The Hard Thing About the Hard Thing:
Building a Business When There Are No Easy Answers

Notes by Frumi Rachel Barr, MBA, PhD.

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About the Author: Ben Horowitz is the cofounder and general partner of Andreessen Horowitz, a Silicon Valley– based venture capital firm that invests in entrepreneurs building the next generation of leading technology companies. The firm's investments include Airbnb, GitHub, Facebook, Pinterest, and Twitter. Previously he was cofounder and CEO of Opsware, formerly Loudcloud, which was acquired by Hewlett-Packard for $ 1.6 billion in 2007. Horowitz writes about his experiences and insights from his career as a computer science student, software engineer, cofounder, CEO, and investor in a blog that is read by nearly ten million people. He has also been featured in the Wall Street Journal, the New York Times, the New Yorker, Fortune, the Economist, and Bloomberg Businessweek, among others. Horowitz lives in the San Francisco Bay Area with his wife, Felicia.

Author's Big Thought: Ben Horowitz, cofounder of Andreessen Horowitz and one of Silicon Valley's most respected and experienced entrepreneurs, offers essential advice on building and running a startup—practical wisdom for managing the toughest problems business school doesn't cover, based on his popular ben's blog.

While many people talk about how great it is to start a business, very few are honest about how difficult it is to run one. Ben Horowitz analyzes the problems that confront leaders every day, sharing the insights he's gained developing, managing, selling, buying, investing in, and supervising technology companies. A lifelong rap fanatic, he amplifies business lessons with lyrics from his favorite songs, telling it straight about everything from firing friends to poaching competitors, cultivating and sustaining a CEO mentality to knowing the right time to cash in.

Filled with his trademark humor and straight talk, *The Hard Thing About Hard Things* is invaluable for veteran entrepreneurs as well as those aspiring to their own new ventures, drawing from Horowitz's personal and often humbling experiences.

NOTES:

Chapters 1 -4 include Horowitz's stories about LoudCloud and Opsware.

Chapter 1: From Communist to Venture Capitalist

- There's no recipe for really complicated, dynamic situations. That's the hard thing about hard things – there is no formula for dealing with them. Nonetheless, there are many bits of advice and experience that can help with the hard things.
- Circumstances may differ, but deeper patterns and the lessons keep resonating.
- Horowitz shares his experiences in the hope of providing clues and inspiration for others who find themselves in the struggle to build something out of nothing.
- There are no shortcuts to knowledge, especially knowledge gained from personal experience. Following conventional wisdom and relying on shortcuts can be worse than knowing nothing at all.
- Former secretary of state Colin Powell says that leadership is the ability to get someone to follow you even if only out of curiosity.
- Looking at the world through different prisms helped Horowitz separate facts from perception. This ability would serve him incredibly well later when he became an entrepreneur and CEO.
- In particularly dire circumstances when the "facts" seemed to dictate a certain outcome, he learned to look for alternative narratives and explanations coming from radically different perspectives to inform his outlook. The simple existence of an alternate plausible scenario was often all he needed to keep hope alive among a worried workforce.
- When looking to raise money, look for a market of one. You only need one investor to say yes, so it's best to ignore the other thirty who say "no".

Chapter 2: "I Will Survive"

- No matter who you are, you need two kinds of friends in your life. The first kind is one you can call when something good happens, and you need someone who will be excited for you. Someone who will be more excited for you than he would be if it had happened to him. The second kind of friend is somebody you can call when things go horrible wrong – when your life is on the line and you have only one phone call.
- Advice from Michael Ovitz of CAA – "Gentlemen, I've done many deals in my lifetime and through that process, I've developed a methodology, a way of doing things, a philosophy if you will. Within that philosophy, I have certain beliefs. I believe in artificial deadlines. I believe in playing one against the other. I believe in doing everything and anything short of illegal or immoral to get the damned deal done."

Chapter 3: This time With Feeling

- Note to self: It's a good idea to ask, "What am I not doing?"

Chapter 4: When Things Fall Apart

- Startup CEOs should not play the odds. When you are building a company, you must believe there is an answer and you cannot pay attention to your odds of finding it. You just have to find it. It matters not whether your chances are nine in ten or one in a thousand; your task is the same.

- There is no secret to being a successful CEO, but there is one skill that stands out, it's the ability to focus and make the best move when there are no good moves. It's the moments when you feel most like hiding or dying that you can make the biggest difference as a CEO.
- While most management books focus on how to do things correctly, so you don't screw up, the lessons that follow provide insight into what you must do after you have screwed up.
- The first principle of the Bushido – the way of the warrior: keep death in mind at all times. If a warrior keeps death in mind at all times and lives as though each day might be his last, he will conduct himself properly in all his actions. Similarly, if a CEO keeps the following in mind, she will maintain proper focus when hiring, training, and building her culture.

The Struggle

- As your dreams turn into nightmares, you find yourself in the Struggle – when:
    - You wonder why you started the company in the first place.
    - People ask you why you don't quit and you don't know the answer.
    - When your employees think you are lying and you think they might be right.
    - Food loses its taste.
    - You don't believe you should be CEO of your company.
    - You are in over your head and you know you can't be replaced. When everybody thinks you are an idiot, but nobody will force you.
    - Self-doubt becomes self-hatred.
    - You are having a conversation with someone and you can't hear a word they are saying because all you can hear is the Struggle.
    - You go on vacation to feel better and you feel worse.
    - You are surrounded by people and you are all alone.
- The Struggle is not failure, but it causes failure. Especially if you are weak. Most people are not strong enough.
- Every great entrepreneur went through the Struggle. The Struggle is where greatness comes from.
- There is no answer to the Struggle but here is some of the author's wisdom:
    - *Don't put it all on your shoulders* – share every burden you can. Get the maximum number of brains on the problems even if the problems represent existential threats.
    - *This is not checkers – it's chess*. Technology businesses tend to be extremely complex. The underlying technology moves, the market moves, the people move. It's like three-dimensional chess.
    - *Play long enough and you might get lucky*. If you survive long enough to see tomorrow, it may bring you the answer that seems so impossible today.
    - *Don't take it personally*. Every CEO makes thousands of mistakes.
    - *Remember that this is what separates the women from the girls*. If you want to be great, this is the challenge. If you don't want to be great, then you never should have started a company.

CEOs should tell it like it is

- Give the problem to the people who could not only fix it, but who would also be personally excited and motivated to do so.
- There are three key reasons why being transparent about your company's problems makes sense:

1. *Trust*. Without trust, communication breaks. In any human interaction, the required amount of communication is inversely proportional to the level of trust. As a company grows, communication becomes its biggest challenge. If the employees fundamentally trust the CEO, then communication will

be vastly more efficient than if they don't. Telling things as they are is a critical part of building this trust. A CEO's ability to build this trust over time is often the difference between companies that execute well and companies that are chaotic.

2. *The more brains working on the hard problems the better*. It's a total waste to have lots of big brains but not let them work on your biggest problems.
3. *A good culture is like the old RIP routing protocol*: Bad news travels fast; good news travels slow. If you investigate companies that have failed, you will find that many employees knew about the fatal issues long before those issues killed the company. Too often the company culture discouraged the spread of bad news, so the knowledge lay dormant until it was too late to act. A healthy company culture encourages people to share bad news. A company that discusses its problems freely and openly can quickly solve them. The resulting action for CEOs: Build a culture that rewards – not punishes- people for getting problems into the open where they can be solved.

- If you run a company, you will experience overwhelming psychological pressure to be overly positive. Stand up to the pressure, face your fear, and tell it like it is.

The Right Way to Lay People Off

- It's extremely rare for a company to recover from consecutive layoffs and achieve a billion-dollar-plus outcome. Layoffs inevitably break a company's culture. After seeing their friends laid off, employees are no longer willing to make the requisite sacrifices needed to build a company. Building a highly valuable business after three consecutive giant layoffs accompanied by horribly prominent press coverage was a complete violation of the laws of venture capital physics.
- Here is Horowitz's advice to do something that's fundamentally wrong in "the right way."
- *Step 1: Get Your Head Right*.
  - During a time like this, it is difficult to focus on the future, because the past overwhelms you – but that's exactly what you must do.
- *Step 2: Don't Delay*.
  - Once you decide that you will have to lay people off, the time elapsed between making that decision and executing that decision should be as short as possible. If word leaks, you will be faced with an additional set of issues.
- *Step 3: Be clear in your own mind about why you are laying people off.*
  - You are laying people off because the company failed to hit its plan. If individual performance failed, then you'd be taking a different measure. Company performance failed. This distinction is critical because the message to the company must be "The Company failed and in order to move forward, we will have to lose some excellent people."
  - Admitting to the failure may not seem big, but a layoff breaks trust and in order to rebuild trust, you have to come clean.
- *Step 4: Train your managers*.
  - The most important step in the whole exercise is training the management team. Managers must lay off their own people. This task cannot be passed off. People won't remember every day they worked for your company, but they will surely remember the day they were laid off. They will remember every last detail about that day and the details will matter greatly. The reputations of your company and your managers depend on you standing tall, facing the employees who trusted you, and worked hard for you.
  - Once you make it clear that managers must lay off their own people, be sure to prepare them for the task:

        - They should explain briefly what happened and that it is a company rather than a personal failure.
        - They should be clear that the employee is impacted and that the decision is non-negotiable.
        - They should be fully prepared with all the details about the benefits and support the company plans to provide.
- *Step 5: Address the Entire Company*.
    - Prior to executing the layoff, the CEO must address the company. The CEO must deliver the overall message that provides the proper context and air cover for the managers. If you do your job right, the managers will have a much easier time doing their jobs.
    - The message is for the people who are staying. The people who stay will care deeply about how you treat their colleagues. Many of the people whom you lay off will have closer relationships with the people who stay than you do, so treat them with the appropriate level of respect. Still. The company must move forward, so be careful not to apologize too much.
- *Step 6: Be Visible, be Present*
    - After you make the speech telling your company that you will be letting many go, you will not feel like hanging out and talking to people. Be present. Be visible. Be engaging. People want to see you. They want to see you care. The people whom you laid off will want to know if they still have a relationship with you and the company. Talk to people. Help them carry their things to their cars. Let them know that you appreciate their efforts.

Preparing to fire an executive

- Firing an executive correctly is complicated and extremely important. The key to doing so correctly is preparation. Here is a four-step process that will treat the executive fairly and improve your company.
- *Step 1: Root Cause Analysis*
    - The wrong way to view an executive firing is as an executive failure; the correct way to view an executive firing is as an interview/integration process system failure, therefore the first step to properly firing an execute is figuring out why you hired the wrong person in the first place.
    - A variety of reasons:
        - You did a poor job defining the position in the first place.
        - You hired for lack of weakness rather than for strengths. This is especially common when you run a consensus-based hiring process. If you don't have world-class strengths where you need them, you won't be a world-class company.
        - You hired for scale too soon. If you hire someone who will be great in eighteen months but will be poor for the next eighteen months, the company will reject her before she ever gets a chance to show her stuff.
        - You hired for the generic position. Don't look for the candidate out of central casting.
        - The executive had the wrong kind of ambition. Despite her skills the company may reject her.
        - You failed to integrate the employee. Be sure to review and improve your integration plan after you fire an executive.
  - *The special case of scaling*
    - A fairly common reason for firing an executive is that when the company quadruples in size, the executive no longer does the job effectively at the new size.
    - The reason is that when a company multiplies in size, the management jobs become brand new jobs. As a result, everybody needs to re-qualify for the new job, because the new job and the old job are not the same.

    - This is neither an executive failure nor a system failure: it is life in the big city.
  - *The special case of fast growth*
    - If you build a great product and the market wants it, you will find yourself needing to grow your company extremely quickly. Nothing will ensure your success like hiring the right executive who has grown an organization like yours very quickly and successfully before.
    - Make sure there is lots of budget to grow the organization; expect them to do what they do,
    - The successful fast-growth executive is so important to building successful startups that recruiters and venture capitalists often advise CEOs to bring them in before the company is ready.
- *Step 2: Informing the board*.
  - The board may be somewhat alarmed but your choices are:
    - a) alarm the board or
    - b) enable an ineffective executive to remain in her position.
  - You should have three goals with the board:
    1. Get their support and understanding for the difficult task you will execute.
    2. Get their input and approval for the separation package
    3. Preserve the reputation of the fired executive.
  - Finally, firing an executive turn out to be a piece of news that's handled better with individual phone calls than in dramatic fashion during a board meeting. Once everyone agrees individually, you can finalize the details in a board meeting or call.
- *Step 3: Preparing for the conversation*
  - After you know what went wrong and have informed the board, you should tell the executive as soon as possible. Script and rehearse what you plan to say so that you do not misspeak. The executive will remember the conversation for a long time, so you need to get it right.
  - Three keys to getting it right:
    1. *Be clear on the reasons*. You owe it to them to be clear about what you think happened.
    2. *Use decisive language*. Do not leave the discussion open ended. This is not a performance review; it's a firing.
    3. *Have the severance package approved and ready*. Be ready to provide specific details of the severance package.
  - Finally, the executive will be keenly interested in how the news will be communicated to the company and the outside world. It is best to let her decide. You can absolutely let her keep her respect.
- *Step 4: Preparing the Company Communication*
  - After you have informed the executive, you must quickly update the company and your staff on the change. The correct order for informing the company is:
    - The executive's direct reports – because they will be the most impacted;
    - The other members of your staff – because they will need to answer questions about it; and
    - The rest of the company.
  - All of these communications should happen on the same day and preferably within a couple of hours.
  - Keep the message positive and refrain from throwing the executive under the bus.
- *Demoting a loyal friend*

    - If you need to build a worldwide sales organization, your buddy who did the first few deals is almost certainly not the best choice. You must consider first all of the other employees and second your friend. The good of the individual must be sacrificed for the good of the whole.
    - Once you make the decision, breaking the news will not be easy. It's important to consider two deep emotions your friend will feel:
        1. Embarrassment: All of his friends and relatives know how hard he's worked and how much he's sacrificed for the company.
        2. Betrayal: Your friend that you have sold him out.
    - Given the intense emptions he will feel, there is no guarantee that he will want to stay. If you cannot afford to lose him, you cannot make this change.
    - Finally, you must decide the best role for him in the company. Your loyal employee will continue to have lots of knowledge about your company, competition, customers, and market that his new boss lacks. This may end up as a good thing or as a sabotage cocktail.
    - If appropriate, it would be a good idea to move him to another area of the company where his skills, talent, and knowledge will help. But he may be hell-bent to keep his current job, so prepare for that as well.
    - Once you've decided to hire someone above your friend and decided on the alternatives that you'd like to offer him, you can have the conversation. Keep in mind that you cannot let him keep his old job, but you can be fair, and you can be honest. Use appropriate language, admit reality, and acknowledge his contributions.
    - Keep in mind that nothing you can say will change or stop it from being deeply upsetting. Your goal should not be to take the sting out of it, but to be honest, clear and effective. Your friend may not appreciate that in the moment, but he will appreciate it over time.
- *Lies that losers tell*
    - When a company starts to lose its major battles, the truth often becomes the first casualty. CEOs and employees work tirelessly to develop creative narratives that help them avoid dealing with the obvious facts. Despite their intense creativity, many companies end p with the same false expectations.
    - Why would CEOs lie about their impending fate? They were not lying to investors, they were lying to themselves. Humans, particularly those who build things, only listen to leading indicators of good news. They take action on the positive indicator and look for alternative explanations on the negative leading indicator.
    - There comes a time in ever company's life where it must fight for its life. If you find yourself running when you should be fighting, you need to ask yourself, "If our company isn't good enough to win, then do we need to exist at all?"
    - When things go wrong in your company, nobody cares. The media don't acre, your investors don't care, your board doesn't care, and your employees don't acre. Try to find the one seemingly impossible way out of your current mess. Spend zero time on what you could have done, and devote all of your time on what you might do – just run your company.

Chapter 5: Take Care of the People, the Products, and the Profits – In That Order

- When hiring executives, one should follow Colin Powell's instructions and hire for strength rather than lack of weakness.
- Taking care of the people is the most difficult of the three by far and if you don't do it, the other two won't matter. Taking care of the people means that your company is a good place to work. Most workplaces are far from good.

- As organizations grow large, important work can go unnoticed, the hardest workers can get passed over by the best politicians, and bureaucratic processes can choke out the creativity and remove all the joy.
- Every manager should be expected to meet with her people on a regular basis.
- In good organizations, people can focus on their work and have confidence that if they get their work done, good things will happen for both the company and them personally. It is a true pleasure to work in a company such as this. Every person can wake up knowing that the work they do will be efficient, effective, and make a difference for the organization and themselves. These things make their jobs both motivating and fulfilling,
- In a poor organization, on the other hand, people spend much of their time fighting organizational boundaries, infighting, and broken processes. They are not even clear on what their jobs are, so there is no way to know if they are getting the job done or not. In the miracle case that they work ridiculous hours and get the job done, they have no idea what it means for the company or their careers. If they do tell management how things are, management denies there is a problem, then defends the status quo, then ignores the problem.
- Being a good company doesn't matter when things go well, but it can be the difference between life and death when things go wrong and things always go wrong. Being a good company is an end in itself.
- The only thing that keeps an employee at a company when things go wrong, other than needing a job, is that she likes her job.
- *Why startups should train their people*
    - People at MacDonald get trained for their positions, but people with far more complicated jobs don't. It makes no sense.
    - A lot of companies think their employees are so smart that they require no training.
    - Properly run startups place a great deal of emphasis on recruiting and the interview process in order to build their talent base. Too often the investment in people stops there. There are four core reasons why it shouldn't:
        1. *Productivity* – training is quite simply one of the highest-leverage activities a manger can perform. If you spend 12 hours training a class of ten students, next year they will work a total of about twenty thousand hours for your organization. If your training efforts result in a 1 percent improvement in your subordinates' performance, your company will gain the equivalent of two hundred hours of work as the result of the expenditure of your 12 hours.
        2. *Performance management*. The manager must clearly set expectations when she trains the employee for the job. If you don't train your people, you establish no basis for performance management. As a result, performance management in your company will be sloppy and inconsistent.
        3. *Product quality*. As success drives the need to hire new employees at a rapid rate, companies neglect to train the new hires properly leading to inconsistencies in the user experience, performance problems, and a general mess. This is more expensive than training.
    - *Employee retention*. There are two primary reasons why people quit:
        1. They hated their manager due to the lack of guidance, career development, and feedback they were receiving.
        2. They weren't learning anything: the company wasn't investing resources in helping employees develop new skills.
    - The best place to start is with the topic that is most relevant to your employees: the knowledge and skill they need to do their job, This is called functional training,

- The other essential component of a company's training program is management training. Management training is the best place to start setting expectations for your management team.
- Training in such topics as negotiating, interviewing, and finance will enhance your company's competency in those areas as well as improve employee morale.
- Ironically the biggest obstacle to putting a training program in place is the perception that it will take too much time. There is no investment that you can make that will do more to improve productivity in your company.

- *Good product managers:*
  - Know the market, the product, the product line, and the competition extremely well and operate from a strong basis of knowledge and confidence.
  - Take full responsibility and measure themselves in terms of success of the product.
  - They take responsibility for devising and executing a winning plan.
  - Crisply define the target, the "what", and manage delivery of the "what".
  - Communicate crisply to engineering in writing as well as verbally.
  - Gather information informally.
  - Create collateral, FAQs, presentations, and white papers that can be leveraged by salespeople, marketing people, and executes,
  - Take written positions on important issues.
  - Focus the team on revenue and customers.
  - Think in terms of delivering superior value to the marketplace during product planning and achieving market share and revenue goals during the go-to-market phase,
  - Think abut the story they want written by the press. They ask press questions and assume members of the press and the analyst community are really smart.
  - Err on the side of clarity. Define their job and their success.
  - Send their status reports in o time every week, because they are disciplined.
- *Is it okay to hire people from your friend's company?*
  - Every good technology company needs great people. The best companies invest time, money, and sweat equity into becoming world class recruiting machines.
  - Many CEOs would never target a friend's company as a source of talent. Nevertheless, almost every CEO will be faced with the decision to hire an employee out of her friend's company.
  - Keep in mind that the employees are either extremely good or you wouldn't want them in your company anyway.
  - In order to avoid these sticky situations, many companies employ written or unwritten polices that name companies where it is not OK to hire without CEO or senior executive approval. With such a policy in place, you will be able to give your friend one last chance to save their employee or to object prior to hiring them.
  - The best way to deal with these situations is openly and transparently. Once you become aware of the conflict between hiring the superstar employee and double-crossing your valued friend, you should get the issue onto the table by informing the employee that you have an important business relationship with his existing company and you will have to complete a reference check with the CEO prior to extending the offer. Let him know that if he doesn't want this to happen, then you will stop the process now and keep the process to date confidential.
  - By speaking to your friend before making the hire, you will be able to better judge the relationship impact of hiring her employees. And you may avoid a bad hire.
- *Why it's hard to bring big company execs into little companies*.
  - The job of a big company executive is very different from the job of a small company executive. Big company executives tend to be interrupt-driven.

- In contrast, when you are a startup executive nothing happens unless you make it happen.
    - There are two types of mismatches – rhythm mismatch and skill mismatch.
    - Nothing will accelerate your company's development like hiring someone who has experience building a very similar company at larger scale. However, doing so can be fraught with peril. Make sure to pay attention to important leading indicators of success and failure.
- *Hiring executives*
    - The biggest difference between being a great functional manager and being a great general manager, and particularly a great CEO, is that as a general manager, you must hire and manage people who are far more competent at their jobs than you would be at their jobs.
    - *Step 1: Know what you want*.
        - The very best way to know what you want is to act in the role. It helps greatly to bring in domain experts. You cannot defer the decision to the domain expert.
        - Be clear in your own mind about your expectations for this person upon joining your company.
    - *Step 2: Run a process that figures out the right match*.
        - Write down the strengths you want and the weaknesses that you are willing to tolerate.
        - Develop questions that test for the criteria
        - Assemble the interview team
        - Conduct backdoor and front-door references yourself.
    - *Step 3: Make a lonely decision*
- *When Employees misinterpret managers*
    - There are many ways for leaders to be misinterpreted. To get things right, you must recognize that everything you measure automatically creates a set of employee behaviors.
    - Once you determine the results you want, you need to test the description of the result against the employee behaviors that the description will likely create. Otherwise the side-effect behaviors may be worse than the situation you are trying to fix.
- *Management Debt*
    - Management debt is incurred when you make an expedient, short-term management decision with an expensive, long-term consequence.
    - Here are three of the more popular types among startups:
        1. Putting two in the box
        2. Overcompensating a key employee, because she gets another job offer
        3. No performance management
    - Every really good, really experienced CEO shares one important characteristic: They tend to opt for the hard answer to organizational issues.
- *Management Quality Assurance*
    - A high quality human resources organization cannot make you a well-managed company with a great culture, but it can tell you when you and your managers are not getting the job done.

Chapter 6: Concerning the Going Concern

- As a company grows it will change no matter how well you set your culture, keep your spirit, or slow-roll your growth, your company won't be the same when it's one thousand people as it was when it was ten people. But that doesn't mean that it can't be a good company when it reaches 1,000, 10,000, or even 100,000 employees. It will just be different.
- Making it good at scale means admitting that it must be different and embracing the changes that you'll need to make to keep things from falling apart.

- *How to minimize politics*
    - Politics means people advancing their careers or agendas by means other than merit and contribution. There may be other types of politics, but politics of this form seem to be the ones that really bother people.
    - Political behavior almost always starts with the CEO. A CEO creates politics by encouraging and sometimes incentivizing political behavior— often unintentionally.
    - Minimizing politics often feels totally unnatural.
    - Two key techniques useful in minimizing politics:
        - Hire people with the right kind of ambition. The right kind of ambition is ambition for the company's success with the executive's own success only coming as a by-product of the company's victory. The wrong kind of ambition is ambition for the executive's personal success regardless of the company's outcome.
        - Build strict processes for potentially political issues and do not deviate. Certain activities attract political behavior. These activities include:
            - *Performance evaluation and compensation* - By conducting well-structured, regular performance and compensation reviews, you will ensure that pay and stock increases are as fair as possible.
            - *Organizational design and territory* - If you manage ambitious people, from time to time they will want to expand their scope of responsibility. You should evaluate your organizational design on a regular basis and gather the information that you need to decide without tipping people off to what you plan to do. Once you decide, you should immediately execute the reorg: Don't leave time for leaks and lobbying.
            - *Promotions* - Every time your company gives someone a promotion, everyone else at that person's organizational level evaluates the promotion and judges whether it was based on merit or politics.
              You must have a formal, visible, defensible promotion process that governs every employee promotion. First, it will give the organization confidence that the company at least attempted to base the promotion on merit. Second, the process will produce the information necessary for your team to explain the promotion decisions you made.
        - Be careful with "he said, she said" Once your organization grows to a significant size, members of your team will from time to time complain about each other. There are two distinct types of complaints that you will receive:
            1. Complaints about an executive's behavior
            2. Complaints about an executive's competency or performance
        - Generally, the best way to handle the first type of complaint is to get the complaining executive and the targeted executive in the room together and have them explain themselves. Do not attempt to address behavioral issues without both executives in the room. Doing so will invite manipulation and politics.
        - Complaints of the second type are both more rare and more complex. If they are telling you something that you already know, and then the big news is that you have let the situation go to far. You must resolve the situation quickly. Almost always this means firing the executive.
        - On the other hand, if the complaint is new news, then you must stop the conversation and make clear to the complaining executive that you in no way agree with their

assessment. You do not want to cripple the other executive before you reevaluate his performance. You must quickly reassess the employee in question.

- As CEO, you must consider the systemic incentives that result from your words and actions. While it may feel good in the moment to be open, responsive, and action oriented, be careful not to encourage all the wrong things.

- *The right kind of ambition*
  - It is particularly important that managers have the right kind of ambition, because anything else will be exceptionally demotivating for their employees.
  - Nothing motivates a great employee more than a mission that's so important that it supersedes everyone's personal ambition. As a result, managers with the right kind of ambition tend to be radically more valuable than those with the wrong kind.
- *Titles and Promotions*
  - Two important factors drive all companies to eventually create job titles:
    1. Employees want them
    2. Eventually people need to know who is who. Job titles provide an excellent shorthand for describing roles in the company. In addition, customers and business partners can also make use of this shorthand to figure out how to best work with your company. Beyond these core reasons, employees will use titles to calibrate their value and compensation against their colleagues.
  - Promotion Process
    - To begin, start with an extremely crisp definition not only of the responsibilities at each level but also of the skill required to perform the duties.
    - Next, define a formal process for all promotions. One key requirement of the process should be that promotions will be leveled across groups. Hold a regular promotions council that reviews every significant promotion in the company.
    - Without a well thought out, disciplined process for titles and promotions, your employees will become obsessed with the resulting inequities. If you structure things properly, nobody other than you will spend much time thinking about titles other than Employee of the Month.
- *Programing your culture*
  - There are three reasons to bother with culture
    1. It can help you achieve your goals.
    2. As your company grows, culture can help you preserve your key values, make your company a better place to work, and help it perform better in the future. Perhaps more important, after you and your people go through the inhuman amount of work that it will take to build a successful company, it will be an epic tragedy if your company culture is such that even you don't want to work there.
    3. Creating a culture is designing a way of working that will:
       - Distinguish you from your competitors
       - Ensure that critical operating values persist such as delighting customers or making beautiful products,
       - Help you identify employees who fit with your mission.
       - Designing a proper company culture will help you get your company to do what you want in certain areas for a very long time.
- *Taking the Mystery out of Scaling a Company*
  - If you want to build an important company, then at some point you have to scale.

    - If you don't know anything about scaling an organization, then it will be very difficult for you to evaluate people for that job.
    - Many investor-board members don't know anything about scaling a company either, and can be suckers for people who have the experience but not the skills.
    - The following things that cause no trouble when you are small become challenges as you grow:
        - Communication
        - Common knowledge
        - Decision making
    - When you scale an organization, you will also need to give ground grudgingly. Specialization, organizational structure, and process all complicate things and implementing them will feel like you are moving away from common knowledge and quality communication.
    - The process of scaling a company is not unlike the process of scaling a product. Different sizes of company impose different requirements on the company's architecture. If you address those requirements too early, your company will seem heavy and sluggish. If you address those requirements too late, your company may melt down under the pressure. Be mindful of your company's true growth rate as you add architectural components. It's good to anticipate growth, but it's bad to over-anticipate growth.

Chapter 7 – How to Lead Even When You Don't Know Where You are Going

- This section encapsulates the author's lessons and provides guidance on how to get the important things right.
- *The most difficult CEO Skill*
    - By far the most difficult skill a CEO learns is the ability to manage their own psychology. No CEO has a smooth path to a great company.
    - The first problem is that everybody learns to be a CEO by being a CEO.
    - This means that you will face a broad set of things that you don't know how to do that require skills you don't have. Nevertheless, everybody will expect you to know how to do them, because, well, you are the CEO.
    - Even if you know what you are doing, things go wrong. Things go wrong because building a multifaceted human organization to compete and win in a dynamic, highly competitive market turns out to be really hard.
    - Given this stress, CEOs often make one of the following two mistakes:
        1. They take things too personally.
        2. They do not take things personally enough.
    - Ideally, the CEO will be urgent yet not insane. She will move aggressively and decisively without feeling emotionally culpable. If she can separate the importance of the issues from how she feels about them, she will avoid demonizing her employees or herself.
    - In your darkest moments as CEO, discussing fundamental questions about the viability of your company with your employees can have obvious negative consequences. On the other hand, talking to your board and outside advisers can be fruitless. The knowledge gap between you and them is so vast that you cannot actually bring them fully up to speed in a manner that's useful in making the decision. You are all alone.
    - Here are a few techniques to solve this challenge;
        - Make some friends who have been through similar challenges.
        - Get it out of your head and on to paper.
        - Focus on where you are going rather than on what you hope to avoid.

  - Successful CEOs tend to be remarkably consistent in how they say they became successful – They all say, "I didn't quit".
  - In life, everybody faces choices between doing what's popular, easy, and wrong versus doing what's lonely, difficult, and right. These decisions intensify when you run a company, because the consequences get magnified a thousand fold. As in life, the excuses for CEOs making the wrong choice are always plentiful.
  - Every time you make the hard, correct decision you become a bit more courageous and every time you make the easy, wrong decision you become a bit more cowardly. If you are CEO, these choices will lead to a courageous or cowardly company.
- *Follow the leader*
  - What makes people want to follow a leader? We look for three key traits:
    1. The ability to articulate the vision
    2. The right kind of ambition
    3. The ability to achieve the vision
  - Some attributes of leadership can be improved more than others, but every CEO should work on all three. Furthermore, each attribute enhances all three. If people trust you, they will listen to your vision even if it is less articulate. If you are super-competent, they will trust you and listen to you. If you can paint a brilliant vision, people will be patient with you as you learn the CEO skills and give you more leeway with respect to their interests.
  - Here are the key questions to ask:
    1. Does the CEO know what to do? Strategy In good companies, the story and the strategy are the same thing. As a result, the proper output of all the strategic work is the story. Decision making at the detailed level, the output of knowing what to do is the speed and quality of the CEO's decisions.
    2. Can the CEO get the company to do what she knows? In order for a company to execute a broad set of decisions and initiatives, it must:
       - Have the capacity to do so. In other words, the company must contain the necessary talent in the right positions to execute the strategy.
       - Be a place where every employee can get things accomplished. The employees must be motivated, communication must be strong, the amount of common knowledge must be vast, and the context must be clear.
    3. Is the CEO building a world-class team?
    4. Is it easy for employees to contribute to the mission
    5. Did the CEO achieve the desired results against an appropriate set of objectives?
       - The first task in accurately measuring results is setting objectives correctly.
  - All people, including CEOs, will perform better on a test if they know the questions ahead of time.

Chapter 8 – First Rule of Entrepreneurship: There are No Rules

- Just when you think there are things you can count on in business, you quickly find that the sky is purple. When this happens, it usually does no good to keep arguing that the sky is blue. You just have to get on and deal with the fact that it's going to look like Barney for a while.
- *Accountability for effort*: To be a world-class company, you need world-class effort. If somebody isn't giving it to you, they must be checked.
- *Accountability for promises*: Holding people accountable for their promises is a critical factor in getting things done. This changes as the degree of difficulty in fulfilling the promise increases.
- *Accountability for results*: If someone fails to deliver the result promised, holding her accountable depends upon:

    - Seniority of the employee
    - Degree of difficulty
    - Amount of stupid risk
- In the technology business, you rarely know everything up front. The difference between being mediocre and magical is often the difference between letting people take creative risk and holding them too tightly accountable. Accountability is important, but it's not the only thing that's important.
- *Should you sell your company?*
    - One of the most difficult decisions that a CEO ever makes is whether to sell her company. Logically, determining whether selling a company will be better in the long term than continuing to run it stand-alone involves a huge number of factors, most of which are speculative or unknown.
    - And if you are the founder, the logical part is the easy part. The task would be far simpler if there were no emotion involved. But selling your company is always emotional and deeply personal.
    - When faced with the decision of whether to sell your company, there is no easy answer. However, preparing yourself intellectually and emotionally will help.

Recommendation: Horowitz took his company from doomed in the eyes of the world to a $1.6 billion outcome with no recapitalization. His stories are inspiring and instructive – they are well worth the read!

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About the reviewer: Frumi Rachel Barr, MBA, PhD

Dr. Frumi Rachel Barr is truly an entrepreneur having started and run 5 entrepreneurial adventures prior to following her passion for guiding the success of CEOs and their teams to Scale Up. She lives her "WHY" (purpose or cause) daily: creating a safe environment for leaders and their teams to talk about the tough issues that matter most to build profitable and sustainable organizations. Dr. Frumi always begins with culture – the competitive advantage of any company. Building ridiculously successful businesses is what it's all about.

She is the author of a ***CEO's Secret Weapon: How to Accelerate Success***. The book was ranked top business book of 2012 by ExecRank and has a forward by her colleague Simon Sinek, international author of best-selling ***Start with Why***.

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