



Values and Practices

Guidewire Employee Presentation

Last revised March 2016

An Idealistic Start

Guidewire was founded in 2001 by a team of six.

The carnage of the tech crash taught some hard lessons about the price of excess and overconfidence.

The founding team wanted to apply these lessons to create an enduring company that solved a real problem.

Before there was a specific business plan, there was consensus on a set of principles for the company

Early Principles

The Company must...

1. Adhere to a clear set of values
2. Meet a substantive market need
3. Follow a simple, rational, and constant strategy
4. Build the best products in the world to meet the need
5. Prioritize long-term health over short-term expediency

As mere mortals, we do not always live up to our ideals perfectly. But with few significant missteps, Guidewire has followed these principles and succeeded because of them.

This presentation elaborates on how they are embodied at Guidewire today.

Topics

- 1. Clear Values**
2. Real Market Need
3. Rational, Constant Strategy
4. Best Products in the World
5. Long-Term Health

Values Are Lived, Not Merely Asserted

Most corporate values are hollow platitudes because

- ...they are too numerous, abstract, or idealistic
- ...they are cast aside when inconvenient
- ...they are disregarded by the company's leadership

Real values are revealed by actions, not merely **asserted.**

And a “commitment to one's values” only matters if you are willing to **sacrifice things you want — sales, profits, competitive advantage even — in order to uphold them.**

Guidewire Has Three Values:

- **Integrity**
- **Rationality**
- **Collegiality**

Integrity: The Truth About Software

The software business has great temptations to lie:

- The products are complex and intangible
- Customers often have unrealistic expectations and beliefs about technology
- Anything is “theoretically possible” with enough time, money, and wishful thinking

And so software companies lie **all the time** about:

- What their products can or will do
- How long it will take to implement their products
- How expensive and difficult it will be

(Sometimes they lie to themselves, which is just as bad.)

Integrity: Tell The Truth

Integrity means, first and foremost, **to tell the truth:**

- Tell the truth to customers
- Tell the truth to employees
- Tell the truth to investors

Everything Guidewire has achieved since its founding has been on the foundation of the truth.

- What our products can and cannot do
- The true cost and effort of implementation
- The true state of our business

Integrity: Its Costs

Of course, we are not omniscient. When we are wrong, we own up to these errors. This is usually painful.

Example 1: When we realized we had structural problems with a major release more than seven years ago, we had to tell customers we would be late by >6 months. They did not appreciate the news, but they did appreciate our honesty (eventually).

“Integrity is its own reward.” That’s good, because it can be expensive in the business world!

Example 2: We have lost in competitive sales situations because of our unwillingness to match unrealistic costing estimates and promises. So far, we have always been proven correct (eventually).

Integrity: Internal Transparency

Internally, Guidewire strives for transparency.

- Quarterly company meetings with substantive updates on all aspects of company performance
- In-person accessibility of the entire management team
- Forthright answers to each other on any question
- Honest acknowledgement of problems with our products, projects, processes...or anything else

There are exceptions, but it's a short list:

- Compensation and employee information
- Legally necessary confidential information
- Announcements timed to minimize disruption

A Reminder of the Obvious

Transparency does **not** apply to our competitors.
Never share **any** information with our competitors.

Compete honorably, but don't forget that they want to put us out of business. The feeling is mutual.

Rationality

Rationality means **acting on the basis of facts and logic**, and not for the irrational justifications that creep in:

- Title/role
- Tenure with the company
- Political theater
- Rationalizing sunk costs
- Wishful thinking

Intuition has its place, but it is not the best criterion for making judgments that submit to reasoned analysis.

Rationality: More Than Results

Many business organizations pride themselves on being “results-oriented” as opposed to “procedure-oriented.”

“Tell me the outcome you want, not how to do it.”

Guidewire is indeed results-oriented—in that we believe processes that don’t yield good results should be changed.

But that’s too simplistic...

Rationality: The “Right” Standard

What is the **right** answer in a given situation?

Here’s a definition: the right answer is the most rational choice, given the facts that are obtainable with effort appropriate for what’s at stake.

Note: the right answer may prove to be “wrong” because of hidden facts, unanticipated effects, or just bad luck.

Rationality: The “Right” Standard (cont.)

We must constantly make decisions under conditions of uncertainty, but that’s no excuse for just winging it.

So it is better to look at the rational quality of decisions and actions over things **we can know and control**.

The strongest organizations are those where **right answers consistently win**. People on such teams...

- focus on getting to the right answer—not winning the debate

- don’t second-guess or blame past decisions that were rational

- encourage and protect constructive dissent

Rationality: Practical Reason

Many companies valorize raw intellect (e.g., the famous brain teaser interviews at Google or McKinsey).

Raw intellect is nice, but our ideal is **practical reason**: developing sound, pragmatic solutions to real problems and following them through to completion.

Example 1: We build real software, not theoretical software. We ask of every product idea “how do we make it real?” against the constraints of schedule, capacity, and feasibility.

Example 2: We are an international company that must decide to enter new countries with very limited data. 1% of the decision is “analyzing the market” from the outside; the other 99% is going in person, getting meetings, pitching our products, and learning by talking to potential customers.

Collegiality

Collegiality means **work as a team of equal professionals.**

One good thing about software as a business is that, if successful, you actually can be such a community.

As opposed to what?

- A workforce divided between “labor” and “management”
- An “up-or-out” pyramid, like banking or some consulting firms
- A cult led by the messianic vision of a genius CEO

There are very successful companies built on those models, but Guidewire does not aspire to be one of them.

Collegiality: Basic Implications

Taking **collegiality** seriously has some basic implications:

- Value each others' well-being over the crisis-of-the-moment
- Use realistic assumptions on sustainable workloads for planning
- Trust everyone to manage their own time and whereabouts
- Seek input on important topics without regard for title
- Respect and truly consider contrary opinions
- Never accept abusive behavior, even from a “high performer”

Collegiality: Titles and Hierarchy

And **collegiality** has consequences for hierarchy, titles, and professional development.

Guidewire is pretty conventionally organized, though we strive for minimum hierarchy:

- Willingness of all managers to do “individual contributor” work
- Annual reviews for everyone, including the CEO
- No status privileges—we all fly coach*

* With non-status-based exceptions for hardship or work necessity.

Collegiality: Management and Promotion

Effective managers must understand their team's domain in detail. Therefore, we have a strong preference to **promote from within**—to get managers who have actually done the work they will oversee.

Example 1: The Directors who lead our Services team all have years of experience as individual team members on the same kind of implementation projects they oversee today.

Also, management is **only one skill**—and not even the most valuable or rare skill a company needs. Some of our most key people have no desire to manage. Therefore, we try to **separate advancement from management**.

Example 2: As VP Engineering, one co-founder hired the VP of Product Management, who hired a Product Manager who later became VPE, while the co-founder became a Product Manager.

There are two other principles that almost rise to the level of Values:

- **Frugality**
- **Humility**

Frugality: Why It Matters

Guidewire was founded at a time when capital was extremely scarce—right after 9/11 and the tech crash.

As a matter of principle and necessity, we have always been very frugal. Think: Every \$1 in wasted expense is a pure loss of margin...or \$20–30 in our company's value!

Software companies sometimes justify wasteful expense by hoping it will impress customers.

It has the opposite effect. Customers want to see that we spend money toward the company's mission.

Frugality: A Simple Standard

One way to urge employees to be frugal is asking them to spend the company's money "as though it were your own."

This test has a major flaw: not everyone values money equally, and it could even mean spending too little.

A better principle is "Spend the company's money such that you would have no hesitation in everyone knowing how you spent it." That standard is the right one for a high-integrity, collegial environment.

Be frugal.

Humility

We have the best software in the world for what we do—but it is far from perfect or complete.

Never be arrogant or presumptive. Our customers and partners hate arrogance.

Never gloat about successes over our competition. That invites resentment and tempts Fate. **Always behave as though our success must be earned anew each day.**

Competence + humility is an awesome combination.

Topics

1. Clear Values
- 2. Real Market Need**
3. Rational, Constant Strategy
4. Best Products in the World
5. Long-term Health

Meet a Real Market Need

Guidewire is a specialist company. Specialization = focus.

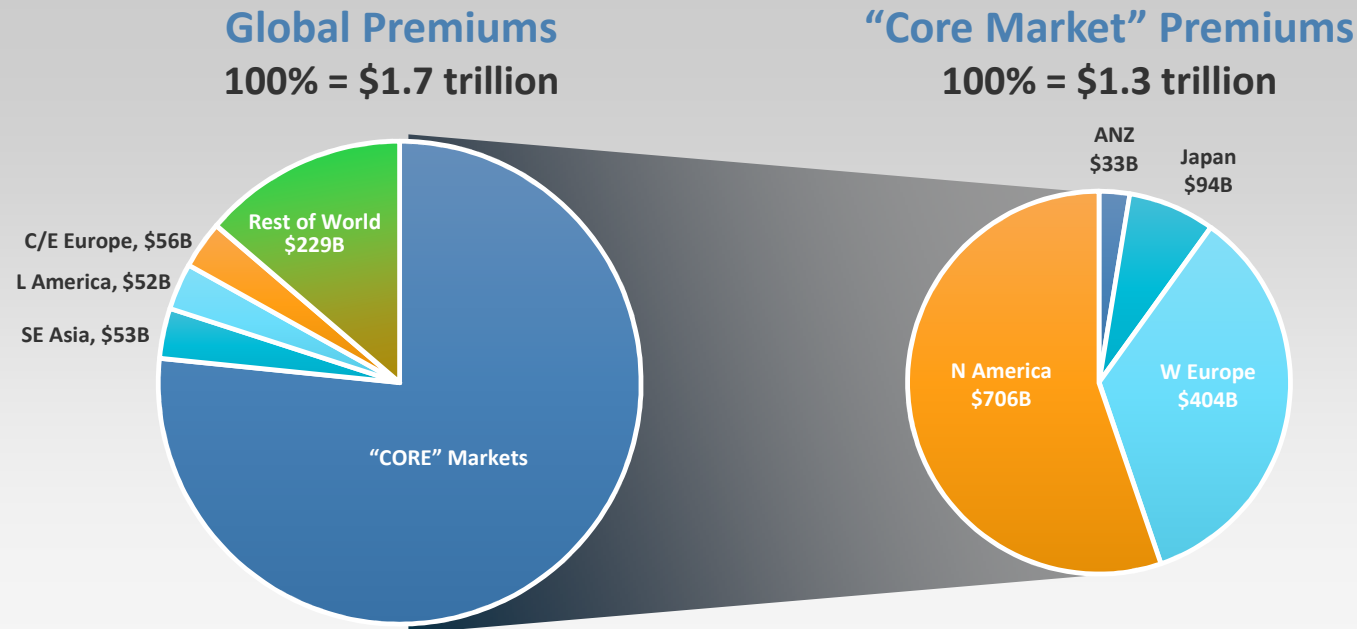
We serve only one industry: Property & Casualty insurance.

Why P&C insurance? 2 reasons.

- (i) Enormous market size
- (ii) Long-term inevitable demand

(i) The Size of the Industry We Serve

The global P&C* industry is **huge**: approximately the same size as the global automotive industry. It also spends \$10s of billions annually on IT.



Sources: A.M. Best, Swiss Re; data from 2007

* Outside of N. America, P&C is sometimes called "general" or "nonlife" insurance

(i) The Value of the Industry We Serve

It provides a pervasive and vital service, spanning virtually every kind of consumer and business calamity.



Hurricane



Automotive



Injured worker



Ocean marine



Fire



Earthquake

(ii) Long-Term Inevitable Demand

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The industry is overwhelmingly run on core systems that look like this. They are decades-old, and they have deep structural problems. They will be replaced.

Our opportunity is to be the leading company to do it.

(iii) Inadequate Competitors

Guidewire is not the only company who wants to do this. But we believe that every one of our competitors suffers from one or more of these critical flaws:

- Don't know how to build modern software
- Don't understand the unique requirements of this industry*
- Are unprepared for the multi-year demands of core/data/digital systems
- Have terrible track records of customer failure

We don't know that we will beat all our competitors.

But we know that we can—and now it is largely up to us.

* E.g., grouping it with life insurance or even general "financial services"

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There are three principles of “meta-strategy” that have been critical to our success to date:

- **Focus**
- **Constancy**
- **Consensus**

Focus

We have always had competitors with advantages over us.

- More customers
- More brand awareness
- More relationships
- More capital
- More people
- More infrastructure

Like any start-up, we began 0 for 6. We succeed by exploiting the one pure advantage we've always had:

100% focus on our market's need.

Focus

In practice, Focus means:

- Ruthlessly prioritize
- Get “A” priorities done extremely well
- Avoid getting distracted by the millions of things you would do if you had infinite time

Focus

Affirmative goals are only meaningful if accompanied by self-discipline about what **not to pursue.**

Example 1: Demands on our products are effectively infinite. So product plans are based on a strict hierarchy of needs, with “ensure customer success” as the non-negotiable foundation.

Example 2: There are many other species of insurance besides P&C and many other insurance entities besides primary carriers. There are tempting similarities, but we do not serve them.

Example 3: We are frequently approached by bankers pitching the “synergy” of this or that acquisition. The evidence is clear: most acquisitions destroy value, especially in software. Hence, our strong default is “not interested.”

Constancy

The details of any technology are complex. So are the operational details of any large-scale business. The essence of a strategy, however, should be simple.

Even if everyone is very intelligent, communication and coordination have high “frictional” costs. Macro changes in direction are traumatic for an organization.

Therefore, strategic clarity and constancy are vital.

Strategy must not live only in one inspired leader’s head.

Consensus

One management theory is that strong internal competition is key to a company succeeding. Often cited examples are GE, Oracle, Google, and Microsoft.*

Guidewire does not share this view.

Why? Because we need

- Extremely close collaboration between groups
- A single unified strategy that everyone embraces
- Collective success, not individual heroism

* And Enron.

Consensus = Collective Decisiveness

Consequently, critical decisions are made by **consensus**.

Consensus does **not** mean “no division of labor” or “debate every issue endlessly” or “avoid disagreement.”

It does mean: **debate the facts, make a decision, then live with that decision as a group—until there are new facts to justify revisiting it.**

Consensus has a bad reputation for taking a lot of time, but papering over dissent to save time on critical decisions is a false economy.

Strategy Headlines

We have been Focused, Constant, and in Consensus about a company strategy with these headlines:

- Serve a single industry and understand everything about it
- Address the global market, not just the U.S. and Canada
- Build true products, not tools or custom development
- Deliver complete replacement of legacy systems
- Provide applications for core processing, data and analytics and digital engagement
- Offer applications individually and as part of a unified platform
- Keep customers on a single upgrade path
- Focus our consulting only on implementing our software

Multi-Year Ambition

Focus notwithstanding, this strategy is extremely ambitious for a start-up company to pursue. It required multiple decisions to “bet the company.”

Example 1: In 2004 we started building a policy system, knowing that it would likely be several times as difficult as our first product. This was soon followed by a third product, a billing system, to now offer a full Suite of core systems.

Example 2: In 2005–2008 we started sales operations in multiple other countries, including Australia, UK, France, Germany, and Japan. Each of these efforts were only somewhat less difficult than starting the company itself.

Our Mission

We pursue a straightforward ambition:

To deliver the software that P/C insurers need to adapt and succeed in a time of rapid industry change, and to ensure that every customer succeeds in the journey

Our opportunity is large enough that if we succeed—by executing on the same constant strategy—we will be a very successful, independent software company.

Topics

- Clear Values
- Real Market Need
- Rational, Constant Strategy
- **Best Products in the World**
- Long-Term Health

Guidewire has two components to its business.

- Software—applications and platform
- Services—implementation, support, training

Both are equally important to our customers' and our success. We aspire to be the best in the world at both.

Product Philosophy

Guidewire is a **product** company. That means:

- We never do custom development
- Our customers do not modify our source code
- We keep all our customers on the same upgrade path
- Our products must be specific—i.e., functionally complete
- Our products must be general—i.e., extremely flexible

It is challenging to balance the specific and general, but it's a real competitive advantage to do it right. We believe most of our competitors do some form of custom development.*

* Even those that claim to be product companies.

Product Development Philosophy

We hire elite engineers at a very high technical standard.

We do not outsource any aspect of our development.

We embrace Agile development and, more importantly, constantly examine our processes to find improvements.

Product Development Philosophy (cont.)

Building mission-critical software requires rigorous development practices. Too often, software evaluations overemphasize superficial functionality.

Most of the things that really matter in enterprise software **do not show up in a demo.**

- Quality
- Flexibility
- Scalability
- Integratability
- Upgradeability
- Manageability

Product Development Philosophy (cont.)

Getting these things right takes a principled, sustained commitment to **rigorous development practices**. Absent such a commitment, short-term thinking will always win.

- **Example 1:** During a major release cycle for one of our products, we realized that our automated test coverage was far below our standards. We stopped new feature development for several weeks, so as not to create a hole of “tech debt” that would be very costly to dig out of later.
- **Example 2:** While developing our 2nd product we decided to build a fundamentally better UI layer. This was a major open-ended design decision, but the clearly right one for the long-term.

Services Philosophy

Because core systems are so complex, implementation can be a multi-year effort. Our Services team is as important as our software to our customers' success.

We have no “arms-length” customer relationships. We serve a single industry where everyone is in touch.

Our unmatched track record of customer success is by far our most important differentiator.

Therefore, we have always behaved as though a single customer failure would be fatal to our business.

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Not Very Fashionable

We have **not** obeyed Silicon Valley conventional wisdom.

We are not inventing a “new space” with a “new business model” as many start-up companies aspire to do.

That means...

- No “viral adoption”
- No “explosive growth rate”
- No “billion-user market”
- No “network effect”
- No chance of ever being a household name

Not Very Fashionable (cont.)

Enterprise software is not so fashionable these days.

Competitors tend to be huge incumbents with vastly greater resources and long head starts.

The rules of the game are hard on software companies with complex products and long implementations.*

Most of all: the sales, development, and implementation parts of our business are all **extremely difficult**.

* Read: accounting rules, patent/IP risks, costs of international business, etc. etc.

Embrace Difficulty

Rather than bemoan this difficulty, we **embrace** it.

- Difficulty is why we are significantly outpacing our competitors in product innovation and track record
- Difficulty is why our customers are willing to pay us to help solve their strategic problems
- And overcoming this difficulty is why our work creates economic and social value—and is worth doing

Every time you encounter something ridiculously difficult, remember: **that's why we're doing it.**

The Long-Term

The great attractions of our business come into focus with a long-term perspective:

- Our business model is simple and concrete
- Our software revenue is long-term and recurring
- Our customers are themselves stable, profitable businesses
- Once we win a customer, we can make them ours for life
- We have deep, strategic relationships with our customers
- We are unaffected by swerves in consumer taste
- Barriers to entry are very high against would-be followers
- And...the ultimate winners in software markets like ours enjoy strong profitability and high, sustainable valuations

Integrity (Again)

Earlier, this presentation mentioned that integrity can be costly. It can be in the short run.

But Guidewire is in a “small world” business:

- Trust relationships matter—everyone knows each other
- People remember your promises
- The truth about your products eventually comes out
- Reputation is vitally important

Integrity usually does pay off—over the long-term.

Topics

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- 6. Parting Thoughts**

Parting Thoughts

We are for profit. We are shaped by the tough love of the marketplace. We must continue to build what our customers will pay us for.

But we measure success as much by the **character of our company as by its economic achievements.**

We demonstrate that character through what we build together **over the long-term — and **for** the long-term:**

- Products of enduring worth
- A community of customers to whom we have fulfilled our promises
- A workplace guided by integrity, rationality, and collegiality



GUIDEWIRE

Adapt and succeed™