every rule

Understand the differences between managing, micromanaging, and not managing.
1. Managers must make sure that what they are responsible for works well.

2. Managing the people who report to you should feel like skiing together. Like a ski instructor, you need to have close contact with your people on the slopes so that you can assess their strengths and weaknesses as they are doing their jobs.
3. You should be able to delegate the details.

Know what your people are like and what makes them tick, because your people are your most important resource- Develop a full profile of each person's values, abilities, and skills

1. Regularly take the temperature of each person who is important to you and to the organization
2. Learn how much confidence to have in your people—don't assume it.
3. Vary your involvement based on your confidence.

Clearly assign responsibilities.

1. Remember who has what responsibilities
2. Watch out for "job slip."- leads to the wrong people handling the wrong responsibilities and confusion over who is supposed to do what

Probe deep and hard to learn what you can expect from your machine

1. Get a threshold level of understanding of the people, processes, and problems around you to make well-informed decisions.
2. Avoid staying too distant- need to know your people extremely well, provide and receive regular feedback, and have quality discussions
3. Use daily updates as a tool for staying on top of what your people are doing and thinking
4. Probe so you know whether problems are likely to occur before they actually do- When a crisis is brewing, contact should be close enough that there will be no surprises.
5. Probe to the level below the people who report to you
6. Have the people who report to the people who report to you feel free to escalate their problems to you
7. Don't assume that people's answers are correct.
8. Train your ear- you'll hear the same verbal cues indicating that someone is thinking about something badly or failing to apply principles appropriately
9. Make your probing transparent rather than private
10. Welcome probing
11. Remember that people who see things and think one way often have difficulty communicating with and relating to people who see things and think another way
12. Pull all suspicious threads.
13. Recognize that there are many ways to skin a cat- Your assessment of how Responsible Parties are doing their jobs should not be based on whether they're doing it your way but whether they're doing it in a good way.

Think like an owner, and expect the people you work with to do the same- Force yourself and the people who work for you to do difficult things (You must stretch yourself if you want to get strong)

<u>Recognize and deal with key-man risk.</u>

<u>Don't treat everyone the same—treat them appropriately</u>

1. Don't let yourself get squeezed
2. Care about the people who work for you
3. Know that great leadership is generally not what it's made out to be

<u>Know that great leadership is generally not what it's made out to be</u>

1. Be weak and strong at the same time
2. Don't worry about whether or not your people like you and don't look to them to tell you what you should do
3. Don't give orders and try to be followed; try to be understood and to understand others by getting in sync

<u>Hold yourself and your people accountable and appreciate them for holding you accountable.</u>

1. If you've agreed with someone that something is supposed to go a certain way, make sure it goes that way—unless you get in sync about doing it differently.
2. Distinguish between a failure in which someone broke their "contract" and a failure in which there was no contract to begin with.
3. Avoid getting sucked down
4. Watch out for people who confuse goals and tasks, because if they can't make that distinction, you can't trust them with responsibilities
5. Watch out for the unfocused and unproductive "theoretical should."

<u>Communicate the plan clearly and have clear metrics conveying whether you are progressing according to it</u> - Communicate the plan clearly and have clear metrics conveying whether you are progressing according to it

<u>Escalate when you can't adequately handle your responsibilities and make sure that the people who work for you are proactive about doing the same.</u>

Perceive and Don't Tolerate Problems :

Every problem you find is an opportunity to improve your machine. Identifying and not tolerating problems is one of the most important and disliked things people can do.

<u>If you're not worried, you need to worry— and if you're worried, you don't need to worry</u> (worrying about what can go wrong will protect you and not worrying about what will go wrong will leave you exposed.)

<u>Design and oversee a machine to perceive whether things are good enough or not good enough, or do it yourself</u>

1. Assign people the job of perceiving problems, give them time to investigate, and make sure they have independent reporting lines so that they can convey problems without any fear of recrimination

2. Watch out for the "Frog in the Boiling Water Syndrome." - People have a strong tendency to slowly get used to unacceptable things that would shock them if they saw them with fresh eyes.
3. Beware of group-think: The fact that no one seems concerned doesn't mean nothing is wrong.
4. To perceive problems, compare how the outcomes are lining up with your goals.
5. "Taste the soup." - have someone in their machine do it for them, for every outcome they're responsible for.
6. Have as many eyes looking for problems as possible -
7. "Pop the cork." It's your responsibility to make sure communications from your people flow freely, so encourage it by giving them plenty of opportunities to speak up. Don't just expect them to provide you with regular and honest feedback—explicitly ask them for it
8. Realize that the people closest to certain jobs probably know them best.

Be very specific about problems; don't start with generalizations. - Start with the specifics and then observe patterns, Avoid the anonymous "we" and "they," because they mask personal responsibility

Don't be afraid to fix the difficult things.
1. Understand that problems with good, planned solutions in place are completely different from those without such solutions
2. Think of the problems you perceive in a machine-like way: Note the problem; then determine who the RPs to raise it to are; and finally decide when the right time to discuss it is. In other words: what, who, when

Diagnose Problems to Get at Their Root Causes

To diagnose well, ask the following questions: Is the outcome good or bad? Who is responsible for the outcome? If the outcome is bad, is the Responsible Party incapable and/or is the design bad?
1. Ask yourself: "Who should do what differently?"
2. Identify at which step in the 5-Step Process the failure occurred
3. Identify the principles that were violated.
4. Avoid Monday morning quarterbacking. Evaluate the merits of a past decision based not on what you know now but only on what you could have reasonably known at the time the decision was made.
5. Don't confuse the quality of someone's circumstances with the quality of their approach to dealing with the circumstances.
6. Identifying the fact that someone else doesn't know what to do doesn't mean that you know what to do.
7. Remember that a root cause is not an action but a reason
8. To distinguish between a capacity issue and a capability issue, imagine how the person would perform at that particular function if they had ample capacity

9. Keep in mind that managers usually fail or fall short of their goals for one (or more) of five reasons: They are too distant, have problems perceiving bad quality, have lost sight of how bad things have become because they have gotten used to it, have such high pride in their work (or such large egos) that they can't bear to admit they are unable to solve their own problems, fear adverse consequences from admitting failure.

Maintain an emerging synthesis by diagnosing continuously

Keep in mind that diagnoses should produce outcomes - Remember that if you have the same people doing the same things, you should expect the same results

Use the following "drill-down" technique to gain an 80/20 understanding of a department or sub-department that is having problems.: drill-down is a process that allows you to gain an understanding of the root causes of the biggest problems, only the 20 or so percent of causes that produce 80 percent of the suboptimal effects.

Step 1: List the Problems.

Step 2: Identify the Root Causes- Ask "why" 5 times

Step 3: Create a Plan : Plans are where you visualize who will do what through time to achieve the goals. They are developed by iterating through multiple possibilities, weighing the likelihood of goal achievement versus costs and risks. They should have specific tasks, outcomes, Responsible Parties, tracking metrics, and timelines.

Step 4: Execute the Plan

Understand that diagnosis is foundational to both progress and quality relationships.

Design Improvements to Your Machine to Get Around Your Problems

Build your machine

Systemize your principles and how they will be implemented: Create great decision-making machines by thinking through the criteria you are using to make decisions while you are making them.

Remember that a good plan should resemble a movie script.

1. Put yourself in the position of pain for a while so that you gain a richer understanding of what you're designing for
2. Visualize alternative machines and their outcomes, and then choose.
3. Consider second- and third-order consequences, not just first-order ones.
4. Use standing meetings to help your organization run like a Swiss clock.
5. Remember that a good machine takes into account the fact that people are imperfect.

Recognize that design is an iterative process. Between a bad "now" and a good "then" is a "working through it" period: Understand the power of the "cleansing storm."

Build the organization around goals rather than tasks

1. Build your organization from the top down.
2. Remember that everyone must be overseen by a believable person who has high standards.

3. Make sure the people at the top of each pyramid have the skills and focus to manage their direct reports and a deep understanding of their jobs.
4. In designing your organization, remember that the 5-Step Process is the path to success and that different people are good at different steps
5. Don't build the organization to fit the people.
6. Keep scale in mind
7. Organize departments and sub-departments around the most logical groupings based on "gravitational pull." Some groups naturally gravitate toward one another. That gravitational pull might be based on common goals, shared abilities and skills, workflow, physical location, and so forth
8. Make departments as self-sufficient as possible so that they have control over the resources they need to achieve their goals.
9. Ensure that the ratios of senior managers to junior managers and of junior managers to their reports are limited to preserve quality communication and mutual understanding.
10. Consider succession and training in your design.
11. Don't just pay attention to your job; pay attention to how your job will be done if you are no longer around.
12. Use "double-do" rather than "double-check" to make sure mission-critical tasks are done correctly. Double-checking has a much higher rate of errors than double doing, which is having two different people do the same task so that they produce two independent answers.
13. Use consultants wisely and watch out for consultant addiction: Quality Control, Economics, Institutionalization of Knowledge, Security

Create an organizational chart to look like a pyramid, with straight lines down that don't cross
1. Involve the person who is the point of the pyramid when encountering cross-departmental or cross-sub-departmental issues.
2. Don't do work for people in another department or grab people from another department to do work for you unless you speak to the person responsible for overseeing the other department
3. Watch out for "department slip."

Create guardrails when needed—and remember it's better not to guardrail at all.
1. Don't expect people to recognize and compensate for their own blind spots.
2. Consider the clover-leaf design- find two or three believable people who care deeply about producing excellent results and are willing to argue with each other and escalate their disagreements if necessary. Then set up a design in which they check and balance each other

Keep your strategic vision the same while making appropriate tactical changes as circumstances dictate.
1. Don't put the expedient ahead of the strategic.
2. Think about both the big picture and the granular details, and understand the connections between them.

Have good controls so that you are not exposed to the dishonesty of others.

1. Investigate and let people know you are going to investigate

2. Remember that there is no sense in having laws unless you have policemen (auditors)

3. Beware of rubber-stamping.

4. Recognize that people who make purchases on your behalf probably will not spend your money wisely

5. Use "public hangings" to deter bad behavior

Have the clearest possible reporting lines and delineations of responsibilities.

1. Assign responsibilities based on workflow design and people's abilities, not job titles.

2. Constantly think about how to produce leverage

3. Recognize that it is far better to find a few smart people and give them the best technology than to have a greater number of ordinary people who are less well equipped.

4. Use leveragers

Remember that almost everything will take more time and cost more money than you expect

Do What You Set Out to Do

Work for goals that you and your organization are excited about and think about how your tasks connect to those goals.

1. Be coordinated and consistent in motivating others

2. Don't act before thinking. Take the time to come up with a game plan.

3. Look for creative, cut-through solutions.

Recognize that everyone has too much to do.

1. Don't get frustrated: "Success consists of going from failure to failure without loss of enthusiasm."

Use checklists: Don't confuse checklists with personal responsibility

Allow time for rest and renovation.

Ring the bell.

Use Tools and Protocols to Shape How Work Is Done

Having systemized principles embedded in tools is especially valuable for an ideal meritocracy.

1. To produce real behavioral change, understand that there must be internalized or habituated learning

2. Use tools to collect data and process it into conclusions and actions.

3. Foster an environment of confidence and fairness by having clearly-stated principles that are implemented in tools and protocols so that the conclusions reached can be assessed by tracking the logic and data behind them

And for Heaven's Sake, Don't Overlook Governance

To be successful, all organizations must have checks and balances

1. Even in an idea meritocracy, merit cannot be the only determining factor in assigning responsibility and authority

2. Make sure that no one is more powerful than the system or so important that they are irreplaceable.

3. Beware of fiefdoms

4. Make clear that the organization's structure and rules are designed to ensure that its checks and balances system functions well

5. Make sure reporting lines are clear

6. Make sure decision rights are clear

7. Make sure that the people doing the assessing 1) have the time to be fully informed about how the person they are checking on is doing, 2) have the ability to make the assessments, and 3) are not in a conflict of interest that stands in the way of carrying out oversight effectively

8. Recognize that decision makers must have access to the information necessary to make decisions and must be trustworthy enough to handle that information safe

Remember that in an idea meritocracy a single CEO is not as good as a great group of leaders.

No governance system of principles, rules, and checks and balances can substitute for a great partnership: A company's leaders must have wisdom, competence, and the ability to have close, cooperative, and effective working relationships characterized by both thoughtful disagreement and commitment to following through with whatever the idea-meritocratic process decides