



Stanford eCorner

Simple Rules for a Complex World [Entire Talk]

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Kathleen Eisenhardt, a professor of management science and engineering at Stanford, explains the advantages of developing simple rules for business and life, sharing examples from industries ranging from startups to sports and entertainment. Eisenhardt, who teaches in Stanford's School of Engineering, co-wrote the 2015 book "Simple Rules: How to Thrive in a Complex World."



Transcript

Good afternoon everybody. Thanks a lot for sharing your beautiful sunny afternoon in doors with no windows with me. So thank you and thank you Tom for that nice introduction. I also want to thank the STVP Team; Danielle Elia, Demetri, all you guys for doing. Mike, he'll be doing a great job helping me get the preparations going for this talk as well as just doing great things for STVP. Most of the talks in this series are by entrepreneurs and I am not and I am not going to tell you about my journey and my vision and how I conquered all odds and I never saw my family and I had a great business. I am not going to do that. I am going to talk about something else and that is what academics do because well -- the speakers that you often have -- by the way there are some seats upfront if you all want to come down. What most of our speakers do and I think do very well is they speak about one, two, five, and sometimes the 10 companies they've started and they know those companies really well. What academics do is we study those companies and I know probably hundreds of companies sort of well.

So we're really taking two different lenses. There is a deep dive of the individual entrepreneur and there are people like me who are voyeurs into the world of the entrepreneur and so that's what I think. Hopefully, I will inspire some of you who say, maybe not entrepreneurship, to be an academic because it's a way better job I think, although I am not as rich as Mark Zuckerberg, I never will be. Yeah, come on down if you want there are some spots, leave some space. Okay. So that's a little bit of a start. Let me get going on what the talk is about. Let's start out with something actually a little bit serious. This is a story about a Sergeant, Edward Montoya who is in the army, U.S. Army in Iraq about 10 years go.

It's just before Christmas. He is hanging out in the tent with a bunch of his buddies. Actually, they're having dinner and he is munching a little cheesecake and out of the corner of his eye, he sees this flash and it's somebody dressed up in Iraqi security uniform setting himself off and blowing the place up. Montoya is an Army medic, ducks under the table. He is okay, gets out from under the table and sees carnage. What do you do when you see hundreds of bodies that need you? Some of whom were in pretty good shape, some of whom really are not, some of them in the middle. What do you do? And what I am going to tell you today is he's got a lot of the same problem that Janet Yellen, Head of the Federal Reserve; crickets, not an easy job being a cricket; and Mark Zuckerberg particularly as he started Facebook. They all have - they'll have the same problem, how do you cope with complexity when there is way too much to do? And what I am going to tell you today is all those people and the crickets are using Simple Rules. By Simple Rules -- Simple Rules are cognitive shortcut strategies to save time and effort by focusing your attention in simplifying how you think -- that's basic definition. What does that mean in real life? Well, Simple Rules 1.0, there are three key features of Simple Rules.

The first one is Simple Rules are simple. That means Simple Rules are maybe two, three, four, five rules. Second, Simple Rules are unique. You're rules aren't necessarily my rules and then finally Simple Rules relate to something defined activity, not so sort of general thing like be nice to your mother, although with mothers they're coming up, I am into that. Let me give

you an example what Simple Rules are. Michael Pollan, Michael Pollan, he is the Berkeley Professor and Author of Botany of Desire, Omnivore's Dilemma, other great books has some Simple Rules for eating. Eat real food that your grandmother would recognize, eat mostly plants and not too much. All you have to do. Not too much plants and things that are not processed. So, you can eat blueberries, kale cantaloupe, whatever you want.

It's simple. Second idea is Simple Rules depend on the person with a situation. Stanford Football Team versus Michael Pollan -- Michael Pollan, middle-aged guy. He's got his rules. Stanford Football Team, this portion control is not really working for them and there is no protein, it's not really working for them. Rather what are their rules, their rules are more around always be hydrated because they are busy boys, hardworking. Their second rule is to eat breakfast because the students they have a tendency to stay up late and get up late and then rush to class and skip breakfast. So second rule is always eat breakfast and the third rule is to eat things that you can pick, pluck, or kill so again non-processed but you can move past plants for those guys. So it depends on who you are and then the third idea is that Simple Rules so I will give you one more example, I give you Indiegogo and Kickstarter -- so it will get you more into the entrepreneurship realm here. Indiegogo -- both of them crowdfunding sites.

Indiegogo is from, again from Berkeley actually and it started with the mantra of the internet is for everybody or everybody deserves a rich uncle and that's your crowd sourcing friends. What are the rules at Indiegogo for projects? You can put anything on Indiegogo, if it's legal. You want to fund your root canal, go to Indiegogo. You want to fund your in-utero child go to Indiegogo. You want your start-up you want to be the Jamaican Bobsled Team you go to Indiegogo. Indiegogo does not curate. Indiegogo instead has an algorithm to pick their favorites and it's based on effort which they regard as very important and it's based on what the popularity of the project is to the crowd. Contrast those rules with Kickstarter. Kickstarter starts out actually in film. They have is their analogy, we want to be like Amazon.

Amazon starts in books, we start in films and then add categories but not everything can be on Kickstarter. No root canal is on Kickstarter. Rather the way Kickstarter works is your projects are curated, they're put into 13 buckets, and about 25% of the projects they're submitted, don't ever appear on Kickstarter and then how do they curate in terms of what's the popular picks of the staff, the staff actually picks not in an algorithm. Overall, the point is two ostensibly the same businesses using fundamentally different rules. The Android rules of Indiegogo versus the Apple rules of Kickstarter -- open system, closed system. And then finally the idea is that Simple Rules relate to a defined activity -- choosing the right food or picking crowdfunding project. Okay, that's Simple Rules 1.0. How do you create Simple Rules? Where do they come from? Determine your objective, keep it specific. I want to be the No. 1 U.S.

solar residential company measured by revenue for example or I want to lose 15 pounds. Find the bottleneck. What's the thing that's really keeping you from what you are doing? What's really the thing that's sticking? So, for example, a great one right now, for Yahoo, appears to be getting better mobile apps but the real bottleneck is getting great computer scientist to believe in the Yahoo dream. And then you figure out the rules. The rules that you pull together from expert advice may be charting your own behavior, may be asking your friends. I'll give you an example, the original lean start-up, Roald Amundsen. Those of you who don't know who Roald Amundsen is -- he is an arctic explorer. He is the first person actually. His team is the first team to reach the South Pole in about 1912. He raced against Robert Scott.

So, it was the Norwegians versus the Brits. Scott was the well financed start-up. Roald was the lean and mean agile start-up -- five or six people on skis carrying as little as possible, pivoting as needed. What's the bottleneck? What is your goal? His goal is get to the South Pole first and hopefully alive. What's the bottleneck? What do you really have to do if you want to be that? It turns out it's all about the dogs because you got to actually get there and it's about the dogs because that's really you're transport that's carrying the food, that's carrying your stuff, you can ski but you got to get your stuff there. And so what he did actually, he's come up with some Simple Rules about how to handle the dogs. Rest the dogs once an hour, go about 8-12 miles a day, so the dogs know about that's about how much a good dog can do and always have a lead skier in front of the dogs because those kind of dogs like to be dominated and they are at a situation where either the dog dominates or the person dominates then you want the person to dominate and you put him out front. Simple Rules gets him to the South Pole. By contrast, Scott, well he just have -- it's too long a story to tell you how disorganized he was. Okay.

Creating a rule, so the original lean start-up. How about a more contemporary example? This is Zeteasy is actually an Eastern European start-up and their business is around cafeteria food for what was happening in Eastern Europe. This is actually Czechoslovakia. What was happening is a lot of big companies particularly from the States like Google and Oracle and so on were moving to Eastern Europe for a variety of reasons and the entrepreneurs at Zeteasy recognized the opportunity of serving high quality food to their clientele and essentially in the cafeteria of these companies. So they start out and they hire these great chefs and they start you know getting business and people love their food and all that. But there is sort of a basic problem is they are not making any money and so their goal becomes how about making money. But what's the bottleneck? Is it lousy chefs? Actually, no -- they have great chefs. Is that they can't get the food? Not that really. It turns out the problem is the menu. All the chefs are doing their own thing on the menu and just making it whatever they want regardless of the season.

They are just creating cool food. And so with the chefs, the entrepreneurs started, actually few Simple Rules about the menu. The menus for the next week are set on Wednesdays by noon. Everybody serves five dishes. Everybody serves three dishes that we know are popular because what was happening before, the chefs were just creating new all the time. Now, you have to actually double down on the ones people like and the next rule was -- and there are two meals that are common across all the cafeterias so you can do your own thing on three but you got to be the same with everybody else on two. Within those rules, do what you want. It turns out they not only got profitable, they also started actually building their review and they doubled in size actually in something like 18 months so a happily ever after story. Another start-up on creating rules -- this is another sexy topic of concrete and you probably are not thinking too about concrete these days but did you know that concrete is the third largest source of man-made CO2 in the world so it's actually a huge environmental issue about concrete. It also is a very high per capita consumption of concrete so per capita we all use a lot of concrete, it's right up there with water, believe it or not and so what the guys were pretty interested, was come up with a process that made for concrete that lowered the emissions in the production of cement, also was you need to use less cement so that saved -- and then also it was less likely to crack so less often you had to replace it.

So it is kind of an eco win-win-win going on. But what do we do? These are mostly technical guys. So you go to Las Vegas and people enjoy their product and they get all these partners who want to partner with them, you know hey, we'll do your concrete. How do they pick? We have all these partners. So that becomes their bottleneck who we are going to partner with. And they start thinking, they look over some of their evidence on who they have worked well with, think about it, look at other people, talk and come up with a couple of Simple Rules about who do we partner with. First rule, was about let's partner with people that have a laser screen machine. They're almost on top of mine to me. But it turns out it is to them because that's a signal that, that partner cares about quality and cares about innovation. If they had that machine, they are into it like we're into it.

The second rule was around no duplicate partner. So they've already guessed their own territory. Another rule was around if you haven't started using our product within three months, you're done as our partner and then the final rule was around we had a partner roughly every three months, we can't do it fast than that because we can't really absorb the organization. Within that context, they then basically started selling their concrete around the world. Okay, example. Internet dating rules -- this is my teaser slide. So, you are not going to find out that. Okay. So, Rules 3.0, you just hear - you'll just hear the simple story of this is what the rules are, keep it simple, few rules, unique rules to you on a process, 2.0 what's your objective, what's the bottleneck, what are the rules. Now, we are going to go to 3.0.

It turns out there are different types of rules which as an academic was pretty interesting to me that there different types and that they are harder and easier to learn and that they have more or less implications for performance. So, the geek in me loved that aspect of it; the practical person in me like the fact that some actually matter more than others. So let me tell you a little bit about them. First of all, there are boundary rules. Boundary rules as it turns out are pretty easy to learn. Situations were you are deciding yes or no like whether or not to give bail or you have got a lot of alternatives which one to choose. Group of people who really need a boundary rule are burglar as it turns out because you know there are a lot of houses you can burgle but you really don't want to get caught. So what is a good burglar do? What's the Simple Rule? Never burgle a house with car in front. It turns out that it is extraordinarily good rule for knowing whether or not anybody is home. Moving on from burglars -- how about the Weinstein Company? The Weinstein Company is a movie company as I would think at least some of you know that in the background there that you can look at, that is, that is the Imitation Game, the movie, which is a Weinstein Company movie.

If you are a movie company, you see a lot of scripts. There are a lot of would-be writers sending you scripts, sending you story ideas. How do you pick? Well, it turns out the Weinstein Company Pix has a couple of simple rules. One of them is always have flaw in sympathetic main characters and the second is have a story that's about a basic human condition. So if you saw the Imitation Game you know that Alan Turing is a truly annoying jerk but you know you like him - don't you? I mean you really do, you do kind of like the guy. So he is a flawed with sympathetic main character and then he is dealing with homosexuality which then adds sort of a social problem on top of it. That's top of mind for at least some people. Another movie by them is The Silver Lining's Playbook again dealing with mental illness. The Artist, the King's Speech dealing with difficulties and you know in talking obviously. That's sort of their genre -- flawed with sympathetic main character, serious, common human condition.

So what movie wouldn't they do? Gone Girl -- did you all see Gone Girl? Talk about unlikable characters. They're not Weinstein Company characters. Also The Birdman -- have you saw The Birdman, another movie Weinstein will never do. Too annoying, those people are too annoying. Okay, now they are boundary rules. This is actually a start-up company called Frontier Dental. And here the problem is. And those of you who started consumption, you try some of the product and you talk to hundred people and nobody wants your product. They're three people who want your product then it takes forever. And so that was what was had in the company, they weren't getting any traction in new cosmetic dentistry product.

They started analyzing when they were successful. They started thinking about it more. They tracked in their own experience and came up with a couple of simple rules. One of which was again a pretty simple one was, go to dentist that has a great website because a dentist that has a great website is a forward thinking dentist and then the second thing is avoid any dentist that has more than four finance charges in a year because you want a forward thinking dentist who also pays his or her bills. So that's Boundary Rules. Priority Rules are about okay you've got a lot of things you could do but what are really the priorities? Typically, it happens when you don't have enough time or enough resources. For instance, down the street Google have a pretty interesting rule. You think about their bottleneck particularly in the early days but even now. It's hiring great computer science talent. You can check the resumes and you can see you know right school, right grades, you know that kind of thing.

But how do you really pick beyond that? And it turns out that Google favors people that other Googlers are referred to Google. So for example, Toby refers Albert and I am more likely to hire Albert because I trust Toby's judgment because we know that Googlers work with other smart Googlers and so that turns out to be a tie-break when everything else looks the same. They also have two rules. Those are that easy. Boundary Rules and How-to Rules is the easy ones to learn. Priority Rules are a little harder. How-to Rules is easy -- guiding the basic steps of executing a task. How do you actually do things? I'll give you example of Twitter of How-to Rules. I know some of you know are in business already. Some of you will be in business.

Some of you had summer jobs. But you can spend an endless amount of time in business in meetings -- constantly going to meetings, stuff happening in meetings, kind of in hurry in getting anything done. Well some of the executives at Twitter and now starting to do is a pretty interesting couple of rules around meetings. No PowerPoints because you just waste time trying to figure out PowerPoints. And you are not allowed to cancel a meeting because everybody has organized their calendars around it. And it really screws everybody up if people keep canceling or not coming. So no power point, takes way too much time. Don't cancel because you'll mess up everybody. One of the ironies of rules -- How-to Rules is that in fact highly creative people are often using rules. It may not be your rules and they maybe creating their own sandbox but they often are operating off rules.

Good example is the band, The White Stripes -- now if you're White Stripes fans? But White Stripes. I'll catch up on my notes here. White Stripes did their album the White Blood Cells which was one of their sort of albums of the decade in 2000. They did that album, 18 songs in 10 days. What were they doing? Obviously, well I don't know. We won't even discuss what they might have been doing. Why are you aiming -- you just don't go there. But what they were doing is they were following some rules. No blues. Sorry, Tom.

No solo guitar. (22:58). I don't know about Kevin, but no solo guitar. No slide guitar and no bass. Other than that, again who knows what they were doing. But they got an award winning great album out in 10 days Again, few Simple Rules. And Simple Rules and Rules from around creatively are pretty interesting because they actually force you to think more. When we first started doing this research, we noticed that better companies had this kind of Simple Rules. They didn't have no rules because the people who have no rules are often having a really great time but they are not shipping any products and not selling anything and that was like the prototypical bad West Coast Company. The East Coast companies tend to be way too many rules and it was the companies that found that middle spot that in fact turned out to be the ones who were pretty good.

Okay. Timing Rules, it turns that Timing Rules are hard to learn. Timing Rules -- When to act, what to do are hard to do rhythms. They tend to be harder to learn. But it wasn't too complex for nature. Dragonflies actually migrate on Timing Rules. So, the green darner dragonfly of the East Coast migrates itself when they are two nights that are below freezing. They start their journey and then they keep going on the journey. But any day that the wind is more than 15 miles an hour, they stay put. Otherwise they're headed to South to Florida.

More serious problem is insomnia. Roughly 20% of the U.S. population suffers from insomnia at least sometimes during the year. It turns out Timing Rules are incredibly important to curing or at least helping insomnia. Rules like go to bed when you are tired, a Timing Rule. Get up at the same time every day, a rhythm Timing Rule and minimize the amount of time in bed. Proven Rules that help particularly the elderly get a good night sleep. Bringing it back to business, I think one of -- a lot of people's favorite company is Pixar. When Pixar started out, their first movie was the Toy Story; first big movie anyway was Toy Story. The problem with Toy Story was that it took four years to create.

And it's kind of hard to make a movie business if you only do a movie every four years and it is hard to get people who actually want to work in your company for only doing a movie every four years. So what they started to realize that maybe we actually need to pick up the pace and they started getting into this idea that we're going to do one movie a year. It's actually not trivial to do one movie a year when it takes you four years to make a movie but they got into that rhythm and essentially started to realize we do, this is the first year, this is the second year, this is the third year, this is the fourth year and they just kept flowing through and so they created a pipeline. And they don't make it every year because so often they do get kind of a dead movie and they just don't release it. But basically they are doing a movie a year and they were releasing that movie at

Thanksgiving which is the biggest box season time of the year for them. Movie a year at Thanksgiving that goes with I think actually another one of rule is pretty interesting rule. Story first -- graphic second. Okay. Timing Rules, hard to learn but with your time to learn. Finally the hardest rule of all to learn is when to stop doing something.

When to call it quits? When it's day to go? When is the time to move on? This is a critically important problem if you're a cricket, particularly if you are female cricket. When have you found Mr. Right? When you find Mr. Right, you will have more babies and you'll probably have a longer life; find Mr. Wrong, we all know where that goes. So the question is what do you if you're a cricket? How do you find Mr. Right? Well you keep sort of shopping cricket. Actually, they come to you and you pick the cricket that can chirp at least three chirps a second. And obviously, better is better. You know we all know that.

If you find Mr. Right but if you spend about 24 hours and Mr. Right still hasn't come your way, you lower your standards which, is as we all know from operations research is the variable threshold strategy. Also, sometimes used at bars and other places. So Stopping Rules -- Stopping Rules are also I think important for investing. It is very easy to buy stock. It is very hard to sell. And our friend, Steve Blank, my colleague Steve Blank. I particularly, we all know his rules. I am sure everybody in the room knows his -- get out of the building.

Get out of the building, talk to hundred people and you may not know this one. Do it face-to-face. What's less known is Stopping Rule and Stopping Rules are after you have talked to these hundred people on your business for a little while, you ask yourself four questions. Do customers see this as a problem? Will customers pay for solution to that problem? Will they buy that solution from us? And can we create that solution. If the answer is yes, yes, yes, yes -- keep going. You get to know it's time to do the ever popular pivot. Basically, it's time to stop. Okay. So that was the different kind of rules and why am telling the rules. To say, as an academic, I love that we are just different ones.

But as a real person that you're perhaps more likely to be, the insight here is that as you are thinking about what the heuristics are to start to develop a new business, be sure you figure out some hard ones. Be sure you figure out a Stopping Rule, you know when is the time to leave this relationship, this business plan, this whatever. Timing Rules and Priority Rules. Those are the hard ones to pick up. Take your time to learn those. Okay next part of the talk. Why do Simple Rules work? As an academic, I actually care about this. We in academics, we actually try to think what's the underlying reason why things are true. So, why is that the Simple Rules seem to be pretty effective in people like Mark Zuckerberg and Janet Yellen use them and people like Steve Blank. In fact if you ever listen to Steve, he is like always talking that way.

I think that's actually one of the great, why he is such an insightful person. What is the rule that has worked? You make better decisions. You focus on what's important, you proxy for information and give disciple which is all maybe a little abstract but basically it lets you go faster and if you in entrepreneurship or if you are in a big company that's highly innovative, you got to keep it moving. So, they lead faster decisions. So for example let's take Warren Buffett, world famous investor. He has a pretty Simple Rule. Always invest in what you know or never invest in what you don't know conversely. Very simple rule makes for a better decision. It turns out that if you consider. For example, there is a study of picking jams of all things.

If you give people a selection of four jams, they're likely to buy. If you give people selection of 20 jams, they are not likely to buy. It is too much information. It is too many alternatives. Something simple works better. If I give you 10 things to do, to be a better student, you'll do none of them. If I give you two rules, I have at least some chance you'll do something, so Warren Buffett, Simple Rule. The other thing about better decisions is that rules often proxy for more information. So for example, I mentioned to you that you know we partner with people who have laser screen machines. That was a proxy for something.

It didn't really matter about the machine. It was a proxy for the fact that people who had that machine were likely to be innovative, high quality. Another example as a company, we were looking at in some of our research that was expanding internationally. They had a rule always expand in English speaking countries. It turned out the team were Brits most English speaking countries are Brit, you know from a British Empire. The culture is actually fairly similar. The business environment is similar and they tend to have high GDP. So the fact that it has nothing really to do with language in some sense, it is a proxy for something deeper. Finally, I think better decisions, you get better decisions because when you're busy, when you're tired, when you're stressed is when you can fall back on a roll and that I think is the world that most entrepreneurs, most innovators, most executives in major corporations are in, they're too busy and just like at the end of the day is the time when you're going to fall off the diet because you're tired after the end of it you know at the end of the day, that cabernet is calling you. It's when you're tired when you're stressed out that you can fall back on a roll.

So rules are also good because they give you flexible opportunity capture. Essentially, rules let you scale that's kind of the entrepreneur insight here. If you start figuring out what the rules are, you can scale a lot faster because you're being efficient on the rule but you're being flexible on exactly what you do. Like the Weinstein Company, there is a certain kind of movie we want, flawed and sympathetic main character, within that we could pick a lot of different movies. Flexible opportunity capture -- well, you maybe never thought of the Pope as an entrepreneur but actually in 1540, the Jesuits were founded by Ignatius Loyola who was a basque nobleman. They turn out to be one of the most entrepreneurial church organizations known to man.

And they actually started at a time when much of the church is stuck with these really boring rules like don't wear your slippers outside the monastery. Only blood-let four times a year -- all these years. There was one order that had 73 chapters of rules, pages and pages and pages of rules. In contrast, the Jesuits who by the way are the educators of Bill Clinton, Fidel Castro, Charles de Gaulle, my brother and actually a bunch of guys who play football at Stanford went to Jesuit schools.

Had a few simple rules to start out that order as the -- if you will 15th century entrepreneurs. It was --took maybe to quote Steve Blank was to get out of the building. As in get out of the monastery walls, in fact get out of Europe and yet remember it's all about saving souls. So saving souls, get out of Europe, get out of the monastery with a little bit of a priority if you have to choose for education. What that lead the Jesuits to is all around the world doing things, it led one particularly Jesuit to hang out with the untouchables in India and rags ministering to that community, going over to Japan, hanging out with the show guns obviously upping his outfit to hang out with the elite of Japan. Very flexible in terms of what they did. Always about saving souls whether it was lepers, prostitutes or whatever in helping people but a really broad mandate in which to do that. A little more modern times -- how about little Yelp. Yelp is another one, flexible capture of opportunities. Key problem at Yelp is how do you get people to review for free and keep doing it because a lot of the Yelp reviews, you know everybody in this room probably uses Yelp.

How many of you review for Yelp? Yeah. Like two. That's the problem. It's like two. And you know I use Yelp and I don't review either. And so the question is how do you get people to review and get jazzed about it and how do you keep them reviewing and so they and Yelp has got some kind of interesting motivational technique which maybe is for another time but the point is, it's enabled Yelp to be around the world, to be in Taco stands, to AVIA and other elite restaurants and even kind of do whatever they want with reviewers of all stripes. So the point is it led Yelp go to lots of cities, lots of restaurants, lots of kind of reviewers, all within a few simple rules. Then finally superior coordination is something rules get you. I will give you an example. Shared economy is all about coordination of large numbers of people doing something.

Zipcar, great example of how do you coordinate how many customers Zipcar has? Hundreds, hundreds of thousands, some crazy number of people. How do they start out at least before they were bought by Avis. A couple of simple rules around coordinating behavior and why isn't worked by the way for coordinating behavior because when you keep just a small, a handful of rules or handful of precepts, people are going to remember it, people can communicate it and you can enforce it. Zipcar, what are the things you had to do? Return the car on time, report damage, fill the gas tank, keep pets in carriers, don't smoke. Pretty simple set of things that coordinated hundreds of thousands of people doing things. True of Wikipedia -- at least to when Wikipedia started. Wikipedia started with a couple of rules. Neutral, so that was facts, not opinions. You always have to have a source and in their third rule which I actually love is and don't follow any other rules. They of course have changed that if you have been to Wikipedia lately but if you think about what Wikipedia accomplished in terms of crowd sourcing encyclopedia and the knowledge of the world, it's an incredible, it's an incredible achievement and most of that growth was when they had Simple Rules.

How about superior coordination from Janet Yellen? Janet Yellen, Federal Reserve Chair. Janet Yellen has a hard job. The U.S. Economy is not a simple economy, it isn't. There is a lot going on in the U.S. Economy and part of her job is communicating what the feds going to do so the business people and investors have a sense of where the economy is going and have the confidence to invest. What does she do? She has a rule called mind the gap and the gap refers to the difference between the ideal unemployment rate and the actual employment rate and it refers to the ideal inflation rate and what's the intolerable inflation rate. And she is monitoring those two, essentially those two gaps, and setting interest rates and she is in Board of Governors obviously. But what that's doing is not only does it appear to be pretty good monetary policy, it also is giving people an understanding, people in the investment community and the business community a sense of what's going on with interest rates so that they can plan however they want to plan. So it's not just they are good rules, it's that she is able to communicate a very difficult set of choices in fact in a very simple way.

Finally, as we are kind of getting to the end here, going through, what are Simple Rules? How do you create them? What are the kinds? Why do they work? They work because they make decisions faster. They let you scale that you coordinate large groups of people. Finally, how do you update. It turns out that when you first think about heuristics, rules of thumb, whatever you want to call these, they're usually not all that great. And in fact so the example I am going to use is the Stanford Football Team. For those of you who are Stanford Football fans, you do recall the 1-11 season, not so long ago and then much maybe you've blocked that out at this point and you're now just remembering the Rose Bowls and these Orange Bowls and they bagged 12 titles. But they're those of us, who remember the days when actually it was good because you could always get a seat. But the story I really want to tell is the story of Shannon Turley who is the strength coach at the Stanford Football Team. He starts out and Shannon's starts out. He is in the University of West Virginia and he wants to be a strength coach.

And so he hangs out in the football locker room and he learns about how to do bench presses and squats and the power of a motivational T-shirt that says personal record on it. But then he moves on and he starts coaching in professional baseball. The minor leagues are the Kansas City Royals. Well it turns out the Kansas City Royals are not buying the football strength

program. They are saying and why should I do a bench press and why should I squat, I am a pitcher. So he has to start to justify why his stuff should work and make somebody a better pitcher for example. Then he moves on and he is then a graduate assist at University of Missouri and he's the strength training coach of women's volleyball. I don't want to speak for all women. But like bench press is not real interesting to me, I barely even know what one is and I don't think I want one. But women's, nonetheless women's volleyball players do have to work out and who have to be in shape and what they need to be able to do is they need to be able to jump and they need footwork and so what Shannon started to develop, okay, that's really what these women need.

They don't need to bench press. They need to be able to jump and they need to be able to move their feet fast. And as he's doing this, he's starting to reflect on, what does it really mean to be a strength coach. So then he gets to Stanford and he's actually brought here by Jim Harbaugh. They work together in San Diego. Jim brought him here. And he starts really now and now he's in-charge of his own football team. And what he does is he focuses on something that pretty much no other strength coach is focusing on. It's not about being stronger that's not the goal. It's about reducing injuries that what we want that what Shannon realized was you want your best players on the field.

They are the ones who'd play the most. They are the ones who get hurt. You don't want injuries and particularly if you're school like Stanford where you have a very thin team because they're not that many players who can play league ball and also pass courses at Stanford. So it's a very thin team. You don't want those -- apart from the moral aspect if you don't want people to get hurt. There is this strategic aspect if you don't want your team hurt and so what his rule started to be much more about than really any other strength coach were about injury prevention. Injury prevention, a lot of his rules were around stretching and he has a couple of rules around basically exercising in ways that are relevant to your position and as Shannon says bench pressing sort of point was because once -- because you do it on your back because once you're on you are back, you've lost in football. So why would you practice that. So he has a couple of rules around strength training, focussed particularly on flexibility because that keeps you from getting hurt. A couple of things focussed on injury of prevention.

A couple of things focussed on functionally relevant to your position. And by the way, apart from the Stanford Football Team having a better record which I think as some says due to the strength training has reduced injuries by 87%. So we also have a healthier team with guys who can go on with their lives and not be cripples. Improving new rules -- let's get back to something a little more entrepreneurial -- how about Airbnb. Airbnb starts in San Francisco as I am sure many of you know with some guys trying to earn extra money by renting out space in their apartment on an air mattress and giving them a bagel in the morning. Seems like a great idea. They do a conference that's coming to San Francisco. They get a lot of people buying in. So they say well, you know it's all about the conferences. And by the way it's probably kids trying to save money.

They go to South by South West -- they get like three people who want their service. They try the Democratic and Republican Conventions, a little more action but after the conventions are over, Airbnb who. So what do they do? They join Y Combinator. They are lucky enough to get into Y Combinator and what the story of Y Combinator is. By the way, the Stanford Football story was around what Shannon did was self-reflect on what he was learning in each of those sports that he coached. What Airbnb story is about, is not only self-reflection but learning in a variety of ways because at the end of the day, Y Combinator and companies like that are accelerators of learning. It's about how do you learn faster. And the story of Y Combinator is multiple ways of learning. For example, there is the Tuesday night dinner where you listen to some luminary talk about his or her experience so you have kind of role model on what to do. During the pre and post time of that dinner, you're talking with other entrepreneurs about their experiences so you're curiously learning about what they're learning in their businesses that they're starting up so you're learning curiously about them.

They're also asking new questions about what you're doing and you are having to articulate what you do. So you're learning from other people, your peers as well as from the luminary, that's the Tuesday night dinner. They also have special coaching by Y Combinator personnel, experienced entrepreneurs or at least experienced coaches. For example, for the Airbnb guys, they learn some really valuable pieces of advice from Paul Graham, one of the founders of Y Combinator. He told them having 100 customers love you was way more important than the 1000 customers liking you. So that's a set of sense of okay, that's the kind of service we have to deliver. Their second piece of advice was get out of Mountain View and go to New York City. I mean it's not going to take off at Mountain View. It's going to take off in New York or cities like New York. So they go to New York, every week they're going to New York, so that's a third part of the story, get the advice from a New York expert.

They go to New York and it's on the ground. They're doing experiments for example do professional photos work. They're doing trial and error learning with, hey, will apartment managers want to be doing this for us. So they're doing trial and error experiments, observation, learning in a variety of ways. After their Y Combinator experience, they start to see what's really going on for them. Forget the conferences, it's about international destination cities and more importantly it's about the bottleneck for them is hosts. Get the host right and business will happen and that's what they realized with the combination of the Tuesday dinners, expert advice, on the ground, seeing people, it's about the hosts. And it particularly develops some ideas around how do you recruit a host. It's about a certain kind of party where friends bring friends and then it's also about training

hosts but it's not giving the host a zillion things to learn, it's about a couple of things. Like clean sheets, fresh soap.

I mean who wants to go to somebody's house with old soap. It's about the soap and about professional photography but really only a couple of things remember. Fresh soap, clean sheets, professional photos. And so the point is that many successful entrepreneurs, many successful business people on the salvage corporations improve their initial rules, making them more strategic by multiple ways of learning. Finally, we talked about changing the rules, sometimes it's just improving the rules you've got, making them more strategic, sometimes you got to break the rules. I am not going to say about the California drought because I am not seeing too many gardeners in the audience. So I won't go dwell on gardening perhaps you, but maybe nobody else. Let's just say that the California drought has rocked the world of gardeners because all the rules are different. You don't plant on the spring anymore. You plant on the fall.

You don't worry about the flowers you look at the leaves and the textures. You don't worry about good soil because native plants like lousy soil. You don't worry about some are watering because the watering matters in April so whole different set of rules that have rocked the world of gardeners and probably rugged. And so rather than responding to the drought by the 2Cs, concrete and cactus, great gardeners are in fact rewriting the rules. And they're rewriting the rules. Well, Cheers didn't exactly rewrite the rules but House of Cards did. House of Cards broke every rule that Cheers was the prototype for. Cheers was one of the original most successful sitcoms, television shows of all time. 40 million Americans watched the last episode of Cheers. That's more than anything you can think of that people would watch, 40 million people watching the end of Cheers.

Cheers focussed on writing. Cheers had fabulous writers and they wrote likable characters who appeared every week who told a story in half an hour so you had Sam and Diane and the various characters of Cheers. You all know Cheers? Yeah everybody knows Cheers. Everybody knows everybody knows your name? It's the other tag line. So what happens after Cheers? By the way, Cheers is now the formula of the Big Bang Theory, Two and a Half Men as well as dramas like Grey's Anatomy. They're all following the Cheers formula. What about House of Cards? What about Netflix? Well think of the strategy problem that Netflix has. You're DVD business is dying. It's going to streaming. You don't have any content.

How are you going to create content that stands out? And so what Netflix does is basically break all the rules of television. First of all, they do have great writing. And that wasn't that path breaking because shows like the Sopranos and Homeland, they're also great writing -- the Wire - edgy great writing. But they broke, but they nonetheless had that kind of writing. They broke those Cheers rules about likable -- I mean who likes those two? You know nobody. I mean they're not, they're starting to get endearing but they're not real likable. It isn't this cast of characters that you see every week. Their characters aren't explored and so forth. So first point, Netflix breaks the television rules and copies more The Sopranos like rules. But where is the real breakout? The real breakout is they not only do they break writing rules, they go to a new bottleneck and that's directing and particularly David Fincher becomes on as their director.

David Fincher did The Social Network, Girl with the Dragon Tattoo, Benjamin Button, long string of hits, top notch Hollywood director. He becomes the lead director. He then brings in other lead directors like the director of Desperate Housewives and the director of The Sopranos, Allen Coulter. And those directors come in and each of those directors, you have to do two episodes. They have to be sequential. They have to do that but you can hire your own daily people for example so you still have to use Kevin Spacey. You can't switch out Kevin Spacey. But if you have a person that's going to only be in your two episodes you can hire that person if you want to. The other thing you're recommended that you should use a stationary camera because you get a more cinematic quality. In fact, one of the really striking features of House of Cards is the cinematic visual quality of the show and that's largely because of the kind of directors who direct that and the stationary camera work.

Within that, a top notch director can do whatever he or she wants as long as you do two episodes, oh you have to have a 20 day shoot, 20 day shoot, two episodes. Please use cinematic cameras instead of stationary camera where you don't have to after that do what you want to do. And what you get is a show and that is actually maybe because we are getting towards the end of time. I will just say one last thing that they did, they broke programming rules by the binge watching and they also broke hiring rules by essentially A-list directors, A-list actors and the creator of the show is not quite A-list yet but he has been nominated for Academy Award for a top notch writer. What are they doing? I mean I would say one last thing about them is they particularly with the binge watching and the other thing they do which is a programming change the binge allowing binge watching and buying two years of House of Cards site unseen. That was -- there is nobody in television who does that. Why could Netflix do that? Because they knew from their DVD business, they knew you would like House of Cards before you knew you would like House of Cards. They knew, Netflix subscribers watched the British television version and they knew that Netflix subscribers like Kevin Spacey. So they exploited their data analytics to create a rock the industry rule around programming and the purchase of programming because of their characteristics that they had. So finally just to wrap up, so I think I would get a little along in there, but let me just wrap up about what Simple Rules are, a handful, unique to you on something specific.

How do you get them? You have an objective you find you're bottleneck to create the rules. The kinds of rules -- pay attention to the Stopping and Timing Rules. Why do they work? They'll make you faster and let you scale and let you

coordinate and then finally changing the rules by using basic learning techniques like self-reflection, experiential learning and trial and error. So let me just close with one of the ultimate innovators, Leonardo Di Vinci not Leonardo Di Caprio. Simplicity is the ultimately sophistication. So thanks a lot. Yeah, time for questions. Any thoughts? Anybody? Yes. What is your rule in creating these slides? What are my rules? Call Danielle. No.

Danielle who is our expert graphics designer at STVP created the slides and what I wanted, actually I did have. The rule was around mixing entrepreneurial companies with things you weren't expecting. That was my rule was to mix up the content. How about internet dating? Internet dating, oh you got to buy the book. No, one tip on internet dating. The most successful reading on an internet email is, how is it going? So try that everybody. Okay. Any other questions? Yeah. If you look at this framework and then you start to look at these dataset of companies that you've worked with -- is there a pattern of one or two things that - mistakes that you see them making consistently? Yeah. They don't take the time to crystallize what they're doing.

They just keep, they just keep doing, doing, doing and they never step back, self-reflect, test, what's going on here. That's probably the biggest one. Anybody else? Yes. Can you talk about any rules you have as an engineer? Rules for what? Being an engineer? Rule for being an engineer. That's good. That's a good question. I am an engineer, mechanical engineer in computer science but I haven't been an engineer in a long time. But I do know rules about being. Well first of all, one of our points is actually your rules are your rules. So, you know I love that kind of engineer who might have a totally different rule but one thing to watch out for I think that's really sort of basic career advice is be sure you've got a really good first boss.

You're immediate boss is good because he or she will then connect you to the rest of the company well. How about you can also be a humanist just because you're an engineer, doesn't mean you can't be a humanist as well. You can't be a humanist as well maybe that's Leonardo here. All right. Anything else? Anybody? Yes. I just have kind of a simple question that there is a Simple Rule where -- the Stopping Rule where you said that if you have it then you have to ask yourself those four questions? Yeah. And you said if you ever get to know then you should just stop doing it but my question is how do you kind of factor in like emotional kind of like, how do you factor an emotional complexity? Well that as actually, doesn't mean emotional, that's actually one of the reasons why the rules work because it is very hard to say goodbye to an old friend named a bad business idea and so that's actually what a rule does like or a bad stock or there I'd say a bad relationship. It's when you have the rule that it actually takes the emotion out of it and you sort of in the abstract say you know I know that's not working, I know I should quit and get over the emotion if you will. Yes. We see large companies like Disney with huge handbooks of rules -- how do you scale backwards towards Simple Rules once you have accumulated a lot more regulation? Actually, Netflix is an interesting example of that.

I mean I don't think they have had the scale of rules that Disney had but they used to have rules around their travel policies, and you know you can expense this you can't expense that, yadda, yadda, yadda. They just, they basically just got rid of it around travel because they expense because they say it is taking our people a lot of time to fill all the stuff out. They don't remember the rules anyway so they're probably not following them. So they just wrote some rule I think it was something around, if you wouldn't pay for yourself, don't make us pay for it too. So I think it is focusing on what's the -- I mean you can't. It's kind of like healthcare, you know you're not going to fix healthcare in one bill. You know, you got to chip away parts of it so what's the particular problem is that you know expense is just driving everybody crazy. Is it power points at meetings? Is it something more substantive around product innovation by picking your spot and then stripping it away and in getting the people what we have seen work is, getting the people who actually have to use the rules, develop the rules, try the rules out and come up with it. Yes. Institutions like the IRS to simplify the rules, other countries have done so like small ones like Estonia or Russia as you know 10% of your income, that's it and you don't have -- how do we do that? It is interesting in the context because the rate of compliance and paying your tax is inversely co-related with a size of your tax code.

So the bigger your tax code the less people pay and more they cheat and perhaps on purpose, perhaps not. How do you get it? One of the problems with government and I am -- neither Republic nor Democrat here but is that there are too many special interest that actually like the complexity in the tax code. Whether it's your favored accountant or whether it's your oil and gas lobby or you're soybean growing farmer or whoever it is, it is the special interest -- at least am I sounding like I don't know. Do I sound like Ron Paul or something? Actually, I am doing a radio interview tomorrow on the Ron Paul Channel. Speaking of but I think the problem you have too many people for whom complexity is payday and so that would be a lot better if we all pay 10% or whatever the percent is but they are too many interest which I think is we also have with healthcare, not that healthcare was ever going to be simple but too many people are happy the way it is. All right Kathy. Thank you so much. Thank you everybody. Thank you.