

RESIDUAL CLAIMANTS

HOW TO THINK LIKE AND BECOME A BUSINESS OWNER

THE PAID LAST SERIES

VOLUME ONE

STEPHEN DEASON



Alder
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EDITIONS

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Published by Alder Creek Editions, LLC, 8735 Dunwoody Place STE N, Atlanta, GA 30350, aldercreekeditions.com. ISBN 979-8-952410-32-9 (hardcover). First edition.

The entrepreneur's income is not fixed, but consists of whatever remains over after the fixed incomes are paid.

Frank H. Knight, *Risk, Uncertainty, and Profit* (1921)

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PREFACE

In 1998 I was twenty-six and waiting on a flight. I had picked up Robert Greene's *The 48 Laws of Power*, and before I boarded I had read the first four thousand words or so. Those pages gave me names for things I had been watching for years and could not describe.

I carried that book for four years. At thirty I sat down and built a plan with it in mind.

This book is written to give somebody else the same kind of names, with a focus on business rather than power. It gives you words for what you have probably already noticed where you work: who pays when a decision goes wrong, why a strong manager can fail once the authority is real, and why the person with the most at stake is the last one paid.

I have spent thirty-one years building teams and companies in healthcare, technology, and social enterprise, including C-level seats in all three. Today I own and run a few businesses, and I'm building more.

I also studied those three questions formally, in mathematics, accounting, economics, and business, and I've published academic research. The system in this book is the one I built to develop people inside the companies I have run, and I have used it in more than one

kind of business. This book is the one my companies train out of, and I wrote it to be the book I wish I'd had alongside the *48 Laws* nearly three decades ago.

FIRST PRINCIPLES

Axioms for Everything That Follows

NOBODY SITS OUT

Everybody reading this lives inside an economy. You did not choose it and you cannot leave it. You can work inside a company, next to one, against one, or entirely on your own, and in every one of those cases you hold a claim on something and somebody else holds a different type of claim on the same thing.

It does not matter what the economy is called. Capitalist, socialist, communist, mercantilist, feudal, authoritarian, or one of the arrangements that carries a formal name and operates as cronyism. Every one of them produces more or less than it consumes. In every one of them somebody holds the claim on the difference.

The label tells you who holds the claim on the difference and how visible that claim is. Where it is assigned by contract you can read the terms. Where it is assigned by politics or by proximity you cannot, and you find out what you were holding after the fact. That is the only thing the labels change. None of them removes the position, and none of them leaves it unoccupied.

There are two kinds of claim. There is no third kind.

A fixed claim is fixed by agreement, not by amount. A wage, a salary, an invoice, rent, the interest on a note, a commission at four percent of collections, a bonus that pays at a stated number. What it

pays can swing enormously from one year to the next. What makes it fixed is that a rule agreed in advance decides it, and you can read the rule.

A residual claim is whatever is left after every fixed claim has been satisfied and the rules have run out of people to pay. Nothing decides it in advance. It is a remainder. It can be large. It can be zero. It can be negative. Whether the person holding it then has to put money in depends on the ownership arrangement.

Everything else is a variation on those two. A commission that doubles in a good quarter is still fixed, because a rule produced it. A profit share, as this book uses the term, is fixed for a harder reason: the formula agreed beforehand cannot return a number below zero. A bad year pays nothing and asks for nothing. An agreement that carries the same name and can require the holder to put money in is a residual claim, so read the agreement before you classify it.

A residual claim in the same year can go below zero. The zero floor is the whole difference, and being calculated off a residual is not the same as holding one. How much the number moves says nothing about which kind of claim it is. Ask whether a rule agreed beforehand produces the number, or whether the number is whatever remains.

You can decline to think about any of this. Most people do. Declining does not move you to a third position. It leaves you holding a fixed claim whose value depends on the competence of whoever holds the residual and on decisions made in rooms you are not in, using information you do not have.

When a company is run badly, the fixed claims get paid until they cannot be. The residual claimant knows first and has the most time to act. Everybody else finds out on a Friday.

Wanting to be on the other side of that ownership line is treated, in most of what gets written about business, as something to apologize

for. Ambition is acceptable. Wanting the upside is acceptable if you phrase it carefully. Wanting to be the person who decides, and who eats the outcome in both directions, is the part people learn to leave out.

You do not have to leave it out here.

There is a price, and it is not optional. It is paid over years by people who do not yet know whether anyone will ever trust them with ownership. This book's teachings can improve the judgment they bring to those years. They cannot replace the years.

WHAT THIS BOOK IS

This book develops owners. Specifically, it is a practical system for developing people who can function on the residual side of the ownership line. It is written first to the person becoming capable of ownership. It can also be used by an owner developing somebody else, and Part Eight turns the same sequence into a repeatable system for doing that. It is built from a complete operating pipeline I designed and ran inside more than one growing company, across more than one kind of business. The sequence is designed for a small or midsize company that wants to grow its own leaders. The alternative is hiring from outside forever, or watching solid people hit a ceiling.

The pipeline is deliberate, and it moves through three stages. The first teaches somebody to see, supervise, and coordinate the work correctly. The second tests whether that judgment can be made operative through other people and through systems that hold without the manager standing in the room. The third changes where you stand, from operating the company to reasoning from the position of the residual claimant. Inside those stages the sequence is ordered too. It starts with the foundations every team member needs, then the transition

companies most often skip, which is the jump from individual contributor to first-time supervisor. From there it runs through broader management, communication and accountability, and execution disciplines that scale. Then the tier most companies skip, where a manager first weighs decisions that cross departments and put company money at stake. It ends with the ownership decisions that require somebody to carry real residual risk, and with a way to take the next person through the same sequence.

Owners do not graduate from the basics. The basics are hiring, standards, supervision, delegation, communication, coordination, records, and attention. An owner may stop doing some of that work himself. He never stops being answerable for whether it gets done.

The first two stages are long for that reason. Nobody learns to think like an owner by agreeing with a definition of ownership. Ownership judgment has to be practiced until it is available without reconstruction. It has to hold when the facts are incomplete, the decision is expensive, the clock is running, and something of your own is at risk. The first seventeen lessons are those repetitions. They teach you to see accurately, decide, correct, delegate, and remain answerable while the stakes are still smaller.

Herminia Ibarra, quoted later in this book, says a way of thinking has to be felt in your bones. That is what the sequence is for. Section Three changes the economic position. The earlier sections build the judgment that has to survive the change.

People who have never been forced to ensure other people hit the standard will struggle the first time they are handed delegation authority. People who have never been made to understand cash versus profit will not suddenly start thinking like residual claimants when you give them equity. The sequence exists because the underlying

skills and mindsets build on each other. Each stage prepares the next. You cannot skip steps and expect the later ones to stick.

This book is a working system with clear stages, clear failure modes, and clear decision points. Some people will go through parts of it and decide the residual path is not for them. That is a successful outcome. Not every high performer needs to become an owner. The goal is to identify and develop the ones who can carry residual exposure without reverting to fixed-claim thinking, and to do it before you hand them the risk.

WHO IT IS WRITTEN FOR

This book is written for people who want to become residual claimants. Owners. It is also written for the managers and directors an owner hands it to. For them, Sections One and Two state what the company is paying their seat to do now, and Section Three shows what the seat above them decides and how that seat is filled.

You may have formal business training or you may not. Either way, few people get put beside an exceptional operator for five years while somebody walks along explaining what he is seeing. Fewer still get handed the vocabulary for the things they have already begun to notice.

You are the person who still wants to know.

You want to understand why one company survives a bad quarter and another does not. Why a manager who looks excellent on paper fails when given real authority. Why profit and cash separate. Why a good customer can be a bad customer. Why a business can grow itself into insolvency. Why the owner sometimes makes a decision that looks ruthless from one chair and obvious from another. More than that, you want to become capable of making those decisions yourself.

WHAT I AM ASSUMING ABOUT YOU

I assume you are serious.

That means I am not protecting you from ideas merely because they sound harsh when removed from the system they operate inside. A business has limited capital. People have different capabilities. Some employees should be promoted and some should not. Some investments should be abandoned after money has already been spent. A client can generate revenue and destroy value at the same time. Keeping a person in the wrong seat can be worse for that person, the team, the customer, and the owner than ending the relationship.

In isolation, some of those statements sound cold. Inside the whole system they become ordinary questions of incentives, information, constraints, risk, and who ends up bearing the cost. So this book shows its work, and you should check it yourself.

WHY SOMEBODY HOLDS THE RESIDUAL

THE OWNERSHIP LINE, AND WHICH SIDE OF IT YOU STAND ON

Most leadership development stops at better managers. It teaches people how to run meetings, give feedback, and hit KPIs while still thinking like employees. People with fixed claims.

An owner's equity is a residual claim. The same owner may also hold fixed claims, a salary or a loan to the company, and each of those is governed by its own terms and priority. Every fixed claim in the business ranks ahead of the equity: labor, vendors, rent, taxes, debt. Whatever remains, large, zero, or negative, belongs to that equity. No amount of title, seniority, or responsibility changes which side of that ownership line someone stands on.

Companies promote high performers, give them a title with the word owner or partner in it, and then act surprised when those people keep operating with a fixed-claim mindset. They still expect predictable outcomes. They still treat slow months as someone else's problem. They still spend against revenue as it arrives instead of after the fixed claims are covered.

Nothing about the title moved the exposure. The company still absorbs the bad month, so the manager is responding accurately to where the loss actually goes. Economists call the general version of this moral hazard. When somebody is insulated from part of the downside, he has an incentive to take risks he might not take if he bore the full cost. What follows from moral hazard in practice, and this is my own observation rather than anything the economics establishes, is a business that stays dependent on the person who started it.

WHY THE CLAIM EXISTS AT ALL

None of this is new, even though most leadership books write as if it is. A business exists because doing everything through separate, one-time contracts is expensive: finding the right person, negotiating terms, and making sure they follow through.¹

A company is what you build to stop paying that cost over and over. Once people work together inside it instead of transacting separately, a different problem shows up. It gets hard to tell who is pulling their weight, because the work is now a group effort instead of a series of individual trades.²

Somebody has to watch for that. The cleanest way to make the watching worth doing well is to give the watcher whatever is left over once everyone else has been paid. That is the residual claim.

Knight's account adds a second reason for it. The residual is the reward for carrying a kind of uncertainty that nothing else can absorb

¹Ronald Coase, "The Nature of the Firm," *Economica* 4 (1937). Coase's actual argument: using the open market has costs of its own, finding the right person, negotiating terms, enforcing the deal, and a firm exists specifically to avoid paying that cost over and over on every transaction.

²Armen A. Alchian and Harold Demsetz, "Production, Information Costs, and Economic Organization," *American Economic Review* 62 (1972). Their argument: once people work as a team instead of trading separately, it's hard to see who's really contributing what, so someone has to monitor, and giving that monitor whatever's left over after everyone else is paid is what makes the monitoring worth doing well.

on somebody else's behalf, not insurance, not a forecast, not a spreadsheet.³

Knowing which side of that ownership line you stand on is where the difference between working in a business and owning one begins. It is not the whole difference. Control, capital, what you can sell, and what you are obliged to do are the rest of the bundle. Lesson Thirty covers them at the level of detail this volume needs, which is enough to tell one instrument from another when somebody offers you one. Each of them is broad enough to carry a volume of its own, and later volumes take them up at that depth. The residual claim comes first because the rest is hard to reason about until you can see it.

³Frank H. Knight, *Risk, Uncertainty, and Profit* (1921). Knight's distinction: a risk is priceable because you know the odds; true uncertainty is not, because there is no reliable basis for assigning the odds. He argued profit is the reward for carrying the second kind, which nothing, not insurance, not a forecast, can absorb on your behalf.

GUARDIANSHIP

A PERSON WHO CANNOT ACT

A company acts through people. A company is a person. Not in a figurative sense. In law it holds property, signs contracts, owes obligations, carries a reputation, keeps information, and has interests that continue after any particular human being has gone home.

It is also a person who cannot do anything at all.

It cannot walk into a room. It cannot look at its own work. It cannot see that somebody is wasting its money. It cannot notice that a client has gone quiet. It cannot stop an employee from using its equipment badly. It cannot ask for a failure to be corrected. It cannot ask the question nobody asked. It cannot defend itself against anything.

Everything it does, it does through people who are authorized to act for it.

That is what a supervisor is. That is what a manager is, and a director, and an officer, and a board. Those seats are not decoration on an organization chart. They are the only means by which a legal person

who cannot see, speak, or move perceives its own condition and acts on it.

WHAT THE COMPANY IS BUYING

So when a company hires a supervisor, here is what it is buying. Attention. Inspection. Judgment. Correction. Intervention where intervention is required, and restraint where restraint serves it better. Somebody to notice what the company is literally incapable of noticing, and to act on what it is literally incapable of acting on.

Read that way, a question that looks difficult usually stops being difficult.

THE TEST

Suppose the property, the money, the relationships, and the interests belonged to a baby. Or to a profoundly disabled adult. Suppose you had been asked, specifically, to protect that person's interests, and that a second agent handles those things day to day.

Would you stand by while the second agent spent the baby's money against the baby's interests, because you did not want to dent the second agent's confidence? Would you decline to look at the second agent's work because he might feel distrusted? Would you allow damage you could have prevented, because the second agent needed the room to learn? Would you tell yourself the decision was the second agent's to make, after you had already worked out what it was costing the baby?

If you would call that an abdication, it is an abdication in a company too. Everybody the company employs is its agent, and the law has been treating them that way the whole time.⁴ The person being protected does not matter less because it happens to be a corporation.

⁴Restatement (Third) of Agency § 8.01 (an agent has a fiduciary duty to act loyally for the principal's benefit in all matters connected with the agency relationship)

LEAVING IT ALONE ON PURPOSE

This does not mean a supervisor should intervene constantly. It means a supervisor acts for the company constantly, and sometimes the right act is to leave something alone on purpose.

Leaving it alone is management when four things are true of the supervisor. The supervisor looked at the facts. He used the company's interest as the test. He concluded that leaving the work where it is produces the better result for the company. He remains answerable for that conclusion.

It is abdication when the supervisor's reason is any of these. It was the direct report's decision. I wanted the direct report to feel trusted. I did not want to undermine him. He needs autonomy. He needs room to fail. I wanted him to own it. Every one of those puts the feelings of the person doing the work ahead of the interests of the person the supervisor was appointed to protect.

So the question that governs this entire book is not what would be fairest to the employee, or most comfortable, or least awkward to say out loud.

and § 8.08 (an agent has a duty to act with the care, competence, and diligence normally exercised by agents in similar circumstances). The comment to § 1.01 states that the common law of agency encompasses the employment relation even as to employees never designated to contract on the employer's behalf, and that the implications vary with the position, the assets the employee can reach, and the discretion the work requires. However ministerial the assignment, no agent is simply a hired hand. See also § 8.07 on duties created by contract, § 8.09 on acting within actual authority and complying with lawful instructions, § 8.10 on good conduct, and § 8.11 on providing information. The comment to § 8.11 adds that a principal has a right to rely on the agent's accurate transmission of material information, and that in an organizational setting disclosure to be effective must be made to a disinterested decisionmaker who has authority within the organization. The comment states that requirement in the context of an agent disclosing his own conduct, where the agent stands to gain by staying quiet; this book applies the same requirement to any material fact, for the same reason, and says so. Sections 8.08 and 8.10 supply the standard of effort: the care, competence and diligence normally exercised by agents in similar circumstances, and a requirement to act reasonably toward the principal's enterprise. Read together they make the test objective rather than a question of what the agent intended.

The question is what the company would require, if it could see this room and speak for itself, from the person it hired to stand in for it. Once you can hear that question and answer it, and keep answering it on the ordinary Tuesdays when nobody is watching, you are thinking from the residual side of the ownership line. That is the first qualification. The rest of this book covers the others.

Everything after this page is an answer to that question under some particular set of facts.

KINDNESS

Choose kind over nice. You will be given that choice often. Nice is selfish. Nice takes the path of least resistance and leaves the cost with whoever is least able to defend against it. Kindness pays that cost today so the defenseless party does not pay a larger one later.

The condition is a choice in which avoiding a cost now can shift a larger cost to somebody else later. With nothing at stake there is nothing to test. The observable is who bears each cost, and when. Kind is bearing a cost now, yourself, so that another person or the company does not bear a larger one later. Nice is declining that cost, typically for your own comfort, and letting it land on somebody who is not in the room.

The example is worth running because the arithmetic is the reverse of the instinct.

A supervisor knows in month three that a hire is not going to work. She keeps him another fifteen months. She is protecting his mortgage, his confidence, and her own reluctance to sit down and say it. She lets him go in month eighteen.

He has now spent a year and a half not building a career somewhere he would have been good at the work. He will explain that

stretch to interviewers for the next decade. The company paid fifteen months of wages for a function it was not receiving. Whatever his clients absorbed, they absorbed quietly and did not come back to say so.

Ending it in month three is the version that looks cruel. It is the version that stops the losses from compounding.

Four parties absorbed the cost of that delay. The client absorbed slower work. The team absorbed his share of it. He absorbed eighteen months of his own career. The company absorbed fifteen months of wages for a function it was not receiving.

The owner discovered that an agent entrusted with the company's interests had knowingly neglected those interests and used the company's resources to spare herself a personal cost.⁵ He stopped allowing her to occupy that position that day. And that was the correct move.

Why? Because what occurred was abuse and neglect of a vulnerable person. Recall that the company is a person. In a room full of its employees it is the most important person present, because everybody else in that room is its agent and is there on its behalf.

If that sentence bothers you, stay with it. The discomfort is probably not with the underlying proposition. Somebody entrusted with a vulnerable person's interests should not knowingly sacrifice them to avoid a difficult conversation. The unusual part is that the vulnerable person here is a company.

That is the point. A company can own the money, employ the people, owe the obligations, bear the loss, and still be incapable of

⁵Neglect is a failure to act where a duty to act exists. The supervisor held the duty of care under Restatement (Third) of Agency § 8.08 and the duty to provide information under § 8.11. She knew in month three and did nothing for fifteen months. Abuse is using a position over somebody's interests to serve your own. She spent the company's money on her own comfort about a conversation. Those are the words for what happened, and softer ones would be the nice version of describing niceness.

entering the room to protect any of it. It acts only through the people appointed to act for it. If those people stop asking what its interests require, because the human being in front of them can speak and the company cannot, they have not become more humane. They have removed one of the affected parties from the accounting because that party cannot object.

Suppose nobody in the room is asking what the company would require. Then the decision goes to whoever is most senior, most present, most loud, or most uncomfortable. The cost will land precisely on the person least able to defend itself.

The company belongs on that list the same way the other three do. It is not an afterthought added once the people have been counted. It was harmed and it could not say so. Any accounting that names the humans and then remembers the company has already given up the argument you just finished reading.

“When you want to help people, you tell them the truth. When you want to help yourself, you tell them what they want to hear.”

— Thomas Sowell, “The Way That History Went Down,” *National Review*,

January 20, 2012

HOW TO USE THIS BOOK

Owning a business requires a way to see what is happening inside it, decide what it needs, and act on those decisions. This book builds that. Each lesson is laid out the same way so you can find what you need. A lesson opens with the question it answers, the conditions under which its answer holds, the rule itself in brief, and a short example of the rule run correctly. Then it works through a case, names who pays when the lesson is ignored, and reduces to four habits. Alice appears in every lesson and is learning this material herself, mostly by getting it wrong first. The second case at the end shows the same idea under different facts, sometimes under facts where the obvious answer is the wrong one. Each lesson opens with a numbered Reality from Appendix F. The APPLIES WHEN entry then states the condition under which the lesson's rule applies.

This is a reference book, but the lessons are not standalone. Read straight through once if you can. After that, turn to what you need. If the ground gives way under you, back up: a later lesson assumes what an earlier one taught, and the sequence is the argument. Reach for the part that fits the work in front of you.

Where you start depends on what you already run. The book moves through three stages. Section One develops the ability to see,

supervise, and coordinate work correctly. Section Two tests whether you can make that judgment operative, through conversations that cost you something and through systems that hold without you. Section Three begins at Lesson Eighteen, and from there the subject changes from managing other people's work to making decisions from the owner's economic position. A first-time supervisor starts at the front. A manager who can already supervise and coordinate work, but has not yet made his judgment reliably operative through people and systems, starts at Part Four. A manager who can do both starts at Part Six and backs into the earlier parts when the ground gives way. None of those entry points skips First Principles or Under Pressure, which opens Section Three. None of it is re-taught later, and every lesson runs on it.

Four words in this book carry a narrow technical sense on top of their ordinary one, and they do not announce themselves the way the headings do. They are worth learning before you meet them.

THE OBSERVABLE What happened? What the person actually did or said. "When corrected, he changed the date and continued" is observable. "He was humble" is a conclusion.

THE CONDITION What had to be happening for that evidence to become available? If you want to know how somebody takes correction, somebody has to correct him.

THE CHECK How do we decide what the evidence means? After the correction, did he change the answer or defend the original one? A second person using the same check should reach the same answer.

THE BOUNDARY When does this rule stop answering the question? A rule can answer the question under one set of circumstances and stop applying when those circumstances change. The

APPLIES WHEN entry tells you when to use it. The boundary section tells you what changes outside that range.

Not all four turn up every time. Sometimes the check cannot yet be run at that stage of the work. Other times there is no clean check to be had.

SECTION ONE

SEEING THE WORK

This is a book about ownership, and it opens with eleven lessons on hiring and management. The basics are not what comes before owner development. Repeated correctly, they are owner development.

Bad observation creates confident error. An owner's judgment runs on what he believes is happening inside his company. Where that picture is wrong, better judgment can produce worse outcomes faster, because greater confidence and authority carry the underlying error into more decisions. Everything later in this book assumes the reader can tell what is actually going on with the work, the standards, and the people entrusted to him, and nothing later teaches that skill, because this section does.

Part One builds the raw material. It is about acquiring people who improve when a standard is applied, rather than people who merely meet it once, and about what must be written down before anybody can be held to anything.

Part Two is the first transition, and it is the one most companies handle worst. Doing the work well and being answerable for somebody else's work are different jobs with different outputs, and the output of the latter is easiest to see when it is missing.

Part Three moves past the point where a person can carry the job by watching it. The scope grows beyond what one manager can observe directly, and direct observation has to be supplemented by a coordination mechanism, which is whatever keeps work in step across people, along with a record and a deliberate decision about where attention goes.

At the end of this section a reader can see the work clearly enough to manage it. The next problem is making what he sees govern what happens.

PART ONE

FOUNDATIONS: BUILDING PEOPLE WORTH LEADING

If you skipped First Principles, go back. This is not the usual request to read the front matter. Guardianship and Kindness are load-bearing, several other terms are defined there and never redefined, and most of them mean something narrower here than they do in ordinary use. A reader who starts on this page will follow every lesson and misread the ones that turn on a defined term.

Correction comes before ownership. A book about making owners starts with hiring for a reason that is easy to miss. You cannot build a residual claimant out of somebody who will not take a correction. No amount of training later supplies what the filter should have caught at the door. Every part after this one is development, and development is expensive and slow and works only on people who can take correction and improve from it. So the first question is not how to teach somebody to think like an owner. It is who is worth spending years on.

No one sets out to hire the wrong person. The trouble is that most companies cannot say, out loud and in advance, what the right person looks like. So they find out afterward, at full price.

Lesson One covers what you have to see in a person before you use a word about him. Lesson Two covers how to keep that word meaning the same thing when somebody else uses it, in a different room, two years later. Lesson Three covers building the finding-out into the first eight weeks, while a mistake still costs a month of training instead of a client.

LESSON ONE

NEVER USE A TRAIT YOU CANNOT OBSERVE

“Filters matter more than re-education.”

— Reality 15, Appendix F

THE QUESTION What makes a hire good, said precisely enough that two people applying it to the same candidate reach the same answer?

APPLIES WHEN You have more than one acceptable candidate and can afford to turn one down. Below that condition, the section headed “When you cannot be selective” says what changes.

THERULE Do not use the word yet. Say what you would have to see. Say what makes it visible.

APPLIED The word: reliable.

The observable: did what he said, by the day he said, with nobody chasing him.

The condition: a commitment with a date on it that nobody was tracking.

The question: “Tell me about something you committed to when nobody was checking whether it happened. What was the date, and did it land?”

If he cannot produce one, you have not learned that he is unreliable. You have learned that you still do not know.

RELATED Lesson Two, on turning each virtue into a daily operating standard.

Lesson Three, on what onboarding can and cannot filter. Lesson Seven, on whether a frontline standard survives the supervisor’s absence.

GOOD PEOPLE, AND WHAT THE PHRASE LEAVES OUT

“**G**ood people” is not a standard. Nearly every hiring manager says they want “good people.” Almost none of them can tell you what that means beyond a gut feeling and a checklist of technical requirements. Ask someone to define a good hire in specific, observable terms, and you’ll usually get a shrug dressed up as a philosophy: culture fit, team player, adaptable. Words that mean nothing because they can’t be checked.

Say “speculum” and almost everybody pictures the same instrument, the one used in a pelvic exam. It is also one member of a family. There is a nasal speculum, with two smooth blades on a plier handle, that opens a nostril to look for a polyp. There is an eyelid speculum that holds an eye open during cataract surgery without pressing on the globe. There is an aural speculum, a small funnel that sits just inside the ear canal. Every one of them does

the same job, which is to hold a passage open so somebody can see. Not one is interchangeable with any other. A nasal speculum in an ear does damage, and the more confident the hand, the worse the damage.

Business has the same naming problem, and the mismatch is harder to see. A nasal speculum in an ear is obvious to everyone in the room. A familiar label can hide materially different things and nobody notices. “Culture fit” and “self-starter” sound precise because everyone recognizes the words, not because everyone means the same thing by them. The person using those phrases sounds more careful than the people around him, and the phrases do damage that does not surface for a year.

Watch what those words do on a hiring panel. Three people interview the same candidate. Two write down “good culture fit” and one writes down “not a culture fit.” The discussion that follows is about who is right rather than about what each of them saw. Even the two who agreed are not agreeing. One of them means the candidate would be pleasant in a small office. The other means the candidate would not push back when a client is unreasonable. Neither of the agreeing pair finds out they meant different things before the candidate gets hired. Then, four months later, their disagreement surfaces as a performance problem at least one of the two people privately expected.

WHY THE VAGUE WORDS SURVIVE

A manager who says “culture fit” has usually watched one specific person damage one specific team. The phrase is what is left of that experience after it has been compressed into two words. Between two people who watched the same person fail, culture fit communicates perfectly well. It carries the whole story.

The trouble starts when “culture fit” has to travel. To a recruiter who was not there. To a panel that did not watch the failure happen. To the same manager two years later, who now remembers the words and the failure and not the person. Compression works when the receiver already holds the information. Hiring is a case where the receiver often doesn’t.

THE THREE WORDS DO NOT FIX IT

I use three words instead: humble, hungry, and smart. I didn’t invent them. Patrick Lencioni did, in *The Ideal Team Player*. I have not found a better shorthand for what separates a good hire from a costly one, so I use his framework.

Now, put those three words on a job posting and watch what happens. We are looking for people who are humble, hungry, and smart.

Nothing changed. Two interviewers rating that candidate on humility will disagree the same way, and for the same reason, that they disagreed about culture fit. Ask each of them what they would have had to see and neither can say.

What makes these three words (humble, hungry, smart) usable is that each one converts into an observable. A “culture fit” disposition on its own gives you nothing to look at. Humble converts into a behavior that shows up at an identifiable moment, and that moment is one you have to build into the interview. The word “humble” is a label for the observation. It is not a substitute.

NAMING THE CONDITION

So, how do we solve this? We need a condition to evaluate. Culture fit names no observable and no condition. Humble names a disposition. Correction is the condition that gives you evidence about how somebody handles being wrong.

So, there are two questions: what would you have to see? And, what has to be happening in the room for you to see it?

HUMBLE

“Humility is the single greatest and most indispensable attribute of being a team player.”

— Patrick Lencioni, *The Ideal Team Player*

Lencioni ranks humility first for a reason. The version that matters in a business is the ability first to point credit outward when something goes well and second to absorb correction without treating it as an attack. It has nothing to do with being quiet or self-deprecating: I’ve hired plenty of loud, confident, humble people, and fired plenty of soft-spoken ones with no humility at all.

The first half has its own condition, and it takes less setting up. Something went well. Ask him about a result he is proud of and listen for whose name comes up. A person who points credit outward names somebody specific and says what that person did, without being asked who else was involved. A person who does not will describe the outcome in the first person throughout. Asked directly who else was on it, he will produce a list that sounds like a list.

The condition for the second half is correction. You cannot observe it in a conversation where nobody is corrected, and most job interviews are precisely that conversation. Both people are being agreeable on purpose. So, you have to put the condition into the interview yourself. Correct the candidate on something small and true, early, while the stakes are low. Then watch what they do with it. Does the explanation start before you have finished the sentence? Does the answer come back revised or come back the same with more words around it?

Watch their face. The face moves first, and that is a cue rather than evidence on its own.

A candidate can take a small correction gracefully at nine in the morning and take a real one badly in March. What you have after the check is evidence, and evidence is what the second interviewer can use.

HUNGRY

Hungry is an internal standard that sits higher than whatever the job description says is required. Most people hear ambition in that word, and the two come apart on an ordinary Tuesday. The version that matters in a business is the ability first to hold a standard higher than the one you were handed and second to find the work nobody assigned.

A hungry person does the fifth rep nobody asked for because leaving it undone would bother them more than doing it would cost them. That is the internal standard. What the second half adds is alertness, which Israel Kirzner spent a career studying in markets rather than in people:⁶ noticing what nobody has acted on yet, not because it was hidden but because nobody was looking.

The condition is work nobody assigned, and the interview is full of it before the candidate sits down. Preparing for the hour is unassigned work. Ask what he knows about the company and how he came to know it. Somebody who read the service lines, found out who runs the seat he is applying for, and arrived with questions he had to write down has paid a cost nobody required. That is the first half of the trait, and the half you can watch. Somebody who brought his best self and nothing else has answered that question too. The second half is harder,

⁶Israel Kirzner, *Competition and Entrepreneurship* (1973). Kirzner's term for this is alertness. His argument: most profitable opportunities aren't hidden, they're simply unnoticed, and the entrepreneurial function is nothing more exotic than being the person who notices first.

because finding work nobody noticed needed doing is not something an hour in a room produces. For that, ask about work he did at a job without being told to. Most candidates have an answer ready for that one. The answer you are listening for has a cost in it. Somebody who did one visible favor and told everyone about it is describing a performance. Somebody rebuilt a broken intake form nobody had assigned him to fix, because it had been bothering him for a month. He has to be asked twice before he mentions it, and his name is nowhere on it. That is an internal standard.

Do not hire on the assumption that onboarding will build this. Onboarding can point an internal standard at your work. It does not reliably install one. The homework you watch yourself. The unassigned work at a previous job you cannot, which is what the reference call is for. Ask the former supervisor what the candidate did that nobody assigned.

SMART

Smart, in this context, means people-smart. The version that matters in a business is the ability first to read what the other person can take and second to say what needs to be said anyway without losing the other person. I've worked with brilliant people who were catastrophically bad at this, and average people who were good enough at it that arguments got settled once instead of three times.

The condition is disagreement, and you will not see any of this in a room without it. Ask about a time the candidate had to deliver news the other person did not want. Then listen for whether the point survived the delivery. Two answers fail. In the first, the candidate tells you how gently it was handled, and the point has vanished. In the

second, the candidate tells you how direct they were, and the relationship is gone. The answer you want preserves both the correction and the relationship, and usually includes a first attempt that went badly.

Without smart, humility reads as weakness and hunger reads as aggression.

WHY NONE OF THE THREE WORKS ALONE

Each of the three tends to fail a particular way when the other two are missing. Humble without hungry takes the correction well and does not do the fifth rep. Hungry without humble rebuilds the intake form nobody asked him to fix and then explains, at length, whose fault the old one was. Smart without the other two can say the hard thing to anybody and says it only when it pays him.

This is what a composite hides. A candidate who is adequate on all three and a candidate who is exceptional on two and absent on the third can produce the same average. They are not the same hire. A scale can be built to catch it, with a floor under each of the three that no amount of strength elsewhere makes up for. Most scales are not built that way, because averaging is what a spreadsheet does unless somebody stops it.

THE SCORECARD PROBLEM

The instinct after reading this is to build a scoring tool. A rubric, a five-point scale, a standardized assessment that produces a number for each virtue and a composite at the bottom. Part of that is worth building and part of it will hurt you. The difference is whether the number is attached to a described behavior or to an impression.

Rate a candidate four out of five on humility and you have culture fit with arithmetic on top of it. Two interviewers who would have disagreed about the candidate now disagree about the number, and the

disagreement is buried under a decimal instead of being argued out loud. An impression was recorded and given a decimal point.

Now rate the same candidate against a described behavior. He was told the date was 2022 rather than 2021. He said the interviewer was right, changed the date, and continued without defending the mistake. That is a scale worth keeping, and the research on interview structure agrees. Campion, Palmer, and Campion's 1997 review in *Personnel Psychology* counts anchored rating scales among the components that improve structure, and an anchor is a described behavior standing where a label would otherwise be.

Scoring is not the enemy. A number attached to an undefined impression is. Write down what you saw before you write down what you scored.

WHEN YOU CANNOT BE SELECTIVE

None of this governs a company that cannot yet afford to turn a candidate down.

Where turning down an acceptable candidate means the work goes undone, you do not choose among candidates. You hire whoever is additive. Additive means the person brings in more than they cost, and the cost is not the salary. It is the salary plus the hours somebody spends supervising them, plus the training, plus the mistakes. Add whatever share of your own attention goes to them instead of to the work only you can do. Where the seat has to be filled this month or the work stops, the answer is usually yes for anybody who clears what the seat requires and will reliably show up. A person who is barely cash-positive while consuming a supervisor's week is not additive. Applying this lesson there aims a correct rule at the wrong condition, and it will tell you to turn away people you are going to hire anyway. Lesson

Twenty-Seven runs the same error on cost allocation, which is how a company spreads shared costs across its work.

The phase does not end at a revenue number. It ends when you have more than one acceptable candidate for the same seat and can afford to wait for the second one. That condition can arrive at eight employees or at forty, and it arrives seat by seat rather than all at once.

A seat is a job described by what the company bought from it and what it is answerable for, separate from whoever happens to be filling it. A seat can be the thing that is failing while the person in it does everything he was told.

The decision changes because the dominant cost changes. Below that point, the cost of an empty seat is the entire job going undone, and that cost is immediate and visible. Above it, the cost of the wrong person is the whole team working around them. That cost can exceed the vacancy cost. It usually arrives later and is spread across supervision, rework, turnover, and client effects rather than one line item on a report.

A cost comes with the phase and the company owns it. The people already there were hired against an earlier standard, which was showing up. Later the company needs something else. People who can be corrected in front of others, who find the work that was never assigned, and who can carry a hard conversation without losing either the point or the person. Your early hires were never told the standard moved. The company cannot judge anybody against a standard it never made operative, so it has to state the new one before it can hold anyone to it. Discharging that is most of what Parts Two through Six of this book are for.

WHO PAYS FOR A BAD HIRE

The company paid to have a seat filled by somebody who would do the work in it, and paid exactly the same for somebody who will not. A bad hire costs somebody. The manager who made the hire keeps his salary and usually his job. The team absorbs the extra work and gets sympathy for it. The client who quietly leaves is a line item on a report that moves nobody's compensation. None of that reduces anybody's pay. It reduces what is left over, and what is left over is the owner's. That is what residual claimant means: the owner is paid out of the remainder, so a cost nobody else absorbs arrives in one place by default. How much screening a seat is worth depends on how much of that remainder the wrong person in it can consume. Which seats those are, and why, is what the rest of this book is about.

CARRY OUT OF THIS LESSON

Keep the habit, not the words. Anybody can memorize three adjectives. Refuse to use a word about a person until you can say what you would have to see. Then check whether your interview contains the moment where you would see it.

Four habits do the work of this lesson. They are the whole method, and none of them requires a scoring tool.

1. Before using any word about a candidate, say what you would have to see for it to be true. If you cannot, the word is not doing work and you should stop using it.
2. Build the conditions into the conversation. For humble, a result he is proud of and a correction on something small, both of which you stage. For hungry, ask what he did before he arrived, because that half of the condition is already in the room. If you

never correct him, never disagree with him, and never ask what he prepared, you will learn nothing about any of the three.

3. Judge the three together and never average them. Two strong and one absent is a different person from three adequate.
4. Below the point where you can afford to turn a candidate down, hire whoever is additive among candidates who clear the minimum the seat requires. Additive is a survival test and not a quality standard. It buys the company time and it does not remove the risk that the person cannot hold the seat later. Write down what those hires will need to become when the phase ends, and put a date on finding out.

ALICE'S STORY

Alice's story runs as a single thread through this book, a composite drawn from many people rather than one individual. She starts here, on the wrong side of the table.

She was twenty-two, and applying for a scheduling coordinator seat at a company she had not heard of two weeks earlier. She had prepared. There was a folder in her bag with the company's service lines printed off the website, and three questions on an index card she never got to ask. Two of the three were about the scheduling software. The third was about who she would report to.

The interviewer asked her to describe a time she had missed a deadline. Alice gave the answer she had rehearsed, and every fact in it was true. A vendor had shipped late. She had escalated it twice. The client had been told before the date rather than after. None of it was hers.

The interviewer wrote nothing down and asked again. "What's one you own?"

She said that eight months earlier she had promised a client a turnaround she had not checked was possible. She found out on the afternoon it was due that it was not possible, and lost the account. She said she asks now, before she promises anything, whether the people who have to do the work have said they can.

She got the offer that afternoon. The call came at four, from a woman who had not been in the room. She read the terms off a sheet. Thirty-eight thousand, ninety-day review, start the Monday after next. Alice said yes before the terms were finished and then apologized for interrupting.

The other candidate was better qualified on paper. He answered the second version the same way he had answered the first, with a story in which he was the one who had been let down.

A SECOND CASE

A different hiring manager thought the whole humble-hungry-smart interview sounded soft. He wanted a number. He bought a standardized personality assessment, ran every candidate through it, and hired on the composite. The last three hires had been arguments between him and his partner. The assessment ended the arguments.

That year's top scorer was magnetic in the room. Quick answers, easy eye contact, a résumé that read like a highlight reel, and a composite in the ninety-first percentile.

He lasted four months. Two of his three teammates told the manager inside the first month. Both said it in the vague way people use when the numbers are on the other side. "He is a lot." The manager had the composite in a folder and the vague sentence in his ear, and he went with the folder.

The first time a client complaint traced back to his own mistake, he spent forty minutes in his manager's office explaining why none of it was his fault. He did not come to the follow-up meeting.

The assessment measured what it measured, and it never corrected him about anything.

The manager had seen that three adjectives are not checkable and had gone looking for a check that was. He found a number. It came out the same on two different Tuesdays, and it measured something real about the man. It did not measure whether he could take a correction, which is what this hire turned on. He stopped running the assessment the following year and wrote down four questions instead. The first one asks about a time somebody corrected them.

LESSON TWO

A STANDARD THAT CHANGES WITH THE PERSON IS NOT A STANDARD

“Pronouncements are not achievements.”

— Reality 14, Appendix F

THE QUESTION What makes a standard a standard, rather than a preference with a formal name on it?

APPLIES WHEN Somebody in your company is being managed by somebody who is not you. Below that condition, publishing the standards is not yet needed and writing them is, and the section headed “When you are still the standard” says what changes.

THE RULE One sentence. Three tenses. Three rooms. Anything less is not a standard.

APPLIED The standard: nobody at the client has to ask twice.

Interview: “Tell me about a time a client asked you for the same thing a second time. What was different about the next one?”

Review: “Two families asked twice last month, on the 6th and the 19th. What is different about the next one?”

Separation: “The standard is that nobody at the client asks twice. Here are eleven dates.”

One sentence. Three tenses. Nothing in the third room that was not said in the second.

RELATED Lesson One, on making a word checkable at a single moment. Lesson Three, on what onboarding tests that an interview cannot. Lesson Thirteen, on running demand, criticize and coach as one sequence. Appendix B, for worked translations.

THE POSTER AND THE PROMOTION

I once sat in the back of a room while a founder explained his company’s values to about fifty employees. He used the same three words I use, printed in the same font on the same kind of poster you would expect. Six months later he promoted a woman whose own direct reports were quietly telling anyone who would listen two things. She took credit for their work, and she came apart at the first sign of being wrong about anything. When I asked him about the difference, he told me the values were more of a philosophy than a checklist. A philosophy is something you can hold and still promote her.

Lesson One turned humble, hungry, and smart into observable evidence rather than labels. What none of the three words tells you is

how to carry the same check through hiring, coaching, and separation, across two years and a second manager. That distance is where most companies give up. They print the three words on a wall and congratulate themselves on having values. Then they go back to hiring and firing on gut instinct, the way they did before anyone wrote anything down. A virtue nobody can point to in a specific moment is a decoration.

WRITING IT DOWN IS NOT NOTHING

The founder was not wasting his money. A value written down is discussable. A new hire can read it on day one and know what the company says about itself. A manager conducting a review has a word to reach for that is at least the same word his peer would reach for. Before it was written down, none of that was true, and the improvement is real.

Lesson One did the same work one moment at a time. A word becomes usable when you name the behavior it describes and the condition under which the behavior appears. Write that down and you have a sentence a stranger could apply.

WHAT A STANDARD HAS TO CONTAIN

A standard survives a second judge. A real operating standard is a sentence specific enough that two different people, watching the same event, would score it the same way. “Be a team player” is not that sentence. Neither is “own your work.”

Closer to it: does this person tell you about a mistake before you find it yourself? Does this person ask a clarifying question before guessing at what you meant? Does this person’s work still meet the bar when nobody is checking it that week?

Each one names an occasion and an action at that occasion, and each is phrased as a question with a yes or a no at the end of it. The occasion is the condition. The action is the observable. The question with a yes or a no at the end is the check. Say it aloud about a specific person and you will know the answer or know that you have not been watching. That is the test. None of it requires a personality assessment or a consultant. It requires watching someone for two weeks and writing down what happened, in plain language a stranger could apply without you in the room to interpret it. Most owners have done the watching already and have never written the sentence.

Appendix B runs the translation for eight of the values companies most often hang on a wall.

THREE STANDARDS WEARING THE SAME WORDS

One label can hide three standards. Ask an owner whether his company has standards and he will say yes, and point at the wall, or at the handbook, or at everyone here knowing what is expected. He is answering a different question from the one being asked.

A standard is a criterion applied the same way every time. That is what the word means. A measure that moves depending on who is doing the scoring is not a standard, whatever it is printed on.

The standard attaches to the seat rather than to the person in it. Two people in the same seat are measured against the same sentence, this year and after you have replaced one of them. Two different seats can carry different sentences, because the company is buying different things from them. A sentence written for one seat does not become right for another by being true.

One word usually hides three standards, and nobody in the building knows it. The three virtues only start earning their keep once the same specific list gets used in three different rooms: the interview, the

coaching conversation, and the conversation nobody wants to have. Most companies use a different vocabulary in each one. They hire against a job description, coach against whatever the manager happens to care about that week, and eventually fire against whatever finally became undeniable.

Take one virtue through all three rooms and watch what happens to it. The job posting asks for a “self-starter.” Nine months later the review says he “needs to take more ownership.” Fourteen months after that the separation memo says he “required more direction than the role allowed.” Three sentences about the same man, written by the same manager, and no two of them would let a stranger predict the third.

Now run the version that holds. One operating standard under hungry covers the half about finding work. “Does this person do work nobody assigned?” In the interview that is “what have you done.” The answer is one specific thing nobody asked for, and what doing it cost him. In the coaching conversation it is “what are you doing,” and the sentence is that two things sat in his area this month and he walked past both. On the way out, it is what he kept doing, dated, with those conversations attached. Same sentence, three tenses. If you cannot say it in all three rooms, you do not have a standard for hungry.

SELF-STARTER, FIXED The word is not what drifted. Nothing was ever written under it. A self-starter is a person who does work nobody assigned, which is the standard in the paragraph above wearing a different label. Write that sentence down, use it in all three rooms, and the word holds. What the interview shows you is whether he pays a cost nobody required. Whether he finds the work nobody noticed is something you hear about first and watch for later. Leave any word bare and it will drift, whatever the word is.

The words on the wall never change, which is why the divergence goes unseen. Three languages under one vocabulary, no consistent thread between them, and everyone in the building quietly learns that the stated values and the actual rules are two different things. People only need to learn that lesson once before they stop believing the next thing you print on a wall.

WHY THE THREE SETS FORM

Look at who is standing in each room and the divergence stops being a mystery.

The interview is run by a manager and whoever handles hiring, under time pressure, against a job description somebody else wrote. The coaching conversation is the manager alone, with no audience and no record. The last one involves a lawyer, or the thought of one, and everything in it gets phrased for a reader who is not in the room.

Look at what each document is for and the divergence stops being sloppiness. The job description is written to attract applicants. The coaching sentence is written to keep the week calm. The separation memo is written to survive a lawsuit. Three audiences, three things the writer is optimizing for, and the same human being writing all three. The sentences diverge because they were built to.

Nothing in the ordinary week puts the three next to each other. The manager who used one set on Tuesday and another on Thursday is not being inconsistent on purpose. He never saw the two sentences side by side.

THE INTERVIEW

Before you've worked with someone, you can't see what you're getting, and a badly built process tells you which candidates are good at

interviewing.⁷ The fix is a screen: a small test that the genuine article passes easily and a pretender has to work hard to fake.⁸

Ask for a real story, not a rehearsed one. Tell me about a time you were wrong about something at work, and how you found out. A candidate with the trait produces a specific mistake, names what it cost, and the error in the story is his. A candidate without much humility either can't find an example or finds one so small it was not a mistake. Or he turns the story into an account of someone else's failure that he generously absorbed on the team's behalf.

You are not grading the story. You are grading whether he can locate an error of his own and say what it cost, without his telling of it drifting toward somebody else. Some people take a while to get there and get there. What you are listening for is whether the error stays his the whole way through. The later mistakes you need to hear about will often be bigger and more expensive, and you will still need to hear about them from him first.

The question also has to be answerable with the sentence you will coach against later. If the interview asks about one thing and the review measures another, you are hiring against a job description and managing against a mood.

⁷Economists call this adverse selection. George Akerlof's 1970 paper "The Market for Lemons" first modeled it: in a used car market, sellers know more about a car's actual condition than buyers do, so buyers respond by assuming the worst and low-balling everyone, good sellers included, unless something forces the hidden information into the open.

⁸Joseph Stiglitz described this kind of test as screening. The distinguishing feature is who moves: the party who lacks the information designs the mechanism. Not knowing what you are getting, you build a test and require people to sit it, and the sorting happens without anyone seeing inside their heads. Stiglitz, along with Akerlof and Michael Spence, shared the 2001 Nobel Prize in Economics for this body of work on hidden information.

THE COACHING CONVERSATION

Here the same three words become the vocabulary for a hard conversation. “You need a better attitude” cannot be argued with, because it is not a claim about anything. Say a thing the person can check against their own memory instead. Three times this month, a mistake surfaced from someone else before you brought it to me yourself.

That states a hunger and humility problem as a fact. It hands the other person a specific thing to dispute or fix, instead of a thing to feel bad about for an afternoon and then forget.

THE CONVERSATION NOBODY WANTS TO HAVE

*“We try to apply the Keeper Test to everyone, including ourselves.
Would the company be better off with someone else in my role?”*

— Reed Hastings, *No Rules Rules*

This is the hardest of the three rooms, and here the standard does the hardest work. It turns a decision that feels personal into one you can defend. To the person across the table, and to yourself at two in the morning six months later.

“This isn’t working out” is not a reason. A specific, dated pattern, against a standard you told them about in week one, coached against by name more than once, and still not moving, is a reason.

A record like that does not make a termination legally safe, and nothing here should be read as saying it does. Protected activity, leave rights, a contract you signed, and whether you treated two comparable people the same way all operate whether the file is clean or not, and the answers vary by state. A lawyer handles that part. What the record settles is the part that is yours: whether you had a reason at all, or only a feeling that had been building since March.

None of this works if the list changes shape depending on which of the three rooms you are standing in. The whole value of turning character into an operating standard is one thing. A manager, a candidate, and a departing employee are all measured against the same sentence in three tenses. What have you done. What are you doing. What did you keep doing. The wording changes because the tense changes. The standard underneath it does not. The moment the list flexes to fit whoever is standing in front of it, it goes back to being a poster. A more expensive one, because you have now trained your best people to notice the difference.

HOW MANY YOU CAN ACTUALLY CARRY

Every standard costs enforcement. Somebody has to notice the occasion, notice the action or its absence, and say so. The cost is paid by the person who has to say so, not by the person who wrote the sentence.

Writing a standard down is a promise to interrupt your day. The occasion arrives without warning, usually while the manager is in the middle of something else. Often it is a week when the person who missed it is already having a bad one, and the miss was small.

What the interruption costs the manager is specific. He has to name the miss while the miss is still small, which is when naming it looks least worth doing. The person on the other end will hear it as being singled out over nothing. Afterward nothing happens, because nothing was going to happen, so there is no visible return on having said it. Saying nothing costs him nothing that day. He finds out what it cost in the year he is writing a separation memo and cannot produce one dated instance.

Silence amends the standard. When a miss happens in front of a manager who says nothing, the team learns that afternoon what

the standard will tolerate. Each further silence confirms the lesson, and the tolerated version becomes the one the team operates under. Nothing on the wall changed.

That is what a list of fifteen values does to a company. In any ordinary week some of them are being missed with no consequence attached. People learn fast which of the fifteen have a manager behind them and which are only printed. Once they are sorting your rules into those two piles, the sorting is what you have taught them, and they will apply it to the next rule you write.

A standard repeatedly left unenforced can be worse than having none at all. Having none leaves people guessing, and guessing is survivable.

I worked with a company that had nine values in its handbook and managers who could quote two. The two they could quote were the two the owner had raised out loud that year, to somebody, where people heard him. The other seven had been approved, printed, and framed, and were not standards in any sense that changed a Thursday.

So the number matters more than the wording. Three to five a manager will actually raise beat twenty that read well in a handbook. Before adding a sixth, name the manager who will enforce it and the week he will first have to.

WHEN YOU ARE STILL THE STANDARD

None of this governs a company where the owner is in every conversation.

At four people in one room, the owner reacts to the miss as it happens, everyone sees him react, and his reaction is the standard. Nobody has to be told what it is because everybody watched it.

Write the sentences anyway. Do not publish them. The design shop at the end of this lesson wrote six good ones and kept the file,

and the file was ready the week he needed it. What does the damage is making the document the way the standard travels while you are still standing in every conversation, because people who were deciding start checking the document instead. The boundary is not a headcount. It arrives the first time somebody in your company is managed by somebody who is not you. That manager has to correct people on your behalf, and he cannot repeat a reaction he was not there for. That is the condition that makes the written version necessary, and it arrives for one manager at a time.

This is not the boundary from the last lesson, and the two get confused. Lesson One changes when you cannot yet afford to turn a candidate down. This one changes when you are still in every conversation. A company can have two acceptable candidates for a seat and an owner who still runs every interview. A company can have a second manager and still be hiring anyone who will show up. The two conditions arrive separately, and a rule aimed at the wrong one is the error both lessons exist to prevent.

WHO PAYS FOR A STANDARD NOBODY ENFORCES

The company paid for a standard that would hold across rooms and years, and got one that holds wherever the manager happens to be standing. The manager who lets it slide pays nothing that day. He avoided a conversation he did not want and his week got easier. Neither does the employee, that day, and the person who learns that the words do not bind will act on that knowledge for as long as he stays. The employee missed the standard. The manager then chose not to enforce it. Those are two failures, and neither cancels the other. Neither one reduced a fixed claim. The difference came out of what was left over, and what was left over belonged to the owner.

CARRY OUT OF THIS LESSON

Do not let the standard drift. Carry the same sentence from interview to review to separation. Not one thing in the interview, a second in a review, and a third on the way out the door.

Four habits do the work of this lesson and none of them requires a published document.

1. Before writing a value, name the occasion it shows up on and the action you would see there. If you cannot name the occasion, you are writing a decoration.
2. Put the interview question, the coaching sentence, and the separation reason side by side, in writing, and check that they are the same sentence. They will not be the first time you look.
3. Before adding a standard, name the manager who will enforce it and the week he will first have to say something uncomfortable because of it.
4. Compose the sentences while you can still see every reaction. Do not make the document the way the standard travels until a second person has to correct somebody on your behalf.

ALICE'S STORY

Three weeks in, Alice's manager pulled her aside after a meeting. He told her, nicely enough, that she needed to be more of a "self-starter." Alice nodded and said she would work on it.

She spent the next two weeks looking for something to start. What she found was the confirmation calls. Every booking got a confirmation call the day before. The calls were made by the account coordinator, who was slow, and whom Alice had watched miss two of them that month. So Alice started making them herself,

ahead of him, working from the same schedule board he worked from.

She made forty-one calls in nine days, working from a print-out she made each morning before the account coordinator got in. Eleven of them were for bookings he had already confirmed. The account coordinator noticed on the third day. He checked the board twice that week to see whether his name was still against the task. It was. He said nothing to anyone about the calls that had already gone out ahead of him.

On the tenth day a client's office manager called Alice's manager. She wanted to know why two different people from the same company had called her about the same appointment, and whether anybody there was talking to anybody else. Alice's manager spent twenty minutes on that call and another forty with the account coordinator. The coordinator had spent a week and a half believing he was being replaced, and had said nothing to anyone. His silence cost the company nine days of duplicate calls and one client who now wonders whether anybody there talks to anybody else. It bought him nothing except not having to ask an awkward question on day three.

Alice was not fired and was never going to be. She was told to stop, and she was told why, and it was over in a day.

A month later the same manager tried again, this time with a question instead of a verdict. "Does this person flag a problem before I find it myself?"

A SECOND CASE

An owner of a four-person design shop read a version of this argument and did the work properly. He wrote six operating standards, each one an occasion and an action, each one phrased so that two

people watching the same event would answer it the same way. By the test in this lesson they were good standards. He printed them and walked the team through them on a Monday.

His senior designer had been with him five years and had spent those years deciding things. She read the six sentences on Monday and found that four described what she already did. By Wednesday she was asking him whether the other two standards applied before she moved on work she had previously handled without asking. She asked that question four times that week. Not because she disagreed with the standards. Nobody had told her whether putting the standards in writing changed what she was expected to ask about. In a shop where every question had always been answered by turning around in her chair, the new document read as a change in what the owner wanted from her.

He took the standards down after eleven days. He was in every conversation the shop had. A missed handoff got a reaction from him inside the hour, in front of whoever was there, and it had been getting one for five years. The six sentences told his people nothing they had not already watched him say.

He kept the six sentences in a file. He has said he will put them back up the week he hires a manager, which is the week somebody other than him will have to do the correcting.

This preview ends with Lesson Two.

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