

Mr Mak Culture:

Freedom and Responsibility



- We Seek Excellence
- Our culture focuses on helping us achieve excellence

The difference between mediocrity and excellence is effort!



- **Values are what we Value**
- High Performance
- Freedom & Responsibility
- Context, not Control
- Highly Aligned, Loosely Coupled
- Pay Top of Market
- Promotions & Development



- Many companies have nice sounding value statements displayed in the lobby, such as:
 - Integrity
 - Communication
 - Respect
 - Excellence



- Enron, whose leaders went to jail, and which went bankrupt from fraud, had these values displayed in their lobby:
 - **Integrity**
 - **Communication**
 - **Respect**
 - **Excellence**

(These values were not, however, what was really valued at Enron)





- The *actual* company values, as opposed to the *nice-sounding* values, are shown by who gets rewarded, promoted, or let go
- Actual company values are the *behaviours* and *skills* that are *valued* in fellow employees
- At Mr Mak, we particularly value the following nine behaviours and skills in our colleagues...
- Meaning we hire and promote people who demonstrate these nine:



1. Judgement

- You make wise decisions(people, technical, business, and creative) despite ambiguity
- You identify root causes, and get beyond treating symptoms
- You think strategically, and can articulate what you are, *and are not*, trying to do
- You smartly separate what must be done well now, and what can be improved later



2. Communication

- You listen well, instead of reacting fast, so you can better understand
- You are concise and articulate in speech and writing
- You treat people with respect independent of their status or disagreement with you
- You maintain calm poise in stressful situations



3. Impact

- You accomplish amazing amounts of important work
- You demonstrate consistently strong performance so colleagues can rely upon you
- You focus on great results rather than on process
- You exhibit bias-to-action, and avoid analysis-paralysis



4. Curiosity

- You learn rapidly and eagerly
- You seek to understand our strategy, market, customers, and suppliers
- You are broadly knowledgeable about business, technology and entertainment
- You contribute effectively outside of your specialty



- You re-conceptualize issues to discover practical solutions to hard problems
- You challenge prevailing assumptions when warranted, and suggest better approaches
- You create new ideas that prove useful
- You keep us nimble by minimizing complexity and finding time to simplify



6. Courage

- You say what you think even if it is controversial
- You make tough decisions without agonizing
- You take smart risks
- You question actions inconsistent with our values



7. Passion

- You inspire others with your thirst for excellence
- You care intensely about Mr Mak's success
- You celebrate wins
- You are tenacious



8. Honesty

- You are known for candor and directness
- You are non-political when you disagree with others
- You only say things about fellow employees you will say to their face
- You are quick to admit mistakes



- You seek what is best for Mr Mak, rather than best for yourself or your group
- You are ego-less when searching for the best ideas
- You make time to help colleagues
- You share information openly and proactively



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- Imagine if *every* person at Mr Mak is someone you respect and learn from...



- Great workplace is *not* espresso, lush benefits, sushi lunches, grand parties, or nice offices
- We do some of these things, but only if they are efficient at attracting and retaining stunning colleagues



- Unlike many companies, we practice: *adequate performance gets a generous severance package*
- We're a *team*, not a family
- We're like a **pro sports team**, not a kid's recreational team
- Mr Mak leaders hire, develop and cut **smartly**, so we have stars in every position



- The other people should get a generous severance now, so we can open a slot to try to find a star for that role
- Which of my people, if they told me they were leaving, for a similar job at a peer company, would I fight hard to keep at Mr Mak?



- As a leader, no one in your group should be materially surprised of your views
- Candor is not just a leader's responsibility, and you should periodically ask your manager: "If I told you I were leaving, how hard would you work to change my mind?"



- “You question actions inconsistent with our values” is part of the Courage value
- Akin to the honour code pledge: “I will not lie, nor cheat, nor steal, *nor tolerate those who do*”



- Athletic teams have a *fixed number* of positions, so team members are always competing with each other for one of the precious slots



- The more talent we have, the more we can accomplish, so our people assist each other all the time
- Internal “cutthroat” or “sink or swim” behaviour is rare and not tolerated



- Isn't Loyalty Good?
- What about Hard Workers?
- What about Brilliant Jerks?



- Loyalty is good as a stabilizer
- People who have been stars for us, and hit a bad patch, get a near term pass because we think they are likely to become stars for us again
- We want the same: if Mr Mak hits a *temporary* bad patch, we want people to stick with us
- But unlimited loyalty to a shrinking firm, or to an ineffective employee, is not what we are about



- We don't measure people by how many hours they work or how much they are in the office
- We do care about accomplishing great work
- Sustained B-level performance, despite “A for effort”, generates a generous severance package, with respect
- Sustained A-level performance, despite minimal effort, is rewarded with more responsibility and great pay



- Some companies tolerate them
- For us, cost to effective teamwork is too high
- Diverse styles are fine – as long as person embodies the 9 values



Why are we so insistent on high performance?

- In procedural work, the best are **2x** better than the average
- In creative/inventive work, the best are **10x** better than the average, so huge premium on creating effective teams of the best
- Great Workplace is **Stunning Colleagues**



- Many people love our culture, and stay a long time
 - They thrive on excellence and candor and change
 - They would be disappointed if given a severance package, but lots of mutual warmth and respect
- Some people, however, value job security and stability over performance, and don't like our culture
 - They feel fearful at Mr Mak
 - They are sometimes bitter if let go, and feel that we are political place to work
- We're getting better at attracting only the former, and helping the latter realize we are not right for them



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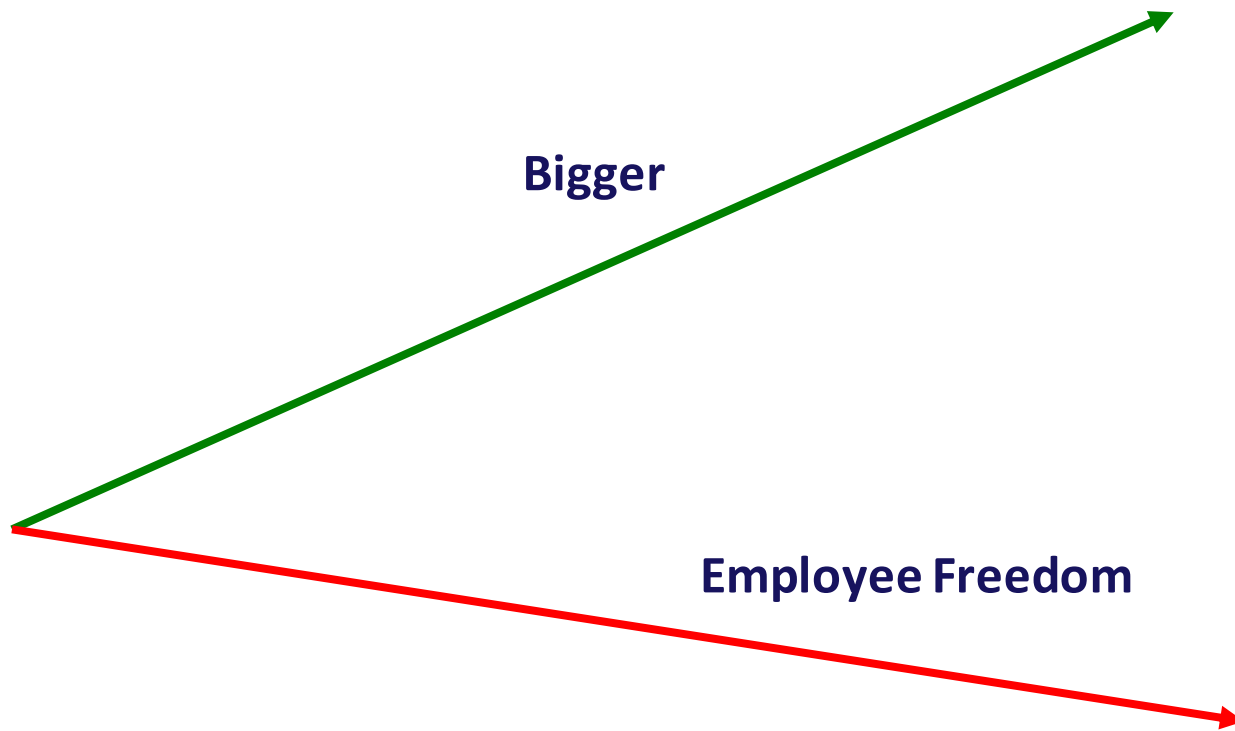
- Self motivating
- Self aware
- Self disciplined
- Self improving
- Acts like a leader
- Doesn't wait to be told what to do
- Picks up the trash lying on the floor



- Responsible People **Thrive** on Freedom, and are **Worthy** of Freedom
- Our model is to *increase* employee freedom as we grow, rather than limit it, to continue to attract and nourish innovative people, so we have better chance of sustained success

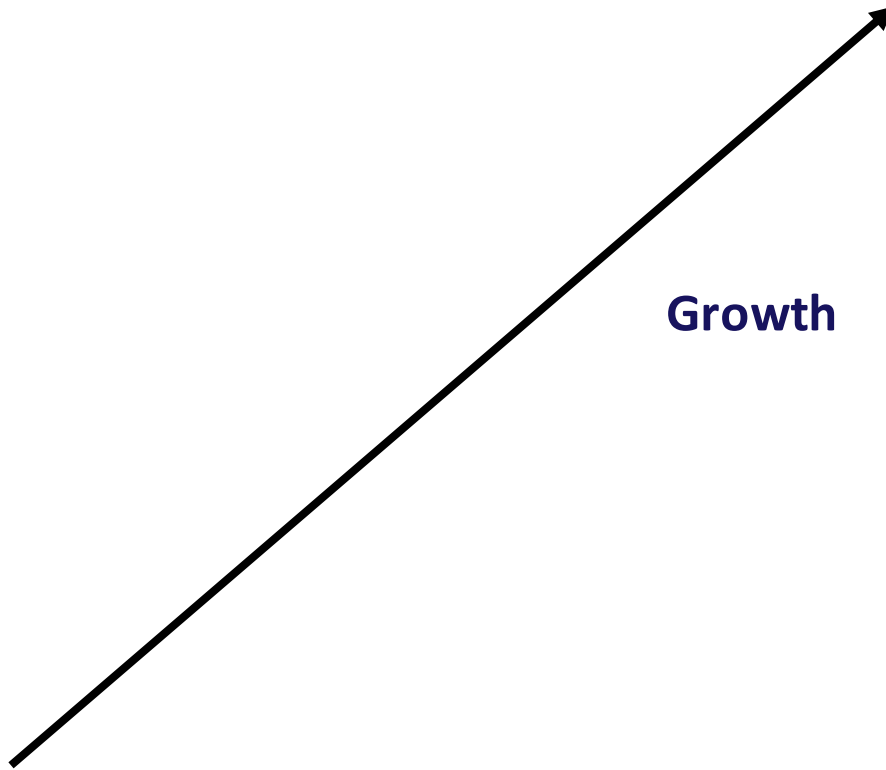


- Most Companies **Curtail** Freedom as they get Bigger



Why Do Most Companies Curtail Freedom and Become Bureaucratic as they Grow?

- Desire for Bigger Positive Impact Creates Growth



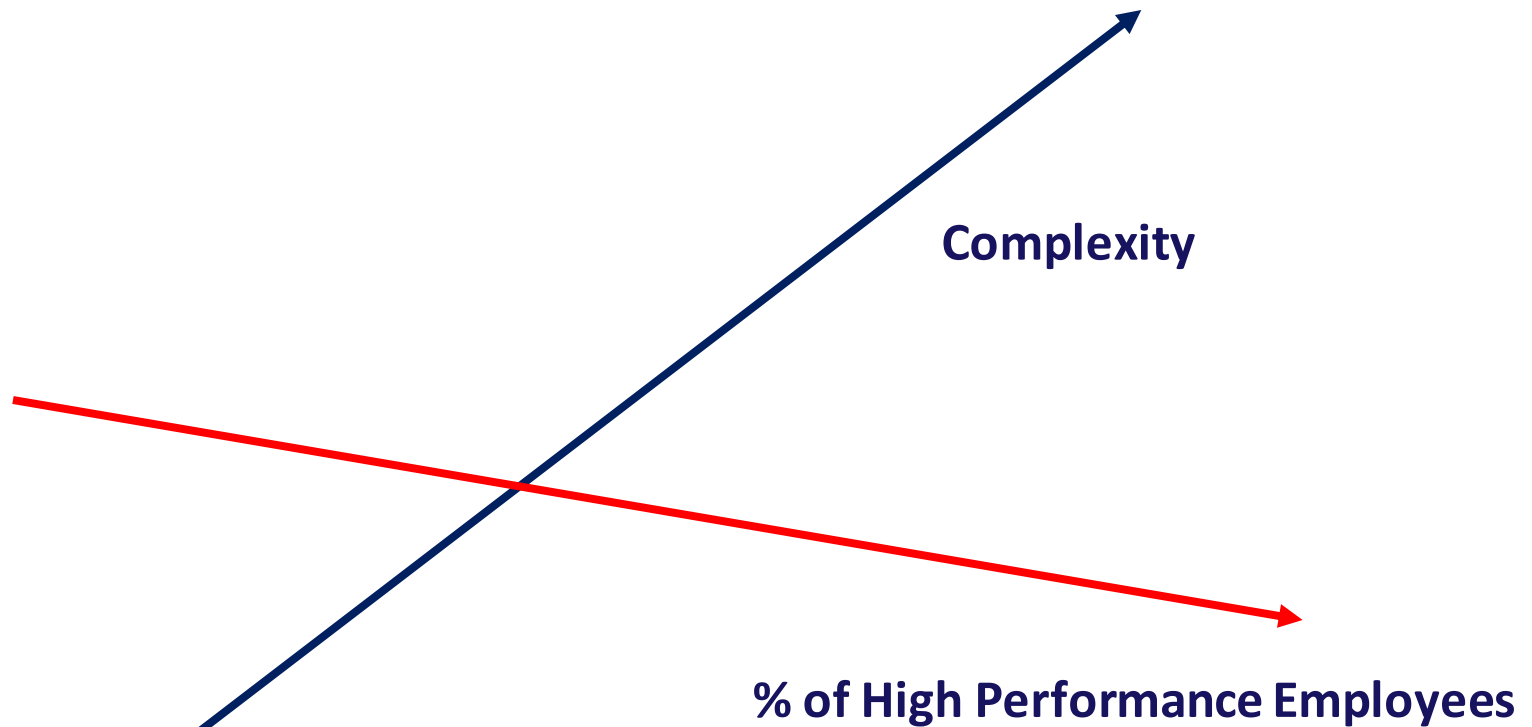
- Growth Increases Complexity



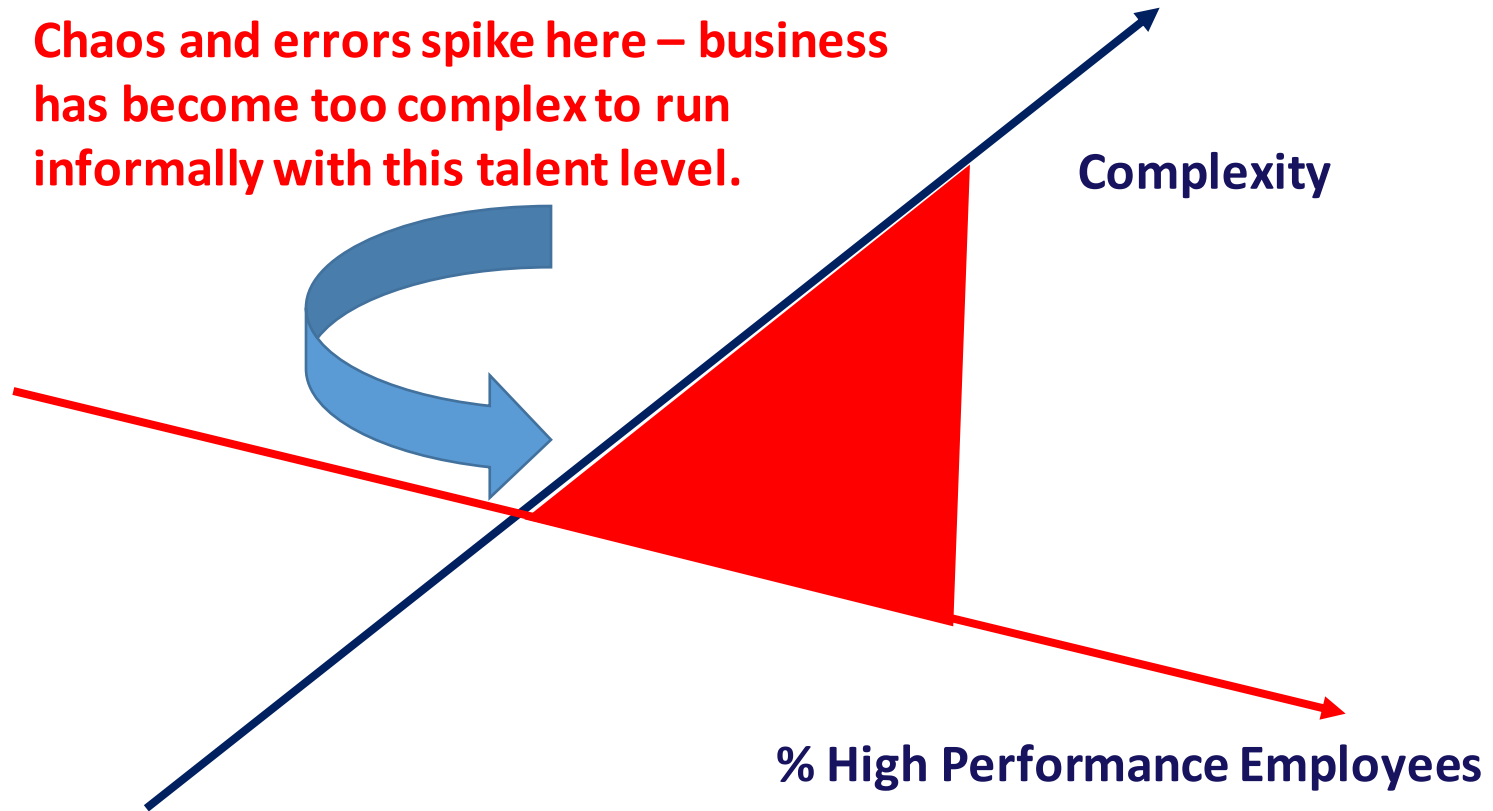
Complexity

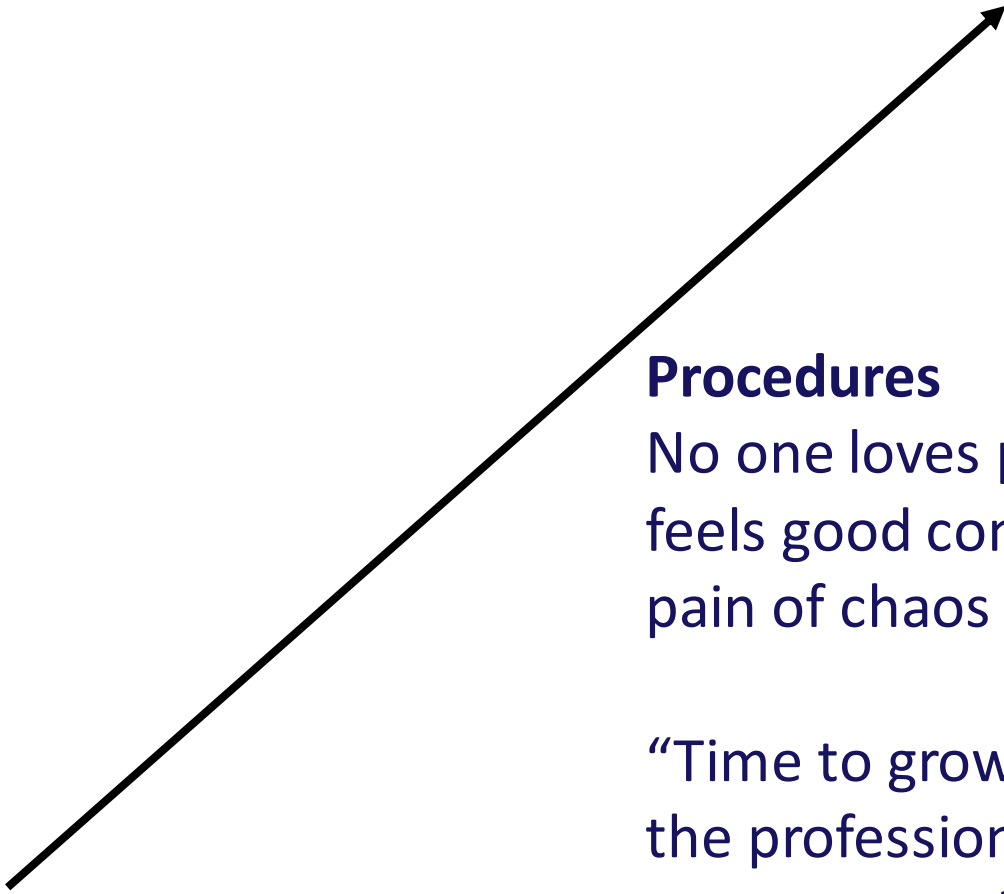


- Growth Also Often Shrinks Talent Density



Chaos and errors spike here – business has become too complex to run informally with this talent level.





Procedures

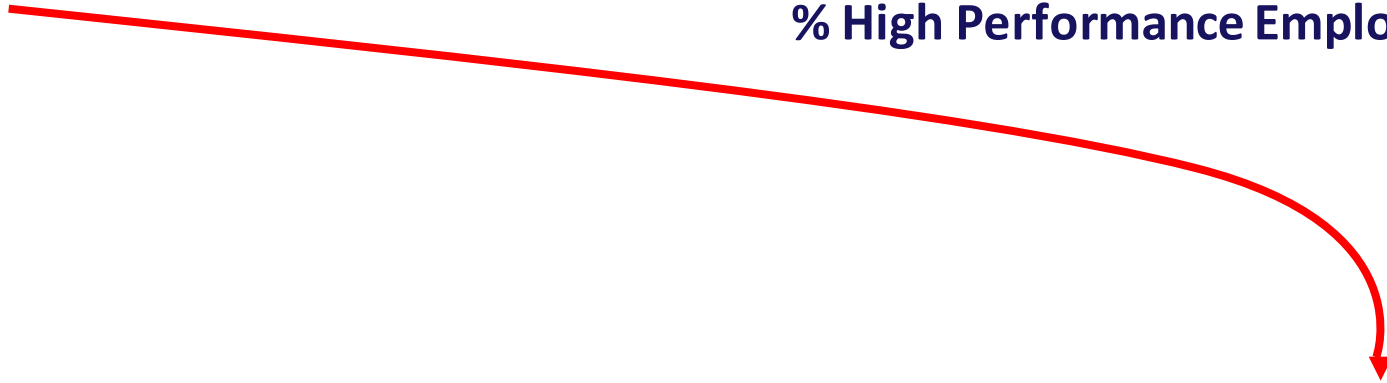
No one loves process, but feels good compared to the pain of chaos

“Time to grow up” becomes the professional management’s Mantra



Process-focus Drives More Talent Out

% High Performance Employees



- A highly-successful process-driven company
 - With leading share in its market
 - Minimal thinking required
 - Few mistakes made – very efficient
 - Few curious innovator-mavericks remain
 - Very optimized processes for its existing market
 - Efficiency has trumped flexibility



- Market shifts due to new technology or competitors or business models
- Company is unable to adapt quickly
 - because the employees are extremely good at following the existing processes, and process adherence is the value system
- Company generally grinds painfully into irrelevance



1. Stay creative by staying small, but therefore have less impact
1. Avoid rules as you grow, and suffer chaos
1. Use process as you grow to drive efficient execution of current model, but cripple creativity, flexibility, and ability to thrive when your market eventually changes



- Avoid Chaos as you grow with Ever More High Performance People – not with Rules
 - Then you can continue to mostly run informally with self-discipline, and avoid chaos
 - The run informally part is what enables and attracts creativity



The Key: Increase Talent Density faster than Complexity Grows

% High Performance Employees



Business Complexity



% High Performance Employees



- Top of market compensation
- Attract high-value people through freedom to make big impact
- Be demanding about high performance culture



- Few big products vs many small ones
- Eliminate distracting complexity (barnacles)
- Be wary of efficiency optimizations that increase complexity and rigidity

Business Complexity



Note: sometimes long-term simplicity is achieved only through bursts of complexity to rework current systems



- With the Right People, *Instead* of a Culture of Process Adherence, We have a Culture of Creativity and Self-Discipline, Freedom and Responsibility
- Is Freedom Absolute?
- Are all rules & processes bad?
- Freedom is not absolute
- Like “free speech” there are some limited exceptions to “freedom at work”



1. Prevent irrevocable disaster
 - Financials produced are wrong
 - Hackers steal our customers' credit card info
2. Moral, ethical, legal issues
 - Dishonesty, harassment are intolerable



- Mostly, though, **Rapid Recovery** is the Right Model
- Just fix problems quickly
 - **High performers make very few errors**
- We're in an education, creative-inventive market, not a safety-critical market like medicine or nuclear power
- You may have heard preventing error is cheaper than fixing it
 - Yes, in manufacturing or medicine, but...
 - **Not so in creative environments**



- “Good” process helps talented people get more done
 - Letting others know when you are updating code
 - Spend within budget each quarter so don’t have to coordinate every spending decision across departments
 - Regularly scheduled strategy and context meetings
- “Bad” process tries to prevent recoverable mistakes
 - Get pre-approvals for US\$ 1k spending
 - 3 people to sign off on banner ad creative
 - Permission needed to hang a poster on a wall
 - Multi-level approval process for projects
 - Get 10 people to interview each candidate



- “Bad” processes tend to creep in
 - Preventing errors just sounds so good
- We try to get rid of rules when we can, to reinforce the point



- Until 2018 we had the standard model of N days per year
- Meanwhile...

We're all working online some nights and weekends, responding to emails at odd hours, spending some afternoons on personal time, and taking good vacations

- An employee pointed out...

We don't track hours worked per day or per week, so why are we tracking days of vacation per year?



- We realized...

We should focus on what people get done, not on how many days worked

Just as we don't have an 9am-5pm workday policy, we don't need a vacation policy



- Mr Mak Vacation Policy and Tracking
 - “there is no policy or tracking”
 - There is also no clothing policy at Mr Mak, but no one comes to work naked
 - Lesson: you don’t need policies for everything



- No Vacation Policy Doesn't Mean No Vacation
- Mr Mak leaders set good examples by taking big vacations – and coming back inspired to find big ideas



- Most companies have complex policies around what you can expense, how you travel, what gifts you can accept, etc.
- Plus they have whole departments to verify compliance with these policies



- Mr Mak Policies for Expensing, Entertainment, Gifts & Travel: **“Act in Mr Mak’s Best Interest”**

(5 words long)

- “Act in Mr Mak’s Best Interest” *Generally* Means...
 1. Expense only what you would otherwise not spend, and is worthwhile for work
 2. Travel as you would if it were your own money



3. Disclose non-trivial vendor gifts

4. Take from Mr Mak only when it is inefficient to not take, and inconsequential

—“taking” means, for example, printing personal documents at work or making personal calls on work phone: inconsequential and inefficient to avoid



- Many people say one can't do it at scale
- But since launching Mr Mak, which is traditionally the end of freedom, we've substantially **increased** talent density and employee freedom



- Summary of Freedom & Responsibility:
 1. As We Grow, Minimize Rules
 2. Inhibit Chaos with Ever More High Performance People
 3. Flexibility is More Important than Efficiency in the Long Term



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- *If you want to build a ship, don't drum up the people to gather wood, divide the work, and give orders. Instead, teach them to yearn for the vast and endless sea.*
Antoine De Saint-Exupery, Author of The Little Prince
- The best managers figure out how to get great outcomes by setting the appropriate context, rather than by trying to control their people



- Provide the insight and understanding to enable sounds decisions

Context (embrace)

- Strategy
- Metrics
- Assumptions
- Objectives
- Clearly-defined roles
- Knowledge of the stakes
- Transparency around

Control (avoid)

- Top-down decision-making
- Management approval
- Committees
- Planning and process valued
- more than results



- Link to company/functional goals
- Relative priority (how important/how time sensitive)
 - Critical (needs to happen now), or...
 - Nice to have (when you can get to it)
- Level of precision & refinement
 - No errors (credit cards handling, etc...), or...
 - Pretty good / can correct errors (website), or...
 - Rough (experimental)
- Key stakeholders
- Key metrics / definition of success



- Managers: When one of your talented people does something dumb, *don't blame them*. Instead, ask yourself what context you failed to set
- Managers: When you are tempted to “control” your people, ask yourself what context you could set instead
- Are *you* articulate and inspiring enough about goals and strategies?



- Why Managing Through Context?
- High performance people will do better work if they understand the context
- Investing in Context
- This is why we do new employee college, frequent department meetings, and why we are so open internally about strategies and results



- Control can be important in emergency
 - No time to take long-term capacity-building view
- Control can be important when someone is still learning their area
 - Takes time to pick up the necessary context
- Control can be important when you have the wrong person in a role
 - Temporarily, no doubt



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- Three Models of Corporate Teamwork
 1. Tightly Coupled Monolith
 2. Independent Silos
 3. Highly Aligned, Loosely Coupled



- Senior management reviews nearly all tactics
 - e.g., CEO reviews all job offers or advertising
- Lots of inter-departmental buy-in meetings
- Keeping other internal groups happy has equal precedence with pleasing customers
- Mavericks get exhausted trying to innovate
- Highly coordinated through centralization, but very slow, and slowness increases with size



- Each group executes on their objectives with little coordination
 - Everyone does their own thing
- Work that requires coordination suffers
- Alienation and suspicion between departments
- Only works well when areas are independent
 - e.g., aircraft engines and blenders for GE



#3 is the Mr Mak Choice

1. Tightly Coupled Monolith
2. Independent Silos
3. **Highly Aligned, Loosely Coupled**



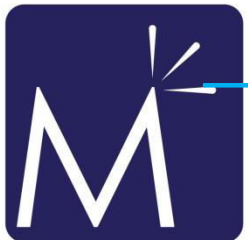
■ Highly Aligned

- Strategy and goals are clear, specific, broadly understood
- Team interactions focused on strategy and goals, rather than tactics
- Requires large investment in management time to be transparent and articulate and perceptive

■ Loosely Coupled

- Minimal cross-functional meetings except to get aligned on goals and strategy
- Trust between groups on tactics without previewing/approving each one – so groups can move fast
- Leaders reaching out proactively for ad-hoc coordination and perspective as appropriate

— Occasional post-mortems on tactics necessary to increase alignment



- Highly Aligned, Loosely Coupled teamwork effectiveness depends on **high performance** people and **good context**
- Goal is to be **Big and Fast and Flexible**



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- Pay Top of Market is Core to High Performance Culture
- One outstanding employee gets more done and costs less than two adequate employees
- We endeavour to have only outstanding employees



Three Tests for Top of Market for a Person

1. What could person get elsewhere?
1. What would we pay for replacement?
1. What would we pay to keep that person?
—If they had a bigger offer elsewhere



- Goal is to keep each employee at top of market *for that person*
 - Pay them more than anyone else likely would
 - Pay them as much as a replacement would cost
 - Pay them as much as we would pay to keep them if they had higher offer from elsewhere



- Lots of people have the title “Premier League Striker” but they are not all equally effective
- Similarly, all people with the title “Senior Marketing Manager” or “Director of Engineering” are not equally effective
- So the art of compensation is answering the Three Tests for each employee



- At many firms, when employees are hired, market compensation applies
- But at compensation review time, it no longer applies!
- At Mr Mak, market compensation always applies:
 - Essentially, top of market comp is re-established each year for high performing employees
 - At annual comp review, manager has to answer the Three Tests for the personal market for each of their employees



- There are no centrally administered “raise pools” each year
- Instead, each manager aligns their people to top of market each year – the market will be different in different areas



- Some people will move up in compensation very quickly because their value in the marketplace is moving up quickly, driven by increasing skills and/or great demand for their area
- Some people will stay flat because their value in the marketplace has done that
 - Depends in part on inflation and economy
 - Always top of market, though, for that person



- Whether Mr Mak is prospering or floundering, we pay at the top of the market
 - i.e., sports teams with losing records still pay talent the market rate
- Employees can choose how much they want to link their economic destiny to Mr Mak by deciding how many Mr Mak stock options they want to hold



- Manager sets pay at Nth percentile of title linked compensation data
 - The “Premier League Striker” problem
- Manager cares about internal parity instead of external market value
 - Fairness in comp is being true to the market
- Manager gives everyone a 4% raise
 - Very unlikely to reflect the market



- We will rarely counter with higher compensation when someone is voluntarily leaving because we have already moved compensation to our maximum for that person
- Employees will feel they are getting paid well relative to their other options in the market



- Traditional model is good prior year earns a raise, independent of market
 - Problem is employees can get materially under- or over-paid relative to the market, over time
 - When materially under-paid, employees switch firms to take advantage of market-based pay on hiring
 - When materially over-paid, employees are trapped in current firm
- Consistent market-based pay is better model



- It's pretty ingrained in our society that the size of one's raise is the indicator of how well one did the prior year
 - but for us the other factor is the outside market
- Employee success is still a big factor in compensation because it influences market value
 - In particular, how much we would pay to keep the person



- It's a healthy idea, not a traitorous one, to understand what other firms would pay you, by interviewing and talking to peers at other companies
 - Talk with your manager about what you find in terms of compensation
 - Stay mindful of company confidential information



- Big salary is the **most efficient** form of compensation
 - Most motivating for any given expense level
 - No bonuses, no free stock options, no philanthropic match this
 - Instead, **put all that expense into big salaries**, and give people freedom to spend their salaries as they think best



No Ranking Against Other Employees

- We avoid “top 30%” and “bottom 10%” rankings amongst employees
- We don’t want employees to feel competitive *with each other*
- We want all of our employees to be “top 10%” relative to the pool of global candidates
- We want employees to help each other, and they do



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- In some time periods, in some groups, there will be lots of opportunity and growth at Mr Mak
- Some people, through both luck and talent, will have extraordinary career growth



- Very talented people usually get to move up, but only true for the very talented
- Some luck in terms of what positions open up and what the competition is
- Some people move to other teams to get the opportunity they want
- Great teams keep their best talent
- Some minor league players keep playing even though they don't move up because they love the game



- In some times, in some groups, there may not be enough growth opportunity for everyone
- In which case we should celebrate someone leaving Mr Mak for a bigger job that we didn't have available to offer them
 - If that is what the person prefers



1. Job has to be big enough

- We might have an incredible manager of something, but we don't need a director of it because job isn't big enough
- If the incredible manager left, we would replace with a manager, not with a director

2. Person has to be a superstar in current role.

- Could get the next level job here if applying from outside and we knew their talents well
- Could get the next level job at peer firm that knew their talents well



- If a manager would promote to prevent an employee from leaving, the manager should promote now instead of waiting
- Both tests still have to be passed
 1. Job big enough
 2. Superstar in current role



- We develop people by giving them the opportunity to develop themselves, by surrounding them with stunning colleagues and giving them big challenges to work on
 - Mediocre colleagues or unchallenging work is what kills progress of a person's skills



- Formalized development is rarely effective, and we don't try to do it
 - e.g., Mentor assignment, rotation around a firm, multi-year career paths, etc.



- High performance people are generally self improving through experience, observation, introspection, reading, and discussion

- As long as they have stunning colleagues and big challenges to work on

- We all try to help each other grow

- We are very honest with each other

We want people to manage their own career growth, and not rely on a corporation for “planning” their careers

- We want people to manage their own career growth, and not rely on a corporation for “planning” their careers



- We try hard to consistently provide opportunity to grow both by surrounding you with great talent



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- We keep improving our culture as we grow
- We try to get better at seeking excellence

