How the World is Changing:

The Importance of Being Imperfect

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MANAGING

The great challenge of our era? Get companies to change quickly enough to

IN CHAOS

survive a world that's crazier and riskier than ever. BY GEOFFREY COLVIN

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„The forecast for most companies
is continued chaos
with a chance of disaster.
The challenge is getting
comfortable with it"

(Fortune, October '06)

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Reasons for **complexity and instability** becoming **systemic features** of business environment:

- **network „domino" effect** of hiperconnected globalization

- **"overoptimization"** ; lack of buffers and (paradoxically) waste, slack resources badly needed at the time of turbulences

- global firms inevitably making **global mistakes** leading to (semi)global disturbances

- **increased homogenity** of global economy, management practices and business models

Strategy
for competing
on the edge of complexity and chaos:

❑ **mostly unpredictible**

❑ **basically uncontrollable**

❑ **frequently uneffective**

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**Thus, we are doomed
to
unpredictible
uncontrollable
uneffective
strategies
beacause, today,
nothing better is possible!**

It is the very attempts to create 'perfect' strategies:

- predictable

- fully controllable

- and always effective

that lead to a pathology
of both strategies and organizations
who become

- not ambitious enough

- with no long-range vision

- overregulated and bureaucratic

- geared to success at any cost (in most cases by being satisfied with small but certain)

- and freaking out easily when failing

In the 'imperfect', non-linear, self-regulated environment organizational top-down strategies cannot possibly be always perfect!

Long live
the
ORGANIZATIONAL IMPERFECTION!

**Success today
is not defined by the ability to have no complaints
but by ability to deal with them.**

**When building a business,
you are making mistakes all the time.**

**The best thing a company can do
is embrace its mistakes.**

The great delusion of excellence

- **The 'search for excellence' manifesto**

- **based on an absurd idea of creating an ideal company by combining the best features of the best business performers at the moment**

- **millions of copies sold turned a naive wishful thinking into a management paradigm for the next decades**

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Companies have defined so much 'best practice' that they are now more or less identical

"The 'surplus society' has a surplus of similar companies, employing *similar* people, with *similar* educational backgrounds, coming up with *similar* ideas, producing *similar* things, with *similar* prices and *similar* quality."

K. Nordström, J. Ridderstråle, *Funky Business*

If one wants to be a leader, benchmarking is irrational!

- Based on a believe that we should identify the leader in our sector, then implement a 3-year plan for copying him, to become like he was 5 years ago

- It is like driving a car looking in back mirror!

- **You cannot be exceptional by copying somebody who is exceptional!**

In the copy-cat economy
the only competitive advantages
are the ones that
cannot be copied!

Two octopuses – two strategies:
limiting the risk vs. dealing with it
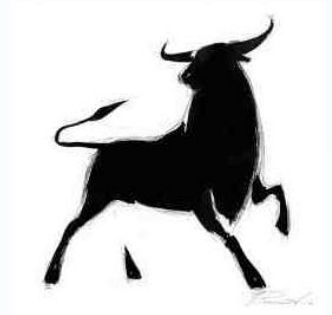
- **Nautilus**

- **Octopus**

The ability to both observe problems and then respond to them with multiple solutions is a hallmark of the most adaptable organisms on earth.

The trick is not in knowing the single „best" solution.

It's having lots of different options and solutions to turn to.

Qurencia
– the bull's comfort zone

- in bull fighting: the spot in the ring to which the bull returns

- each bull has a different *querencia*

- as the animal becomes more threatened, it returns more and more often to his spot

- but, as he returns to his *querencia*, he becomes more predictable

- and so the matador kills the bull because instead of trying something new, the bull returns to what is familiar - his **comfort zone**.

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Excessive relying on best practices, benchmarking and rigid procedures creates false, dangerous mental querecias in people and organizations

Define what is "perfect" and it's the beginning of the end

KEY CHALLENGES
ON THE EDGE OF CHAOS:

☐ **react (destroy) quickly**

☐ **anticipate, if possible**

☐ **and lead the change when it makes sense**

Managerial challenge is not
how to do it not once
or sometimes
but
all the time!

The dirty word of 'reorganization'

Was Steve Jobs, really, a perfectionist?

Between the desire of being **excellent** and a neccesity for the **innovation rhythm and the inevitable imperfectness**

Recipy for success today:

FIND A DISCONTINUITY AND CAPITALIZE ON IT

Next discontinuity is approaching:
The Fifth Wave of computer revolution

❑ **This time not fueled by a single technology**

❑ **4 major powers of the 5. Wave:**

   ❑ **Wireless, omni-present, broadband Internet**

   ❑ **Cheap, common computer devices (PCs, mobile phones, chips in every product) that can 'talk' to each other in real time**

   ❑ **Cloud computing**

   ❑ **Open standards**

❑ **5th Wave lets us understand where the honey will be tomorrow…**

OPEN SOURCE EVERYWHERE

SOFTWARE IS JUST THE BEGINNING...

LINUX's, Wikipedia's SUCCESS IS NOT ABOUT MARKET SUCCESS:
THE REVOLUTION IS IN THE METHOD, AND NOT IN THE EFFECT!

PRINCIPLES OF OPEN SOURCE:

- **Common goal**

- **Common effort**

- **Common sharing of results**

„Open Source is for mass innovation
what assembly line
was for mass production"

WOULD THIS BE A BEGINNING OF A NEW ERA WHERE „THE COLLABORATION REPLACES THE CORPORATION"?

Ever since the invention of agriculture, people had only 3 social-engineering tools for any large-level efforts at division of labor:

- **Market mechanism**, with its material rewards

- **Hierarchy**, with its top-down command system

- **Charisma**, with people doing something for the benefit/glory of those whom they warshiped

Now, there is the possibility of a 4th model of potentially effective social organization that is embedded in the very core of **open-source methodology and philosophy**

The new 'solution of choice', along with hierarchy and markets, for solving social/economic/management problems

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The emergence of
HYPERARCHY:

**the web of hyper connections
between individuals, products and organizations
challenging all hierachies,
with random access and information symmetry,
operating in real time**
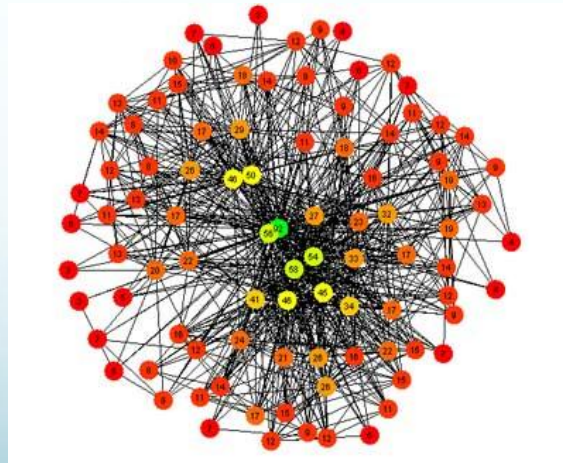
With hyperarchy,
there is no need for organization
to organize common efforts

**The future belongs
to those companies
that can smartly combine
hierarchy with hyperarchy…**

**…but each of them requires
different concepts
of excellency and optimization!**

**Can they, indeed, live together
in tandem?**

Consider
THE ROLE OF GARAGE
## IN THE HISTORY
OF MODERN CIVILIZATION

In the contemporary marketplace, most bigger, new businesses start as a result of years of market research, planning and strategic investments

Venture capitalists and big-money consultants get together with ideas that are based on years of experience and expertise, and they work in order to maximize profits

Yet, there are still millions of individual entrepreneurs that start successful companies on their own, single-handedly, out of impulse and based on a single bright idea

And then… they stop growing,
or drop dead
or unexpectedly turn big,
frequently with no apparent reason
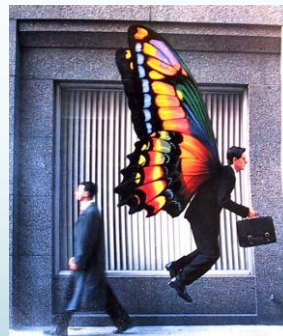
WHY DOES IT HAPPEN?
- is a powerful question

Look who started in a garage
(or other obscure place)

- **HP**
- Apple
- Microsoft
- Wrigley
- Google
- Starbucks
- eBay
- Facebook (dorm)
- Threadless (studio appt.)
- YouTube (office)
- LinkedIn (living room)
- Nike (car trunk)
- Lotus Cars
- Motorola
- Harley Davidson
- …and many more

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Ever wondered?

- **Why** some companies made it big (some time from the scratch)?

- Why did the zillions of other startups not succeed in becoming big but stayed small or just dropped dead?

- **What are challenges, the rivers to cross, on the way (from garage) to success or even bigness?**

**It is important to study
that phenomena
as even the „grown up" firms
(maybe even them, specially)
need the „garage mind" today**

A superficial contradiction:
Creative, disordered passion (a garage) or "hard, classic management" (grown-up company)

The main problem of garage entrepreneurs is how to maintain the flow of fresh ideas and high level of adrenaline AFTER the company becomes big and enjoys success (so far)?

**The challenge for every big company today,
including those started in a garage,
is re-inventing itself into
a FERTILE PLATFORM
for setting up, finding and/or supporting
"INNER GARAGES"**

- in order to become

A GARAGE-MINDED COMPANY

Management is (almost) never about Zero-One:

- good-or-bad ideas,

- yes-or-no,

- wise-or-stupid decisions,

- short time-or-long time perspective,

- people-or-profit,

- tradition-or-novelty,

- etc.

MANAGEMENT IS ABOUT FINE LINES
and the right balance between:

- hierarchy and spontaneity
- necessary control and tendency for experimentation
- benefits of standardization and leaving a space for "deviations"
- 'closed' and 'open' innovation
- useful employee integration and protecting the creative "unadjusted"
- optimization and imperfection

Most companies, clearly, have problem with it

Both
strict hierarchy
and
free vigor
alone
tend to 'institutionalize' ignorance

Thus, tomorrow, only
the hybrid companies,
will succeed,
able to combine the two seemingly
contradictive organizational formulas:

CORPORATE RIGOR

and

GARAGE VIGOR
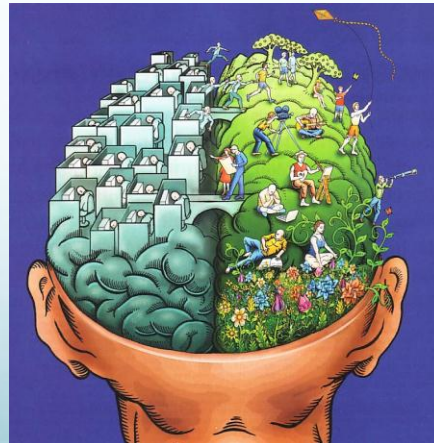
Companies today need the ability
to create and cherish internal
CENTERS OF NON EXCELLENCE
– 'the garage implants'
radiating with their creative culture
on the surrounding corporate structures

- eg.: IBM (open source),

- eg.: 3M (innovating culture),

- eg.: Cisco (start-up incubation programs),

- eg.: Google (overflow of innovations in Beta, free restaurants, 20% of working time for developing new projects),

- eg.: P&G (crowdsourcing, open innovation)

The appeal
for the companies
operating on the edge
of chaos and complexity:

EMBRACE IMPERFECTION!

WHY?
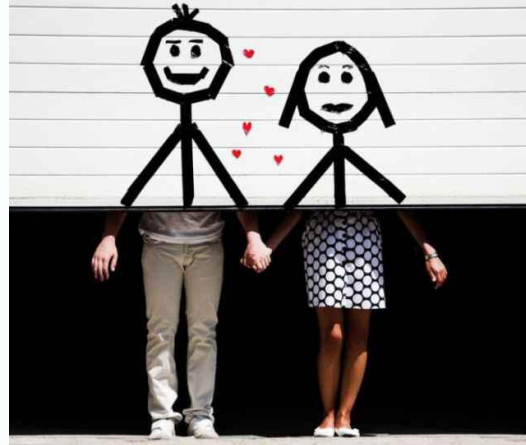
Because, one of the things
that makes a great company today
is realizing
that somewhere on the Planet Earth,
in some lousy garage,
there's a kid who's going to do it better.
And s/he probably will, someday!

Never underestimate a power of a 'garage mind'

"Google's not a real company. It's a house of cards." *

Steve Balmer, Microsoft's CEO, in 2005

* and then he continued: *"F***ing Eric Schmidt is a f***ing p**sy. I'm going to fu***ing bury that guy, I have done it before, and I will do it again. I'm going to fu***ing kill Google."* …

Well, obviously, it didn't work out well.

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*"**Wealth in this new regime flows directly from innovation, not optimization. That is, wealth is not gained by perfecting the known, but by imperfectly seizing the unknown.**"* —Kevin Kelly, *New Rules for the New Economy*

Opportunities which create new territories of opportunities.

**"*imperfectly seizing the unknown*"**
– wouldn't that be the best definition of the 'garage mind' and entrepreneurship?

THE CHANCE PARADOX:

- **New chances degrade with time if not used**
- **Time allows for better understanding**
- **Thus: chances are vanishing with growing understanding!**
- **Big companies tend to catch chances too late because they are reluctant to take risk in vague situations**
- **Solutions:**
  - **generating efficient processes of understanding chances early**
  - **allowing people (companies) to take risk**

Stuart Kauffman: **"the adjacent possible."**

- At any given moment in evolution - of life, of natural systems, or of cultural systems - there's **a space of possibility** that surrounds any current configuration of things.

- Change happens when somebody takes that configuration and arranges it in a new way.
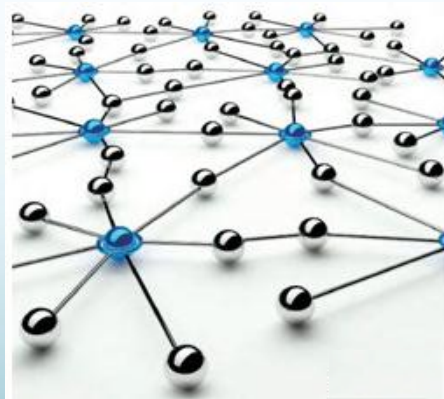
The great inventions are usually those that take the smallest possible step to unleash the biggest possible change

- the most creative environments allow for repeated failure, for waste of time and resources

- To create something great, you need the means to make a lot of really bad crap

- **With no genetic mutations, there wouldn't be us. You need some errors to open the door to the *adjacent possible***

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Silicone Valley as a technological Montmantre:
lots of interactions, failures, waste and creativity

EPILOGUE

Formerly, companies based their identity on their **history**

Today, many have to **reinvent** itself based on their **future**

The only way you can make
a large system that works
is to evolve it
from a small system that works

- Unfortunately, it is not enough, though!

- **It takes much more than a perfect small company to become, eventually, a successful big company**

Great companies aren't born, they're grown

- **Great companies need to grow into great companies**

- **They need room to make mistakes**

- **They need room to go unnoticed for a while**

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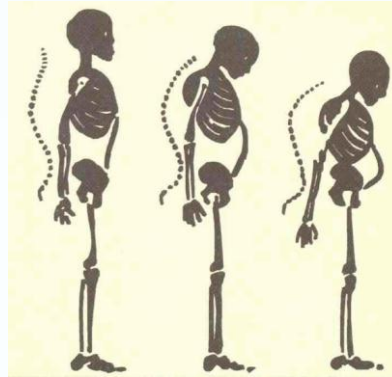
Companies are like people – they all will eventually suffer from sclerosis and osteoporosis

The high-spirited visionaries in their garages should keep it on mind from the very beginning

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Seth Godin:
HERETICS ARE THE LEADERS TODAY

*Today's management
on the edge of chaos and complexity needs
leaders
AND
heretics –*

*- people who question the status quo,
lead their clans and generate change*

I wish you
to find
heretics
in you
(if you've not done it so far)