

PRINCIPLES

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Introduction

Principles are concepts that can be applied over and over again in similar circumstances as distinct from narrow answers to specific questions. Every game has principles that successful players master to achieve winning results. So does life. Principles are ways of successfully dealing with the laws of nature or the laws of life. Those who understand more of them and understand them well know how to interact with the world more effectively than those who know fewer of them or know them less well. Different principles apply to different aspects of life – e.g., there are “skiing principles” for skiing, “parenting principles” for parenting, “management principles” for managing, “investment principles” for investing, etc. – and there are over-arching “life principles” that influence our approaches to all things. And, of course, different people subscribe to different principles that they believe work best.

I am confident that whatever success Bridgewater and I have had has resulted from our operating by certain principles. Creating a great culture, finding the right people, managing them to do great things and solving problems creatively and systematically are challenges faced by all organizations. What differentiates them is how they approach these challenges. The principles laid out in the pages that follow convey our unique ways of doing these things, which are the reasons for our unique results. Bridgewater’s success has resulted from talented people operating by the principles set out here, and it will continue if these or other talented people continue to operate by them. Like getting fit, virtually anyone can do it if they are willing to do what it takes.

What is written here is just my understanding of what it takes: my most fundamental life principles, my approach to getting what I want, and my “management principles,” which are based on those foundations. Taken together, these principles are meant to paint a picture of a process for the systematic pursuit of truth and excellence and for the rewards that accompany this pursuit. I put them in writing for people to consider in order to help Bridgewater and the people I care about most.

Until recently, I didn’t write out these principles because I felt that it was presumptuous for me to tell others what would work best for them. But over time, I saw the people who I cared about most struggling with problems and wanted to help them; I also found that their problems were almost always the result of violating one or more of these principles, and that their problems could be solved by applying these principles. So I began writing down the types of problems and the broken principles that caused them. When I began, I didn’t know how many principles I would end up with but, through this process, I discovered that about 300 principles pretty much cover all the problems.¹ I’m sure that I will come up with more as I learn more.

When I say that these are my principles, I don’t mean that in a possessive or egotistical way. I just mean that they are explanations of what I personally believe. I believe that the people I work with and care about must think for themselves. I set these principles out and explained the logic behind them so that we can together explore their merits and stress test them. While I am confident that these principles work well because I have thought hard about them, they have worked well for me for many years, and they have stood up to the scrutiny of the hundreds of smart, cynical people, I also believe that nothing is certain. I believe that the best we can hope for is highly probable. By putting them out there and stress testing them, the probabilities of their being right will increase.

I also believe that those principles that are most valuable to each of us come from our own encounters with reality and our reflections on these encounters – not from being taught and simply accepting someone else’s principles. So, I put these out there for you to reflect on when you are encountering your realities, and not for you to blindly follow. What I hope for most is that you and others will carefully

¹ Since I learned these principles by encountering reality and reflecting on my encounters, and I am still doing these things, I expect there are more principles to come. So I am still creating this document by throwing various thoughts down when they occur to me, trying to put them in some sensible order and trying to smooth over the bumps. Organizing these principles into a sensible order is a challenge since they relate to each other more like a matrix than as a sequence. To help guide you, I’ve tried to organize them around large themes like building a great culture, managing people well, and creative problem-solving. I will continue these things, so this is an evolving document.

consider them and try operating by them as part of your process for discovering what works best for you. Through this exploration, and with their increased usage, not only will they be understood, but they will evolve from “Ray’s principles” to “our principles,” and Ray will fade out of the picture in much the same way as memories of one’s ski or tennis instructor fade and people only pay attention to what works.² So, when digesting each principle, please...

...ask yourself: Is it true?

Before I discuss the management principles themselves, it’s important for me to articulate my own most fundamental life principles because my management principles are an extension of them. So, in Chapter 1, I explain why I believe that understanding what reality is, how it works and how to deal with it to get what you want is both fundamentally good and rewarded.

In Chapter 2, I describe what I believe are the best ways of interacting with reality to learn what it’s like, and how to most effectively deal with it to get what you want. I also discuss what I believe are the most common traps that people fall into that prevent them from getting what they want, and how people’s lives can be radically better by avoiding them. This chapter is fundamental to understanding why we behave the way we do at Bridgewater.

Chapter 3 lays out a framework that I developed and follow for achieving goals, whatever they might be. This 5-Step Process is a specific and systematic structure that frames almost all of the discussions we have at Bridgewater about getting things done. It has broad applications in both business and life. I sincerely believe that people who follow these five steps can get almost anything they want out of life.

In Chapter 4, I explain my management principles, which are based on the principles described in the first three chapters. What I convey here are not only individual principles, but a framework of principles that hang together to comprise our culture at Bridgewater. The chapter begins at the big-picture, conceptual level, with an explanation of why I believe that any company’s results are primarily determined by its people and its culture. It then drills down into what I believe are the important principles behind creating a great culture, hiring the right people, managing them to achieve excellence, solving problems systematically and making good decisions.

There are of course lots of other types of principles. For example, I hope to one day write about my investment principles. However, management principles are now what we need most, so here are the ones that I think make sense and have worked for me. **I believe that for any individual and for any organization to live up to their potentials, they must have clearly understood 1) values, 2) goals that are consistent with these values, and 3) ways of operating that are consistent with these values and goals.** I believe that, to be clearly understood, these values, goals and ways of doing things must be spelled out. The purpose of my writing the “Principles” in such a comprehensive way is to make them crystal clear. What you decide to do with them is up to you.

² While this particular document will always express just what I believe, others will certainly have their own principles, and possibly even their own principles documents, and future managers of Bridgewater will work in their own ways to determine what principles Bridgewater will operate by. At most, this will remain as one reference of principles for people to consider when they are deciding what’s important and how to behave.

Chapter 1 – My Most Fundamental Principles

As mentioned in the Introduction, principles are concepts that can be applied over and over again in similar circumstances, as distinct from narrow answers to very specific questions. Principles are ways of successfully dealing with the laws of nature or the laws of life. Those who understand more of them and understand them better know how to interact with the world more effectively than those who know fewer of them or know them less well.

In the following pages, I will share with you many of the principles I have learned and believe work. I only ask that you consider them with an open mind. You have to assess them for yourself because I'm certainly not trying to tell you what to do, and I'm not 100% sure of anything. Also, I'm not saying they're going to work 100% of the time. Like good principles you might use when deciding how to play a poker hand, they won't work every time because "luck" (i.e., the unanticipated) also plays a role.

Every day, everything that happens has principles embedded in them. For example, putting your hand on a hot stove teaches you at least one principle. If you learn that principle, it will help you improve your ways of dealing with life. If you don't, you'll continue to get burned. So, **I believe that there is an incredible beauty to mistakes, because embedded in each mistake is a puzzle and a gem to be had if you solve the puzzle.** If you recognize that each mistake is probably a reflection of something you or others don't understand about how to interact with the world as it is, and you figure out what that is, you will gain one or more gems, or what I call principles. People who recognize that all our experiences, rewards and punishments are essentially life's instructions repeatedly thrown at us are more likely to learn how to live life more effectively (i.e., by principles), and favorably adapt their behaviors. What I am saying is that you don't need to do much more than experience what the challenges and opportunities that life will bring you *with an open mind*, and you will learn how to get what you want out of life.

Though I might sound philosophical, I am a hyperrealist. **I believe one needs to deeply understand, accept and work with reality to produce great results and to be happy.** Whether it is knowing how people really think and behave when dealing with them, or understanding in detail how things really work in physics, economics or physiology, so that if you do X then Y will happen, understanding these realities gives you the power to get what you want out of life – or at least dramatically improves your odds. So, what follows is a description of how I believe reality works and how to deal with it to get what we want.

When I say I'm a hyperrealist, people sometimes think I don't believe in making dreams happen. This couldn't be further from the truth. In fact, I believe that without pursuing dreams life is mundane. I am just saying that hyperrealism is the best way to choose and achieve one's dreams. The people who really change the world are the ones who see what's possible and figure out how to make that happen. I believe that idealists, who simply imagine things that would be nice but are not possible, don't sufficiently appreciate the laws of the universe to even know what would be nice. Let me explain what I mean.

I believe there is an infinite number of laws of the universe and that all progress or dreams achieved come from operating in a way that's consistent with them. These principles have always existed. Man didn't and can't make them up. He can only hope to understand them and use them to get what he wants. For example, the ability to fly or to send cellular phone signals imperceptibly and instantaneously around the world or any other new and beneficial developments resulted from using and understanding previously existing laws of the universe. These inventions did not come from people who were not well grounded in reality. The same is true for economic, political and social systems that work. Success is achieved by people who deeply understand reality and know how to use it to get what they want. The converse is also true: idealists who are not well grounded in reality create problems, not progress. For example, communism was a system created by people with good intentions who failed to recognize that their idealistic system was inconsistent with human nature. As a result, they caused more harm than good. My belief is that truth – or, more precisely, accurate understanding of reality – is the essential foundation for producing good outcomes.

I know I'm pretty extreme in these beliefs. For example, as a hyperrealist, I have a non-traditional sense of good and bad. **I believe that being good means operating consistently with reality (i.e., natural laws). Operating this way will likely result in rewards for you and for society as a whole. Being bad means operating inconsistently with these laws, which will likely result in punishment for you and harm to society as a whole.** So I believe that for something to be good, it has to work to make things better; and to do that, it must be grounded in reality.

Understanding what is good is obtained by looking at the way the world works. But it is not obvious. I think it's educational and enjoyable to study how things work in nature and to assume that however they work is in some way good. I like to try to figure out why they're working this way is good in the context of the whole system.³ I also believe that sometimes the conclusions are at odds with traditional notions of good and bad, which can sometimes make accepting these laws of nature, or principles, difficult.

For example, when a pack of hyenas takes down a young wildebeest, is that good or evil? At face value, that might not be "good" because it seems cruel, and the poor wildebeest suffers and dies. Some people might even say that the hyenas are evil. Yet this type of apparently "cruel" behavior exists throughout the animal kingdom. Like death itself, it is integral to the enormously complex and efficient system that has worked for as long as there has been life. It is good for both the hyenas who are operating in their self-interest and the interest of the greater system, including those of the wildebeest, because killing and eating the wildebeest fosters evolution (i.e., the natural process of improvement). In fact, if you changed anything about the way that dynamic works, the overall outcome would be worse.

I believe that evolution, which is generally the natural move toward better adaptation, is the greatest single force in the universe. It affects the changes of everything from all species to the entire solar system. Based on how I observe both nature and humanity working, I believe that what is bad and most punished are those things that don't work because they are at odds with the laws of the universe and impede evolution. **I believe that the desire to evolve (i.e., to get better) is probably humanity's most pervasive driving force.**⁴ Enjoying your job, a craft, or your favorite sport comes from the innate satisfaction of getting better. Though most people typically think that they are striving to get things (e.g., toys, better houses, money, status, etc.) that will make them happy, that is not really the case. When we get the things we are striving for, we rarely remain satisfied,⁵ so we seek other things or we seek to make the things we have better, and, in the process of this seeking, we continue to evolve. The things we are striving for are just the bait to get us to chase after them in order to make us evolve, and it is the evolution and not the reward itself that matters.

It is only logical that it is that way – i.e., that our lives are not satisfied by obtaining our goals rather than by striving for them – because of the law of diminishing returns.⁶ For example, suppose making a lot of money is your goal and suppose you make enough so that making more has no marginal utility. Then it would be silly to continue to have making money be your goal. People who acquire things beyond their usefulness will not only derive little or no marginal gains from these acquisitions but they also will experience negative consequences, as with any form of gluttony. So, it is only logical that seeking

³ To me it's probably wrong and certainly presumptuous to assume that one's theory of life is right when it's inconsistent with the way things work in nature. Man is a manifestation of nature – just one infinitesimally small manifestation among zillions. If mankind disappeared, it wouldn't change the universe one iota. So who makes the rules – man or nature? Whether we acknowledge it or not, we are governed by nature's rules. It is silly, futile and arrogant for man to think that he can make up rules that will work that are inconsistent with nature's rules. To be successful, we must understand and abide by nature's rules. Man thinks of himself as intelligent and much more evolved than animals, but the truth is that he has about as much understanding of the universe as moss growing on an apple. Most people find it difficult acknowledging they don't know things, which causes them to spend too much time wrestling with questions that won't be answered and/or coming up with wrong answers (which is worse than recognizing one doesn't know the answer). For example, asking questions like "what is it all for" and expecting to come up with the answer is like expecting a crab to understand the meaning of the universe. It's also not all that important to have the answers in order to do what you need to do. All other species manage to pursue their self-interests, contribute to evolution and evolve without having a clue of how the whole thing works. They are virtually perfect and perfectly doing their jobs without knowing how they fit into the scheme of things.

⁴ To be more precise, I believe that this desire to evolve occurs only after we have taken care of our survival needs.

⁵ Of course, we are often satisfied with the same things – relationships, careers, etc.—but when that is the case, it is typically because we are getting new enjoyments from the new dimensions of these things.

⁶ The marginal benefits of moving from a shortage to an abundance of anything decline.

something new, or seeking new depths of something old, is required to bring us satisfaction. For this reason I believe that it is the evolutionary process that occurs through the sequence of 1) seeking new things (goals), 2) working and learning in the process of pursuing these goals, 3) obtaining these goals and 4) then doing this over and over again, that creates personal evolution and fulfills most of us. And I believe that it is this process that moves society forward.

So, based on how I observe reality working, it seems that what is most rewarded (therefore what is “good”) are those things that are in harmony with the laws of the universe (i.e., reality) and that contribute to its evolution. Similarly, it seems that what is punished (and is “bad”) are those things that are at odds with the laws of the universe and impede its evolution. Look at all species in action: they are constantly pursuing their own interests and helping evolution in a symbiotic way. Like the hyenas attacking the wildebeest, successful people might not even know if or how their pursuit of self-interest helps society, but it typically does.

Along these lines, **I believe that self-interest and society’s interests are generally symbiotic** – e.g., I observe that society typically rewards those who give it what it wants and penalizes those who operate inconsistently with those wants.⁷ If you give society what it wants, you practically can’t help getting rewarded. That is why how much money people have earned is a rough measure of how much they gave society what it wanted. It’s also why most people who have made a lot of money typically never made making a lot of money their primary goal. Instead, they typically engaged in the game or craft of what they were doing, got very good at it and society rewarded them because it valued what they were doing. In other words, I believe that the way “reality” generally works is that it is the pursuit of self-interest that motivates people to push themselves to do the difficult things that are required to produce what society wants, and society rewards those who give it what it wants. That is why self-interest is a far more powerful force for good than mercy and charity, though mercy and charity are certainly natural and beneficial forces in some cases.⁸

As Darwin described, adaptation – i.e., adjusting appropriately to changes in one’s circumstances – is a big part of this evolutionary process.⁹ That is why some of the most successful people are typically those who see the changing landscape and identify how to best adapt to it.¹⁰ So the classic process for achieving success is trying to give society what it wants in order to gain its rewards in return.

This does not pertain just to moving forward; it also relates to dealing with setbacks. Inevitably one encounters major and painful setbacks. Those who have the ability to successfully adapt to setbacks will also be rewarded.

So what is success? It is nothing more than getting what you want. It is up to you to decide what that is for you. However, for most people success is evolving as effectively as possible – i.e., learning about oneself and one’s environment and then changing to improve. Personally, I believe that personal evolution is both the greatest accomplishment and the greatest reward.¹¹

⁷ I want to be clear that I am referring to what the society wants as distinct from what is good for it. For example, over the short run, it often penalizes those who give it what is good for it, though society will pay a penalty for that, and the evolutionary process will continue by paying these consequences and then adjusting.

⁸ Said differently, I find that relationships are generally far more symbiotic than sympathetic. In some cases, though, such as parents taking care of their offspring, the reverse is the case, and I believe this is good. Still, mercy and charity are also rewarding, especially for people who have evolved beyond their basic needs and their superficial selfishness. However, only a small percentage of the population has reached this state, which is why self-interest is a more powerful force.

⁹ Darwin said “It’s not the strongest species that survive, nor the most intelligent, but those most able to adapt.”

¹⁰ Your ability to see the changing landscape and adapt is more a function of your perceptive and reasoning abilities than your ability to learn and process quickly.

¹¹ It also seems to me that, for most people, happiness is much more determined by how things turn out relative to your expectations rather than the absolute level of your conditions. For example, if a billionaire loses \$200 million he will probably be unhappy while if someone who is worth \$10 thousand unexpectedly gets another \$2 thousand, he will probably be happy. This basic principle means that you can follow one of two paths to happiness: 1) have high expectations and strive to exceed them; or 2) lower your expectations so that they are at or below your conditions. For those who choose the first path, which is most of us, there is another principle that’s worth keeping in mind. As Freud pointed out, meaningful work and meaningful relationships are the two main components for a happy life. The work doesn’t necessarily have to be a job, though I believe it’s generally better if it is a job. It can be any kind of long-term challenge that leads to your personal improvement. As you might have guessed, I believe that the need to have meaningful work is connected to man’s innate desire to improve. And relationships are the natural connections to others that make us relevant to society.

Chapter 2 – How to Get What You Want

Life consists of an enormous number of choices that come at us, and each choice has consequences, so **the quality of our lives depends on the quality of the choices we make.** We aren't born with the ability to make good choices; we learn it. The way life literally works is that we all start off as children with others, typically parents, directing us. But, as we get older, we increasingly make our own choices. Most importantly, we choose what we are going after (i.e., our goals), which influence our directions. For example, if you want to be a doctor, you go to med school; if you want to have a family, you find a mate, and so on. As we move toward our goals, we encounter reality. Most importantly, we encounter problems, make mistakes and run into personal weaknesses. Above all else, how we choose to approach these impediments determines how fast we move toward our goals. Wrestling with these problems, mistakes and weaknesses is the training that strengthens us. It is also the pain of this wrestling that makes us appreciate our successes. People who make the most of the process of encountering reality, especially the painful obstacles, learn more and get what they want faster than people who do not. Along the way, our skills and preferences change. It is a rare person who goes after the same things late life as they went after early in life. However, the core values and abilities¹² that influence the things that they go after typically do not change much.

I believe that is how reality works: We make our dreams into realities by constantly engaging with reality in pursuit of our dreams and by using these encounters to learn more about reality itself and how to interact with it in order to get what we want. So, **I believe that if you are determined in the pursuit of your dreams, and if you learn from your encounters with reality, you will almost certainly have a successful life.**¹³

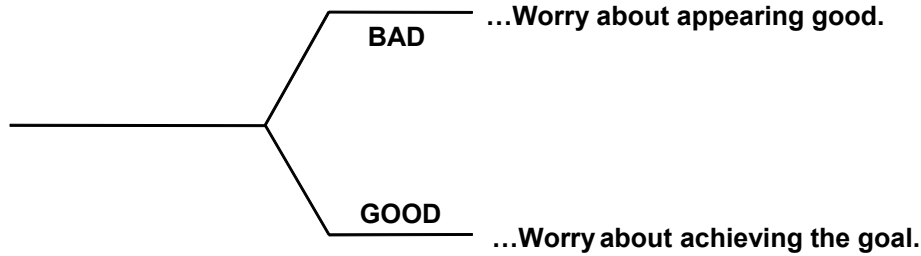
In other words...

$$\begin{array}{c}
 \text{Reality} \\
 + \\
 \text{Dreams} \\
 + \\
 \text{Determination} \\
 = \\
 \text{A Successful Life}
 \end{array}$$

However, there are a few big differences in the approaches people use to make decisions that radically affect their effectiveness. These differences don't have anything to do with one's abilities. In fact, for reasons explained in the next chapter, they are far more important than abilities in determining one's success. The following decision trees show these choices. Those who don't move effectively to their goals do the things on the top branches and those who move to them most quickly do the things on the bottom branches:

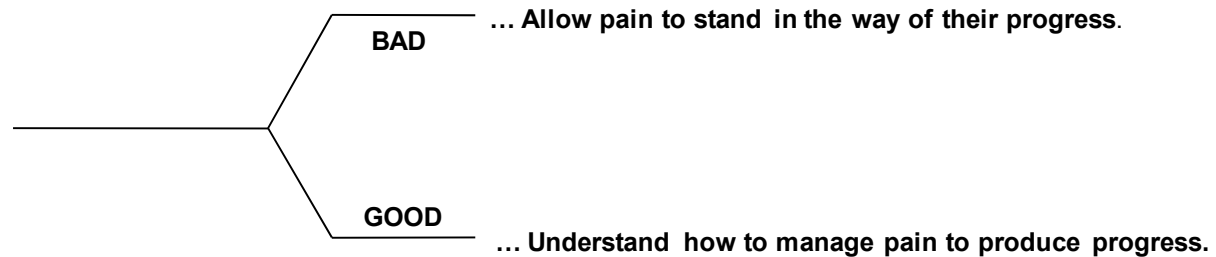
¹² One's values and abilities are determined by one's genetics and environment. In the early years, the environment is determined by the parents (or other care giver) and in later years it is determined by the individual. However, by the time one gets to make one's own choices, the way they are made will be heavily influenced by the environmental and genetic influences that came before. That new learning and new choices can't be made, because they certainly will be made, especially if one approaches them well. I just mean that the momentums behind these choices are set by the time one has the opportunity to direct one's own life.

¹³ For me a successful life is getting the most of what I want out of life, which means evolving as fast as possible in learning what I want and how to get it. Because I want to evolve as fast as possible and because I believe that there are valuable lessons in all experiences, I view all – the painful ones as well as the enjoyable ones – as rich in what they have to offer me.



People who worry about looking good hide what they don't know and hide their weaknesses, so they never learn how to properly deal with them so that they aren't a problem in the future. As a result, their impediments remain impediments.¹⁴ These people typically try to prove that they have the answers, even when they really don't. They typically believe the silly but common view that great people are those who have the answers in their heads and don't have weaknesses. Not only does this view not square with reality, but also it stands in the way of progress. The truth is that 1) great people don't have their greatness in them; they constantly learn and earn their greatness; 2) the amounts of knowledge and the capabilities that anyone does not have, and that could be used to make the best possible decisions, are vastly greater than that which anyone could have within them; and 3) successful people have weaknesses like everyone else – they have just learned how to deal with them so that they aren't impediments to getting what they want.

By contrast, people who are interested in making the best possible decisions rarely are confident they have the best possible answers, so they seek to learn more (often by exploring the thinking of other believable people, especially those who disagree with them) and they are eager to identify their weaknesses so that they don't let these weaknesses stand in the way of them achieving their goals. In other words, **people who get what they want out of life make better decisions because they are not defensive about not knowing or defensive about their weaknesses, so they 1) are more open to learning, 2) access the vast resources that can help them make better decisions, and 3) create successful strategies for making their weaknesses irrelevant.**



It is a fundamental law of nature that one has to push one's limits, which is painful, in order to gain strength – whether it's in the form of lifting weights, facing problems head-on or in any other way. Nature gave us pain as a messaging device to tell us that we are approaching, or that we have exceeded, our limits in some way. At the same time, nature made the process of getting stronger require us to push our limits this way. Gaining strength is the adaptation process of the body and the mind to encountering one's limits, which is painful. In other words, both pain and strength typically result from encountering one's barriers. When we encounter pain, we are at an important juncture in our decision-making process.

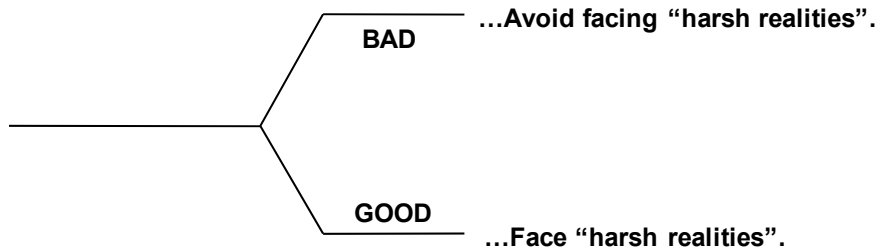
Most people react to the pain badly. They have “fight or flight” reactions to it – they either strike out at

¹⁴ For example, if you are dumb or ugly, you are unlikely to acknowledge it, even though doing so would help you better deal with that reality. Recognizing such “harsh realities” is both very painful and very productive.

whatever brought them the pain or they try run away it. As a result, they don't find ways around their barriers, and so they encounter them over and over again and make little or no progress toward what they want.¹⁵ However, those who react well to the pain standing in the way of getting to their goals – those who understand what is causing it and how to deal with it so that it can be disposed of as a barrier – gain strength and satisfaction. For example, most learning comes from making mistakes, reflecting on the causes of the mistakes and learning what to do differently in the future, but most people find making mistakes painful, so they let the pain that comes from making mistakes and encountering one's weaknesses cloud their objectivity. As a result, they don't learn and progress toward what they really want. Believe it or not, you are lucky to feel the pain if you approach it correctly, because it will signal you that you need to find solutions and to progress. **People who recognize that pain is an important signal and reflect deeply on the causes of the pain in order to understand the signals will resolve their dilemmas and move toward achieving their dreams more quickly than those who do not.** Since the only way you are going to find solutions to painful problems is by thinking deeply about them – i.e., reflecting¹⁶ – if you can develop a knee-jerk reaction to pain that is to reflect rather than to fight or flee, it will lead to your rapid learning/evolving.¹⁷

So, remember that:

Pain + Reflection = Progress



People who confuse what they wish were true with what is really true create distorted pictures of reality that make it impossible for them to make the best choices. They typically do this because facing “harsh realities” can be very difficult. However, by not facing these harsh realities, they don't find ways of properly dealing with them. In contrast, **people who know that understanding what is real is the first step toward optimally dealing with it make better decisions.** So remember...

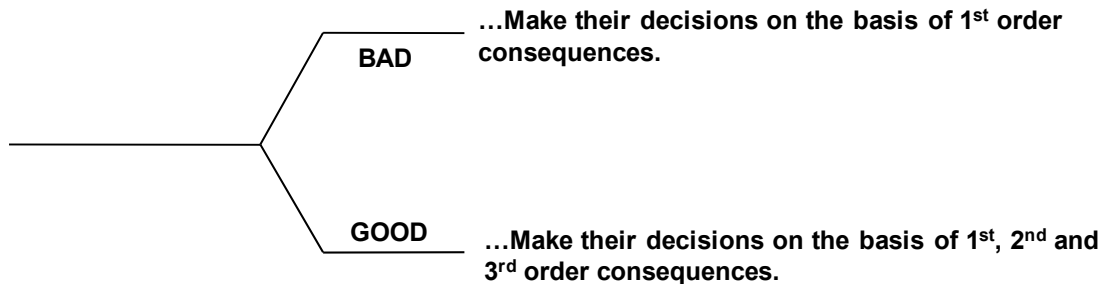
¹⁵ There are literally two different parts of each person's brain that influence these reactions: the pre-frontal cortex and the amygdala. They work as though they were two different brains that fight for control of decision making. The pre-frontal cortex is the logical part of the brain that evaluates choices logically and the amygdala is the “animal instinct” part of the brain that triggers emotional reactions like the instinct to fight or flee. When faced with an obstacle or threat, an emotional reaction (e.g., pain) can be triggered that can lead to a fight or flight reaction that “hijacks” decision making away from the pre-frontal cortex, where the rational choices are being made. This can result in our making decisions that produce consequences that we do not want. This typically causes really big problems.

¹⁶ Your very unique power of reflectiveness – i.e., your ability to look at yourself, the world around you and the relationship between you and the world – means that you can think deeply and weigh subtle things to come up with learning and wise choices in a way that few people can. Asking other believable people about the root causes of your pain in order to enhance your reflections is typically very helpful.

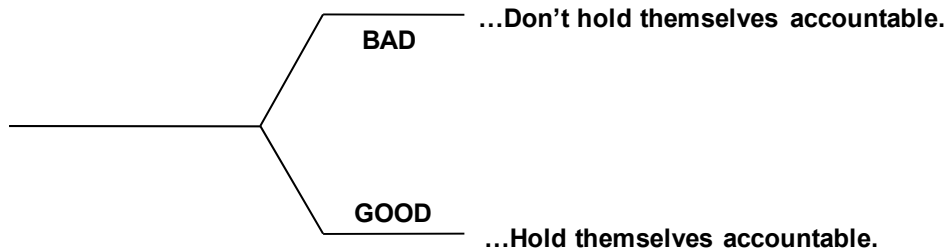
¹⁷ If you can reflect deeply about your problems, they almost always shrink or disappear, because you almost always find a better way of dealing with them than if you don't face them head on. The more difficult the problem, the more important it is that you think hard about it and deal with it. After seeing how effectively facing reality – especially your problems, mistakes and weaknesses – works, you will become comfortable with it and won't want to operate any other way. I also believe that one of the best ways of getting at truth is reflecting with others who have opposing views and who share your interest in finding the truth rather than being proven right.

...ask yourself: Is it true?

...because knowing what is true is good.



When making a decision it is important to consider all of the important consequences in light of your goals. Yet, it is common for people to overweigh the first order consequences and ignore the 2nd and subsequent order consequences. Since the 1st order consequences often have opposite desirabilities from 2nd order consequences, this can cause big mistakes in decision making. For example, the 1st order consequences of exercise (e.g., pain and time-sink) are commonly considered undesirable, while the 2nd order consequences (better health and more attractive appearance) are desirable. Similarly, food that tastes good is often bad for you and vice versa, etc. Quite often the 1st order consequences are the temptations that cost us what we really want and sometimes they are barriers that stand in our way of getting what we want. It's almost as though the natural selection process sorts us by throwing us trick choices that have both types of consequences and penalizing the dummies who make their decisions just on the basis of the first 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.**



Blaming bad outcomes on anyone or anything other than oneself is both incorrect and subversive to one's progress. It is incorrect because bad things come at everyone, and it is your challenge and test to successfully deal with whatever comes at you. Blaming bad outcomes on anyone or anything other than one's self is essentially wishing that reality is different than it is, which is silly. It is also subversive because it diverts one's attention away from mustering up the personal strength and other qualities that are required to get one to produce the best possible outcomes. Remember, nature is testing you, and it is not sympathetic.

As you can see, most of the impediments to success are emotional. Ego is the biggest single one, though not all of them are due to ego. In a nutshell, what I am saying is that **you can probably get what you want out of life if you can suspend your ego and take a no-excuses approach to achieving your goals with open-mindedness, determination and courage.** Because I believe this, I believe that

whether or not I achieve my goals is a test of what I am made of. It is a game that I play, but this game is for real. In the next chapter I explain how I go about playing it.

As mentioned, I don't believe that limited abilities are a barrier to achieving your goals, if you do the other things right. That is because I believe that this barrier, like all other barriers, won't stand in your way if you know that it exists and have a plan for getting around it. We will explore this in the next chapter.

As always, it is up to you to ask yourself if what I am saying is true.

Chapter 3 – My 5-Step Process

Over the years, through trial and error and lots of reflection, I have developed a systematic process for getting what I want. Like the rest of what I discuss here, you need to decide for yourself if what I describe makes sense. I can however say that this framework has been the basis of any success I've had.

There are five things that you have to do to get what you want. First, you have to choose your **goals**, which will determine your direction. Then you have to design a plan to achieve your goals. On the way to your goals, you will encounter obstacles or **problems**. This is the juncture in decision making that throws most people off. At this stage, your challenge is to make the choices that will get you beyond your problems in order to achieve your goals. As mentioned, these problems typically cause pain. You will either react badly to the pain or react like a ninja problem solver. That is your choice. To figure out how to get around these problems you must be calm and analytical to accurately **diagnose** your problems. Only after you have an accurate diagnosis of them can you **design** a plan that will get you around them. Then you have to **do** the tasks specified in the plan. Through this process of encountering problems and figuring out how to get around them, you will become progressively more capable and achieve your goals more easily. Then you will set bigger, more challenging goals, in the same way that someone who works with weights naturally increases the poundage. This is the process of personal evolution.

"The Process" consists of five distinct steps:

- 1) **Know what you want; i.e., have clear goals.**
- 2) **Identify and do not tolerate the problems that stand in the way of achieving your goals.**
- 3) **Accurately diagnose these problems.**
- 4) **Design plans that explicitly lay out tasks that will get you around your problems and on to your goals.**
- 5) **Implement these plans – i.e., do these tasks.**

You need to do all of these well in order to be successful. Before discussing these individual steps, I want to make a few general points about the process.

- 1) **You must approach these as distinct steps rather than blur them together.** For example, when setting goals, just set goals (don't think how you will achieve them or the other steps); when diagnosing problems, just diagnose problems (don't think about how you will solve them or the other steps). Blurring the steps leads to suboptimal outcomes because it creates confusion and short-changes the individual steps. Doing each step thoroughly will provide information that will help you do the other steps well, **since the process is iterative.**
- 2) **Each of these five steps requires different talents and disciplines.** Most probably, you have lots of some of these and inadequate amounts of others. If you are missing any of the required talents and disciplines, that is not an insurmountable problem because you can acquire them, supplement them, or compensate for not having them, if you **recognize your weaknesses and design around them.** So you must be honestly self-reflective.
- 3) **You must approach this process in a very clear-headed, rational way rather than emotionally.**

To help you do these things well – and stay centered and effective rather than stressed and thrown off by your emotions – try this: **Treat life like a game** or a martial art. These require you to figure out how to get around your challenges on the way to your goals. In the process of playing the game or practicing martial arts, you become more skilled. As you get better, you will progress to ever higher levels of the game that will require – and teach you – greater skills. I will explain what these skills are in the next section. However, **the big and really great news is that you don't need to have all of these skills to succeed!** You just have to 1) know they are needed; 2) know you don't have some of them; and 3) figure out how to get them (i.e., either learn them or work with others who have them).

This game will challenge you in ways that will be uncomfortable at times. But if you work through this discomfort and reflect on it in order to learn, you will get what you want. **By and large, life will give you what you deserve and it doesn't give a damn what you "like." So it is up to you to connect what you want with what you need to do to get it and you then need do those things so that you'll then deserve to get what you want.**

That's just the way it is, so you might as well accept it. Once you accept that playing the game will be uncomfortable, and you do it for a while, it will become much easier (like it is in getting fit) and when you excel at it, you will find your ability to get what you want thrilling. You'll see that excuses like "that's not easy" are of no value and that it pays to "push through it" at a pace you can handle. Like getting physically fit, the most important thing is that you keep moving forward at whatever pace you choose, recognizing the consequences of your actions. When you think that it's too hard, realize that doing the things that will make you successful is a lot easier than being unsuccessful. With practice, you will eventually play this game like a ninja, with skill and a calm centeredness in the face of adversity that will let you handle most of your numerous challenges well. However, you will never handle them all well¹⁸ and there is no end to learning how to play the game better.

That's basically the whole concept. Please pause and reflect on this before moving on. What follows is a closer examination of each of the five steps. You should not proceed until you agree with this basic concept. If you have doubts, speak to me or others about it. Either you will get comfortable with it and internalize it; or you will point out something that is wrong, and the concept will get better.

The 5 Steps Close Up...

1) Setting Goals

Knowing what you want is the first and most important step to setting goals because it will determine what you get out of life – and what you want to get out of life will be an expression of your fundamental values. This means that setting goals is typically the most difficult step because it forces you to decide on what you really want. **You can have virtually anything you want, but you can't have everything you want.** Life is like a giant smorgasbord of more delicious alternatives than you can ever taste.¹⁹ Because there are too many great alternatives to pursue, in order to be successful, you have to reject having some things you want in order to get other things you want more.²⁰ And you can have an enormous amount: much, much more than what you need to have a happy life.²¹ So don't get discouraged by not being able to have everything you want and, for God's sake, don't be paralyzed by the choices. That's nonsensical and unproductive. Get on with making your choices.²²

Put another way: **To achieve your goals you have to prioritize – and that includes rejecting good alternatives** (so that you have the time and resources to pursue even better ones).²³

¹⁸ When you make mistakes, it is important to recognize that a certain number are inevitable. Think of every decision like playing a poker hand and focus on what the right way to make that decision so that you have the highest possible percentage of winning decisions. Because you will have an enormous number of decisions to make, there will be plenty of opportunities to build a track record. The outcome of your life will depend on the track record you build over all of these decisions.

¹⁹ Because the selection is so great, it doesn't really matter if some things are unavailable to you. That is why many people who had major losses – e.g. who lost their abilities to walk, to see, etc. – and who didn't, narrow-mindedly obsess about their loss but rather open-mindedly saw and enjoyed what remained, had equally happy lives as those who didn't ever have these losses.

²⁰ Time is probably your greatest limiting factor, though, through leverage, you can substantially reduce time's constraints.

²¹ Recognize that you don't really need much and that one step above your needs are numerous sources of enjoyment. So it's silly to let your attachments to certain things make you unhappy when you can have many other wonderful things. For example, don't get depressed or stressed if your car gets scratched. With this perspective, you will enjoy life more and can more readily take the chances and accept the setbacks that are required for extraordinary success.

²² (a) It's really silly to get stressed and be unhappy because you have to choose between great alternatives. (b) Life offers you an infinite number of ways to be happy so that, if one or a few of them are closed to you – i.e., you can't have your first or second choice – that doesn't matter at all, because you have so many other great ones to choose from.

²³ Many people find rejecting good alternatives difficult and fail because they pursue too many goals at the same time, so they achieve none or few of them.

In setting your goals, **it is important not to confuse “goals” and “desires.”** Since both are things that you want, they're often confused. Goals are the things that you really want, while desires are things you want that can prevent you from reaching your goals. As previously explained, desires are typically first order consequences. For example, a goal might be physical fitness, while the urge to eat good-tasting, unhealthy food is a desire (i.e., a 1st order consequence) that could undermine you obtaining your fitness goal. So, goals are good and desires are bad, in light of how you assess the consequences.²⁴ Don't get me wrong; since there are just choices and consequences, I believe you can choose any goal you want as long as you consider the consequences. So, staying with this example, it is perfectly okay for you to make your goal to enjoy eating good-tasting, unhealthy food if that choice will bring you what you really want, in full consideration of the consequences. Failing to make the distinction between goals and desires will lead you in the wrong direction, because you will be inclined to pursue things you want that will undermine your ability to get things you want more. Another common reason people fail at this stage is that they lose sight of their goals, getting caught up in day-to-day tasks.

Avoid setting goals based on what you think you can achieve. It's foolish to rule out goals due to a superficial assessment of their attainability. Once you commit to a goal, it might take lots of thinking and many revisions to your plan over considerable time in order to finalize the design and do the tasks to achieve it. So you need to set goals without yet assessing whether or not you can achieve them. This requires some faith that you really can achieve virtually anything,²⁵ even if you don't know how you will do it at that moment. Initially you have to have faith that this is true, but after following this process and succeeding at achieving your goals, you will gain confidence. If you like, you can start with more modest goals and, when you build up the track record to give you faith, increase your aspirations.

Every time I set goals, I don't yet have any idea how I am going to achieve them because I haven't yet gone through the process of thinking through them. But I have learned that I can achieve them, if I think cleverly and work hard.²⁶ I also know that I can “cheat”: – i.e., I can ask others for answers or even ask them to do the things I don't do well. So if I fail, it just tells me that I am either not clever enough or committed enough to do what it takes to achieve the goal. That no-excuses approach helps me do whatever it takes to get whatever I want most. It also means that the goals I set tend to be higher than they would otherwise be. Since trying to achieve high goals makes me better at it, I become more capable of achieving more. Of course, not all goals are achievable. There are some impossibilities or near-impossibilities (living forever, flying with just the power of your arms), but almost all goals are attainable.

Remember that achieving your goals isn't just about moving forward; it also requires you to deal with setbacks. So goals aren't just those things that you want and don't have. They might also be keeping what you have, minimizing your rate of loss, or dealing with irrevocable loss. Life will throw you challenges, some of which will seem devastating at the time. Your goal is always to make the best possible choices, knowing that you will be rewarded if you do. It's like playing golf: sometimes you will be in the fairway and sometimes you will be in the rough, so you have to know how to play it as it lies.

Generally speaking, goal-setting is best done by those who are **good at big picture, conceptual thinking, synthesizing, visualizing and prioritizing.** Don't forget the big and really great news here, though: It is not essential that you have all of these qualities yourself, because you can supplement them with the help of others.

²⁴ Some societies define evil to be the desires that can take you away from your goals. I think that this is a good way of seeing the difference between goals, which are good; and desires, which are bad. That doesn't mean I don't think that there is room for desires (or a little “bad”), but I do think that the kind of desires that divert you from your goals should be avoided at all cost.

²⁵ This might sound inconsistent with the previous point that you can't have everything. It's not. I am saying that, at this stage of goal setting, don't set your goals based on what you think you can achieve. In the process of doing the other four steps (especially designing) you will thoroughly think through what is possible. Then you will circle back and enter the goal-setting mode again. As mentioned, this five-step process is iterative, but it must be pursued one step at a time in order to do each step excellently.

²⁶ The cleverer I am, the less hard I have to work.

In summary, in order to get what you want, the first step is to really know what you want, without limiting yourself because of some imagined impediments that haven't been properly analyzed.

2) Identifying and Not Tolerating Problems

After you set your goals, you must come up with a plan or a design to achieve them and then you must execute that plan by doing the tasks. On the way to achieving your goals and executing your design, you encounter problems that have to be diagnosed, so that the design can be modified to get around these obstacles. That's why you need to identify and not tolerate problems.

Whenever a problem surfaces, you have in front of you an opportunity to improve. **Most problems are potential improvements screaming at you. The more painful they are, the louder they are screaming²⁷. In order to be successful, you have to 1) perceive problems and 2) not tolerate them.**

If you don't identify your problems, you won't solve them, so you won't move forward toward achieving your goals. As a result, **it is essential to bring problems to the surface.** For various reasons, most people don't like to do this. But most successful people know that they have to seek them out and eliminate them.

Some of the most **common reasons people don't successfully identify their problems** are:

- They can be **unpleasant to look at** so people often subconsciously put them "out of sight," so they will be "out of mind."
- Thinking about problems that are difficult to solve **can produce anxiety.**
- People often avoid **recognizing that their own mistakes and/or weaknesses** are causing the problems. This aversion to seeing one's own mistakes and weaknesses typically occurs because they're viewed as deficiencies you're stuck with rather than as essential parts of the personal evolution process.
- Sometimes people are simply **not perceptive enough** to see the problems.
- Some people are **unable to distinguish big problems from small ones.** Since nothing is perfect, it is possible to identify an infinite number of problems everywhere. If you are unable to distinguish the big problems from the little ones, you can't "successfully" (i.e., in a practical way) identify problems.

The most powerful antidote for all of these impediments is to have others point them out to you and objectively consider whether what they identify is true.²⁸ Remember that you don't have to be good at any of these steps (in this case, identifying problems) to be successful, if you get help from others, **so push through the pain of facing your problems, knowing you will end up in a much better place.**

At this stage of the process – identifying problems – it is important to remain centered and logical. People often react emotionally to their problems and the pain these problems cause, they seek sympathy, or blame others, all of which accomplishes nothing.²⁹ Whatever the reasons, you have to get over these impediments to succeed. Remember that the pains you are feeling are "growing pains" that will test your character and will reward you if you push through them. Try to look at your problems as a detached observer would. **Remember that identifying problems is like finding gems embedded in puzzles; if you solve the puzzles you will get the gems that will make your life much better. Doing this**

²⁷ Though I've said it before, it's worth saying again: I understand that recognizing harsh realities can be extremely painful. But I've learned that if you can stare hard at your problems, they almost always shrink or disappear, because you almost always find a better way of dealing with them than if you don't face them head on. The more difficult the problem, the more important it is that you stare at it and deal with it. After seeing how effectively facing reality – especially your problems, mistakes and weaknesses – works, you will become comfortable with it and won't want to operate any other way. I also believe that one of the best ways of getting at truth is reflecting with others who have opposing views and who share your interest in finding the truth rather than being proven right.

²⁸ There are also other antidotes that we will delve into in the next sections of these principles.

²⁹ This is typically because they let their emotions control their behavior and/or they haven't learned how to deal with their problems.

continuously will lead to your rapid evolution. So, if you're logical, you really should get excited about finding problems because identifying them will bring you closer to your goals.

Be very precise in specifying your problems because that will make it easier to come up with accurate diagnoses and successful solutions. For example, rather than saying something like “people don't like me,” it is better to specify which people don't like you and under what circumstances. Also, **don't confuse problems with causes**. For example, “I can't get enough sleep” is not a problem; it is a cause of some problem. What exactly is that problem? To avoid confusing the problem with its causes, try to identify the sub-optimal outcome, e.g., “I am performing badly in my job because I am tired.”

Once you identify your problems, you must not tolerate them. Tolerating problems has the same result as not identifying them (i.e., both stand in the way of getting past the problem), but it has different root causes. Tolerating problems might be due to not thinking that they can be solved, or not caring enough about solving them.³⁰ People who tolerate problems are the worst off because, without the motivation to move on, they cannot succeed. In other words, if you are motivated, you can succeed even if you don't have the abilities because you can get the help from others. But if you're not motivated to succeed, the situation is hopeless.

People who tend to be best at this step of dealing with problems have strong abilities to **perceive** and **synthesize** a clear and accurate picture, as well as demonstrate a fierce **intolerance of badness** (regardless of the severity).

Remember that you need to do each step – in this case, identifying and not tolerating problems – independently from other steps. Only when you are done, should you go to the next step. You will have made great progress if you can comfortably identify your problems without thinking about how to solve them. It is a good exercise to just list them without thinking about what to do about them. Only after you have created a clear picture of them should you go to the next step.

3) Diagnosing the Problems

It is a very common mistake for people to move directly from identifying a tough problem to a proposed solution in a nanosecond without spending the hours required to properly diagnose and design a solution. This typically yields bad decisions that don't alleviate the problem. People would be much more effective if they could focus on diagnosis and design rather than jumping to solutions. Diagnosing and designing are what spark strategic thinking.

As mentioned, problems are like puzzles with embedded gems – i.e., lessons for the future that you will be able to apply in the future – that you get if you can solve the problems. Solving problems makes you progressively better at it, so dealing with them is essential for your training. Because life will inevitably raise lots of problems, becoming a good problem-solver will greatly help you get what you want from life.

You must be calm and logical when diagnosing problems. Reacting emotionally, though sometimes difficult to avoid, can undermine your effectiveness as a decision-maker. By contrast, staying rational will serve you well. So if you are finding yourself shaken by your problems, do what you can to get yourself centered before moving forward.

You must diagnose your problems as accurately as possible.

You must get at the root causes. Root causes, like principles, are things that manifest themselves over and over again as the deep-seated reasons behind the actions that cause problems. So you will get many everlasting dividends if you can find them and properly deal with them. It is important to distinguish root causes – which speak to the personal qualities that lead to action or inaction – from what I call

³⁰ Not caring to solve problems often occurs when the expected reward is less than the expected cost. For example, when someone is working toward someone else's goals without being well supervised, well rewarded or well punished.

proximate causes, which are more superficial reasons for what happened. For example, a proximate cause is typically the action or lack of action that led to the problem – e.g., “I missed the train *because I didn’t check the train schedule.*” By contrast, the root cause tells us the deeper “why” behind it: “I didn’t check the schedule *because I am forgetful*” – a root cause). Typically a proximate cause is the action or the lack of action that led to the problem (e.g., “I didn’t check the schedule.”) while a root cause is the quality that led to that action or inaction (e.g., “I am forgetful.”).

Identifying the real root causes of your problems is essential because you can eliminate your problems only by removing their root causes. In other words, you must understand, accept and successfully deal with reality.

Many problems are caused by people’s mistakes. So **recognizing and learning from one’s own mistakes and the mistakes of others who affect the outcomes are critical to eliminating our problems.** As mentioned, most learning comes from making mistakes and learning from the pain of them (putting your hand on the hot stove). But people often find it very difficult to identify and accept their own mistakes. Sometimes it’s because they’re blind to them, but more often it’s because ego and shortsightedness make discovering their mistakes and weaknesses painful. Because people are often upset when their mistakes are pointed out to them, most people are reluctant to point out mistakes in others. As a result, an objective diagnosis of problems arising from people’s mistakes is often missing and personal evolution is stunted. It is at this stage that most people fail to progress. **More than anything else, what differentiates people who live up to their potential from those who don’t is a willingness to look at themselves and others objectively.**

I call the pain that comes from looking at yourself and others objectively “growing pains,” because it is the pain that accompanies personal growth. No pain, no gain. Of course these “growing pains” are illogical to anyone who really understands that no one is perfect and that these discoveries are essential for personal growth. For them, these discoveries elicit “growing pleasures.” But it seems to be in our nature to overly focus on short-term gratification rather than long-term satisfaction, so this connection doesn’t come naturally. However, if you can make the connection between this behavior and the rewards it brings, such moments will begin to elicit pleasure rather than pain. It is similar to how exercise eventually becomes pleasurable for people who hardwire the connection between exercise and its benefits.

Remember that:

Pain + Reflection = Progress

This is a reality that you should just accept and deal with. There is no getting around the fact that achieving success requires getting at the root causes of all important problems, and people’s mistakes and weaknesses are sometimes the root causes. So **to be successful, you must be willing to look at your own behavior and the behavior of others as possible causes of problems.**

When people cause problems, the root causes are typically the fact that someone has not yet learned how to do a good job (i.e., a lack of training and/or experience) or that they have innate weaknesses that can’t be successfully overcome with training and/or experience. When diagnosing the root cause of people problems it is important to try to determine which is the case, because each has different solutions. Problems due to inadequate learning might best be solved with training, whereas those arising from innate weaknesses should probably be overcome with assistance or role changes. It doesn’t matter which is the case; it only matters that the true cause is identified and appropriately addressed.³¹

³¹ Though some people get upset when they learn that they’re weak at some things, that doesn’t make sense. These people are typically too worried about how good they are so that they don’t recognize that understanding their impediments is essential to getting around them. They also typically don’t understand that everyone has weaknesses and that “successful people” (i.e., those who get what they want out of life) often have as many or as severe weaknesses as anyone else. The difference is they developed effective ways around their weaknesses. Once they did, their weaknesses didn’t bother them.

Of course, some problems aren't caused by people making mistakes. For example, if lightning strikes, it causes problems that have nothing to do with human error. All problems need to be well diagnosed before deciding what to do about them.

The most important qualities for successfully diagnosing problems are logic, the ability to see multiple possibilities, and the willingness to touch people's nerves to overcome the ego barriers that stand in the way of truth.

4) Designing the Plan (Determining the Solutions)

In some cases, you might go from setting goals to designing the plans that will get you to these goals; while in other cases, you will encounter problems on the way to your goals and have to design your way around them. So design will occur at both stages of the process, though it will occur much more often in figuring out how to get around problems. In other words, most of the movement toward your goals comes from designing how to remove the root causes of your problems. Problems are great because they are **very specific** impediments, so you know that you will move forward if you can identify and eliminate their root causes.

Creating a design is like **writing a movie script** in that you visualize who will do what through time in order to achieve the goal. It is a practical, creative act in which you need to visualize the goal or problem standing in your way, and then visualize practical solutions. When designing solutions, the objective is to change how you do things so that problems don't reoccur – or reoccur so often. Think about each problem individually, and as the product of root causes – like the outcomes produced by a machine. Then think about how the machine should be changed to produce good outcomes rather than bad ones.

There are typically many paths toward achieving your goals, and you only need to find one of them that works, so it shouldn't be too tough. But it requires thinking things through and visualizing how things will come together and unfold over time. It's essential to visualize the story of where you have been (or what you have done) that has led you to where you are now and what will happen sequentially in the future to lead you to your goals. You should visualize this plan through time, like watching a movie that connects your past, present and future.

Then write down the plan so you don't lose sight of it and include who needs to do what and when. The list of tasks falls out from this story (i.e., the plan), but they are not the same. The story, or plan, is what connects your goals to the tasks. For you to succeed, you must not lose sight of the goals or the story while focusing on the tasks; you must constantly refer back and forth.

When designing your plan, think about the timelines of various interconnected tasks. Sketch them out loosely and then refine them with the specific tasks. This is an iterative process, alternating between sketching out your broad steps (e.g., hire great people), then filling these in with more specific tasks with estimated timelines (e.g., in the next two weeks choose the headhunters to find the great people) which will have implications (e.g., costs, time, etc.). These will lead you to modify your design sketch until the design and tasks work well together. Being as specific as possible (e.g., specifying who will do what and when) allows you to visualize how the design will work at both a big picture level and in detail. It will also give you and others the to-do lists and target dates that will help direct you.

Of course, not all plans will accomplish everything you want in the desired time frame. In such cases, it is essential that you look at what won't be accomplished and ask yourself if the consequences are acceptable or unacceptable. This is where perspective is required, and discussing it with others can be critical. If the plan will not achieve what's necessary in the required time, so that the consequences have an unacceptably high probability of preventing you from achieving your goal, you have to either think harder (probably with the advice of other knowledgeable people) to make the plan do what is required or reduce your goals.

It doesn't take much time to design a good plan – literally just hours spread out over days or weeks – and whatever amount of time you spend designing it will be only a small fraction of the time you spend executing it. But designing is very important because it determines what you will do to be effective. Most people make the very big mistake of spending virtually no time on this step because they are too preoccupied with execution.

People successful with this stage have an **ability to visualize** and a **practical understanding** of how things really work. Remember you don't have to possess all these qualities if you have someone to help you with the ones you are missing.

Remember: Designing precedes doing!!!! The design will give you your to-do list (i.e., the tasks).

5) Doing the Tasks

Next, you and the others you need to rely on have to do the tasks that will get you to your goals. Great planners who don't carry out their plans go nowhere. You need to “**push through**” to accomplish the goals. This requires the self-discipline to follow the script that is your design. I believe the importance of good work habits is vastly underrated. There are lots of books written about good work habits, so I won't digress into what I believe works. However, it is critical to know each day what you need to do and have the discipline to do it. People with good work habits have to-do lists that are reasonably prioritized, and they make themselves do what needs to be done. By contrast, people with poor work habits almost randomly react to the stuff that comes at them, or they can't bring themselves to do the things they need to do but don't like to do (or are unable to do). There are lots of tools that can help (e.g., thank God for my Blackberry!)

You need to know whether you (and others) are following the plan, so you should establish clear benchmarks. Ideally you should have someone other than yourself objectively measure if you (and others) are doing what you planned. If not, you need to diagnose why and resolve the problem. People who are good at this stage can reliably execute a plan. They tend to be **self-disciplined** and **proactive** rather than reactive to the blizzard of daily tasks that can divert them from execution. They are **results-oriented: they love to push themselves over the finish line to achieve the goal**. If they see that daily tasks are taking them away from executing the plan (i.e., they identify that problem), they diagnose it and design how they can deal with both the daily tasks and moving forward with the plan.

As with the other steps, if you aren't good at this step, get help. There are many successful, creative people who are good at the other steps but who would have failed because they aren't good at execution. But they succeeded nonetheless because of great symbiotic relationships with highly reliable task-doers.

The Relationships Between These Steps

Designs and tasks have no purpose other than to achieve your goals. Said differently, goals are the sole purpose of designs and tasks. So you mustn't forget how they're related. Frequently I see people feel great about doing their tasks while failing to achieve their goals, which of course is silly because the only purpose of tasks is to achieve goals. In order to be successful, your goals must be riveted in your mind: They are the things you **MUST** do. **To remember the connections between the tasks and the goals that they are meant to achieve, you just have to ask why**. It is good to connect tasks to goals this way (with the “why”), because losing sight of the connections will prevent you from succeeding. I often see people fail to achieve their goals because, after setting their goals and determining the plan that specifies the tasks, they focus on doing the tasks and forget the goals.

Again, this 5-step process is iterative. This means that after completing one of the steps you will probably have acquired relevant information that leads you to modify the other steps.

If this process is working, goals will change much more slowly than designs, which will change more slowly than tasks. Designs and tasks can be modified or changed often (because you might want to reassess how to achieve the goal), but changing goals frequently is usually a problem because achieving them requires a consistent effort. I often find that people who have problems reaching their goals handle these steps backwards; that is, they stick too rigidly to specified tasks and are not committed enough to achieving their goals (often because they lose sight of them).

Weaknesses Don't Matter if You Find Solutions

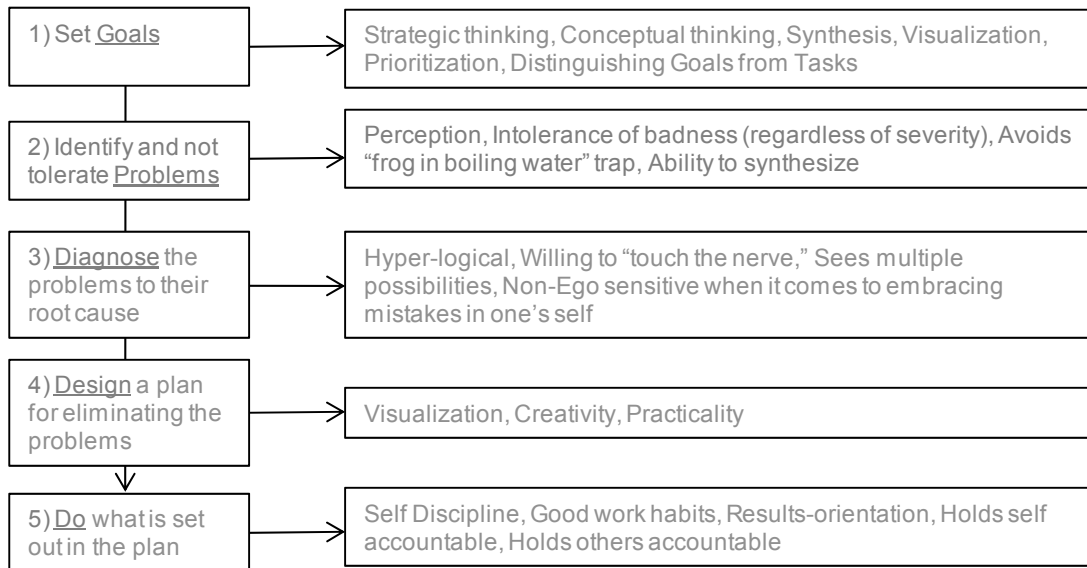
Everyone has weaknesses. The main difference between unsuccessful and successful people is that unsuccessful people don't find and address them, and successful people do.

Most people don't go looking for their weaknesses because of "ego barriers" – they find having weaknesses painful because society has taught them that having weaknesses is bad. I believe that we would have a radically more effective and much happier society if we taught the truth, which is that everyone has weaknesses, and knowing about them and how to deal with them is how people learn and succeed.

More specifically, people who don't get what they want out of life fail at one or more of the five steps. But **being weak at any one of these steps is not a problem if you understand what you are weak at, and successfully compensate for that weakness by seeking help.** For example, a good goal-setter who is bad at doing tasks might work well with a bad goal-setter who is great at doing tasks – i.e., they will be much more successful working together. It is easy to find out what weaknesses are standing in your way by 1) looking at where you are failing and 2) getting the feedback of people who are successful at doing what you are having problems with.

Because I believe that you will achieve your goals if you do these five steps well, I also believe that you can diagnose what is standing in your way by 1) identifying the step(s) that you are failing at and 2) noting the qualities required to succeed at that step and identify which ones you are weak at. To repeat, the five steps and the qualities that I believe are required to be good at them are as follows:

5-Step Process: Qualities Needed



Summary

In a nutshell, the process for achieving what you want is as follows:

Values → 1) Goals → 2) Problems → 3) Diagnoses → 4) Designs → 5) Tasks

Your values determine what you want – i.e., your goals. In trying to achieve your goals, you will encounter problems that have to be diagnosed. Only after determining the real root causes of these problems can you design a plan to get around them. Once you have a good plan, you have to muster the self-discipline to do what is required to make the plan succeed. Note that this process starts with your values, but it requires that you succeed at all five steps. While these steps require different abilities, you don’t have to be good at all of them. If you aren’t good at all of them (which is true for almost everyone), you need to know what you are bad at and how to compensate for your weaknesses. That requires you to put your ego aside, objectively reflect on your strengths and weaknesses, and seek the help from others.

In my opinion, those who see certain things have better lives and achieve more than those who don’t:

- Life is like a game where you seek to overcome the obstacles that stand in the way of achieving your goals;
- You get better at this game through practice;
- The game consists of a series of choices that have consequences;
- You can’t stop the problems and choices from coming at you, so it’s better to learn how to deal with them;
- You have the freedom to make whatever choices you want, though it’s best to be mindful of their consequences;

- The pain of problems is a call to find solutions rather than a reason for unhappiness and inaction, so it's silly, pointless and harmful to be upset at the problems and choices that come at you (though it's understandable);
- We all evolve at different paces and it's up to you to decide the pace at which you want to evolve;³²
- The process goes better if you are as accurate as possible in all respects, including assessing your strengths and weaknesses and adapting to them.

While all this may sound very theoretical, it is integral to how we operate every day. Bridgewater is based on the core belief that everyone here is evolving together. How well and how quickly we do that will have a huge effect on our well-being and the well-being of all the people we have contact with (e.g., our clients, our families, etc.). Those two things are inextricably linked. Further, to be successful and happy, not only do we have to be excellent, but we have to continue to improve at a surprisingly fast rate. Bridgewater operates consistently with the belief that to be excellent and improve at a fast rate, we must be hyperrealistic and hypertruthful. We therefore need to overcome any impediments to being realistic and truthful, and the biggest impediment is people's reluctance to face their own mistakes and weaknesses and those of others. Yet at the same time, our relationships, like our work, must be excellent; so we expect people to be extremely considerate and caring with each other. The principles that follow reflect those core values and the specific ways that they are lived out at Bridgewater.

³² The organization Outward Bound has a concept that is helpful in thinking about the optimal pace of personal evolution. They speak of a comfort zone, a stretch zone and a panic zone. It's best to spend most of your time in the stretch zone.

Chapter 4 – My Management Principles

Up until now, I've spoken about principles and processes that could be applied to anything. This chapter is about management principles. Naturally, my management principles are extensions of my life principles, and my management process is an extension of my 5-Step Process. While I certainly don't want to impose my values and ways of doing things on others, because I have tremendous respect for differences in values, alternative ways of doing things and personal choices, I also know that for any group of people to work together successfully, they must have shared values, and agreed upon ways of operating that are consistent with these values.³³

So, naturally I believe that it is important for a group such as Bridgewater to have shared values, shared goals, and so on.

Group Values → 1) Group Goals → 2) Group Problems → 3) Group Diagnoses → 4) Group Designs → 5) Group Doing

That's the rub: While I respect differences outside Bridgewater, I also know that to be successful we must be clear on the values and the way of operating that define Bridgewater. The purpose of this chapter is to clearly convey a whole management framework – not just individual principles – that is consistent with the values, goals and processes articulated above.

Get the People and the Culture Right

I believe that the world changes so quickly and in ways that can't possibly be anticipated far in advance, so that the key to having a successful company over the long term is to get the really fundamental ingredients right so that decision making will be great, whatever happens. In other words, I believe that **the magic formula is to combine great people with a great culture** so that Bridgewater can anticipate and respond to whatever happens in the world better than its competition.

So, what do I mean by great people and a great culture?

Great People

People can be great in lots of different ways. I think the three most important ways people differ are in their values, their abilities and their skills. By values, I mean the very deep-seated beliefs that motivate people's behaviors. They are the things people will fight for and will determine who they are compatible with. They are the basis for people believing that someone is good (having the same core values) or bad (having conflicting core values). By abilities, I mean ways of thinking and behaving. For example, some folks are great learners and fast processors, others have great common sense, others are creative, others are logical, others are organized, etc. By skills, I mean the tools that people acquire, like knowing how to program a computer, make a film, etc. Under each of these three categories, there are many differences among people – i.e., there are many different types of values, many different types of abilities and many different types of skills. So there are many different ways people can be great.

At Bridgewater I want people who, above all else, **value the intense pursuit of truth and excellence, and through it, the rapid improvement of themselves and Bridgewater.**³⁴ I want people who want to be on a shared mission to improve, knowing that their personal improvement and Bridgewater's are intertwined. So I want them to be considerate, and to also value **working in a community** with considerate people who have a high sense of **personal accountability** and the **character** to do the

³³ For example, while it's OK for some people to choose to be hippies in a commune and be undisciplined and others to go to West Point and be highly disciplined, both approaches cannot successfully be brought to the same venture.

³⁴ We definitely do not want people who value making money above all else. Though our game is to make money in the markets and being excellent in this pursuit is our goal, we want people to understand that pursuing excellence in playing the game (or exercising our craft) is much more rewarding than having lots of money and having the things that lots of money will give you.

difficult, right things. I want them to have **generous natures** and **high standards of fairness** that they hold themselves and others to. While I need very smart people who have many different types of abilities, all these people need to have **common sense**³⁵ and a significant percentage of them must have a lot of **creativity**. When it comes to skills, I need people with too many different types for me to list, but they all must have **great work habits** and the **self-discipline** to do the painful things that are good for them and good for Bridgewater. And, most importantly, to evolve quickly, we need them to put ego aside and be objectively self-reflective.

Great Culture

As mentioned, a “culture” is an environment in which certain values are clear and the way of doing things is consistent with the values. I believe that a great culture at Bridgewater is one in which we value rapid personal and organizational evolution toward higher levels of excellence above all else. Since I believe that radical truth and radical openness are essential for this rapid evolutionary process to occur, I also believe that these need to be essential elements of our culture. I believe that radical openness enhances truthfulness (which is essential in getting at the best answers) because it prevents the secretiveness that breeds hidden agendas and stands in the way of open debate. I also believe that extreme openness allows us to honestly explore and address all of the possible impediments to excellence. So, I believe that our culture must have **very open, honest and logical people debating with each other in pursuit of excellence and recognizing their mistakes and weaknesses in order to achieve rapid improvement**.

In brief, **at the heart of the Bridgewater culture are the following principles:**

- **Rapid evolution toward higher levels of excellence, at all cost.**
- **Truth is the foundation of excellence.**
- **Openness helps to ensure we find truth.**

“**At all cost**” means that there are costs to truth and excellence that we must be willing to pay in order to be successful. Two of the biggest impediments to truth and excellence are people’s egos and organizational bureaucracy. Most people like compliments and agreement, and they dislike criticisms and conflict. Yet recognizing mistakes and weaknesses is essential for rapid improvement and excellence. In our culture, there’s nothing embarrassing about making mistakes and having weaknesses. Exploring them and determining what to do about them are viewed as part of a very healthy process that we do openly and consistently. Operating this way makes the open exploration of problems and opportunities normal, which in turn makes people more comfortable doing it.

The benefits that flow from having great people operating in this great culture are numerous. Obviously, it leads to better decision-making because the decisions of great people exchanging ideas on how to best do things are far better than those made by one great person operating in isolation. It leads Bridgewater and the people at Bridgewater to evolve (i.e., get better) at a much faster pace than they would otherwise. It also leads to greater trust, understanding and commitment to common goals. For example, in this culture, people know they are treated completely honestly and not subject to spin from their bosses or anyone else. There is no reason for petty gossip, because complaints are welcomed and rewarded. People know that if they have an idea of how something can be better, we will logically and fairly assess it. So they see that they have the power to make Bridgewater better, which produces a greater connection to its results.

Even when they challenge something, and the process leads to a decision that’s contrary to what they believed, the process of exchanging thoughts to determine the best path produces greater understanding of the logic behind what is ultimately decided. Operating this way helps us keep great people who are driven to pursue truth and excellence. These are the kinds of people who wouldn’t tolerate working in a place where they are supposed to just blindly follow the instructions of bosses who are presumed to be

³⁵ Common sense is the ability to see things as they really are and to know what to do about them.

right all the time. Operating in this environment of extreme openness also helps to minimize unpleasant and ineffective office politics, hidden agendas and gossiping, because these things are anathema to this culture.

Of course there are some disadvantages to this and, in some ways, operating in this way is very difficult. The biggest disadvantage is probably that the process is time-consuming, so it has to be done efficiently. As mentioned, probably the toughest difficulty is in overcoming people's egos, which so often stand in the way of getting at truth. **At Bridgewater people have to value getting at truth so badly that they are willing to humiliate themselves to get it.** Of course, they shouldn't feel humiliated because they should know that everyone is wrong a lot, and everyone learns more because of their mistakes. It is more heroic than humiliating to objectively explore one's own mistakes and weaknesses, so doing so should engender admiration – not humiliation. We need and admire people who can suspend their egos to get at truth and evolve toward excellence, so we ignore ego-based impediments to truth. We have a different type of environment in which some behaviors discouraged elsewhere are rewarded here (like challenging one's superiors), and some behaviors encouraged elsewhere are punished here (like speaking behind a subordinate's back). Both require adaptation. This process is generally both challenging and rewarding, and those who make it typically describe it as highly empowering.

People increasingly and subliminally adapt to the values and behaviors of their environments over time.³⁶ This is especially true if people expect these values and behaviors to give them what they want out of life. So it follows that changing from one culture to another can produce culture shock, which continues until the adaptation is complete. Since Bridgewater's culture is very different from what is typical in the world at large, people often encounter culture shock when they start here, until they have adapted. During this adaptation period, some who are uncomfortable often argue that the culture should change to make it more comfortable. Yet they rarely argue that there is anything wrong with the values and behaviors, other than that some people are uncomfortable with them.

We don't want to change the culture to make it comfortable for people who are uncomfortable with it, because changing it would redefine the norm that people gravitate toward and slow the adaptation process. Changing it would also put us on a slippery slope toward having a more conventional culture, which would produce more conventional results and impede our mission to get at truth and excellence. So if this culture really is better than others, it is far better to explain it clearly up front and expect people to adapt.³⁷ It is a fundamental law of nature that you get stronger only by doing difficult things. So it is far better for the people who work here and better for Bridgewater to have them adapt rather than alter the culture to make them comfortable.

So while it's unacceptable to alter the culture because it is uncomfortable, changing it because it's not logical or doesn't work is perfectly acceptable. So I wholeheartedly encourage you to explore whether it's logical and works. Probe hard – hard enough to convince yourself that the principles contained here are rock solid or to identify where they are weak and should be modified.

Easily said, but not so easily done. The management principles that follow provide you with the specifics that take you from that ultra high-level view of what I believe is required to build a great company to the nuts and bolts steps of doing it. Still, while these principles are good general rules, every rule has exceptions and there's no set of rules that can completely substitute for common sense.

Perhaps the best testimony that these principles work is that they have produced radical success and satisfying, long-term relationships at Bridgewater for 35 years. What is even more important to me is that they are logical. There has been virtually no disagreement on the validity of these principles by people who have probed them. They have stood this test of probing despite Bridgewater's unusually

³⁶ The subliminal acclimation to one's environment is why accents and social mores are acquired.

³⁷ I am not saying that adapting to it is easy, but that doesn't concern me because getting what one wants out of life unavoidably means having to get one's self to do difficult things, so asking people to adapt is a test of character.

independent-minded and argumentative crowd and the fact that our culture is so unique.³⁸ While that's interesting, equally interesting is that we have collectively observed that virtually all problems we encounter can be traced to violating one or more of these principles. So if these principles are followed, there should be virtually no problems. Since I've put together about 300 principles, it should not be an insurmountable challenge to have everyone here understand and internalize them. I believe that is one of the best ways to ensure good management and imbue our values.

My approach to conveying these roughly 300 principles is to first explain the logic behind them so that you can make an intellectual assessment of their merits. I believe that if you understand these principles and the effects they will have on your life and on Bridgewater's success, you won't want to operate any other way. But it is up to you to decide what is true. I encourage you to feel free to explore any disagreements that you might have with them, which will either lead to them being made better by your probing or to your enhanced appreciation of their merits. At that point you will make a choice – do you or do you not want to work in an environment that operates this way.

From then on, learning these will be like learning a language. You will learn them through translation, repetition and immersion. Through translation and repetition, you will discover that whenever there is a problem, you will see it as “another one of those” and come to identify which broken principle is the cause. Doing this will lead you to view these problems simply as manifestations of these broken principles. The more a certain type of problem occurs, the more you will be exposed to the relevant principles that will help you to prevent it, until operating by these principles is second nature and the problems go away. And just as it is best to learn a foreign language in the country where it is spoken, working at Bridgewater will be like having that kind of immersion experience. While these principles are laid out here, they are best learned by practicing them daily in the Bridgewater environment. Eventually you will internalize the language and won't give any thought to where it came from.

³⁸ By unique I mean that our ways of doing things and the principles behind them are very different from how other firms operate.

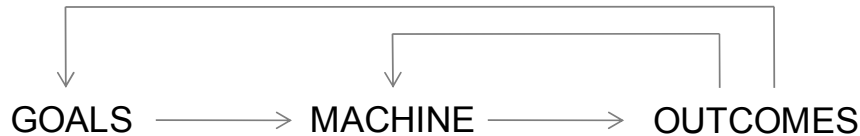
Getting Specific

What follows are roughly 300 principles. To begin, the first seven principles are about some overarching management concepts that apply to all of the other principles to follow. More specifically, to end up with great people operating in a great culture...

1) ...Think and act in a principled way and expect others to as well. In other words, remember that all outcomes are manifestations of forces that are at work to produce them, so whenever looking at specific outcomes, think about the forces that are behind them. Constantly ask yourself, "What is this symptomatic of?" Know your own principles about how to deal with different forces, clearly convey them, listen to others, debate them, allow them to evolve and stick to them. Cultivate relationships with people who live by similar principles and separate from those who don't.

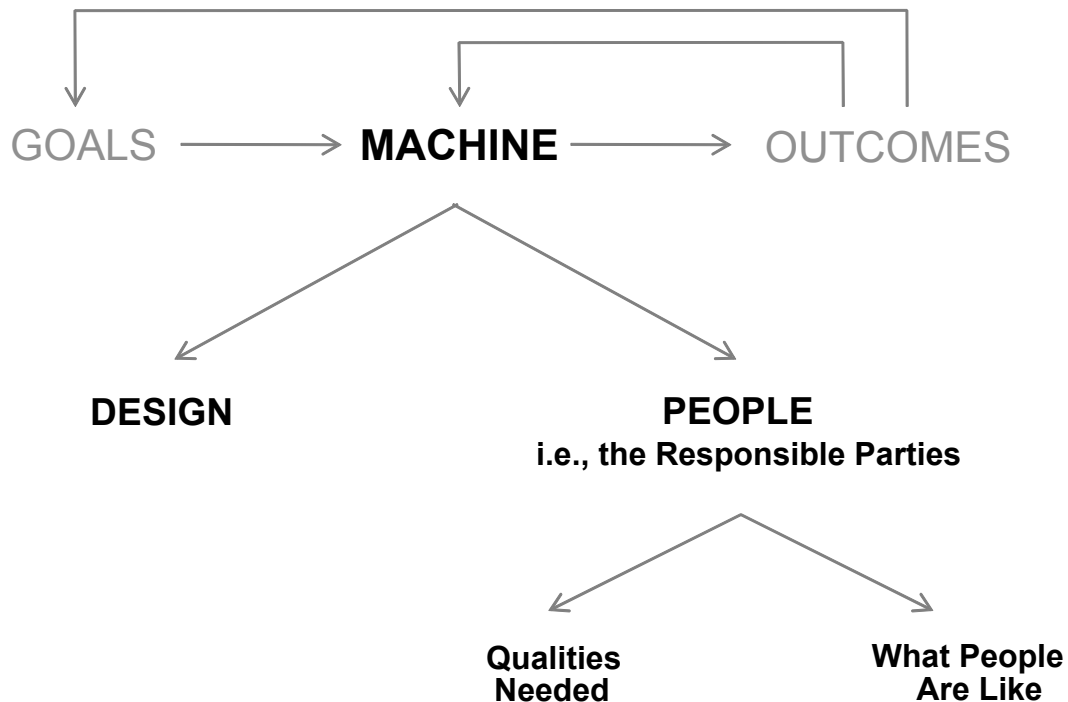
2) ...Manage as someone designing and operating a machine rather than as someone doing tasks.

By "machine," I mean the system that consists of parts (i.e., people and other resources) and the way they work together. Your "machine" is meant to achieve your goals and will produce outcomes. If you design it well and select the right parts (e.g., the right people and resources) it will produce outcomes that achieve your goals. If you don't, it won't. Comparing your machine's outcomes to your goals will tell you how well your machine is working. Because you are in control of your machine, and because your machine produces the outcomes you get, you will eventually get the outcomes that you deserve.



Tasks are the things that the machine does. A bad manager focuses too much on doing the tasks and loses sight of how the outcomes are extensions of the machine and the goals. So I have two bits of advice: 1) compare the outcomes to the goals in order to reflect on how the machine is operating and 2) beware of paying too much attention to what is coming at you and not enough attention to what your responsibilities are and how your machine should work to achieve your goals.

3) ...Recognize that your “machine” consists of **design** and **people**. If your machine isn’t producing good outcomes it is either because the design is flawed or the people are flawed. So, to fix it, you will need to figure out which is the case and then deal with it.



4) ...Senior managers must be capable of higher level thinking. They must be able to think in a principled way and view the areas that they manage as machines, in the ways described previously. So, they must be able to synthesize observations into accurate pictures, consider both the first- and second-order consequences of their decisions, see themselves and their circumstances objectively, and visualize well. “Common sense,” “open-mindedness” and a deep “sense of responsibility” are also essential qualities for great senior managers. This is because an excellent senior manager can visualize clearly and in great detail how things should be, compare that with what exists and then decide on the changes that should be made. People with these qualities are unique and hard to come by. Those who are capable of very high level things are extremely rare.³⁹

5) ...You must have managerial courage. As mentioned, these principles will tell you what you need to do to be successful, including what to do if you can’t do these things. So I don’t have much doubt that you can be successful. The real question is whether you can get yourself to do the difficult things laid out in these principles. Remember that, by and large, you will get what you deserve.

6) ...Either produce excellent outcomes or tell the people you report to that you can’t produce the excellent outcomes. To be successful, you have to ensure that the things you are responsible for are excellent. You cannot tolerate anything that stands in the way of their excellence, including your own inabilities. So good management is most fundamentally about bringing problems to the surface. The personal qualities required to be good at this are 1) an ability to perceive problems and 2) an inability to

³⁹ Steve Jobs is an example of this kind of unique person, and Apple is an example of a company that has been successful because it reflects his unique way of thinking. (If Jobs saw Apple as a computer company, he wouldn’t have come up with the iPod or the iPhone.)

tolerate badness. It is perfectly okay if a manager sees things that are bad and, because he or she can't stand them being bad and can't fix them, escalates them to his or her boss. But it is intolerable to fail to produce results and fail to escalate this problem.

The most common reasons managers fail at this are:

- a) they are too removed.
- b) they have problems discerning quality differences.
- c) they have lost sight of how bad things have become because they have gradually gotten used to their badness (the "frog in the boiling water problem").⁴⁰
- d) they have such a high level of pride in their work that they can't admit they're unable to solve their own problems.⁴¹
- e) they fear adverse consequences from admitting failure.

7) **...Achieving success and excellent management requires:**

- 1) Knowing what you want; i.e., having clear standards/visions/goals.⁴²
- 2) Finding the problems and mistakes that stand in the way of getting to them.⁴³
- 3) Accurately diagnosing the problems and the mistakes.
- 4) Designing plans that are explicitly laid out, specifying the tasks and timeline.
- 5) Implementing the plans – i.e., doing the tasks and continuing to assess everything in light of the goals.

Remember these five words: **1) goals, 2) problems, 3) diagnoses, 4) designs and 5) doing**, as these five key words represent the five key things that you have to do well in order to be a great manager. Chapter 3 explores these five steps in greater detail. I promise that following this 5-step process well and continuously will lead to rapid improvement in whatever you are managing.⁴⁴ Conversely, bad results will arise from failing at one or more of these steps. So, when diagnosing management problems, ask yourself at which step failure is occurring and why it is occurring. Sometimes it is because the person who is responsible for handling that step is not good at it. As mentioned before, you and others who work for you don't have to be good at all five steps to be great managers, but you do have to understand the real root cause of the failure, including personal weaknesses so that they can be properly dealt with, The biggest impediment to success is failing to recognize your own weaknesses so you can develop and implement plans to compensate for them. That is why, as one of our managers has observed, reflective people are much more successful than deflective people. Most of the remaining principles discuss how to make this five-step process work effectively by getting the right culture and right people in place.

⁴⁰ Supposedly, if you throw a frog into a pot of boiling water it will jump out but, if you put a frog into water and gradually heat it up to a boil, it will stay in the pot and boil to death. In other words, gradual changes are much less likely to be perceived than abrupt changes.

⁴¹ Managers should not consider it a failure to tell the people they report to that they can't achieve the goal and either seek advice or turn the management of the situation over to their supervisor. While this is less desirable than solving the problem, the supreme mistake is to have a crisis occur without notifying your boss.

⁴² Know what excellence is and don't accept anything less.

⁴³ When problems occur, agree with others that these problems exist and aren't acceptable.

⁴⁴ In other words: 1) Know what you want. 2) Get all of your problems clearly laid out on the table and look at them. 3) Reflect on them. Don't rush this reflection. 4) Sketch out a design to fix them. 5) Fill in the sketch with specifics. Write these down so you don't forget them. These are your tasks. Then do them, while still perceiving and reflecting. When perceiving and reflecting, reflect off the story of where you have been, not off the tasks. If you reflect off the tasks, you will lose sight of the important things.

A) To Get the Culture Right...

...Truth is Essential:

Understanding, accepting and knowing how to effectively deal with reality is essential for achieving success. So...

8) **...Trust in truth.** There is nothing to fear from truth. While the truth itself may be scary (e.g., you are bad at something, you have a deadly disease, etc.), knowing the truth will allow you to deal with it better. Being truthful, and letting others be completely truthful with you, allows you to fully explore your thoughts and exposes you to the feedback that is essential for your learning (and is crucial for getting in synch with your colleagues). Being truthful is an extension of your freedom to be you; people who are one way on the inside and believe that they need to be another way outside to please others become conflicted and often lose touch with what they really think and feel. It's difficult for them to be happy and almost impossible for them to be at their best.

By contrast, people who are the same way on the inside as they are on the outside have **integrity**, which comes from the Latin word *integer*, meaning "one." Thinking solely about what's accurate instead of how it is perceived helps you to be more straightforward, focused on important things, and the same on the inside as you are on the outside. Being truthful is also essential to being an independent thinker and obtaining greater understanding of what is right. It tests your willingness to hold independent opinions regardless of what others think and exposes your beliefs to the challenges of others. Most people will know whether you are truthful and reward you for it because it is in their interest to embrace truthful people and shun those who aren't. Having truth on your side is so extremely powerful in so many ways that I believe it is better to have blind faith in it rather than being selective about when to use it. In other words, I believe that being truthful and being around people who are extremely truthful are so healthy and productive that you shouldn't think twice about it.

9) **...Be extremely open because it leads to truth.** Being open about things you don't like is especially important because the things you don't like need to be changed or resolved. The secret things that people think and don't say to each other drive resentment and key issues underground and don't lead to improvement. If you have a thought about someone, share it with them and encourage them to do the same. Then discuss it until you are in synch or at least you both understand where you are coming from and can determine what should be done. This is ethical and it will allow you both to assess the feedback's merits and understand each other better. Also, having nothing to hide relieves stress. As someone I worked closely with said when they got the concept, "**it's simple – just don't filter.**" It's primarily because of the power of all people at Bridgewater to speak openly and equally, and to have their views judged based on the truth of what they are saying that we perform better. Through this extreme openness and meritocracy of thinking, we identify and solve problems better. We know we can rely on honesty, we succeed more and we ultimately become closer. So, you must insist on being accurate, truthful and open, without regard for "blame and credit" or "positive and negative." After a while you will notice peoples' behaviors changing so that they aren't as sensitive to blame and credit and they appreciate accuracy more because they see that it's healthy for them and Bridgewater.

10) **...Be extremely transparent** – e.g., answer people's questions honestly and don't talk about them behind their backs. Of course, there are some times when privacy is required.

11) **...Never say anything about a person you wouldn't say to him directly.** If you do, you're a slimy weasel. Badmouthing people behind their backs shows a serious lack of integrity. It doesn't yield any beneficial change and it subverts both the people you are badmouthing and the environment as a whole. Next to being dishonest, it is the worst thing you can do at Bridgewater. Criticism is both welcomed and encouraged at Bridgewater, so there is no good reason to talk behind people's backs. You need to follow this policy to an extreme degree to be in harmony with our culture. For example, managers should not talk about people who work for them without those people in the room.

12) ...Don't try people without accusing them to their face.

13) ...Respect people's privacy. If someone gives you confidential information, keep it confidential until you have permission to disclose it. For instance, don't forward an email that was sent to you in private to other people not included on the original message unless you have the original sender's permission.

14) ...TOOL – Tape almost all meetings and make them available to all relevant people. Provide tapes of all meetings that don't contain proprietary information to enhance transparency and facilitate information gathering. Allowing people to listen directly to what was said lets them form their own views and greatly enhances accuracy and the pursuit of truth.

15) ...Get in synch with what you think the truth is. Unresolved differences stand in the way of progress, while agreement is the foundation for progress. So constantly get in synch with people you work with. For example, say: "I see things this way. Do you see them the same way?" If there are important disagreements, they must be resolved. They can be resolved by elevating them, bringing in others or deferring to the differences in people's roles.

16) ...Don't let "loyalty" stand in the way of truth and openness. In some companies, employees will hide their employer's mistakes and/or weaknesses and employers will do the same for them. In these places, openly expressing your concerns is considered disloyal and discouraged. Presumably they feel that such openness is harmful rather than helpful. For reasons explained throughout these principles, we believe the opposite: Openness facilitates self-discovery and improvement. While unhealthy loyalty protects people from bringing their mistakes and weaknesses to the surface and stands in the way of improvement, healthy loyalty (i.e., openly addressing mistakes and weaknesses) fosters improvement. Unhealthy loyalty also encourages deception (i.e., hiding truth) and reinforces the power of the boss over the subordinate because it eliminates the subordinates' right of appeal. Healthy loyalty does the opposite. The more people are open with their challenges, the more helpful others can be. In an environment in which mistakes and weaknesses are dealt with openly, those who are openly facing their challenges have the greatest character. By contrast, in an environment in which mistakes and weaknesses are hidden, unhealthy character is legitimized.

17) ...Be extremely honest. People respect candor, even about problems. Winston Churchill said, "There is no worse course in leadership than to hold out false hopes soon to be swept away." The candid question and answer process allows people to probe your thinking. You can then modify your thinking to get at the best possible answer, reinforcing the confidence that you're on the best possible path.

18) ...Don't tolerate dishonesty. People typically aren't totally honest, which stands in the way of progress, so don't tolerate this. There's an adjustment process at Bridgewater in which one learns to be completely honest and expect the same from others. Increasingly you engage in logical, unemotional discussions in pursuit of truth in which criticisms are not viewed as attacks, but explorations of possible sources of problems.

19) ...Don't believe it when someone caught being dishonest says they have seen the light and will never do that sort of thing again. Chances are they will. The cost of keeping someone around who has been dishonest is likely to be higher than any benefits.

...Recognize That Mistakes are Good if They Result in Learning, so...

- 20) ...Create a culture in which it is OK to fail but unacceptable not to identify, analyze and learn from mistakes.** We must bring mistakes into the open and analyze them objectively, so managers need to foster a culture that makes this normal and penalizes suppressing or covering up mistakes. Probably the worst mistake anyone can make at Bridgewater is not facing up to mistakes – i.e., hiding rather than highlighting them. Highlighting them, diagnosing them, thinking about what should be done differently in the future and then adding that new knowledge to the procedures manual are all essential to our improvement.
- 21) ...Recognize that you will certainly make mistakes have weaknesses; so will those around you and those who work for you. What matters is how you deal with them.** If you treat mistakes as learning opportunities that can yield rapid improvement if handled well, you will be excited by them. But if you treat them as bad things, you will make yourself and others miserable, and you won't grow. Further, your work environment will be marked by petty back-biting and malevolent barbs rather than by a healthy, honest search for truth that leads to evolution and improvement. Because of this, the more mistakes you make and the more quality, collaborative, honest diagnoses you undergo the better. That's not B.S. or just talk. That's the reality of learning.
- 22) ...Get over, and make sure your people get over, thinking about "blame and credit" and "positive and negative" comments.** Get on with just thinking about whether comments are "accurate" or "inaccurate." When someone hears "you did XYZ wrong," there is an instinctual reaction to figure out possible consequences or punishment rather than trying to understand how to do things better in the future. What has happened is in the past and no longer matters, except for learning about how to be better in the future. So it is very important to create an environment in which people understand that remarks like "you handled that badly" are meant to be helpful (for the future) rather than punitive (for the past). While it's "normal" (i.e., typical) to feel bad or angry about "blame" and good about "credit," these reactions can cause major problems.⁴⁵ That's because worrying about "blame" and "credit" or "positive" and "negative" feedback prevents complete openness, honesty and objectivity. It impedes the iterative process that is essential to learning. It also sustains the misperception that recognizing mistakes is a bad thing rather than the great, essential first step toward lasting improvement. In other words, that attitude gets everything backwards. For example, people who criticize performance are often mistakenly perceived as hurting rather than helping others, so criticism is too often withheld or not well received. For this reason, stop categorizing comments as either "blame" (i.e., bad) or "credit" (i.e., good) and start thinking in terms of "accuracy" (i.e., good) or "inaccuracy" (i.e., bad). Recognize that the most valuable comments are accurate criticisms. Imagine how silly and unproductive it would be if you thought your ski instructor was blaming you when he told you that you fell because you didn't shift your weight properly. If a criticism is accurate, it is a good thing. You should appreciate it and try to learn from it.
- 23) ...Don't depersonalize mistakes.** A common mistake is to depersonalize the mistake, saying "we didn't handle this well" rather than "*Harry* didn't handle this well." Again, this is because people are often uncomfortable connecting specific mistakes to specific people because of ego sensitivities. However, since individuals are the most important building blocks of any organization and because individuals are responsible for the ways things are done (e.g., someone created the procedure that went wrong or decided we should act according to that procedure), it is essential that the diagnosis connect the mistakes to the specific individuals by name. Doing this is one of the greatest tests of whether a person will put improvement ahead of ego and whether he or she will fit into the Bridgewater culture. At Bridgewater we reward people who find mistakes and accurately diagnose them.

⁴⁵ I suspect that the "blame and credit" mentality in which being right or having the right answer is rewarded and making mistakes is penalized comes from being trained at home and school to do as directed and to learn what one is taught rather than enjoying learning through mistakes.

24) ...If you don't mind being wrong on the way to being right, you will learn a lot. You mustn't feel bad about your mistakes or those of others because 1) they are to be expected, 2) they're the first and most essential part of the learning process, and 3) feeling bad about them will prevent you from getting better. People typically feel bad about mistakes because they think in a short-sighted way mistakes reflect their badness or they're worried about being punished (or not being rewarded). People also tend to get angry at those who make mistakes because in a short-sighted way they focus on the bad outcome rather than the educational, evolutionary process they're part of. And that's a real tragedy.

I know that once you use these mistakes as learning and growing experiences, you will find the process of making the most of them and the rapid rate of learning exhilarating. I also know that if you haven't yet evolved to the point where you have internalized this reality, encountering mistakes will cause you a lot of pain. And that pain will prevent you from evolving because you will seek to limit it by minimizing your mistakes and/or minimizing the objective diagnosis of your mistakes and you will stagnate. So my biggest worry is that you don't internalize the view that your mistakes and those of others are essential for your learning. They are great if you and those around you identify and diagnose them accurately.

I once had a ski instructor who had taught Michael Jordan, the greatest basketball player of all time, how to ski. He explained how Jordan enjoyed his mistakes and got the most out of them. At the start of high school, Jordan was a mediocre basketball player; he became great because he loved using his mistakes to improve. I see it all the time. Intelligent people who are open to recognizing and learning from their mistakes substantially outperform people with the same abilities who aren't open in the same way. Yet it is far more common for people to let their egos stand in the way of learning. Perhaps it's because the first 20+ years of our lives overemphasize the value of having the right answers and punish having the wrong answers. The "smart kids" are the ones who have the right answers and the "dummies" are the ones who don't. School learning discourages learning through mistakes so that good school learners are often bad mistake-based learners because they are bothered by their mistakes and weaknesses. I particularly see this problem in new graduates from the best colleges. Rather than being excited about exploring their mistakes and weaknesses so that they can learn from them, they tend to shy away from this, which slows their learning. After several years in the real world, they have far more respect for what they don't know than for what they do know, particularly if they gain some experience in achieving goals. **To enhance your folks' rate of learning and Bridgewater's rate of improvement, you will have to teach and reinforce the merits of mistake-based learning and make people comfortable with it.** The most valuable tool we have for this is the issues log (explained fully later), which is aimed at identifying and learning from mistakes. Using this tool is now mandatory because we believe that enforcing this behavior is far better than leaving it optional.

25) ...Most people worry too much about appearing good and not enough about achieving their goals. Ironically, people who dislike their mistakes because they worry about how good they are (i.e., people who view mistakes as a sign of their deficiencies) learn more slowly and end up being less good than those who embrace their mistakes to learn from them.

26) ...Recognize there is no such thing as perfection. Since there is no such thing as perfection, it's easy though often not worth much to identify and dwell on tiny mistakes. In fact, this can be a problem if you get bogged down pinpointing and analyzing an infinite number of imperfections. At the same time, minor mistakes can sometimes be manifestations of serious root causes that could cause major mistakes down the road, so they can be quite valuable to diagnose. When assessing mistakes it is important to a) ask whether these mistakes are manifestations of something serious or unimportant and b) reflect on the frequency of them. An excellent decision maker and a bad decision maker will both make mistakes. The difference is what causes them to make mistakes and the frequency of their mistakes.

27) ...Ask yourself whether the mistakes are part of the learning process or chronic. You can tell based on whether there is learning and positive change occurring.

28) **...Be self-reflective and make sure your people are self-reflective.** That is how real learning occurs. It's pretty easy to determine if a person is reflective or deflective: self-reflective people openly and objectively look at themselves while deflective people don't.

29) **...The first step toward deep, fundamental improvement is feeling the pain of failing and accepting the responsibility for your failing.**⁴⁶ I call these pains of failure "growing pains," because when you're experiencing them, you're growing. Don't rush through them. Stay in them and explore them because that will help build the foundation for improvement. It is widely recognized that a) changing your deep-seated, harmful behavior is very difficult yet necessary for improvement and b) doing this generally requires a deeply felt recognition of the connection between your harmful behavior and the pain it causes. Psychologists call this "hitting bottom." Embracing your failures as the first step toward genuine improvement is also why "confession" precedes forgiveness in many societies. Ego often stands in the way of acknowledging your weaknesses (which is the essential first step in overcoming them), like being afraid to ask a question because people might think you're stupid because you don't know something. Yet acknowledging those weaknesses (e.g., "I know I'm a dumb shit, but I'd just like to know...") helps you move beyond ego toward learning and improving. Knowing that you don't know something is nearly as valuable as knowing it. The worst situation is thinking you know something when you don't.

30) ...When there is pain, the animal instinct is "fight or flight" (i.e., to either strike back or run away) and the higher level thinker's instinct is to reflect (i.e., to try to understand it and to figure out what is best to do about it). So, this quality is a key differentiator between those who evolve fast and those who don't.

31) ...Write down your weaknesses and the weaknesses of others. Acknowledge them and embrace them. It's unhealthy to hide them because if you hide them, it will slow your progress towards successfully dealing with them. On the other hand, if you don't want them and you stare at them, you will inevitably evolve past them.

⁴⁶ If you view short-term failure as a step toward long-term success, which it really is if you learn from it, you won't be afraid of it or made uncomfortable by it and you will approach all of your experiences as learning experiences, even the most difficult ones.

...Constantly Get in Synch:

Getting in synch is the process of fighting for truth and making sure we understand each other. It involves asking, debating, discussing and teaching how things should be done. Sometimes it is to make our views on our strengths, weaknesses and values transparent in order to reach the understanding that helps us move forward. Sometimes it is to be clear about who will do what and the game plan for handling responsibilities. It is invaluable, especially in a company that has the values Bridgewater does. So...

32) ...Holding people accountable by getting in synch is fighting for excellence and truth. It is unacceptable for you to say you don't have the character to fight for quality and truth, because it makes you or other people uncomfortable. **Character is the ability to get yourself to do the difficult but right things.** Get over the discomfort, and force yourself to hold people accountable. The choice is between doing that properly or letting our community down by behaving in a way that isn't good for you or the people you are "probing" and coaching.

33) ...Make sure that decision making is carried out by open-minded and capable people discussing or debating with each other to get at the right answers. Rather than feeling pride when they reach the right answers, they should derive satisfaction from improvement. Getting from less good points of view to better ones should be satisfying not disappointing. Bridgewater is a non-hierarchical organization consisting of very smart people. By contrast, both autocratic and bureaucratic organizations have difficulties recruiting and retaining smart people because smart people don't want to blindly follow orders without questioning.

34) ...Open debate is meant to produce a) informed decisions by providing the decision-maker with alternative perspectives; b) an understanding of other views and abilities; and, over time, c) an effective means of assessing whether someone should be the responsible party. It is not meant to create rule by referendum. It doesn't mean there can't be some designs in which a group oversees a person. But that's designed and imbedded in the organizational structure, specifying the people responsible for oversight who are chosen because of their knowledge and judgment.

35) ...Fight for right. Your goal is to have people discuss or debate important issues in an open-minded way until the best answers are determined. This process should maximize learning and mutual understanding. Thrash it out to get to the best answer.

36) ...Conflicts are essential for great relationships because they are the means by which people probe whether their fundamental principles are aligned and resolve their differences. I believe that in all relationships, including the most treasured ones, 1) there are principles and values each person has that must be in synch for the relationship to be successful and 2) there must be give and take. I believe there is always a kind of negotiation or debate between people based on principles and mutual consideration. What you learn about each other via that "negotiation" either draws you together or drives you apart. If your principles are aligned and you can work out your differences via a process of give and take, you will draw closer together. If not, you will move apart. It is through such open discussion, especially when it comes to contentious issues, that people can make sure there are no misunderstandings. If that open discussion of differences doesn't happen on an ongoing basis, the gaps in perspectives will widen until inevitably there is a major clash. Ironically, people who suppress the mini-confrontations for fear of conflict tend to have huge conflicts later which can lead to separation, precisely because they let minor problems fester. On the other hand, people who address the mini-conflicts head-on in order to straighten things out tend to have the great, long-lasting relationships. That's why I believe people should feel free to say whatever they really think.

37) ...Because open-minded disagreements to get at truth are encouraged at Bridgewater, expect more of them here than at most other firms. Sometimes when there are disagreements, people get angry. But you should remind them that the management at most other companies doesn't welcome disagreement

or encourage open debate. As a result, there is less of both. So instead of getting angry, they should welcome the fact that disagreements and open debate are encouraged here.

38) ...Don't spend lots of time arguing unimportant or subjective stuff, but do encourage forceful explanation of important and objective stuff. By subjective stuff, I am referring to different but comparably good ways of "skinning a cat." For example, talking about whether speakers should line up in front of the room rather than in a circle is unimportant and subjective. So while a decision should be made and communicated, don't waste a lot of time arguing about it. Since some people tend to overly focus on small points of disagreement, be wary of getting bogged down in unimportant disagreements at the expense of time devoted to building on important agreements.

39) ...To manage well in our culture, you need to constantly encourage the people who report to you to probe you, and you need to constantly probe them. Managers are much less able to discover the right things to do than most people assume (I know I am). So they need to be constantly challenged in order to become as good as they can be. You can learn from the people who work for you. Also, inviting their criticism brings to the surface any subterranean discontent and makes the people working for you responsible for helping to find solutions. It's much easier for them to remain spectators in the stands offering comments that go unchallenged rather than becoming players on the field. Forcing them onto the field strengthens the whole team.

40) ...You can't control people by giving them orders because they probably will resent it and do something different when you aren't looking. This approach also means you aren't developing them, so over time they will become increasingly more dependent on you for direction (which will be bad for both of you). In order to get the desired behavior, the desire must come from them, so you must get them to want it. **The greatest power you have over intelligent people and the greatest influence they will have on you comes from constantly getting in synch about what is good for them.** Reaching agreement will come only from radically open discussions in which you are fair, reasonable and open-minded.

41) ...The trick is to be forceful and open-minded at the same time, and to have no ego. When you are confident that you are right, be forceful and open-minded at the same time because you could be wrong. Remove ego, so you don't mind being wrong (in fact you like it, because you are learning) and deal with others who operate the same way so that you and they don't care about being right or wrong – you're all just trying to get at the best answer. If you're trying to get at the best answer, with intelligence and no ego, you will be at your best. Ego and pride are the biggest impediments preventing intelligent, hard-working people from being as good as they can be. If you are proud of what you know or how good you are, you will probably dislike not knowing things or be reluctant to see your faults. Both will slow your learning and personal improvement. Ironically, people who are most sensitive about being good tend not to be as good as they can be because their egos stand in the way. You must be open to changing your mind, and you must not let your wish to be right be more important than finding truth.

42) ...Not all opinions are equally valuable so don't treat them as such. Almost everyone has an opinion, but they're not all equally valuable. Many are worthless or even harmful. So it is not logical to treat them as equally valuable. For example, the views of people without any track records or experience are not equal to the views of people with great track records and experience. Treating them equally is more likely to undermine getting at the truth than facilitate it. People who haven't successfully done things but are nonetheless confident about how they should be done are often either naïve or arrogant. In either case, they're potentially dangerous to themselves and others. Still, all views should be considered in an open-minded way, but put in the proper context of experience and track record.

43) ...A hierarchy of merit is not only consistent with a meritocracy of ideas but essential for it. Not only is better decision-making enhanced, so is time management. It's not possible for everyone to debate everything all the time and still get work done effectively.

44) **...When getting in synch, consider your own and others' "believability."** By believability, I mean the probability that a person's view will be right. While we can never know this precisely, we can roughly assess it according to the quality of a person's reasoning and/or track record. Of course, different people will have different views of their own and other's believability, which is fine. Just recognize that this is a reality that is relevant in a number of ways.

45) **...Ask "Why should I believe you?" and "Why should I believe myself?"** Not all people's opinions are equally valuable (see the principles above on believability). Still that important distinction is often unacknowledged in discussions. Prevent this by looking at people's track records, noting their credentials, and evaluating how their arguments hold up when challenged.

46) **...People's believability should be influenced by their track records.** Also, people's ideas should always be assessed on their merit in order to encourage them to always think in an open-minded way. I have seen that inexperienced people can have great ideas, sometimes far better than more experienced people, though often much worse. So we must be attuned to both the good and the bad and allow people to build their own track records and their level of believability. Because of Bridgewater's radical openness, you can see how we make our assessments of that.

47) **...People who have repeatedly and successfully accomplished the thing in question and have great explanations when probed are most believable.** Those with one of those two qualities are somewhat believable; and people with neither are least believable.

48) **...Ask yourself whether you have earned the right to have an opinion.** Opinions are easy to produce, so there is an abundance of bad ones around.

49) **...Debate, discussion and teaching are all ways of getting in synch, but they work differently.** Debate is generally among approximate equals; discussion is open-minded exploration among people of various levels of understanding; and teaching is between people of different levels of understanding. To avoid confusion, be clear about what you are doing and recognize that they are all for the purpose of getting at truth, not proving one is right.

50) **...Communications must inevitably be prioritized because of time constraints, but you still need to spend lavishly on the time and energy you devote to communicating, because "getting in synch" is the best investment you can make.**

51) **...Communication aimed at getting the best answer should involve the most relevant people.** Not everyone should randomly probe everyone else, because that's an unproductive waste of time. People should consider their own levels of believability and understanding to assess if the probing makes sense. As a guide, the most relevant people are your managers, direct reports and/or agreed experts. They are the most impacted by and most informed about the issues under discussion and so they are the most important parties to be in synch with. If you can't get in synch, you should escalate the disagreement.

52) **...Communication aimed at educating, should involve a broader set of people than would be needed if the aim were just getting the best answer.** In this case of educating, discussions with people who aren't believable are very important for their learning and for getting in synch. If you are not in synch with them, that will likely undermine morale and our organization's efficiency. In cases involving people who are both not believable and highly opinionated (the worst combination), your lack of openness will drive their uninformed opinions underground. This subverts the goal of getting at truth and excellence through openness. Conversely, if you are willing to be openly challenged by anyone, and others here behave the same way, you can demand that all critical communication is done openly. While this type of open communication is very important, the challenge is figuring out how to do it in a time-efficient way. It is helpful to use leveraging techniques like open e-mails posted on a FAQ board. If the reporting ratios are organized as described in the principles on organizational design, there should be ample time for this. The challenges become greater the higher you go in the reporting hierarchy because the number of

people affected by your actions and who have opinions and/or questions grows larger than just two reporting levels down. In such cases, you will need even greater leverage and prioritization (e.g., having some of the questions answered by a well-equipped party who works for you, asking people to prioritize their questions by urgency or importance, etc).

53) ...Debate, discussion and teaching should reflect the participants' relative levels of believability and confidence. For example, someone who is new and doesn't know much (i.e., doesn't have much believability) and isn't confident in his or her view should ask questions. On the other hand, someone with lots of experience, a good track record (i.e., is very believable) and high confidence in his or her view should be very assertive. It is often desirable to have participants express how they assess their own levels of believability and confidence. For instance, if you are stating a theory, use phrases like "my working theory" or "my hypothesis." Often people won't have a clear picture of the nature of statements, resulting in misinterpretation, confusion and/or wasted time. So indicate whether you are stating a theory, a fact, a question, an idea, a related point, etc.

54) ...There are times when instruction is more appropriate than debate. Imagine if a group of us were trying to learn how to play golf with Tiger Woods, and he and a new golfer were debating how to swing the club. Would it be helpful or harmful to our progress to ignore their different track records and experience? Of course it would be harmful and plain silly to treat their points of view equally, because they have different levels of believability. It is better to listen to what Tiger Woods has to say, without constant interruptions by some know-nothing arguing with him. While I believe this is true, it would be most productive if Tiger Woods gave his instructions and then answered questions. However, because I'm pretty extreme in believing that it is important to obtain understanding rather than accepting doctrine at face value, I also think the new golfer shouldn't accept what Tiger Woods has to say as right only because he has won loads of tournaments and has years of experience playing golf. In other words, I believe the new golfer shouldn't stop questioning Tiger until he is confident he has found truth. At the same time, I also think the new golfer would be pretty dumb and arrogant to believe he's probably right and the champion golfer is wrong. So he should approach his questioning with that perspective rather than overblown confidence. It would also be really bad for the group's learning if all the people in the group treated what the new golfer and Tiger Woods had to say as equally valuable. I feel exactly the same way about getting at truth at Bridgewater. While it's good to be open-minded and questioning, it's dumb to treat the views of people with great track records and experience the same as those without track records and experience.

55) ...Make sure people don't confuse their right to complain, give advice and debate with the right to make decisions. While we have a culture marked by extreme openness, meritocracy of ideas and learning via talking about what's bad, some people mistake this to mean we have group decision-making in which all people's views are treated equally and consensus rules. Since not all views are equally valuable, I don't believe in consensus decision-making or referendums. We operate by clearly assigning personal responsibility to specific people and open debate. While these might sometimes seem at odds, personal responsibility and open debate work together in order to produce effective decision-making at Bridgewater. Let me clarify: Everyone does not report to everyone. Different people have different assigned responsibilities (e.g., managers to manage, salesmen to sell, etc.). We give them both the responsibility and authority to do their jobs as well as hold them accountable for the outcomes. Responsibility and authority are assigned to people based on our assessment of their ability to handle them, so I want to have the most capable individuals assigned to each job. It is perfectly okay for a responsible party to carry through a decision he or she thinks is best even when others who are knowledgeable disagree, although this disagreement should be considered and weighed seriously. We have, and should have, an explicit decision-making hierarchy, ideally based on merit.⁴⁷

⁴⁷ In fact, I once toyed with the possibility of developing a voting system based on a believability matrix. Though that might not be possible for practical reasons, it conveys a conceptual picture of the kind of merit-based decision-making we aspire toward with our current process. The challenging and probing we encourage are not meant to second-guess every decision made but to help us assess the quality of our work over time.

56) ...The responsible parties MUST be open-minded about the comments of others. They are required to explain the thinking behind their decisions openly and transparently so that all can understand and assess it. Further, in the event of a disagreement, an appeal should be made to either the manager's boss or an agreed-upon, knowledgeable group of others, generally including people who are more believable and senior than the decision-maker. The person(s) resolving the dispute must do this objectively and fairly; otherwise our system won't achieve the goal of maintaining a meritocracy of ideas.

57) ...The proof is in the pudding – Can you handle your responsibilities well? As a general rule, if you can, then you can have an opinion of how to do it – if you can't, you can't.

58) ...Watch out for people who think it's embarrassing not to know.

59) ...Being open-minded is far more important than being bright or smart.

60) ...Don't have anything to do with closed-minded, inexperienced people. They won't do you any good and there's no helping them until they open their minds, so they will waste your time in the meantime. If you must deal with them, the first thing you have to do is open their minds.

61) ...Be wary of the arrogant intellectual who comments from the stands without having played on the field. And avoid that trap yourself.

62) ...When considering an issue or situation, there should be two levels of discussion: the issue at hand and the relevant principles behind it. Since the issue at hand is a manifestation of one or more principles, both need to be discussed. Finding the right answer involves identifying the right principles and applying them.⁴⁸

63) ...Avoid spending lots of time debating details. I have seen people who agree on all of the major issues spend lots of time debating insignificant differences rather than moving on to discuss what they should do about the important things they agree on. It's important to know when to stop debating and move on to agreeing about what should be done. And by "details," I mean things that don't make or break decisions. **It's more important to do the big things well rather than the small things perfectly.**

64) ...Recognize that "there are many good 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.

65) ...When people disagree on the importance of debating something, it should be debated. Operating otherwise would essentially give someone (typically the boss) a de facto veto right.

66) ...For disagreements to have a positive effect, people evaluating an individual decision or decision-maker must view the issue within a broader context. For example, if the authoritative person being challenged has a vision, and the decision under disagreement involves a small detail, you have to evaluate that within the context of his or her vision. The ensuing discussion resulting from challenging someone's decision will help people understand all the considerations behind it.

67) ...If someone asks you a question, think first whether you're the responsible party/right person to be answering the question.

68) ...Distinguish between a) idle complaints and b) complaints that are meant to lead to improvement. Don't allow the first because they're unhealthy; encourage the second because they're healthy.

⁴⁸ By "right principles," I don't mean they have to be the ones shown here; some other principles could be relevant.

B) To Get the People Right...

...The Most Important Decision You Make is Choosing the Responsible Party, so...

69) ...You have to a) put the right people in the right jobs and b) clearly assign responsibilities.

Since almost everything good comes from having great people operating in a great culture, I cannot emphasize strongly enough how important the selection, training, testing, evaluation and sorting out of people is. If you put the goals and the tasks in the hands of people who can do them well, and if you make crystal clear that they are personally responsible for achieving the goals and doing the tasks (and that it would be their personal failure not to achieve these goals and do these tasks), they should produce excellent results.⁴⁹ You need to eliminate any confusion about expectations and ensure that people view the failure to achieve these goals and do these tasks as personal failures.

70) ...Hear the click: Find the right fit between the role and the person. First understand what attributes matter most for the job, and then ascertain whether an individual has them. This matching process requires a) visualizing the job and the qualities needed to do it well and b) ascertaining if the individual has those qualities. I describe this process as “hearing the click,” because that’s the sound of finding the right fit between the role and the individual.

71) ...People who live up to their potentials are willing to look at themselves objectively and have determination. These are the two most important qualities for realizing your full potential. With these you can understand yourself and adapt. These are also the qualities people have the most control over. For me, they are also the qualities that have the biggest influence on whether or not I respect someone.

72) ...Conceptual thinking and common sense are required in order to assign someone personal responsibility for achieving goals (as distinct from tasks).

73) ...You are looking for BELIEVABLE responsible parties.

74) ...You and the people working for you need to think like owners. You must act in the interest of our community and recognize that your well-being is directly connected to the well-being of Bridgewater. For example, spend money like it’s your own.

⁴⁹ The thing that I like least (or dislike most) about my job is fighting to maintain standards, but it must be done. I know that the only way for me to succeed and to be happy is to have good people do it for me, which means that I have to hire, train and sort out people. It is futile to give responsibilities to people who do not have the qualities required to succeed. It frustrates, and inevitably angers, all parties, which is subversive to the environment. So, hiring, training and sorting out people so that responsibilities are placed in the hands of people who can be trusted to do an excellent job is the only viable path, and is extremely satisfying.

...Recognize That People are Built Very Differently.⁵⁰

Each person is made up of many different aspects (i.e., different values, abilities and skills). In terms of any one aspect, people can be remarkably different. For most aspects, these differences are likely to persist. People are smart in some ways and dumb in other ways. Some people are knowledgeable and some haven't learned yet; some are responsible and some are lazy; some have integrity and some are dishonest, etc. Strengths and weaknesses in certain aspects don't necessarily mean people are necessarily strong or weak in other aspect. So...

75) ...Recognize that people have very different “values,” “abilities” and “skills.” People have countless dimensions to them. To simplify, I categorize these dimensions into these broad types - values, abilities and skills. Values are the very deep-seated beliefs that motivate people's behaviors; they are the things that people will fight for and determine people's compatibility with others. By “abilities,” I mean ways of thinking and behaving; for example, some folks are great learners and fast processors; others have great common sense; still others are creative or logical or great organizers, etc. By skills I mean learned tools (e.g., how to speak a language, how to program, etc). Values and abilities are unlikely to change much whereas skills can change a lot. Most skills can be acquired in a limited amount of time (e.g., most master's degrees can be acquired in two years) and often change in worth (e.g., today's best programming language can be obsolete in a few years). It is important for you to know what mix of qualities is important to fit each role and, more broadly, for you to have successful relationships with. **In picking people to have long term relationships with, values are most important, abilities come next and skills are the least important.**

76) ...Recognize that people see things and think very differently, and that the responsibilities you give them must complement how they see things and think. In looking at any painting, scene or situation, people will take in or overlook different things. These different ways of seeing and thinking affect what people are good at. As a result, there are many different types of intelligences. For example, someone can be a math wiz and not have any common sense (or vice versa). While I've seen these differences first-hand working with all sorts of people over many years and have found some great guidance on how people think, I am convinced we are just scratching the surface of this area. I believe there are huge benefits to be gained from understanding more quickly what people are really like.⁵¹ While I don't claim to know all the different ways people think, here are some important distinctions I've observed and read about:

- a. Some people are left-brain thinkers and others are right-brain thinkers.⁵² I see this difference all of the time, so I wanted to learn more about it. Caltech Professor Roger Sperry won a Nobel Prize in medicine for discovering that there are two modes of thinking represented by the brain's left and right hemispheres. The left hemisphere reasons sequentially, analyzes details and excels at linear analysis; the right hemisphere reasons holistically, recognizes patterns and synthesizes the big picture. Related to this are the distinctions between “bright” and “smart.” Bright people have high IQs, they're highly analytical and orderly thinkers and they can solve complex mental problems much like what Sperry calls left-brain thinkers. On the other hand, smart people are good at grasping the essence of a problem, synthesizing, connecting things others can't, and bringing their available intelligences, experiences and resources to bear when solving problems. They are more right-brain thinkers. Whatever names we apply to these different kinds of thinking, the important thing is to know they exist and are largely hard-wired.

⁵⁰ Over my last 30-plus years of running Bridgewater I learned how differently people are built and how essential it is to understand these different ways of thinking. For the last several years I tried to find experts who understood these differences and could help us test for them. But it wasn't until our recent discovery of Bob Eichinger's great research, which was so consistent with what I was seeing daily, that we obtained a clear understanding of these differences and tests and tools that we can use to help identify them and manage with them in mind. The body of understanding that he has provided is far more comprehensive than I am capable of conveying here.

⁵¹ Unfortunately, most of the world's experts I have met are more theoretical than practical, typically PhDs who aren't conceptual.

⁵² A good book on this is *A Whole New Mind* by Daniel H. Pink and a good article on the science of this is *“A Wandering Mind Heads Straight Toward Insight”* by Robert Lee Hotz from *The Wall Street Journal*.

b. Some people see details (trees) and others see big pictures (forests). This is literally the case: In viewing art, people who see forests are more prone to like abstraction because they can see the abstraction; while those who see trees prefer more literal, precise paintings because they see the details. The detailed thinker will tend to focus on one thing at a time rather than the relationships between things. For example, some people see the fringe around the core of an issue, while others see the core. Some people will just see how the core looks today, while others will accurately visualize how the core evolves through time. You can detect how people think by observing what they focus on. For example, detailed thinkers can be thrown off by word mistakes (like "there" instead of "their"), while big-picture thinkers won't even notice the mistake. In fact, big-picture thinkers can often understand the meaning of sentences even when key words are reversed ("up" is mistakenly used instead of "down"), because they understand the larger context. When describing the same meeting, for example, these two different types will frequently focus on completely different things and disagree on their interpretation. In discussions, they can frustrate each other and discount what the other is saying. Similarly, a person of one type interviewing another type will usually yield an unsatisfactory result. Some people can visualize their goals, see how to achieve them, and execute to reach them. They make good managers, CEOs and entrepreneurs. Others don't see the goals or visualize how to achieve them and are instead focused on daily tasks. They do not make good managers unless they are managing things that don't change much from day to day or require repetitive processes. To be clear, that doesn't mean these people aren't valuable. They can be essential to reliably executing tasks. Is that because one group is left-brained and the other is right-brained? While I suspect so, I can't say for sure. I just know the differences are real.

c. Some people rely more on memory when making decisions, while others rely more on reasoning. Learning-based thinkers will literally approach decision-making by remembering what they were taught. They'll draw on their memory banks and follow the instructions stored there. Reasoning-based thinkers will pay more attention to the principles behind what happens. You can tell the difference when what is learned (e.g., CAPM) conflicts with what is logical (e.g., All Weather). People who rely more on learning will be much more skeptical of unconventional ideas, while those who rely more on logic won't care much about conventional points of view and will assess them solely based on merit. Those who rely on learning also tend to align themselves with the consensus more than people who rely on reasoning. Learning-based thinkers are also less likely to see things as they really are and are more willing to accept the status quo, even if the status quo is bad. Similarly, they will be more influenced by what they have experienced (rather than what is logical). Reasoning-based thinkers, on the other hand, understand that experienced circumstances don't represent a good probability distribution of what is likely to occur. They are more likely to be innovative, while those who rely on learning are likelier to be cautious. Performance in school will correlate well with the quality of one's learning-based thinking, but will not be reliably correlated with one's reasoning-based thinking.

d. Some people see what exists, and others see what doesn't exist. People who can see what doesn't exist nearly as clearly as what does (i.e., those with strong visualization) will be more likely to make meaningful changes and avoid being blindsided (to the extent that the merits of the visualized alternative can be assessed with as much confidence as the merits of what already exists). People who cannot visualize alternatives as vividly tend to make incremental changes with reference to what exists. They are slower to deviate from the status quo and more likely to be blindsided by events. People who can visualize the big picture as well as the specifics in a realistic and detailed way, including the interactions of the essential elements through time, are real visionaries who have the potential to be great leaders if they manage to get other things right as well.

e. Some people are "perceivers" and others are "planners." Perceivers notice what's happening around them. They see both important and sometimes unimportant things and then work backwards to understand the reasons behind them and what to do about them. They work from the outside in. By contrast, planners work from the inside out, figuring out first what they want to achieve and then

how things should unfold. They create and stick to plans. A perceiver is more likely to see things and change directions. This can seem inconsistent to planners who are more likely to stick rigidly to a plan and miss things. Planners weigh precedent much more heavily in their decision-making.⁵³

f. Some people are linear thinkers while others are lateral thinkers. Linear thinkers tend to see things as a sequence and confine their references to ideas to a particular topic. Lateral thinkers make connections across topics.

g. Some people are driven more by their emotions and others are driven more by their intellect. We all have emotions and intellect. When they conflict, some people will give in to their emotions, while others maintain control of their emotions and are driven by their intellect.

h. Some people are risk-takers and others are risk-averse.

i. Some people are introverts and others are extroverts. The most important difference between them is their willingness to fight for truth. Introverts tend to find the necessary conflicts more difficult.

77) ...There are different types of learning and thinking as well as different types of learning and thinking preferences. For example, you can have someone who has read a book on how to ride a bike and then says, "I learned how to ride a bike." Someone else learns to ride a bike by actually getting on the bike and doing it and says the same thing. But they are referring to two very different types of learning. There is a huge difference between "learning" something intellectually (like the learning that comes from reading a book or being taught, so that the knowledge of how to do it goes into your memory bank) and learning something hands-on. For example, a medical student who has "learned" how to do an operation in his medical school class has not learned it in the same way as a doctor who has already done several operations. I call the first type of learning "book learning" or "intellectual learning" and the second type "hands-on learning" or "internalized learning." In the first case, the learning is stored in the conscious mind, i.e., you draw on your memory bank to remember what you've learned. In the second case, what you've learned by hands-on experience is stored in the subconscious mind; it pops up without consciously recalling it from your memory bank.⁵⁴ The experienced skier doesn't consciously recall the instructions on how to ski and then execute it; rather, he does it well "without thinking," in the same way he breathes without thinking, via his subconscious mind. Some people are better at book learning; they tend to go to their memory banks and call up what they learned in order to follow those stored instructions. Others are better at internalized learning: they use the internalized thoughts that flow from their subconscious (e.g., common sense and creativity generally do not come from consciously recalling what was taught as much as they just emerge from the subconscious). A few people are good at both and too many are bad at both. Because people follow different thought pathways that naturally lend themselves to different applications, understanding these differences is essential.

78) ...Experience creates internalization. Doing things repeatedly leads to internalization, which produces a quality of understanding that is generally vastly superior to intellectualized learning.

79) ...Don't hide these differences. Explore them openly with the goal of figuring out how you and your people are built so you can put the right people in the right jobs and clearly assign responsibilities. This is good for both your team and for Bridgewater as a whole.

⁵³ Assuming that, if it was done before a certain way, it's reasonable to assume that it should be done the same way.

⁵⁴ I believe that school over-emphasizes and over-weighs the importance of book-type or intellectualized learning (i.e., getting the information in one's memory bank). There is a strong tendency for people who were terrific in school to be very good at this type of "learning" and to overvalue it, or at least fail to distinguish it from the experiential/internalized kind of learning. This lack of differentiation can become a great peril later in life. Also, I believe this challenge is something many people need to be mindful of who have had great academic success, especially if their success has been in the "sciences" (e.g., math, engineering, science). I also believe this is why hands-on experience is extremely valuable for these types of people.

80) In order to know what you can expect from someone, you have to know what they are like. Knowing what they did is only valuable in helping you figure out what they are like. So, you should always dig deeply to discover why they did what they did.

81) ...Keep in mind how difficult it is to convey what it means to think in an alternative way for the same reason as it would be to convey what the sense of smell is to someone who doesn't have the ability to smell.

82) ...These different ways of seeing and thinking make people suitable for different roles. Since nature created different ways of thinking and since nature never creates anything without a purpose,⁵⁵ each way of thinking has its purposes. Often, thinking well for some purposes necessitates thinking poorly for others. It is highly desirable to understand one's own ways, and others' ways, of thinking, and their best applications. While there is no best quality, there are certainly some qualities that are more suitable for some jobs (e.g., being a math wiz is important for a job that requires a math wiz).

83) ...People who see things and think one way often have difficulty communicating and relating to people who see things and think another way.

84) ...People are best at the jobs that require what they do well.

85) ...If you're not naturally good at one type of thinking, it doesn't mean you're precluded from paths that require that type of thinking. But it does require that you either work with someone who has that required way of thinking (which works best) or learn to think differently (which is either very difficult or sometimes impossible).

⁵⁵ Even the "mistakes" that nature makes have a purpose; they are essential for the evolutionary process.

...Hire Right, Because the Penalties of Hiring Wrong are Huge, so...⁵⁶

- 86)** ...Don't hire people just to fit the first job they will do at Bridgewater; hire people you want to share your life with. The best relationships are long term and based on shared missions and values. Also, turnover is generally inefficient because of the long time it requires for people to get to know each other and Bridgewater. Both the people you work with and the company itself will evolve in ways you can't anticipate. So hire the kind of people you want to be with on this long-term mission
- 87)** ...Look for people who sparkle, not just "another one of those." I have too often seen people hired who don't sparkle, just because they have clearly demonstrated they are "one of those." For example, if you're looking for a plumber you might be inclined to fill the job with someone who has years of experience without confirming whether he or she has demonstrated the qualities for an outstanding plumber. Yet the difference between hiring an ordinary versus an extraordinary plumber (or any other expert) is huge. So when reviewing a candidate's background, you must identify how this person has demonstrated their outstanding. The most obvious demonstration is outstanding performance within an outstanding peer group.
- 88)** ...Create a very clear mental image of the person you are looking for and write that profile into the job description. Remember good managers approach their jobs as engineers designing and operating a machine. This consists of creating an organizational design of who will do what and how they will interact (i.e., an organizational chart with boxes representing the people). It is important that you visualize and articulate the qualities and skills of these people before you begin the interview process so that when you see the right person you can "hear the click."
- 89)** ...Think through what values, abilities and skills you are looking for; then compare the people you are interviewing with this description. Once you determine what you are looking for, be inventive (or find responsible parties who are inventive) in designing a plan for getting them.
- 90)** ...Create a matrix of qualities you are looking for and select the appropriate people and tests for assessing each of these qualities. For example, pick the most believable people when it comes to values to screen for those, the most believable people in the desired way of thinking to interview to see if s/he thinks in that way, and the most believable people in the desired skills to see if s/he has those skills. Then put them together to see if there is a "click."
- 91)** ...Weigh values and abilities more heavily than skills in deciding who to hire. Avoid the temptation of thinking narrowly about filling a job, e.g., thinking you need someone with a specific skill so that the most important criterion is picking someone who has experience using that skill. While having that skill might be important,⁵⁷ what's most important is determining whether you and they are working toward the same goals and can work in the same ways (i.e., share the same values) and how they think (i.e., their abilities).
- 92)** ...Recognize that performance in school, while of some value in making assessments, doesn't tell you much about whether the person has the values and abilities you are looking for. Memory and processing speed tend to be the abilities that determine success in school (largely because they're easier to measure and grade) and are most valued, so school performance is an excellent gauge of these. School performance is also a pretty good gauge for measuring the willingness and ability to follow directions as well as determination. However, school is of limited value for teaching and testing common sense, vision, creativity or decision-making. Consider how few important decisions you make as a student from first

⁵⁶ After hiring people, substantial time and resources are invested in their development before finding out whether they are succeeding. Getting rid of employees who aren't succeeding is also difficult, so it pays to be as sure as possible in hiring.

⁵⁷ The importance of having a skill will vary according to the job. The more knowledge-dependent and independent in nature the job is (e.g., a programmer or lawyer whose job isn't to think about the direction of the company), the more relevant the required skills are.

grade through college.⁵⁸ Since common sense, vision, perceptiveness, creativity and the ability to make decisions are all more important than memory, processing speed and the ability to follow directions in most jobs, you must look beyond school performance in order to ascertain whether the people you're interviewing have the qualities you're looking for.

93) ...People tend to pick people like themselves. So pick interviewers whose judgment you trust. For example, if you're looking for a visionary, pick a visionary to do the interview where you test for vision. If there is a mix of qualities you're looking for, put together a group of interviewers who embody all of these qualities collectively. Don't choose interviewers whose judgment you don't trust.

94) ...Pay attention to people's track records. Don't rely on the candidate for information about this; instead, talk to people who know the candidate's record and look for documented evidence.

95) ...Look for people who have lots of great questions. These are even more important than great answers.

96) ...A great thinker is worth more than an experienced person, but an experienced great thinker is best.

97) ...Pay for the person, not for the job.

98) ...Make sure candidates interview you and Bridgewater. Show them the real picture. For example, share these principles with them to show how we operate and why. Have them listen to the tapes to see the reality.

99) ...Ask for past reviews and "baseball cards."

100) ...Check references.

⁵⁸ Other than deciding on which college to go to (typically in the senior year of high school) and which major to have (typically in the sophomore year of college), one is normally meant to do just what one is told to do rather than to make important decisions.

...Understand the Differences Between Managing, Micromanaging and Not Managing: Micromanaging is telling the people who work for you exactly what tasks to do and/or doing their tasks for them. Not managing is having them do their jobs without your oversight and involvement. To be successful, you need to manage. Managing properly should feel like “skiing together” with your reports. Like a ski instructor, you need to have enough contact with the people who work for you on the slopes so that you can assess their strengths and weaknesses as they get down the mountain. Then you can decide what kinds of courses they can handle on their own and what guidance they need. This is the only approach that is consistent with designing and operating a machine rather than doing tasks. So...

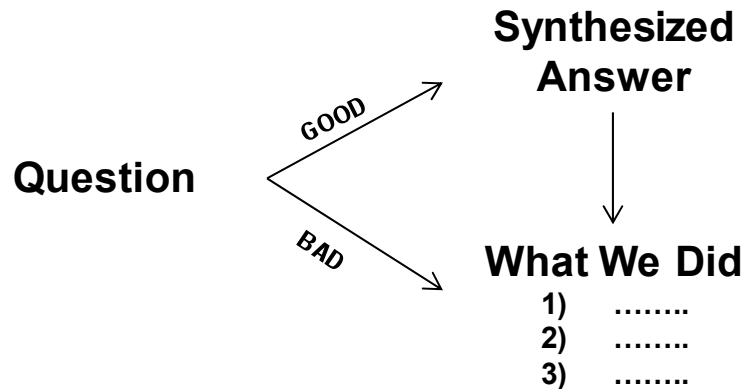
101) ...“Ski together.” Get “on the slope” (i.e., work) with the person who works for you. This takes doing the job from the theoretical to the practical. It will soon be apparent how well you each “ski” (i.e., can make things go well), which is important in making clear what your relative believabilities are. That’s important because often people think that they are better than they are, which makes them more inclined to argue with you than to allow you to teach. It also makes it clear what needs to be worked on. You can then watch the person approach his/her challenges and together discuss how to approach them and then let the person try his/her way or your way to see how these different approaches works.

102) ...Don’t try to be followed; try to be understood and to understand others to get in sync about what is truly best. If you want to be followed either for some egotistic reason or because you think that it is more expedient to operate that way, you will pay a heavy price in the long run because you want the benefit of stress testing your thinking and of having capable people handling more than you can handle in the way that you and they agree is best.

103) ...You can’t make people do things. People must have the desire to do the right things. This desire must come from them. However, you can show them the connection between handling their responsibilities in agreed-upon ways and their well-being.

104) ...Manage by connecting the day-to-day events to the principles. Remember that every problem and task is just “another one of those” – i.e., principles that manifest all the time – and the thing to do is to identify which one of those it is and to think about what the best ways of handling those sorts of things are. That is, the best way to operate in general. Whether or not there are written principles to refer to, you still need to decide what to do, and the best way to make that decision is to ask yourself, “what is going on here” and “what are the best ways (i.e., Principles) of handling these sorts of things.

105) ...Watch out for people who confuse goals and tasks. For example, if you ask a high level question like: “How is XYZ going?,” watch out for people who tell you what they did without a synthesized description of how the machine that they are responsible for works to achieve the goals. A good answer provides a synthesis up front, supported by a description of the tasks done. A bad answer lacks the synthesis and just explains the tasks that were done. That is because an explanation of why doing those tasks achieves the goals is required to understand why the machine is effective.



106) ...Avoid the “Sucked Down” Phenomenon. This is where a manager is pulled down to do the tasks of a subordinate without acknowledging the problem. The sucked down phenomenon bears some resemblance to job slip, since it involves the manager’s responsibilities slipping into areas that should be left to others. Like job slip, it represents the reality of a job diverging from the ideal of that job. However, unlike job slip, the sucked down phenomenon is typically the manager’s response to subordinates’ inabilities to do certain tasks or the manager’s failure to properly redesign how the responsibilities should be handled in light of changed circumstances. You can tell when this problem exists when the manager is focused more on getting the tasks done than on operating the machine (i.e., knowing the goals, identifying the impediments to these goals, coming up with the right organizational design, placing the right people in the jobs, and interacting with them openly and intelligently in pursuit of excellence).

107) ...Avoid staying too distant. You need to know your people extremely well, provide and receive regular feedback, and have quality discussions. Your job design needs to build in the time to do these things

108) ...TOOL - Daily updates are an effective tool for staying on top of what your people are doing and thinking. Daily updates are brief descriptions of what the person did that day, what they are planning to do the next day, their problems, their questions, and their observations. They typically take about five minutes to write and do wonders for staying in touch.

109) ...Don’t treat everyone the same. People are very different yet sometimes I see people dealing with each other, especially in groups, without regard for these differences. This is nonsensical. Both the people expressing their own views and those considering others’ views need to take into consideration the differences in their levels of believability, because these differences are real.

110) ...Vary your involvement based on your confidence. Management largely consists of scanning and probing everything you are responsible for to identify suspicious signs. Based on what you see, you should vary your degree of digging, doing more of it for people and areas that look more suspicious, and less of it where the probing gives you confidence that the people and processes are solid. With the right tools in place and performing well, your scanning will include both reviewing the output of these tools (e.g., “issues log,” “metrics,” “daily updates” and “checklists”) and spot-checking.

111) ...It’s essential to know what you want and stick to it if you believe it’s right, even if others want to take you in another direction. Example: Rather than accept employment recruiters’ normal ways of proposing candidates (e.g., sending us candidates on the basis of the jobs they did in the past), it was important for us to make clear we wanted them to send us people based on their personal qualities – not just job titles. Some recruiters could change and others couldn’t, so we fired the ones who couldn’t and gave the business to those who could.

112) ...You have to force yourself and the people who work for you to do difficult things. We must act the same ways trainers in gyms act in order to keep each other fit. That's what's required to produce the excellence that benefits everyone. The cost of not doing the difficult, healthy things is enormous. It's a fundamental law of nature that you have to do difficult things to gain strength and power. So to be successful here, you will have to do difficult things. As with working out, after a while you make the connection between doing difficult things and the benefits you get from doing them. With time you come to look forward to doing these difficult things.

113) ...While logic drives our decisions, people's feelings are very relevant. Feeling is a reality (and a good reality) and it's up to management to deal with all realities in a logical manner. I believe that logic, reason and common sense should trump everything else in decision-making. While it would be very bad if we behaved emotionally rather than logically in resolving issues, I also believe we have to recognize there are good emotions (e.g., satisfaction with doing a wonderful job, a sense of community united to accomplish a shared mission, etc.) that are important and bad emotions that can be harmful. Just don't let emotions rule.

114) ...To be a successful manager at Bridgewater you must sincerely care about the people who work for you. While it's also desirable to convey these feelings, having them is more important. Try to be there for weddings, births and funerals (which is something that I have problems doing, though I will be there for anyone who really needs me). Personal contact at the time of personal difficulty is a must.

115) ...Worry about whether you are helping your people and Bridgewater to be great, and don't worry if they like you.

116) ...Constantly get in synch. Being out of synch leads to confused and inefficient decision-making. It can also lead you to go in conflicting directions either because a) you simply aren't clear with each other, which leads you to assume different things; or b) because you have unresolved differences in your views of how things should be done and why. Getting in synch by discussing who will do what and why is essential for moving forward together. It doesn't necessarily mean reaching an agreement that that you are going to do is the best course. Often there will be irreconcilable differences about what should be done, but a decision still needs to be made, which is fine. But the process of getting in synch will make it clear to the relevant parties what is to be done and why. They will have the understanding, even if they don't agree. One of the most difficult and most important things you must do, and have others do, is bring forth differences in opinions and work through these together to achieve a resolution (even if initially the outcome is to agree to disagree and try to resolve the disagreements over time). Recognize that this process takes time. It can happen any way people prefer: discussion, e-mail, etc. The resolution is not always agreement, as decisions often must be made even though there remain disagreements. You must have a workable process for making decisions even when disagreements remain. We discuss our process for doing this in the earlier section on getting in synch.

117) ...When something is going to change, always communicate the logic and welcome feedback.

118) ...When making rules, explain the principles behind them. We don't want people to just follow orders. We want reasonable people to operate sensibly. The way we achieve this is through principles that are sound and well understood. We apply them well through open discussion in order to test them. It is each person's job to a) see if he or she agrees with them, and if not, explain why; and b) hold each other accountable for operating consistently with them. We don't want to have people who need to be ordered and threatened. We want people who understand the principles that make our community work well and have strong ethics that motivate them to work by this community's rules (rather than to sneak around them). We want people who know that if the community works well, it will be good for them. They need to know that any rules we have are meant to be sensible, though none are perfect.

119) ...Hold people accountable and appreciate them holding you accountable. It's better for them, for you, and for the community. Slacker standards don't do anyone any good. However, because there is a tendency for people to resent being held accountable and since you don't want to have to tell them what to do all the time, always reason with them so that they really do understand the value and importance of being held accountable. Hold them accountable on a daily basis. This is a good way to detect problems early on before they become critical. The constant examination of problems builds a sample size that helps point the way to a resolution. Avoiding these daily conflicts produces huge costs in the end.

120) ...Make sure your people know to be proactive and speak up when they aren't meeting agreed upon deliverables or deadlines. This is essential to getting in synch on both a project level and on a personal level as you address situations head on rather than let them linger.

121) ...If you're holding a meeting, make it clear who the meeting is meant to serve and who is directing the meeting. Otherwise you risk having unproductive meetings without direction or clarity.

122) ...People should sort what they debate and who they include on the debate in order to make them time-effective. Discussing issues takes time. That time increases geometrically depending on the number of people participating in the discussion, so you have to carefully choose the right number of people of the right type to suit the decision that needs to be made. In any discussion try to limit the participation to those whose views you value most, making sure not to pick them based on whether their conclusions agree with yours. That's very challenging and valuable. It requires the person leading the discussion to be strong and open-minded. Group-think and solo-think are both dangerous. A small group (3 to 5) of smart, conceptual people seeking the right answers in an open-minded way will generally lead to the best answer. Next best is to have decisions made by a single smart, conceptual decision-maker, but this is a much worse choice than the former. The worst way to make decisions is via large groups without a smart, conceptual leader. Almost everyone thinks they're smart and conceptual, but only a small percentage of any group really is. Even when there is a large number of smart, conceptual leaders, more than five trying to make a decision is very inefficient and difficult. This is especially the case when people think they need to satisfy everyone.

123) ...Have someone assigned to maintain notes in meetings and make sure follow-through happens.

124) ...Watch out for "topic slip." Topic slip is the random and inconclusive drifting from topic to topic without achieving completion. The main purpose of discussion is to achieve completion, which leads to decisions and or actions. Because topic slip prevents this, it makes the prior discussion virtually worthless. To prevent topic slip and to make clear the conclusions, conclude discussions with a summary of what has been agreed before moving on to the next point. Generally, write these conclusions down. In cases where further action has been determined, get them on a to-do list, assign people to do them and, ideally, specify target dates. It is often best to assign someone to take notes and record assignments on to-do lists. Generally speaking, to avoid distraction during the discussion itself, prioritizing follow-ups and assignments should be done afterwards.

125) ...Enforce the logic of conversations. Your goal should be to derive value out of any conversation you have. Look to correct course when you find that a conversation has gone off track. Pause the conversation, figure out why it is going poorly, correct and restart. There are many reasons why conversations go poorly, but frequently it is because of a lack of clarity about topic or the level at which things are being discussed (e.g., goals, details, strategy, brainstorming, etc.). Watch out for poor logic veering randomly from one topic to another, discussions at the wrong levels (e.g., explaining details instead of synthesizing) or people driving the main discussion off course with tangential points.

126) ...Achieve completion in conversations. Conversations often fail to reach completion. This amounts to a waste of time because they don't result in conclusions or productive actions. When there is an

exchange of ideas, especially if there is a disagreement, it is important to end them by stating the conclusions. If there is agreement, say it; if not, say that. Generally, write these conclusions down. Where further action has been decided, get those tasks on a to-do list, assign people to do them and specify due dates.

127) ...Be careful not to lose personal responsibility via group decision-making. Too often groups will make a decision to do something without assigning personal responsibilities so it is not clear who is supposed to do what. Be clear in assigning personal responsibilities.

128) ...Escalate when you can't adequately do the job and make sure that the people who work for you do the same. Escalating means saying that you don't believe that you can successfully handle a situation so that you are passing the "responsible party" (RP) job to someone else. The person you are escalating to (i.e., the person you report to) can then decide whether to coach you through it, take control, have someone else handle it, or do something else. However, the boss should avoid being drawn into doing the person who is failing's job for them without it being acknowledged that they can't successfully do that job without help, so that that can be explored. It is very important that there is an accurate assessment of what each person can and can't do and why, so that assessment must not be lost. As a result, it is essential that the boss not just do the job for the person, even if it produces good results, because we will not have the right attribution of the success and failure. Remember that an important goal is to have the learning about what the person is like that comes from the testing and that we want to get it without crashing the car. So, the RP must either say that he/she can handle this or that she can't and be given the opportunity, provided that he/she won't crash the car. And it is the responsibility of the boss to make the assessment of whether to take the RP out of the driver's seat because he/she might crash the car. I believe in learning from mistakes by seeing one's failures, feeling the pain of them and reflecting to have insights about them. So, I believe that if the boss and the RP don't either recognize the RP's failures to fix things, and the RP doesn't have the ability to demonstrate to that he/she can do the job, trouble will result. Remember that life is the best teacher — "the proof is in the pudding" so going through this process is essential to testing how good and bad we really are, which sets the foundation for learning.

129) ...Tool: An escalation button. Because there is confusion at times about whether RPs are conveying to their managers their problems or whether they are escalating, we have created an "escalation" button that makes clear to the manager that the managee is escalating.

...Probe Deep and Hard...

130) ...One of the most essential and difficult things you have to do is make sure the people who work for you do their jobs excellently. That requires constantly challenging them and doing things they don't like you to do (e.g., probing them). That's true of even your best people whom you regularly praise and reward. You shouldn't be a manager if you have problems probing and having conflict with people or if you put being liked above ensuring your people are excellent.

131) ...Challenging people is good for them and being challenged is good for you. It is impossible to become strong without being challenged. Imagine trying to make yourself physically strong without challenging yourself; the same is true for your intellectual strength.

132) ...You need to probe so that you have a good enough understanding of whether problems are likely to occur before they actually occur. If problems take you by surprise, it is probably because you are either too far removed from your people and processes or you haven't adequately thought through how the people and processes might lead to various outcomes.

133) ...Remind the people you are probing that problems and mistakes are fuel for improvement, so that they understand that probing is good for them and everyone else. Remind them that the main reason Bridgewater has improved at a much faster rate than most other companies over the last 30 years is that we go looking for problems and find systematic ways of eliminating them. We call these systematic solutions "designs." This approach has given us an unlimited supply of very practical ways to improve. The main reason it sometimes doesn't get done is people's aversion to facing problems and mistakes. Hence, the best way to improve is to reprogram yourself and your people to love finding problems and enjoy the game of finding systematic solutions for them.

134) ...Don't "pick your battles" – fight them all. If you see something wrong, even small things, deal with it. That is because 1) small things can be as symptomatic of serious underlying problems as big things, so looking into them, finding what they are symptomatic of, and resolving them will prevent big problems; 2) resolving small differences with people will prevent a more serious divergence of your views; and 3) in trying to help to train people, constant reinforcement of the desired behavior is helpful. The more battles you fight, the more opportunities you will have to get to know each other and the faster the evolutionary process will be.

135) ...Ask the important, difficult questions; independently audit; and don't let people off the hook.

136) ...Probe to the level below the people who work for you. You can't understand how the person who reports to you manages others unless you know their direct reports and can observe how he or she behaves with them. Encouraging people who work two levels below you to bring their disagreements with their bosses to you so that you can be a fair judge will facilitate this. The purpose of probing is to assess and to make sure the job is being done well.

137) ...Don't assume that people's answers are correct. They could be erroneous theories or "spin." So you need to occasionally double check them, especially when they sound questionable. Some managers are reluctant to do this, feeling as though it is the equivalent of saying they don't trust them. These managers need to understand and convey that trust in the accuracy of people's statements is gained or lost through this process. People will learn to be much more accurate in what they say to you if they understand this – and increasingly, you will learn who and what you can rely on.

138) ...Investigate and let people know you are going to investigate so there are no surprises and they don't take it personally.

139) ...Make the probing open rather than in private. That will help to assure the quality of the probing (because others can make their own assessments), and it will reinforce the culture of transparency and freedom to find truth.

140) ...Learn from success as well as from failure. Be sure to point out examples of jobs that are well done and the causes of success. This reinforces good behavior and creates role models for those who are learning.

...Evaluate People Accurately, Not Kindly...

141) ...Assigning people clear responsibilities and holding them accountable for them will allow them to learn about themselves and others, and they will evolve. As strengths and weaknesses become clearer, responsibilities can be more appropriately tailored to make the machine work better and to facilitate personal evolution. The more intensely this is done, the more rapid the evolutionary process will be.

142) ...Once people are hired, 1) demand excellence from them, 2) help them to be excellent, 3) recognize there are many ways for them to be excellent (so their roles might change) and 4) remove them from their jobs if they can't be excellent. The most important decision you can make is who fills which role, so your goal is to have a great person in each of the jobs you oversee. Achieving that goal will come from your effective evaluation, training, and oversight of them.

143) ...Evaluate employees the same way you evaluate them when you're considering hiring them. Ask yourself: "Would I hire this person knowing what I now know about them?" I find it odd and silly that interviewers often freely and confidently criticize job candidates for weaknesses despite not knowing them well. Yet they won't criticize employees for similar weaknesses even though they have more actionable evidence. That is because some people view criticism as harmful and feel less protective of an outsider than they do of a fellow employee. If you believe accuracy is best for everyone, i.e., that it will make our community better and foster personal evolution, then you should see why this is a mistake and why frank evaluations must be honest and ongoing.

144) ...Learn about your people and have them learn about you with very frank conversations about mistakes and their root causes.

145) ...When you are really in synch with people about weaknesses, whether yours or theirs, they are probably true. Getting to this point is a great achievement. If you and others don't agree it's true, we can be much less confident that it's true. So when you do agree, write it down on the relevant baseball card. This information will be a critical building block for future success.

146) ...Since accuracy is the foundation of excellence and people are your most important resource, you need to make the most accurate possible assessments of your people. This takes time and a considerable amount of back-and-forth as I explain later. Speak very frankly, listen with an open mind, consider the views of other believable and honest people, and try to get in synch about what's going on with the person and why.

147) ...The only purpose of looking at what people did to is to learn what they are like. Knowing what they are like will tell you how you can expect them to handle their responsibilities in the future.

148) ...Know what makes each of your people tick. You need to know "what the overall package named XYZ" is really about. By this I mean you really need to have a full profile a person's values, abilities and skills. These qualities are the real drivers of people's behavior. Knowing these in detail will tell you which jobs they can and should do well, which ones they should avoid, and how to train them. Without accurately knowing your people, you won't know which jobs they should do. I have often seen people not doing well in a job and their managers trying for months to find the right response (e.g., training, conversations, etc.) without making much progress because they hadn't considered what the person's "package" was to begin with. Sometimes there's a reluctance to profile people in a particular way, especially if the description is not entirely positive. Two points related to this: First, you need to be as accurate in diagnosing people as you are in diagnosing the strengths and weaknesses of equipment. Second, this discovery process is evolutionary and iterative: You should articulate your theory of people's values, abilities and skills upfront and share this with them; hear what they and others say about your description; organize a plan for training and testing; and then reassess your theory based on the performance you observe. Do this on an ongoing basis. After several months, you and they should have a pretty good idea of what works and what doesn't. Over time this exercise will crystallize suitable roles

and appropriate training. Or it will reveal that it's time for the person to leave Bridgewater. This process promotes growth, development, and transparency around where people stand, why and what they can do about it. It hastens personal evolution and the evolution of Bridgewater. In sum, managers need to accurately and holistically diagnose their people's strengths and weaknesses, adjust roles and responsibilities accordingly, and monitor this constantly without micromanaging but with plenty of feedback.

149) ...Your experience at Bridgewater should be a relatively rapid process of evolution and discovery that isn't planned at the outset. Your career path isn't planned because the evolutionary process is about discovering your likes and dislikes as well as your strengths and weaknesses. The best career path for anyone is based on this information. In other words, each person's career direction will evolve differently based on what we all learn. This process occurs by putting people into jobs that they are likely to succeed at, but that they have to stretch themselves to do well. They should be given enough freedom to learn and think for themselves while being coached so they can be taught and prevented from making unacceptable mistakes. During this process they should receive constant feedback. They will reflect on whether their problems can be resolved by additional learning or stem from innate qualities that can't be changed. Typically 18 months are required (depending on the job and the person) to provide enough experience to educate and test a person, so you can do an accurate assessment). During this time there should be periodic mini-reviews and several major ones. Following this initial assessment, a new assignment will be tailored to what was learned about the person's likes and dislikes and strengths and weaknesses. This is an iterative process in which these cumulative experiences of training, testing and adjusting direct the person to ever more suitable roles and responsibilities. It benefits the individual by providing better self-understanding and greater familiarity with various jobs at Bridgewater. This is typically both a challenging and rewarding process. When it results in a parting of ways, it's usually because people find they cannot be excellent and happy in any job at Bridgewater or they refuse to go through this process.

150) ...You and the people you manage will go through a process of personal evolution as a result of having your strengths and weaknesses openly explored. This occurs through "probing," which is explained in later in its own section. This process, while generally difficult for both managers and their subordinates, has made people happier and Bridgewater more successful.

151) ...Personal evolution occurs first by identifying your strengths and weaknesses, and then by changing your weaknesses (e.g., through training) or changing jobs to play to your strengths and preferences. Most people are happiest when they are improving and doing things that help them advance most rapidly, so learning your people's weaknesses is just as valuable for them and for you as learning their strengths.

152) ...Provide constant, clear and honest feedback, and encourage discussion of this feedback. Don't hesitate to be both critical⁵⁹ and complimentary – and be sure to be open-minded. Training and assessing will be better and rapid if you frequently explain what you think was done well or poorly and explore the root causes of the outcomes. Providing this feedback constantly is the most effective way to train.⁶⁰

153) ...In assessing people, look at the patterns of their behavior and don't read much into any one event. Any one event has many different possible explanations, whereas a pattern of behavior can tell you a lot about root causes. There are many qualities that make up a person. To understand each requires 1) a

⁵⁹ I have observed that people interviewing potential new hires are much more willing to be critical of them than they are willing to be critical of people who work at the company. That is true even after the person being evaluated has worked here awhile and one can be more confident that one's criticisms are accurate. That's because there is a strong bias to mistakenly assume that it is harmful to be critical of people. That's a mistake because failing to be justifiably critical of someone leads to personal and organizational failure, which is most unkind, whereas valid criticism will lead to personal evolution which is valuable.

⁶⁰ Child psychologists, dog trainers and other behavior modification specialists will tell you that constant, no-exception feedback is fundamental to good training.

reliable sample size and 2) getting in synch (i.e., asking the person why and giving feedback). Some qualities don't require a large sample size – e.g., it takes only one data point to know if a person can sing – and others take multiple observations (5 to 10). The number of observations needed to detect a pattern largely depends on how well you get in synch after each observation. A quality discussion of how and why a person behaved a certain way should help you quickly understand the larger picture.

154) ...You should be able to roughly assess people's abilities after three to six months of close contact. A more confident assessment should be possible after 18 months. This of course will depend on the amount of contact you have with them. As I explain later in the section on design, the ratio of senior managers to junior managers as well as the ratio of managers to the number of people who work two levels below them should be small enough to ensure quality communication and mutual understanding. Generally, that ratio should not be more than 1:10, preferably more like 1:5.

155) ...Behavior modification typically takes about 18 months of constant reinforcement. The first step is intellectualizing the best way of doing things (e.g., "I want to be fit by eating well and exercising."). Then your intellect will fight with your desires and emotions. If the goal is really intellectualizing, the intellect will overcome the impediments to doing what's necessary to achieve the goal, so the desired behavior will occur. After doing that consistently for 18 months, that behavior will probably be internalized.

156) ...TOOL - Use evaluation tools like performance surveys, metrics and formal reviews to measure and document all aspects of a person's performance. These will help clarify performance assessments and communication around them.

157) ...Distinguish problems that are part of the evolutionary process from those that are chronic. Most people mistakenly assume that if problems occur, someone must be doing something wrong. Problems, however, occur wherever there is imperfection (i.e., everywhere), and they are part of the evolutionary process. So even excellent managers, companies and decisions will have problems. You can typically distinguish between problems that are part of the evolutionary process from those that are chronic depending on how they respond to fixes and iterative learning.

158) ...TOOL - Maintain "baseball cards" and/or "believability matrixes" for your people. Imagine if you had baseball cards that showed all the performance stats for your people: batting averages, homes runs, errors, ERAs, win/loss records, etc. You could then pretty clearly see what they do well and poorly and call on the right people to play the right positions in a very transparent way. These would also make discussions clearer around compensation, incentives, moving players up to first string or cutting them from the team. You can and should do this for your people. You can create these baseball cards in any way you think works. I use ratings, forced rankings, metrics, results, and/or credentials (years of experience in various level jobs, certificates, etc.). Baseball cards can then be passed to potential new managers as they consider candidates for new assignments.

159) ...If someone does a job poorly, consider whether this is due to inadequate training/experience, inadequate time to do the job or inadequate ability. Ask yourself if their weaknesses are due to a lack of experience and training and/or inadequate time to do the job (both of which can be fixed), or a lack of inherent abilities (which can't). Failing to do this is a common mistake among managers. That's because they are often reluctant to appear unkind or judgmental by saying someone lacks an inherent ability. They also know people assessed this way tend to push back hard against accepting inherent and permanent weaknesses. Managers need to get beyond this.

160) ...Confidence in your people should be learned, not presumed. It takes time to learn about people and what confidences can be placed in them. Sometimes new people are offended we don't yet have confidence in how they are handling their responsibilities. They think it's a criticism of their abilities when in fact it's a realistic recognition that we simply haven't had enough time or direct experience with them to form a point of view. No manager (including myself) should delegate responsibilities to people we don't

yet know well enough to have confidence in. And new people shouldn't be offended if we haven't yet formed that confidence.

161) ...Avoid the theoretical "should." The theoretical should occurs when a manager theorizes that people should be able to do something when they can't or without actually knowing whether they can do it.⁶¹

162) ...You don't need to get to the point of "beyond a shadow of doubt" when judging people. Instead, work towards developing a mutually agreed "by-and-large" understanding of someone that has a high level of confidence behind it. When necessary, take the time to enrich this understanding. That said, you should not aim for perfect understanding. Perfect understanding isn't possible and trying to get it will waste of time and stall things.

163) ...Continue assessing people throughout their time at Bridgewater. You will get to know them better, it will help you train and direct them, and you won't be stuck with an obsolete picture. Most importantly, assess what your people's core values and abilities are and make sure they complement Bridgewater's. Since core values and abilities are more permanent than skills, they are more important to ascertain, especially at Bridgewater. As mentioned, you should be able to roughly assess people's abilities after three to six months of close contact and confidently assess them after 18 months. Knowing their abilities will help you decide the types of skills they will most likely be able to acquire and hence the types of jobs they will do well or do poorly. A common mistake: training and testing a poor performer to see if he or she can acquire the required skills without simultaneous trying to assess abilities. Skills are readily testable, so they should be easy to ascertain; but since they're also more readily obtainable, knowing them is less important than knowing people's abilities. Values are the toughest and take longest to assess.

164) ...You need to be clear in conveying your assessments and be open-minded in listening to people's replies. This is so they can understand your thinking and you can open-mindedly consider their perspectives. So together you can work on setting their training and career paths. Recognizing and communicating people's weakness is one of the most difficult things managers have to do. Good managers recognize that while it is difficult in the short term, it actually makes things easier in the long term, because the costs of having people in jobs where they can't excel are huge. Most managers at other companies dodge being as open with assessments as we insist on; more typically, managers elsewhere tend to be less frank in conveying their views, which is neither fair nor effective.

165) ...It is essential to get in synch in a non-hierarchical way regarding assessments. The greatest single discrepancy between a manager and a managee is about how well each is at their jobs. In most organizations, evaluations of people run in one direction, with the manager asserting his/her impressions of the managee. As a result, the managee typically doesn't believe the assessment, especially when he/she is reviewed as worse than he/she thinks they are which is often the case because most people think that they are better than they really are. So, the managee often feels misunderstood and is resentful. Managees also have opinions of managers, however, in most companies, wouldn't dare bring these up, so misunderstandings and resentments fester. This perverse behavior undermines the effectiveness of the environment and the relationships between people.

⁶¹ A classic example is when a manager, often in an annoyed tone, says something like "he or she should be able to..." when he or she can't. It's managers' responsibility to understand what their direct reports can or can't do. They should be less annoyed with the person unable to do the job than with themselves for making the mistaken presumption. Like ski instructors, managers need to take a couple of runs with their direct reports. Only after observing someone can you move from a theoretical to a realistic "should." Even with a good notion of a realistic should, you should maintain points of communication and exchange (what I call trip wires) if you're more removed on a day-to-day basis from your people. But you still need to stay close enough to make sure your direct reports aren't crashing the car. You can use daily updates and other kinds of synch-up sessions to do this. I suggest building in some kind of trip wire because once they hit that you'll know to intervene. Guard rails are less effective because it's too late to intervene once they hit those.

166) ...Convincing people of their strengths is generally much easier than convincing them of their weaknesses, because people generally don't like to face their weaknesses. Yet helping them recognize and deal with their weaknesses is better for them and better for Bridgewater. As a result, much more time is spent discussing weaknesses. Similarly, problems require much more time than things that are going well, because problems have to be figured out and worked on; while things that are working well don't require as much attention. As a result, much more time is spent focusing on people's weaknesses and problems. For people who don't understand that this is great, this can be difficult (it's great because we are all about improving, not about celebrating how great we are, which in fact is how we get to be great). As a result, it's important that you a) clarify and draw attention to people's strengths and what's being done well; as well as b) constantly remind them why this process of exploring weaknesses and problems is great. It is essential you do this with complete accuracy. For example, don't feel you have to find an equal number of "good and bad" qualities in a person. Just describe the person or the circumstances as accurately as possible, celebrating what is good and fixing what is bad.

...Train and Test People through Experiences...

167) ...Training is really guiding the process of personal evolution. It requires the trainee to be open-minded and suspend ego to explore what is done poorly and why. Lots of honest reflection is required. It also requires more than one believable party to openly and honestly explore what is done well and what is done poorly (especially the latter). There will be lots of trial and error.

168) ...It's better to teach a man to fish than to give him a fish. Don't give your people tasks and answers to their problems without reviewing the guiding principles behind them. It is a bad sign when you tell people what they should do or what their decision should be⁶² because that typically reflects micromanagement or inability on the part of the person being managed. You should be training and testing rather than telling your people what to do. So give people your thoughts on how they might approach their decisions or how you would operate if you were in their shoes and why.

169) ...Most training comes from doing and engaging in constant feedback (i.e., getting in synch over performance). The feedback should include reviews of what is going well and what is going badly in proportion to what's actually happening rather than in an attempt to "balance" compliments and criticisms. Getting in synch should be frequent. After all, you are a manager looking at how your machine is working and how people are working relative to your expectations within the context of your design. Your objective is to teach them to "fish" rather than catching the fish for them. So almost all that you will be doing is constantly getting in synch about how they are doing things and exploring why.

170) ...Everything is a case study. Think about what it is a case of and what principles apply.

171) ...When criticizing, try to make helpful suggestions. Your goal is to help your people both understand and improve, so your suggestions are important. Doing so also helps the people being criticized to understand that your goal is to help them and Bridgewater, not to hurt them.

172) ...Put your compliments and criticisms into perspective. I find that many people tend to blow them out of proportion, so it helps to clarify that the weakness or mistake under discussion is not indicative of your total evaluation of them. Example: One day I sat with one of the new research people down and told him what a good job I thought he was doing and how good his thinking was. It was a very good initial evaluation. A few days later I heard him chatting away for hours about stuff that wasn't related to work, so I spoke to him about the cost to his and our development if he does it regularly. Afterwards I learned he took away from that encounter the idea that I thought he was doing a horrible job and that he was on the brink of being fired. But my comment about his need to be focused on his work didn't have anything to do with my overall evaluation of him. If I had explained that to him when we sat down the second time, it would have helped him put my comments in perspective.

173) ...Being calm, slow and analytical is key when talking about people's problems or when disagreeing. There is a tendency for people's emotions to heat up when there is a disagreement, so speaking in a calm, slow and analytical manner will facilitate communications. If you are very calm and open to hearing others' points of view, it is more difficult for them to shut down a logical exchange than if you get emotional or allow them to get emotional.

174) ...Sometimes it is better to let the people who work for you make mistakes if they learn from them, than it is to tell them what the better decisions are. However, since the connections between cause and effect can be misunderstood, providing feedback for these people is essential to the learning process.

175) ...Know what types of mistakes are acceptable and unacceptable, and don't allow the people who work for you to make the unacceptable ones. When considering what failures you are willing to allow in order to promote learning through mistakes, weigh the potential damage of the mistake against the

⁶² The exception to this is for the person whose job it is to assist you rather than handle a responsibility.

benefit of incremental learning. In defining what latitude I'm willing to give people, I say "I'm willing to let you scratch or dent the car, but I won't put you in a position where I think there's significant risk you could total it."

176) ...Encourage objective reflection – lots and lots of it.

177) ...You will find lots of things that you think are wrong. When it happens, shoot the relevant people e-mails, participate in the discussion leading to an agreed action, and then confirm the actions were taken. You should also observe very rapid improvement. For example, the way new hires are handled now is light-years better than how they were handled two or three years ago, which should be reflected on. So you will simultaneously see lots of problems but also rapid improvements as a function of this process.

178) ...While you should train people, you shouldn't rehabilitate them. Training is part of the plan to develop people's skills and to help them evolve. Rehabilitation is the process of trying to create significant change in people's values and/or abilities. Since values and abilities are difficult to change, rehabilitation typically takes too long and is too improbable to do at Bridgewater. If attempted, it is generally best directed by professionals over extended periods of time. People with inappropriate values and inadequate abilities to meet their job requirements have devastating impacts on the organization. They should be properly sorted (see the principles section on sorting).

**...Sort People into Other Jobs or Boxes at
Bridgewater, or Remove Them from Bridgewater....**

179) ...When it's clear that people aren't working out in a job, get them out of it ASAP. Consider the enormous costs of not firing someone unsuited for his or her job: the costs of bad performance over a long time; the bad effect this has on the environment; the time and effort wasted in trying to train the person; and the greater pain of separation involved with someone who's been here a while (say, five years or more) compared with someone let go after just a year or so. Sometimes good people "lose their boxes" because they can't evolve into responsible parties soon enough either because of a problem with their qualities or it will take too long to train them well. Some of these people might be good at another job. Remember that identifying failure and learning from it are part of the evolutionary process. Make sure you record the reasons on the relevant "baseball card" and think about what a good next step would be for the individual.

180) ...It is much worse to keep someone in a job who is not suited for it than it is to fire someone. Keeping a person in a job they are not suited for is very bad both for the person (because it prevents their evolution) and for our community (because we all bear the consequences and it eliminates the meritocracy).

181) ...When people are "without a box," they should consider whether there is an open box at Bridgewater that would be a better fit. Remember that we are not hiring people just to fill their first job at Bridgewater or primarily for their skills. We are trying to select people we want to share our lives with based on their values and abilities, and we expect them to evolve here. Because managers have a better idea of people's strengths and weaknesses and their fit within our culture than what emerges from the interviewing process, you have invaluable information for assessing them for another role at Bridgewater.

182) If a person can't operate consistently with our requirements (e.g., radical truth and integrity) and can't get to the bar in an acceptable time frame, they have to leave. We want to neither lower the bar nor enter into a long-term rehabilitation program.

C) To Perceive, Diagnose and Solve Problems...

...Know How to Perceive Problems Effectively, so...

183) ...Recognize that problems are the fuel for improvement, like wood thrown in a locomotive engine, because burning them up – i.e., inventing and implementing solutions – propels us forward. Problems are typically manifestations of root causes, so they provide clues for getting better. Most of the movement toward excellence comes from eliminating problems by getting at their root causes and making the changes that pay off repeatedly in the future. So finding problems should get you excited because you have found an opportunity to get better.

184) ...People who can 1) perceive problems; 2) decide what to do about them; and 3) get these things done can be great managers. Perceiving problems is the essential first step. As in nature, if you can't see what's happening around you, you will deteriorate and eventually die off.

185) ...The most common reason problems aren't perceived is what I call the "frog in the boiling water" problem. Supposedly, if you throw a frog in a pot of boiling water it will immediately jump out. But if you put a frog in room temperature water and gradually bring it to a boil, the frog will stay in the water and boil to death. There is a strong tendency to get used to and accept very bad things which would be shocking if seen with fresh eyes.

186) ...In some cases, people accept unacceptable problems because they are perceived as too difficult to fix. Yet fixing unacceptable problems is actually a lot easier than not fixing them, because not fixing them will make you miserable. They will lead to chronic unacceptable results, stress, more work, and possibly get you fired. So remember one of the first principles of management: you either have to fix problems or escalate them (if need be, over and over again) if you can't fix them. There is no other, or easier, alternative.

187) ...It's usually easy to make things go well if you're willing to do difficult things.

188) ...You will get what you deserve. The results that you end up with will reflect how you and your people handle things. So take control of your situation and hold yourself and others accountable for producing great results. People who wish for a great result but are unwilling to do what it takes to get there, will fail.

189) ...To do your job well, you must have a "threshold level of understanding" – i.e., a rich enough understanding of the people, processes and problems around you to make well-informed decisions.

190) ..."Taste the Soup." Excellent restaurants are run by people who taste the food and have the ability to assess if it is good or not and, if it's not good, they get to the root cause of why it is not and they fix it. If they stayed in the office and didn't "taste the soup", or if they did not have the ability to discern if it is not good, they would not have a good restaurant. All good managers have to do the same thing.

191) ...You need to be able to perceive if things are above the bar (i.e., good enough) or below the bar (i.e., not good enough) and you need to make sure your people can as well.

192) ...Have as many eyes looking for problems as possible. Encourage people to bring problems to you and look into them carefully. If everyone in your area feels responsible for the well-being of that area and feels comfortable speaking up about problems, your risks of overlooking them will be much less than if you are the only one doing this. Ask yourself: 1) does someone think there's something wrong; 2) did this lead to a proper discussion; and 3) if they felt raising the issue didn't lead to the proper response, did they escalate it? That's how it should be.

193) ...The people closest to certain jobs probably know them best, or at least have perspectives you need to understand, so they're essential for creating improvement.

194) ..."Pop the cork." It's your responsibility to make sure that communications from your people are flowing freely. This will help you perceive problems, gain the best ideas and keep you and your people in synch.

195) ...The leader must encourage disagreement and be either impartial or open-minded.

196) ...When a crisis appears to be brewing, contact should be so close with people regarding their sentiments that it's extremely unlikely that there will be any people surprises.

197) ...Problems that have good, planned solutions are completely different from those that don't. The spectrum of badness versus goodness with problems looks like this:

- a) they're unidentified (worst);
- b) identified but without a planned solution (better);
- c) identified with a good, planned solution (good); and
- d) solved (best).

However, the worst situation for morale is the second case: identified but without a planned solution. So it's really important to identify which of these categories the problem belongs to.

198) ...TOOL - Use the following tools to catch problems: issues log, surveys, checklists, outside consultants and internal auditors.

a. **Issues log:** A problem or "issue" that should be logged is easy to identify. It's anything that went wrong. The issues log acts like a water filter that catches garbage so you can see what it is and where it came from. By examining the garbage and determining the root cause, you can determine how to eliminate it at its source. You diagnose root causes for the issues log the same way as for a drilldown (explained below) in that it must include a frank assessment of people's contributions to the problems and their strengths and weaknesses. As you come up with the changes that will reduce or eliminate the garbage, the water will become cleaner. In addition to using issues logs to catch problems, they can be used to measure the numbers and types of problems by all sorts of categories, so they can be effective metrics of performance. A common challenge of getting people to use issues logs is that they sometimes view them as a vehicle for blaming people. So you have to encourage using them by making clear how necessary they are, rewarding active usage (e.g., by noting and rewarding the parties who identify the issue) and by punishing non-use. For example, if something goes wrong and it's not in the issues log, the relevant people will be in big trouble. But if something goes wrong and it's there (and ideally properly diagnosed), the relevant people will probably be rewarded. But there must be personal accountability.

b. **Metrics:** Detailed metrics are to measure people, groups' and systems' performance. Make sure these metrics aren't being "gamed," so they cease to convey the real picture. If your metrics are good enough, you can gain such a complete and accurate view of what your people are doing and how well they are doing it that you can nearly manage via these metrics. However, don't even think of taking the use of metrics that far. Instead, use the metrics to ask questions and explore so that you know the real stories behind the metrics. Any one metric can be misleading, so that there need to be enough to establish patterns. Metrics and 360 reviews show patterns that make it easier to achieve agreement on people's strengths and weaknesses because they provide detailed evidence. Of course, people providing the information for metrics must deliver accurate assessments. There are various ways to facilitate this. For example, the reluctance to be critical can be detected by looking at the average grade each grader gives; those giving much higher average grades might be the easy graders. Similarly, "forced rankings" in which people are forced to rank people doing

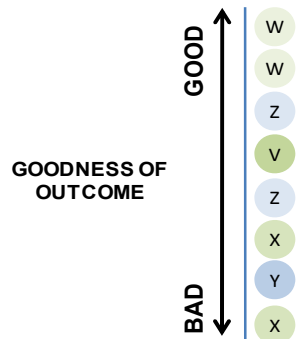
similar jobs from best to worst help. These are essentially the same thing as “grading on a curve.” Metrics between departments and/or groups are especially valuable.

c. Surveys (of workers and of customers)

199) ...TOOL - Maintain a procedures manual. This is where you describe how all of the pieces of your machine work. There needs to be enough specificity so that the operators of the different pieces of the machine can refer to the manual to help them do their job. The manual should be a living document that includes output from the issues log so that mistakes already identified and diagnosed aren't repeated. It prevents forgetting previous learning and facilitates communication.

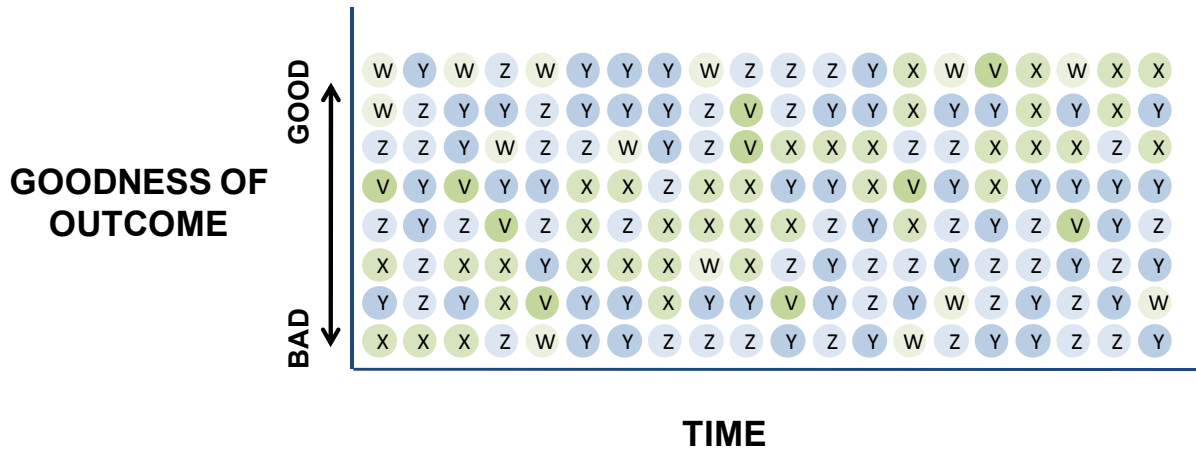
200) ...Understand and connect the dots. You have to synthesize what is going on. Usually it takes a quality diagnosis of a few outcomes of the same type to get at the true root cause so that you can see how the machine should be modified to produce better outcomes. For example, one type of outcome involves someone, let's call him Harry, handling a type of responsibility (entering an order). You will need at least a few experiences to learn about Harry doing this. It will pay for you to understand Harry and his handling of orders and have him understand you by looking objectively at the outcomes and by getting in synch, especially about the bad outcomes. The quality of your understanding of your machine and its constituent parts will depend on how well you diagnose and process the important outcomes. If you don't do this continuously and don't synthesize well, you will fail. This isn't easy.

For example, imagine a day in which there are eight outcomes of three different types with some of them good and some bad. Let's represent this day as follows, with each type of event represented by a letter and the goodness of the outcome represented by its height.

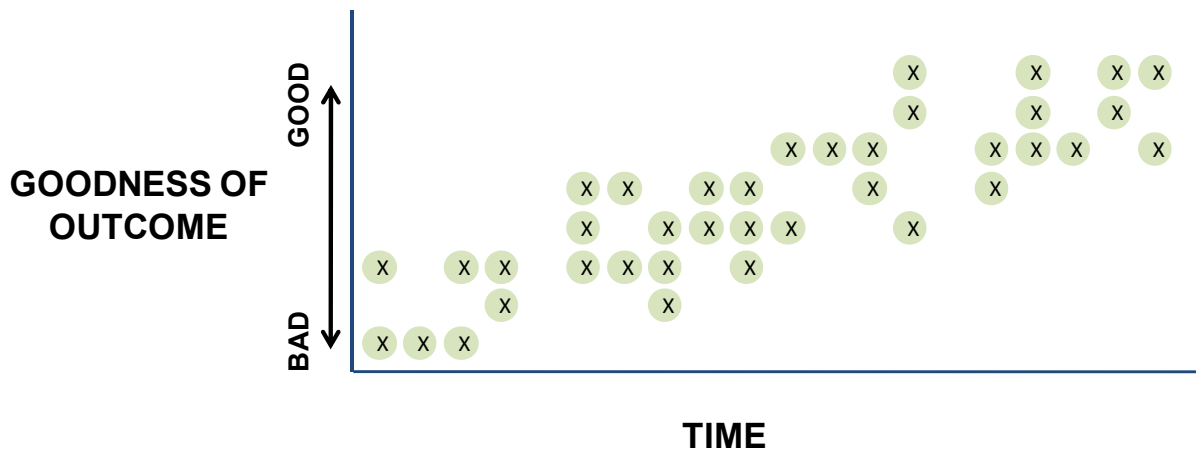


In order to see the day this way, you will have to be able to categorize these outcomes by types and by goodness, which will require an ability to synthesize a “by and large” assessment of each.

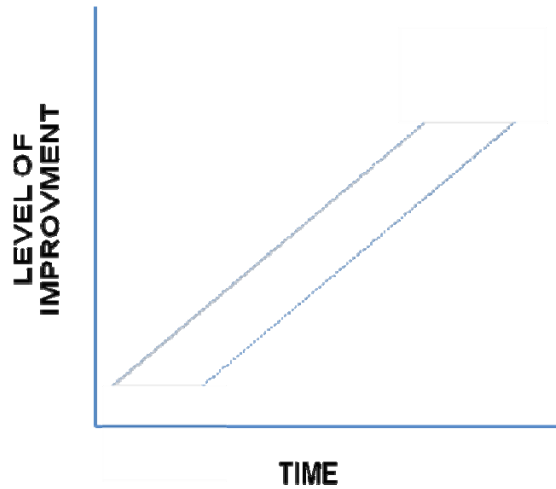
If you didn't look into the significant bad outcomes as they occurred, you wouldn't really understand what they are symptomatic of. Keep in mind our example is a relatively simple one: only eight types of occurrences over one day. Now let's look at what a month looks like. Confusing, eh? Some people are much better at this than others.



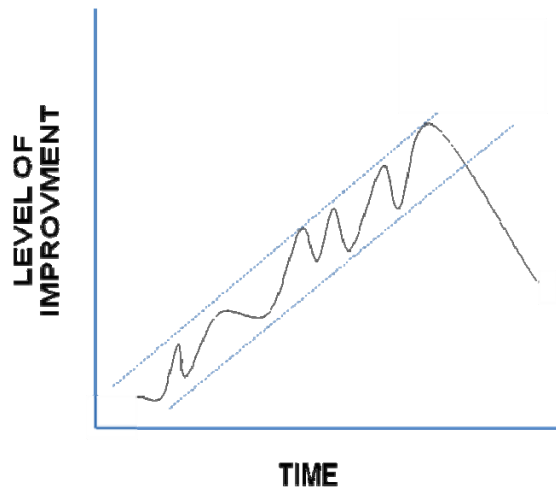
In order to understand how your machine is working to achieve your goals, you have to see how things are changing through time (e.g., if they are improving or worsening). For example, the chart below plots just the type X dots which you can see improving. So you must be able to categorize, understand and observe the evolution of the different parts of your machine/system through time, and synthesize this understanding into a picture of how your machine is working and how it should be modified to improve. People who do this well are rare and essential. Like most other abilities, synthesizing well is partially innate and partially learned through practice.



201) ...Compare how the actual movie is unfolding relative to your script – i.e., compare the actual operating of the machine and the outcomes it is producing to your visualization of how it should operate and the outcomes you expected it would produce. As long as you have the visualization of your expectations in mind to compare to the actual results, you will note the deviations so you can deal with them. For example, if you expect improvement to be within a specific range



and it ends up looking like this



you will know you need to get at the root cause to deal with it. If you don't, the trajectory will probably continue (i.e., the trajectory will get worse). So it pays to diagnose all the important bad things to get to their root causes by 1) getting in synch with the relevant people; and 2) synthesizing how the machine and its parts are working to produce outcomes that are consistent with your goals, through time.

...Follow a Systematic Approach to Diagnosing Problems, so...

202) ...Recognize that all problems are just manifestations of their root causes, so they shouldn't be dealt with as one-offs. Ask yourself what the problems are symptomatic of in order to get at their root causes. Keep asking "why?" and don't forget to examine problems with people. In fact, since most things are done or not done because someone decided to do them or not do them a certain way, most root causes can be traced to specific people, especially "the responsible party." When the problem is attributable to a person, you have to ask why the person made the mistake to get at the real root cause. For example, a root cause discovery process might go something like this: "The problem was due to bad programming." "Why was there bad programming?" "Because Harry programmed it badly." "Why did Harry program it badly?" "Because he wasn't well trained and because he was in a rush." "Why wasn't he well trained? Did his manager know that he wasn't well trained and let him do the job anyway or did he not know?"

When diagnosing, ask the following questions:

- 1) *Is there a clear responsible party? (yes/no)*
- 2) *Who is the responsible party?*
- 3) *How was the situation supposed to be handled, i.e., what was the design?*
- 4) *Was there a problem with the design in terms of allowing the parts (e.g., the people) to operate effectively and in line with expectations?*
- 5) *Why did the responsible party handle the issue the way he/she did?*
 - a) *What are the proximate causes (e.g., "Did not do x, y, z.")?*
 - b) *What are the root causes? For example: character, inadequate training/experience, lack of vision, lack of ability, lack of judgment, human error, etc. A root cause is not an action or a reaction – it is a reason.*
- 6) *Is this broadly consistent with prior patterns? (yes/no/unsure)*
- 7) *What is the systematic solution?*

203) ...Identify at which step failure occurred in the 5-step process. When diagnosing why personal failure occurred, ask: Who was the responsible party? At what stage did the person fail? And, which of the required qualities was deficient? Then consider to what extent suboptimal training and/or capacity played a role.

- A) Setting goals: This requires big picture thinking, the ability to prioritize and values that are consistent with those of our community. (It is helpful to ask whether the responsible party lost sight of the goals or whether he or she set goals inconsistent with Bridgewater's.)
- B) Perceiving problems: This requires perception, the ability to synthesize, and an intolerance of badness (i.e., some people see badness but aren't sufficiently bothered by it to push themselves to eliminate it). Of course, having perspective (typically gained via experience) helps at all steps.
- C) Diagnosis: This requires logic and the willingness to have open and/or difficult discussions to get at the truth.
- D) Design: This requires creativity and visualization.

E) Doing the tasks: This requires determination.

204) ...To diagnose properly, you need to enter a diagnosis phase in which there is a quality, collaborative and totally honest discussion to get at truth. So, when a possible mistake occurs, don't just give your verdicts, because that conveys that you know the answer without exploring it, when in reality there's a reasonably high probability that you don't know the answer, and besides, you certainly haven't yet reached agreement with relevant others on what the answer is. And it's arrogant – what the hell makes you so sure that you know the answer? You might have a theory that should certainly be explored with relevant others. If you and others express your theories and are open-minded, you will almost certainly reach the point that you will have a quality analysis which will either give everyone some working theories to continue to explore, or some conclusions to use for the design phase. And if you do this continuously, when problems reoccur, you and others involved will eventually get to the root causes that are most likely to be true. Through this objective, diagnostic process, you will also get to know each other better, be yourself, and see whether the people around you are reasonable and/or enforce their reasonableness. So this process establishes a very sound foundation for progress and quality relationships.

So, in my opinion, this process is not only what good management is; it is also the basis for personal and organizational evolution and the way to establish deep and meaningful relationships. Because it starts and ends with how you approach mistakes, I hope that I conveyed why I believe this attitude about and approach to dealing with mistakes is so important.

205) ...When trying to understand and diagnose problems, it's important to avoid "Monday morning quarterbacking." That is, evaluating the merits of a past decision based on what you know now versus what you could have reasonably known at the time of the decision. Do this by asking the question, "what should an intelligent person have known in that situation," as well as having a deep understanding of the person who made the decision (how do they think, what type of person are they, did they learn from the situation, etc).

206) ...To distinguish a capacity issue from a capability issue, imagine how the person would perform in that particular function if they had ample capacity. Think back on how they performed in similar functions when they had ample capacity.

207) ...The most common reasons managers fail to produce excellent results or escalate are:

- a. They are too removed.
- b. They have problems discerning quality differences.
- c. They have lost sight of how bad things have become because they have gradually gotten use to their badness (the "frog in the boiling water problem").
- d. They have such high pride in their work they can't bear to admit they can't solve their own problems.
- e. They fear adverse consequences from admitting failure.

208) ...Don't use the anonymous "we" and "they," because that masks personal responsibility. Use specific names. For example, don't say "we" or "they" handled it badly. Also avoid: "We should..." or, "We are..." Who is "we"? Exactly who should, who made a mistake, or who did a great job? Use specific names. Don't undermine personal accountability with vagueness. When naming names, it's also good to remind people of related principles like "mistakes are good if they result in learning."

209) ...Be very specific about problems; don't start with generalizations. For example, don't say "client advisors aren't communicating well with the analysts." Be specific: Name which client advisors aren't doing this well and in which ways. Start with the specifics and then observe patterns.

210) ...To help you understand the pieces and their interactions, watch for patterns. These will help you identify exceptions to the norm.

211) ...By identifying the principles that were violated, you will know how to fix the problems (by following the principles that were breached).

212) ...Systematic doesn't necessarily mean computerized. It might mean having people do specified tasks and indicate that they have done them with checklists.

213) ...TOOL - Use the following technique (drilldown) to understand the problems of a department or sub-department. A drilldown is the process by which you and your group gain a deep enough understanding of the problems in an area and the root causes of these problems so that you can then go on to design a plan to make the department or sub-department excellent. Drilling down is a form of probing, though it is broader and deeper. Done well, it should get you almost all the information needed in about five hours of effort.

A drilldown takes place in two distinct steps: 1) listing problems and 2) listing causes/diagnosing. This is typically followed by a third step, which is 3) the creation of a plan. Getting informed via the first two steps typically takes about 4 hours (+/- 1 hour), with the first step of listing the problems typically taking 1 to 2 hours, and the second step of diagnosing them typically taking 2 to 4 hours, if done efficiently.

It's very important that these steps are done independently and done well. That's because going into two or three directions at the same time causes confusion and doesn't allow adequate discussion of each of the possible causes and solutions. Having the people from the area under scrutiny actively participate in all three steps is critical. You need to hear their descriptions and allow them to argue with you when they think you are wrong. This way you are much more likely to come up with an accurate diagnosis and a good plan.

After the drilldown, you will create the plan or design, which typically takes about 2-3 hours. So the whole process, from asking the first question to coming up with the detailed plan, typically takes about 5 to 8 hours spread over 3 or 4 meetings. Then, there is step four, which is the executing, monitoring and modifying of the plan, which typically takes 6 to 12 months.

Here is more detail on each of the steps:

Step 1 – Listing the problems: Don't confuse problems with possible solutions. Sometimes problems occur for rare or insignificant reasons because nothing is perfect. Don't pay much attention to those. But more often than not, they are symptomatic of something malfunctioning in your machine, so it pays to investigate what that is. For example, not having enough capacity is not a "problem"; it might cause problems, but it's not a problem. Having people work so late that they might quit, getting out reports too late, etc., might be problems that are *caused* by a lack of capacity. But the lack of capacity itself is not a problem. To fix problems, you need to start with the specific problems and address them one by one and come up with very specific solutions. That's because there are lots of ways to solve problems. The problem of people working late at night might be solved by gaining capacity, or it might be solved by shifting work to another department, or by doing less, etc. To assume that lack of capacity is the problem could lead to inferior problem solving. So unless you keep in mind the very specific problems, you will not be effective at solving them. In the process of solving problems, you will often see that several problems are due to the same cause (e.g., lack of capacity, a shortage of tech resources, bad management, etc.), but that is not the same thing as starting at the more general level (like saying that bad management or lack of capacity, etc., are problems), which is why I am saying you must start with very specific problems before making generalizations. For example, when you have a "people problem," be specific. Specify which people you are having what problems with and avoid the tendency of saying things like "people in operations aren't..." Avoid the tendency not to name names for fear of offending.

Step 2 – Identifying root causes: Root causes are the deep-seated reasons behind the actions that caused the problems. It is important to distinguish between proximate causes, which are superficial reasons for what happened (e.g., “I missed the train because I didn’t check the train schedule”), and root causes (e.g., “I didn’t check the schedule because I am forgetful”). Typically a proximate cause is the action that led to the problem while a root cause is the fundamental reason that action occurred. So, when diagnosing, if you are describing what happened or didn’t happen to cause the problem, you are probably describing proximate causes. When you start describing the qualities that were behind these actions, you are probably getting at the root causes. To get at the root cause, keep asking why. For example, if the problem is that people are working late and the direct cause was that there wasn’t enough capacity, then ask why there wasn’t enough capacity. Then you will get closer to the root cause.

If your machine is producing outcomes that you don’t want, either the design is flawed or the parts/people that you dropped into the design are malfunctioning. Most, but not all, problems happen because either a) it isn’t clear who the “responsible party” is for making sure thing go well⁶³; or b) the responsible party isn’t handling his or her responsibilities well (in other words, isn’t operating according to the principles to eliminate the problem). So first ask: “Is it clear who the responsible party is?” If not, first specify that. If it is clear, then ask: “Why isn’t he or she doing a good job?” There are two possible reasons for someone doing a poor job: insufficient training or insufficient ability.

Though it is essential to connect problems to the responsible parties, this can be difficult if the responsible parties don’t acknowledge their mistakes and fail to diagnose why they made the mistakes. Still, clarity about responsibility and the problems’ root causes must be achieved because otherwise there is no hope for improvement. If the responsible parties do not explicitly take responsibility for ensuring their areas operate smoothly, their areas will not operate smoothly. An important first step toward achieving clarity is to remove the mentality of blame and credit, because it stands in the way of accurately understanding problems, and that’s a prerequisite for producing improvements. Also, it is important not to judge too quickly what the root causes are. Instead, you should observe the patterns of problems using the issues log as a tool and discuss with the responsible parties what the root causes might be each time a problem arises. You probably won’t initially be able to come to conclusions with high degree of confidence, because there are many possible reasons for any one problem. But over time, the problems’ patterns and causes will become clear to everyone.

As mentioned, there are two possible reasons why the responsible party handled something badly: 1) the responsible party didn’t encounter this problem enough times previously to learn from it and prevent it in future (by using the principles); or 2) the responsible party is unsuited for that job. And there are also two possible reasons the person is not suited for that job: 1) not enough experience or training; and 2) lack of values and/or abilities required to do the job well. So getting at the root causes is largely a matter of figuring out:

- 1) Who is the responsible party for what went wrong?
- 2) Did that person encounter the problem enough times so that he or she should have either learned how not to repeat it or elevated it to someone who could have helped learn how to solve it? The conclusions could be the following: a) If the person did encounter the problem enough times to have resolved or elevated it, then the person is not suitable for the job.⁶⁴ b) If the person did not encounter the problems enough times to resolve or elevate it, what are the probable root causes? The most common root causes are: 1) the person is not suitable for the job in some way (doesn’t

⁶³ Which would be due to the manager, who is the responsible party for making it clear who is responsible for what, failing to do that well.

⁶⁴ That doesn’t mean that all people have to solve and prevent all repeating problems or they shouldn’t be in their jobs, because that might not be possible because smaller, repeating problems might be consciously accepted until they become high enough priorities to be fixed. However, it does mean that repeating problems should not be recognized and, if not able to be resolved, they must be elevated.

learn from mistakes, doesn't have a high sense of responsibility, is lazy, etc.); 2) the design of the process is flawed (e.g., the person is doing things in a way that can be improved); or 3) there is no possible solution. If it's the first root cause, the person should have their job changed; if it's second, you and the person need to properly diagnose the problem and come up with a different process that will work; and if it's the third, you won't know that until you have thoroughly explored whether the process can be remediated. That second alternative of trying to find a better process takes time and patience (involving you and the person properly diagnosing the problem and finding a different approach that works). Normally, this is the point at which most companies and people fail. That is because people often take the identification of a "mistake" as the equivalent of an accusation that they are flawed (dumb, lazy, etc.), so they become defensive. If instead they view the exercise as an investigation into how the process might be flawed, it's easier to make progress. So when criticizing, it's sometimes helpful to convey explicitly the point of the exercise: mutually diagnosing the problem and exploring the pros and cons of alternative approaches. You both need to be mindful that doing this well typically takes time and patience. One of the purposes of the brainstorming session is to do this, ideally with an agreed diagnosis resulting from it.

Step 3 – Creating a plan (brief notes):

- Look at each root cause and ask yourself what should be done about it.
- Creating a plan is like writing a movie script in that you visualize who will do what through time in order to achieve the goal.
- Step away from the group to reflect and work on the plan, then bring it back to the group to discuss and modify.
- When developing the plan, iterate through multiple possibilities and play them out in time to help determine the best choice.
- Make sure to assign who is supposed to do what with rough target dates for achieving individual tasks of the plan. Once the plan design is complete, make sure the tasks, responsible parties and timelines are reasonable and doable.
- While everyone does not need to agree with the plan, it is important that the key people agree it will work.

Step 4 – Implementing the plan (brief notes):

- Give each person a monthly to-do list to provide clarity and transparency around responsibilities and expectations for that month. Then plot the progress in open, monthly meetings with all the relevant parties. Explicitly assess how the plan is working and deal with problems that aren't being resolved.
- Make sure to hold responsible parties accountable for target dates and develop metrics around how they are meeting their commitments.
- Regularly look at that list of assigned tasks to track progress and determine if any adjustments are needed.
- Create transparency around the plan by posting it publicly and reviewing it regularly with the group. This helps people see the ways in which all of the problems are being addressed and reinforces accountability.

Do not exclude any relevant people from the drilldown: besides losing the benefit of their ideas, you disenfranchise them from the game plan and reduce their sense of ownership.

Remember that people tell you things they want and tend not to be self-critical. **It is your job as a manager to get at truth and excellence, not to make people happy.** For example, the correct path might be to fire some people and replace them with better people or to put people in jobs they might not want, etc. The brainstorming session must include a discussion of people's weaknesses and failings to get at truth and excellence. Everyone's objective must be to get at the best answer, not the answer that will make people happy. This is especially true for managers. In the long run, the best answers will be the one that make the people we want to be at Bridgewater happiest.

...Put Things in Perspective:

...Putting things in perspective helps you diagnose problems and create plans.

214) “...Tell the story” to help put things in perspective. Sometimes people have problems putting current conditions into perspective or projecting into the future. Sometimes they disagree on the cause-effect relationships. Sometimes they tend to look at details rather than the big picture. Sometimes they forget who or what caused things to go well or poorly. To help get around these problems, ask them to “tell the story” of how we got here, or “tell the story” yourself. This helps put where you are in perspective: it highlights important things that were done well or poorly in relation to their consequences, draws people’s attentions to the big picture, and helps achieve agreement. Similarly, in planning for the future, tell the story from the past to the present and then, in detail, into the future. Like writing any good story, making a good plan involves sketching out the important events through time and then thinking through all of the details so that when you are done, the final story is so vivid it’s easy to visualize. That’s necessary so other people can visualize the plan, comment on it, and eventually believe in it. It’s also required for specifying who should do what and when.

215) ...Go back before going forward. Before moving forward, take the time to reflect on how the machine worked. By diagnosing what went right and what went wrong (especially what went wrong), you can see how the machine is operating and how it should be improved. People who are just focused on what they should do next are overly focused on the tasks at hand and not on how the machine is working; so they don’t make sustainable progress.

216) ...Don’t act before thinking.

217) ...TOOL - Have all new employees listen to tapes of “the story” to bring them up to date. If you listened to either one or both of the last two tapes, imagine how much better informed you would be than the person who just joined Bridgewater and hadn’t listened to these stories.

218) ...Understand “above the line” and “below the line” thinking and how to navigate between the two. People often get side-tracked or bogged down in discussions, because they don’t know how to do this. By knowing how to do this and expecting others to do it, your time will be used more effectively. If you imagine an outline in which there are main points and subordinate points organized in an outline form, an above-the-line discussion addresses the main points. That doesn’t mean there aren’t references to details, because some details might be necessary to the discussion. But references to details are solely for the purpose of understanding the major points rather than a dissection of the minor points themselves.

For example, suppose your major point is: “Sally can do that job well,” and then you discuss Sally’s qualities. In an above–the-line conversation, the discussion of her qualities would be targeted only at the question of whether or not Sally can do the job well. As soon as there is agreement on her qualities as related to whether she can do her job well, you go on to the next major point (e.g., what qualities are required to do that job). In contrast, a below the line discussion would focus on Sally’s qualities for their own sake, without relating them to whether she can do her job well. For example, they might discuss qualities that are irrelevant to her doing the job well. While both levels of discussion might touch on minor points, “above the line” discourse will always move coherently from one major point to the next in much the same way as you can read an outline in order to fully understand the whole concept and reach a conclusion. You go “below the line” (i.e., to the minor points) only to illustrate something important about the major points and progress in an orderly and accurate way to the conclusion. Your ability to do this is partially innate⁶⁵ but can be improved with practice.

⁶⁵ Good conceptual thinkers naturally see things in this outline-like form and know how to navigate. For example, they know whether they are having an above the line conversation and appropriately delving, and they know how to navigate between both levels. Poor conceptual thinkers tend to get confused because they see things as one big pile of information from which they pick data points almost at random.

...Design Your Plan and Your Machine...

- 219)** ...You need a well thought-out game plan. Take at least a few hours to think it through as these few hours will be virtually nothing in relation to the amount of time that will be spent doing, and it will make the doing radically more effective.
- 220)** ...You are designing a “machine” or system that will produce outcomes. This machine will consist of distinct parts (i.e., people and other resources as well as the way they interact with each other).
- 221)** ...If you want to achieve a short-term goal, your plan probably won’t require you to build a machine. But if you have an ongoing mission, you will need a well-designed and efficient machine.
- 222)** ...Beware of paying too much attention to what is coming at you and not enough attention to what your responsibilities are or how your machine should work to achieve your goals. You should constantly compare your machine’s outcomes to the goals in order to reflect on how well your machine is operating (this consists of both the design and how the individual parts are functioning).
- 223)** ...Visualize alternative machines and their outcomes, and then choose. A good designer is able to visualize the machine and its outcomes accurately, even if those outcomes never occurred before. First visualize the parts and their interactions, and then find the parts to fit the design. You need to look at all the system’s pieces and their interactions. For example, imagine how goals 1, 2 and 3 can be achieved. Imagine how Harry, Larry and Sally can operate in various ways with various tools with different incentives and penalties in place to achieve those goals. Then imagine how the system would work differently if you replaced Harry with George, or if it was reconfigured in an entirely different way. Do this iteratively. For example, think through what the products and people and finances will look like month by month (or quarter by quarter) over the next year given one system; then change the system and visualize the outcomes again. At the end of this process, your plan should look like a realistic movie script, which describes the parties and their interactions through time.
- 224)** ...Recognize that some people are relatively better or worse at visualization. Accurately assess your own abilities and those of others so you can use the most capable people to create the visualization.
- 225)** ...First come up with the best workflow design, sketch it out in an organizational chart, visualize how the parts interact, specify what qualities are required for each job and, only after that is done, choose the right people to fill the jobs (based on how their capabilities and desires match up with the requirements). Do not build the organization to fit the people. Jobs are created based on the work that needs to be done, not what people want to do or what people are available. You can always search outside Bridgewater to find the people who “click” best for a particular role.
- 226)** ...Watch out for the unfocused and unproductive “we should...(do something).” Remember that to really accomplish things we need believable responsible parties who should determine, in an open-minded way, what should be done, so it is important to identify who these people are by their names rather than with a vague “we,” and to recognize that it is their responsibility to determine what should be done. So it is silly for a group of people who are not responsible to say things like “we should” to each other. On the other hand, it can be desirable to speak to the responsible party about what should be done.
- 227)** ...Between a bad “now” and a good “then” is a “working through it” period that involves trying processes and people out, seeing what goes well or poorly, learning from the iterations, and moving toward having the right people in the ideal systematic design. Even with a good future design picture in mind, it will naturally take time, testing, mistakes, and learning to get to a good “then” state.

228) ...The organizational design you come up with should minimize problems and maximize the organization's ability to capitalize on opportunities, so the design must be an extension of your deep and practical understanding of your problems and opportunities.

229) **...Most importantly, a) build the organization around goals rather than around tasks; b) make people personally responsible for achieving these goals; c) make departments as self-sufficient as possible so that they have control over the resources they need to achieve the goals; d) have the clearest possible delineation of responsibilities and reporting lines; e) have agreed-upon goals and tasks that everyone knows (from the people in the departments to the people outside the departments who oversee them); and f) hold people accountable for achieving the goals and doing the tasks.**

a) As an example of building the organization around goals rather than tasks, we have traditionally had a marketing department (goal: to market) that is separate from our client service department (goal: to service clients), even though they do very similar things and there are advantages to having them work together. In other words, because these are two distinct goals, we have a separate department to focus on each. If they were merged, the department head, salespeople (SP), client advisors (CA), analysts, etc. would be giving and receiving conflicting feedback. For example, if asked why clients were receiving relatively poor attention, the answer could be something like: "we have incentives to raise sales." Asked why they aren't making sales, the merged department might reply "we need to take care of our clients because...." Besides giving each department a clear focus and the appropriate resources to achieve its goals, keeping these two areas separate will make the diagnosis of resource allocations clearer and it will reduce the "job slip" we've discussed before. Of course, when building departments around goals, the goals have to be the right size to warrant these resources. For example, an organization might not be big enough to warrant having a few salesmen and its own analytical group. Bridgewater has successfully evolved from a one-cell organization (in which most people were involved in everything) to a multi-cell organization because of our ability to efficiently have this focus as the organization grew. As organizations grow, coordination becomes more important to maintain this focus (which I discuss later). Also, I want to make clear it is okay for a temporary sharing or rotating of resources, which is not the same thing as a merging of responsibilities (which I also discuss later).

b) Try to equip departments to be as self-sufficient as possible to enhance efficiency. We do this because we don't want to create a bureaucracy that forces departments to requisition resources from a pool that lacks the focus to do the job. For example, while people often argue that we should have a technology department, I am against that because building technology is a task, not a goal in and of itself. You build technology to...(fill in the blank, e.g., help service clients, help market, etc.). Keeping the tech resources outside the department means you would have people from various departments arguing about whether their project is more important than someone else's in order to get resources, which isn't good for efficiency. The tech people would be evaluated and managed by bureaucrats rather than the people they do the work for.

c) Having the clearest possible delineations of responsibilities and reporting lines is essential for efficiency. It's required both within and between departments. Make sure reporting lines and designated responsibilities are very clear. To avoid confusion, people should not work across reporting lines (e.g., report to two departments). Dual reporting (across departments) causes confusion, complicates prioritization, diminishes focus on clear goals and muddies the lines of supervision and accountability, especially when a person reports to two people in two different departments. When situations arise where this is necessary, managers need to be informed of the dual reporting. For example, asking someone from another department to do something without consulting with his or her manager is strictly prohibited (unless what they're asking for doesn't take more than an hour or so to do). However, having co-heads of a department or a sub-department can work well if the managers are in synch and combine complementary and essential strengths to

this area; dual reporting to them (i.e., within the same department or sub-department) can work fine if this is properly coordinated by the co-heads.

d) Having agreed upon goals and tasks that are transparent to everyone is important to ensure clarity on what the goals are, what the plan is, and who is responsible to do what in order to achieve the goals. It allows people to buy into the plan or to express their lack of confidence and suggest changes. It also makes clear who is keeping up his end of the bargain and who is falling short. These stated goals, tasks and assigned responsibilities should be shown at department meetings at least once a quarter, perhaps as often as once a month.

e) As for holding people accountable, people should understand they are responsible for both a) doing agreed upon tasks and achieving assigned goals as well as b) helping the group achieve its goals. Regarding the group achieving its goals, team members are responsible for expressing their thoughts (especially if they're critical) to the extent they believe their thoughts are valuable. Too often managers do a great job when mistakes are made of thinking how systematic fixes can prevent recurring mistakes (e.g., pop ups that disappear only when a person confirms doing a task) but under-weigh personal responsibility (e.g., the failure to have that pop-up reminder sure as hell isn't a good excuse for not handling responsibilities). We need sentient beings, not robots, who are motivated to achieve excellence and take ownership of their own goals and those of their teams.

230) ...Departments and sub-departments should be organized around on the most logical grouping of people (i.e., the most "logical cluster") to achieve their goals. You can visualize this as akin to a magnetic pull in that there are groups that naturally gravitate towards one another. Trying to impose your own structure without finding these magnetic pulls is ineffective and likely will result in a bad outcome.

231) ...When designing, think about second- and third-order consequences as well as first-order consequences. That is because the outcome you get as a first-order consequence might be desirable (or undesirable), while the second- or third-order consequences could be the opposite. So focusing solely on first-order consequences (which people tend to do) could lead you to make the wrong decision. For example, though I might not like the first-order consequences of a rainy day, I might love the second-order consequences. So if I were in a position to choose whether or not there should be rainy days, I would need to look at the second- and third-order consequences to make the right decision.

232) ...When working on a design, put yourself in the "position of pain" for a while so that you gain a richer understanding of what you're designing for. In other words, temporarily insert yourself into the flow to gain a real understanding of what you are dealing with (e.g., the process flow, the type of people needed, the potential problems, etc.) and to visualize a clearer picture of what will work. You can accomplish this in a number of ways (reviewing work, doing work at different stages in the process, etc.).

233) ...An organizational chart should look like a pyramid, with straight lines down that don't cross each other. There will be a series of descending pyramids that make up the whole pyramid, but with the number of layers limited in order to minimize hierarchy.

234) ... Build your organization from the top down. It's the opposite of a building – the foundation is at the top. The head of the organization is the one who is responsible for designing the organization and for choosing the people to fill the boxes. They are the responsible parties for making this organization go well so they should be the experts who know best, who you manage (rather than micro-manage or neglect). So, it is preferable to hire the managers before their direct reports. This is because a) that allows the managers to help design the machine and choose people in advance; and b) it reduces the oversight demands that will fall on others.

235) ...Everyone must be overseen by a believable person who has high standards. Without this, there will be inadequate quality control, inadequate training (by getting in sync) and/or inadequate appreciation of excellent work. Do not “just trust” people to do their jobs well.

236) ...The people at the top of each pyramid should have the skills and focus to manage their direct reports and a deep understanding of their jobs. Don't worry as much about the title of an area is as what the area actually does in thinking about the organizational structure, because titles aren't precise. Here's an example of the confusion that can arise: It was proposed that the head of technology have the facilities group (the people who take care of facilities like the building, lunches, office supplies, etc.) report to him because both are, in a sense, “facilities” and because they have some things in common (e.g., the electrical supply). That was a mistake because the head of technology didn't have a deep enough understanding of what the facilities people do. Having people who are responsible for the building, lunches, etc., reporting to a technology manager is as inappropriate as having the technology people report to the person who is taking care of facilities. These functions, even if they're considered “facilities” in the broadest sense, are very different. The appropriate skill sets required to oversee them are different. Here's another example of a near-mistake: there was talk of combining folks who work on client agreements with those who do counterparty agreements under one manager who is in charge of client agreements and other legal services. That would have been a mistake because the skills required to reach agreements with clients are very different from the ones required to reach agreements with counterparties. It was wrong to conflate both departments under the general heading of “agreements,” because each kind called for specific knowledge and skills that are very different.

237) ...When encountering cross-departmental or cross sub-departmental issues, the involved parties should involve the person who is the “point of the pyramid”. For example, when you have two competing sets of priorities that coexist at a similar level (e.g., 2 departments that have competing priorities or 2 sub-groups that have competing priorities), you can't resolve issues by having people in one silo (or one department) working it through with the managers in the other silo, you need to go to the point of the pyramid. This individual has both the perspective and the knowledge to weigh the trade-offs properly, and make an informed decision. Not going to the point of the pyramid – i.e., having department heads resolve the issues, will likely cause more problems.

238) ...The ratio of senior managers to junior managers and to the number of people who work two levels below should be limited to a number that preserves quality communication and mutual understanding. Generally, the ratio should not be more than 1:10, preferably more like 1:5. Of course, the appropriate ratio will vary depending on a) how many people your direct reports have reporting to them; b) the complexity of the jobs they're doing; and c) the manager's ability to handle several people or projects at once.

239) ...The number of layers from top to bottom and the ratio of managers to their direct reports will limit the size of an effective organization.

240) ...The larger the organization, the more important are a) information technology expertise in management and b) cross-department communication (more on these later).

241) ...You should be able to delegate the details away. If you can't, you either have problems with managing or training or you have the wrong people doing the job. The real sign of a master manager is that he doesn't have to “do” practically anything. Of course, a great manager has to hire and oversee the people who do things; but a “supreme master” manager can even hire a person or two to do this and has achieved such leverage that things are effortlessly running superbly. Of course, there is a continuum related to this. The main message I'm trying to convey is that managers should strive to hire, train and oversee in a way in which others can superbly handle as much as possible on their own. Managers should view the need to get involved in the nitty-gritty themselves as a bad sign.

- 242) ...Constantly think about how to produce leverage.** For example, to make training as leveragable as possible, document in one way or another (i.e., audio, video, written guidelines, etc) questions and answers and then have someone regularly organize them into a manual. Technology can do most tasks, so constantly think creatively about how to design tools that will provide leverage for you and the people who work for you.
- 243) ...Use "leveragers" (people who are capable of doing a lot to get your concepts implemented).** Conceptualizing and managing are most important and take only about 10% of the amount of time needed for implementing; so if you have good leveragers, you can accomplish a lot more with relative ease.
- 244) ...Assign only the best people to the jobs and have them openly debate to get at the right answer.**
- 245) ...It is the manager's job to know what qualities are required for the job to be done excellently and what qualities other possible "responsible parties" have, in order to match them up correctly.** Only by assessing people thoroughly can you know what responsibilities can be safely given to them. So you need to ask yourself "what is the package called XYZ (e.g., Harry Smith) like" at his core (e.g., highly motivated or not motivated, highly proactive or not proactive, creative or not creative, etc., etc., etc.)? When forming your assessments, it's important to get several other people's assessments in order to form a consistent picture. That's why we have 360 degree reviews.
- 246) ...If you have hired or are about to hire a new manager for a group, make sure he or she is involved in the decision process for hiring the people who will be working for him or her.** It's probably ideal to have a 70/30 split in terms of the decision, where 70% of the decision comes from the head, who presumably has at least equal knowledge of who is best to fill the role.
- 247) ...Clearly communicate the plan.** People should know the plan and designs within their departments. When there is an agreed path that you decide to divert from, be sure to communicate your thoughts clearly to the relevant parties and get their views so that you are all clear about taking a new path.
- 248) ...The efficiency of an organization decreases and the bureaucracy of an organization increases in direct relation to the increase in the number of people and/or the complexity of the organization.**
- 249) ...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 boss.**
- 250) ...Watch out for "department slip."** This happens when one department that does things for one or more support departments (e.g., departments like HR and Facilities) mistakes its responsibilities to provide support with a responsibility to determine what should be done. An example of this is if HR thought it should determine whom we should hire or what our employment policies should be. Another example would be if the Facilities group determined what facilities we should have. While support departments should know the goals of the people they're supporting and provide feedback regarding their choices, they are not the people to determine the vision or the methods used to achieve that vision.
- 251) ...It is far better to find a few smart people and give them the best technology than to have a greater number of ordinary and less well-equipped people.** First of all, great people and great technology are almost always great value because their effectiveness in enhancing the organization's productivity can be enormous. Second, it is desirable to have smart people have the widest possible span of understanding and control because fragmented understanding and control create inefficiencies and undermine organizational cohesion. Usually it is the person's capacity that limits the scope of his understanding and control. So the mix of really smart people operating with really great technology in a streamlined organization is optimal for organizational efficiency.

252) ...What people do should primarily be a function of the job they have, so it should generally be pretty obvious who should do what (if they're suited to the job).

253) ...Similarly, assign responsibilities based on people's abilities and responsibilities, not job titles. For example, just because someone is responsible for "human resources," "recruiting," "legal," "programming," etc., doesn't necessarily mean that they are the appropriate people to do everything associated with those functions. For example, though "Human Resources" people help with hiring, firing and providing benefits, it would be a mistake to give them the responsibility of determining who gets hired and fired and what benefits are provided to employees. When assigning responsibilities, think about both the workflow design and a person's abilities, not the job title.

254) ...Clearly designate the "responsible party" (or parties) for achieving all goals and doing all tasks.⁶⁶ The most important person is the one who is given the overall responsibility for accomplishing the mission and has both the vision to see what should be done and the discipline to make sure it's accomplished by the people who do the tasks. There should be no confusion regarding who the responsible party is. When diagnosing a problem, the first two questions should be 1) "Was it clear who the responsible party for this area is?" and b) "If so, who is it?" Then the responsible party and his or her boss should do the diagnosis.

255) ...Watch out for consultant addiction – i.e., the chronic use of consultants to do work that should be done by employees.

256) ...TOOL – Checklists - When people are assigned tasks, it is generally desirable to have these captured on checklists so they can check off each item as it is done. If not, there is a risk that people will gradually not do the agreed tasks or there will be lack of clarity. Crossing items off a checklist will serve as a task reminder and confirmation of what has been done.

257) ...Don't confuse checklists with personal responsibility. People should be expected to do their job well, not just what is on their checklists.

258) ...Use "double-do" rather than "double-check" to make sure mission-critical tasks are done correctly. When people double check someone else's work, there is a much lower rate of catching errors than when two parties independently do the work, and the results are compared.

259) ...As with most issues, the best choices are the ones with more pros than cons, not those that don't have any cons. Watch out for people who tend to argue against something because they can find something wrong with it without properly weighing all the pros against the cons. Such people tend to be poor decision-makers.

260) ...Watch out for "job slip." Job slip is when a job changes without being explicitly thought through and agreed to, generally because of changing circumstances or a temporary necessity. Job slip will generally cause bad job design. It often leads to the wrong people handling the wrong responsibilities and confusion over who is supposed to do what.

261) ...Think clearly how things should go and when they aren't going that way acknowledge it and state why – then decide whether to address the reason things aren't working problem first, or the what to do about the task at hand to get past it problem first, and to come back to the other later. But don't pass it

⁶⁶ You learn principles by experiencing the rewards and punishments of your actions interacting with reality. The clearer the relationship is between cause and effect, the better it is for learning and evolving. So clearly designated responsibilities enhance the feedback and learning process. For example, if you are in the woods and have to survive on your own, the connection between your actions and their results is clearer and is all that matters. Blame doesn't enter into it as it gets you nothing. All that you focus on are the interactions between your actions and their results.

by without discussing it. Otherwise, before you know it, people will mistake you doing the tasks as being ok, when that's job slip.

262) ...When a problem occurs and needs to be dealt with, a manager should conduct two discussions – 1) the “machine” level discussion of why the machine produced that outcome and 2) the task level discussion of what to do now about the problem. Don't make the mistake of just having the task level discussion, because then you are micromanaging – i.e., you are doing your managee's thinking for them and your managee will mistake you doing this as being ok, when that's not ok (because you will be micromanaging). When having the machine level discussion, think clearly how things should have gone and explore why they didn't go that way. If you are in a rush to determine what to do and you have to tell the person who works for you what to do, point out that you are having to do this, make clear that you are having to do this and that is what you are doing, and make it a training experience – i.e., explain what you are doing and why.

263) ...Don't keep anyone who isn't suited for a job in that job, or try to fit the job to the person.

264) ...Trust should never be an issue because you should have such good controls that you are not exposed to the dishonesty of others. A higher percentage of the population than you imagine will cheat if given an opportunity. Even a minute amount of cheating is intolerable, so your happiness and success will depend on your controls. Security controls should be viewed as a necessary tool of our profession, not as a personal affront to an individual's integrity. Just as a bank teller doesn't view a check on the money in his drawer (rather than just taking the teller's word) as an indication that the bank thinks he is dishonest, everyone here should understand the need for our security controls. Explain this to your people so they see it in the proper context.

265) ...Even though trust should ideally not be an issue, because you have such great controls, try to judge people's character, including whether or not you can trust them, because your controls will never be good enough. Besides, trustworthiness is a quality that should be appreciated.

266) ...People doing auditing should report to people outside the department being audited and auditing procedures should not be made known to those being audited.

...Do What You Set Out To Do...

267) ...Push through! You can make great things happen, but you have to MAKE great things happen.
There will come times when the choice will be to plod along normally or to push through to achieve the goal. As Lee Ann Womack's country and western song says, when you have a choice between sitting it out or dancing, I hope you'll dance.

D) To Make Decisions Effectively...

...Recognize the Power of Knowing How to Deal With Not Knowing, so...

268) ...Recognize that your goal is to come up with the best answer, that the probability of your having it is small, and that even if you have it, you can't be confident that you do have it unless you have other believable people test you.

269) ...The ability to deal with not knowing is far more powerful than knowing. That is because there's way more that we don't know than what we could possibly ever know.

270) ...People who are great at dealing with not knowing are more successful than people who know a lot.

271) ...Finding the path to success is at least as dependent on coming up with the right questions as in coming up with answers. Successful people are great at asking the important questions and then finding the answers. When faced with a problem, they first ask themselves if they know all the important questions about it; they are objective in assessing the probability that they have the answers; and they are good at open-mindedly seeking believable people to ask in order to explore their reasoning rather than to just accept their conclusions.

272) ...Successful people ask for the criticism of others and consider its merit.

273) ...While everyone has the right to have questions and theories, only believable people have the right to have an opinion. If you can't successfully ski down a difficult slope, you shouldn't tell others how to do it, though you can ask questions about it and even express your views about possible ways if you make clear that you are unsure.

274) ...Recognize the power of asking: "What don't I know and what should I do about it?" Generally you should find believable people and ask their advice. Knowing what you don't know is even more powerful than using what you do know. Remember that in life, unlike in school, the goal isn't for you to come up with the best answer you can and not think about the probability of being wrong. In life the goal is for you to do the right thing, so it is invaluable to know what you don't know so that you can figure out a way to find out and/or to get help from others. Don't just do what they tell you to do. Understand, visualize and assess their reasoning to see if it makes sense to you. That's critical to your learning as well as your successful handling of your responsibilities.

275) ...Your goal is to find the best answer, not to give the best one you have. The answer doesn't have to be in your head, you can look outside of you.

276) ...Never make any important decisions without asking at least three believable people. Don't ask for them for their conclusions. Ask them for their reasoning and ask them to probe your reasoning.

277) ...Constantly worry about what you are missing. Even if you acknowledge you are a "dumb shit" and are following the principles and are designing around your weaknesses, understand that you still might be missing things. You will get better and be safer this way.

...Think Probabilistically and About What Matters...

278) ...Start with what you want and an accurate understanding of reality.

279) ...Avoid allowing the potential for past precedents to be used to institutionalize bad decisions.

280) ...Make all decisions logically, as expected value calculations (i.e., considering both the probabilities and the pay-offs of the consequences), while making sure that the probability of the unacceptable (i.e., ruin or disaster) scenario is nil.

281) ...Recognize opportunities where there isn't much to lose and a lot to gain, even if the probability of the gain happening is low. It is a reality that there are always multiple possibilities and nothing is certain. All decisions are therefore risk/reward bets. Know how to pursue fabulous risk reward ratios, that have huge upside and very little downside, albeit a small probability of happening. My life has been filled with these.

282) ...Understand how valuable it is to raise the probability that your decision will be right by accurately assessing the probability of your being right. I often observe people giving opinions as soon as they have them, which seems at about the point that they think there's more than a 50% chance of them being right. Often they don't pay any attention to the value of raising the probability of being right – e.g., from 51% to 85%– by reflecting harder on whether the answer is right and doing the investigations and double-checking with others to make sure that the answer is right. Remember that, in an expected value sense, raising the probability of being right (e.g., from 51% to 85%) can be worth more than just going from probably wrong (e.g., 45%) to probably being right (e.g., 51%) because we are all playing probabilities. Think about the effects of altering the probabilities of achieving must-dos: if you have a 51% probability of handling a “must-do” correctly, it means that only a bit more than half of your must-dos will be done appropriately whereas an 85% probability of handling a decision well means that only 15% of the must-dos will be handled badly.

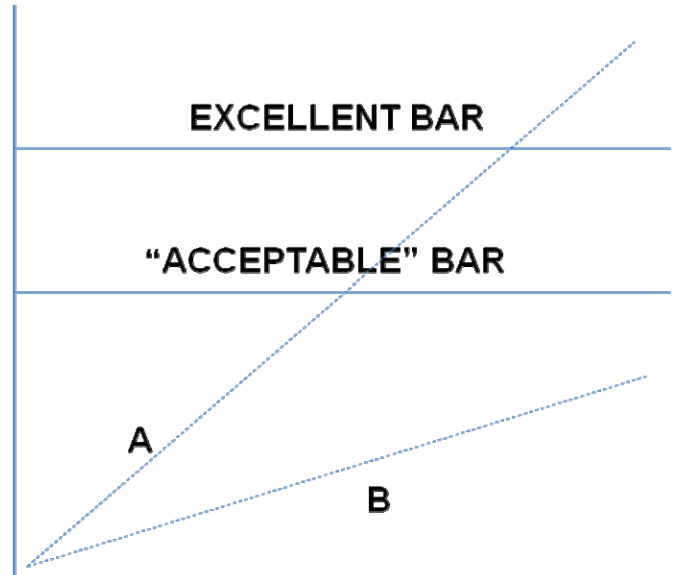
283) ...Remember the 80/20 rule and know what the key 20% is. Distinguish the important things from the unimportant things and deal with the important things first. Get the important things done very well, but not perfectly, because that's all you have time for. Chances are you won't have to deal with the unimportant things, which is better than not having time to deal with the important things. I often hear people say “wouldn't it be good to do this or that,” referring to nice-to-do rather than important things: they must be wary of those nice-to-do's distracting them far more important things that need to be done.

284) ...Don't mistake small things for unimportant things because some small things can be very important (e.g., hugging a loved one).

285) ...Make sure all the “must do's” are above the bar before you do anything else. First, distinguish between your “must do's” and your “like to do's”. Don't overlook any “must do's” and don't mistakenly slip the “like to do's” onto the list. Then, get all the “must do's” above the bar. Then get all the “must do's” excellent. If you have time, turn to the “like to do's” and try to get them above the bar. Only if you have time (though you certainly will not if you are thinking broadly) turn toward making things perfect. Don't be a perfectionist, because perfectionists often spend too much time on little differences at the margins at the expense of other big, important things.

286) ...Understand what an acceptable rate of improvement is, and that it is the level and not the rate of change that matters most. I often hear people say, “it's getting better,” as though that is good enough when “it” is both below that bar and improving at an inadequate rate. That isn't good enough. For example, if someone who has been getting 30s and 40s on tests raised his grade to in the 50s, you could say he's improving but the level is still woefully inadequate. Everything important you manage has to be

on a trajectory to be “above the bar” and headed for “excellent” at an acceptable pace. For example, in the chart below, the trajectory of A might be acceptable but B is not. A gets us above the bar in an acceptable amount of time.



287) ...If the best solution isn't good enough, think harder or elevate it. The common mistake is coming up with your own best solution, which isn't good enough.

288) ...Don't wait for perfect solutions. In fact, don't even aim for perfect solutions that consider each and every possibility. Solutions that broadly work well (e.g., how people should contact each other in the event of crises) are generally better than highly specialized solutions (e.g., how each person should contact each other person in the event of each conceivable possible crisis) especially in the early stages of a plan. There generally isn't much gained by lots of detail relative to a good broad solution. Complicated procedures are tough to remember, and it takes a lot of time to make such detailed plans (so they might not even be ready when needed).

289) ...Think about the appropriate time to make a decision in light of the marginal gains made by acquiring additional information versus the marginal costs of postponing the decision. There are some decisions that are best made after acquiring more information, and some that are best made sooner rather than later. The later a decision is made, the more informed it can be; however, making it later can also have adverse consequences (e.g., postponing progress). Understanding the trade-off between the marginal gains of acquiring the extra information against the marginal costs of postponing a decision is an important factor in the timing and preparation of decision-making.

290) ...Watch out for people unproductively identifying possibilities without assigning them probabilities, because it screws-up prioritization. You can recognize this with phrases like “it's possible that...” People then go on to say something that's improbable and/or unimportant rather than something like, “I think there's a good chance that...” followed by something that's important or probable. Almost anything is possible. All possibilities must be looked at in terms of their likelihoods and prioritized.

291) ...The key is to know what is essential and focus on it and to put aside the unimportant stuff. By getting rid of the unimportant stuff, you can better focus on the important stuff. Since 80% of the juice can be gotten with the first 20% of the squeezing, there are relatively few (typically less than five) important things to consider in making a decision. For each of them, the marginal gains of studying them past a

certain point are limited. So there are huge benefits from being able to sort the important from the unimportant and having a good sense for when you are hitting the point of diminishing returns. There are typically limited marginal gains to be made once a relatively limited number of must-knows are adequately known. The points of diminishing returns vary by person and according to the issue. For people who are perceptive, there can be quite a lot of valuable information that can only be gained through experience. For people who can come up with multiple possibilities, thinking them through can produce large marginal gains. Also, it is generally valuable to put aside one's thinking (and notes) to reflect on them later.

292) ...Understand the concept and use the phrase, "by and large." Too often I hear discussions fail to progress when a statement is made and the person to whom it is made to replies "not always," leading to a discussion of the exceptions rather than the rule. For example, a statement like "the people in the XYZ Department are working too many hours" might lead to a response like "not all of them are; Sally and Bill are working normal hours," which could lead to a discussion of whether Sally and Bill are working too long, which derails the discussion. Because nothing is 100% true, conversations can get off track if they turn to whether exceptions exist, which is especially foolish if both parties agree that the statement is by and large true. To avoid this problem, the person making such statements might use the term "by and large," like "by and large, the people in the XYZ Department are working too many hours." People hearing that should consider whether it is a "by and large" statement and treat it accordingly.

293) ...Avoid the temptation to compromise on that which is uncompromisable. You must have and achieve high standards. This is particularly difficult when two uncompromisable things are at odds. At such times, there is a tendency to let one of them go. However, at such times you have to allocate more time to figure out how to best handle this, be more creative, and ask for more input. But don't compromise on one of the things that shouldn't be compromised. For example, one of the uncompromisable things I regularly get pressure from people to compromise on is letting great people avoid exploring their mistakes and weaknesses because they find it painful. For reasons articulated throughout these principles, I believe we can't compromise on this because that process of exploration is healthy for Bridgewater, healthy for them and key to our culture. I also believe that to allow opt-outs would legitimize two sets of rules and put our radically honest way of being in jeopardy. But I want great people.⁶⁷

294) ...Not everyone is going to be happy about any decision, especially the decisions that say they can't do something.

295) ...Watch out for "detail anxiety," i.e., worrying inappropriately about unimportant, small things.

⁶⁷ Everyone is wrestling with some things but most people don't talk about it – some people don't like to probe you about your weaknesses because they think it's unkind or awkward. And it's often difficult for us to see and accept our own weaknesses. So when you are really in synch with others about what you're wrestling with, that is a great step forward, because it's probably true. If you and others don't agree it is true, we can be much less confident that it's true. So when you agree, please add it to the relevant baseball card under "Thinks That We Agree I Am Wrestling with XYZ."