The Imperfectionists

STRATEGIC MINDSETS for UNCERTAIN TIMES

Robert McLean   Charles Conn

Bestselling Authors of *Bulletproof Problem Solving*

WILEY

The
Imperfectionists

STRATEGIC MINDSETS
for UNCERTAIN TIMES

The Imperfectionists

STRATEGIC MINDSETS for UNCERTAIN TIMES

Robert McLean   Charles Conn

Bestselling Authors of *Bulletproof Problem Solving*

WILEY

Contents

Introduction: Becoming an Imperfectionist

If you are an Amazon customer, chances are you have encountered household names such as Amazon Fresh, Amazon Prime, Audible, and Zappos. It's less likely that you would have noted the baby steps Amazon took to expand beyond its core business into consumer financial services. The acquisition of TextPayMe, the investment in Bill Me Later, the hiring of a team from GoPayGo, and the launch of a remote card payment device, Amazon Local Register, were modest moves that involved only small financial outlay and attracted relatively little attention at the time. They also all ended in apparent failure, with TextPayMe (rebranded Amazon Web Pay) closing in 2014, Local Register withdrawing from the market in the face of competition from Square, and Bill Me Later being acquired by rival PayPal.

Yet today Amazon is a powerhouse in consumer finance, boasting a 24% user share in the United States for its pan-economy Amazon Pay service, and is positioned to develop further as a global finance player. How did the

company craft success at scale from a series of pint-sized and seemingly unpromising moves? The answer is that Amazon is an *imperfectionist*, a concept we've developed over several decades of helping companies and nonprofits, and one that we believe is vital for all organizations, big and small, striving to prosper in today's uniquely uncertain economic environment.

On the face of it being an imperfectionist doesn't sound like a good thing. We certainly don't mean accepting things that are faulty, a common meaning of imperfection. What we *do* mean is tolerating ambiguity and acknowledging that certainty and perfection, however desirable they may seem, come at too high a cost for problem solvers in uncertain times. Imperfectionists step into risk, proceeding through trial and error, utilizing small moves and other tools to deepen their understanding of the nature of the game being played, and then thoughtfully move forward into uncertainty. Imperfectionism has intellectual roots in the phrase attributed to the eighteenth-century French philosopher Voltaire: "Don't let perfect be the enemy of good." It is also resonant with the Japanese aesthetic known as *wabi sabi*, which is the acceptance of imperfection and impermanence.

Amazon approached the challenge of entering unfamiliar consumer finance markets through small company purchases, team hires, and partnerships. Along the way it built valuable capabilities and assets, learned from its mistakes, and reduced the risks of later, bigger moves. It stepped into risk and laid the foundation of a large new business brick by brick, rather than using its giant balance sheet to buy a consumer finance brand or a bank. This step-by-step approach was no accident—Amazon followed the same modus operandi in commercial finance and in its creation and dominance of cloud computing, and is now doing something similar in healthcare.

"From very early on in Amazon's life, we knew we wanted to create a culture of builders—people who are curious, explorers. . . . Even when they're experts, they are 'fresh' with a beginner's mind. . . . A builder's mentality helps us approach big, hard-to-solve opportunities with a humble conviction that success can come through iteration: invent, launch, reinvent, relaunch, start over, rinse, repeat, again and again. They know the path to success is anything but straight."—Amazon 2015 Annual Report

Many organizations are responding to today's extremely uncertain post-COVID environment by taking hasty bets, including "leap-before-you-look" acquisitions (think Robert Redford and Paul Newman jumping off the cliff in the movie *Butch Cassidy and the Sundance Kid*). Elon Musk's acquisition of Twitter may fit this mold. Bank of America's disastrous $40 billion acquisition of subprime lender Countrywide Financial in 2008, which quickly turned into a legal and financial nightmare and landed the leading US bank with an estimated $51 billion in losses, is a good example of the risks of rash behavior.

Other companies are succumbing to risk-aversion paralysis, a mistake even more common than swashbuckling misadventure. We continue to see many management teams stuck in a "wait and see" mindset, not moving quickly enough to confront and ride the ever-shifting tide of global economic forces. Remember video retailer Blockbuster, proud owner of more than 9,000 stores and employer of more than 84,000 people in 2004? It failed to respond to digital subscription services like Netflix and eventually filed for bankruptcy in 2010. You can't hide from disruptive risk.

Imperfectionism is an idea that stands opposed to both of these costly extremes. Between the extremes of "bet the farm" Bank of America and "do nothing" Blockbuster is a sweet spot where imperfectionists play, employing a set of strategic mindsets and problem solving tools that master uncertainty. This book's purpose is to help business leaders and their nonprofit equivalents to discover these mindsets, be more confident and creative about problem solving in uncertain times, and be successful where others are afraid to act, or act recklessly.

This book on problem solving under uncertainty is really a book about strategy. While we believe it is sensible to develop high-level strategies based on an organization's objectives and an understanding of structural market and competitive forces, we believe that most business strategy is fantasy. Market conditions and disruptive entry are changing too quickly for armchair planning based on certainty to be useful. Organizations need to be nimble imperfectionists, tolerating ambiguity and weighing the odds, constantly experimenting, and stepping out into risk, not moving pieces on some theoretical gameboard. Imperfectionism is strategy in action.

The Context: Massive Change and Uncertainty

For all of human history up to the years just before the twentieth century, not much changed for most people. Ever. Nearly everyone was born into the same roles as their mothers and fathers, overwhelmingly in agriculture. Thanks to fear of famine, innovation and productivity grew incredibly slowly. Our ancestors faced risk and uncertainty, to be sure, but of perennial and anticipated kinds: hunger, disease, war.

Then in the past 100 or so years everything changed. Now, we barely recognize our grandparents' lives, let alone the lives of those who went before them. Uncertainty still includes deprivation, sickness, and conflict for many on the planet, but now uncertainty comes in dozens of other forms, from social media to nuclear fusion, from artificial intelligence to quantum computing. Many of these innovations are largely forces for good: Who could have imagined that disabled people could manipulate objects with their minds, or that novel mRNA vaccines could be developed in less than a year? Some innovations will reduce drudgery and make working conditions safer—but without question most have led to a massive disruption of traditional jobs and of institutions that we once took for granted.

The rate of production of new knowledge and communications is overwhelming (see Exhibit I.1).[1] More new information has been created since 2010 than in all of previous human history. Stop and think about that. It is impossible for even the most talented people to stay abreast of this wave. Even the polymath Newtons, Bacons, and Rousseaus of our age cannot begin to keep up with the race of new knowledge and its impact on our organizations and lives.

Artificial intelligence, automation, programmable biology, robotics, and other technologies are transforming every industry. The rate of disruption is overturning market leaders more quickly than ever and installing new top competitors, often from entirely outside that industry. There is not a single company in the Dow Jones Index today that was there at the inception of the Index in 1885. The average life span of companies in the S&P 500 was 61 years in 1958; today it is 18.

Regulators cannot hope to guide and manage the enormously powerful companies that now extend across industries and geographies, many of them spawned by winner-takes-all network economics. The speed of

ACCELERATING CHANGE & UNCERTAINTY
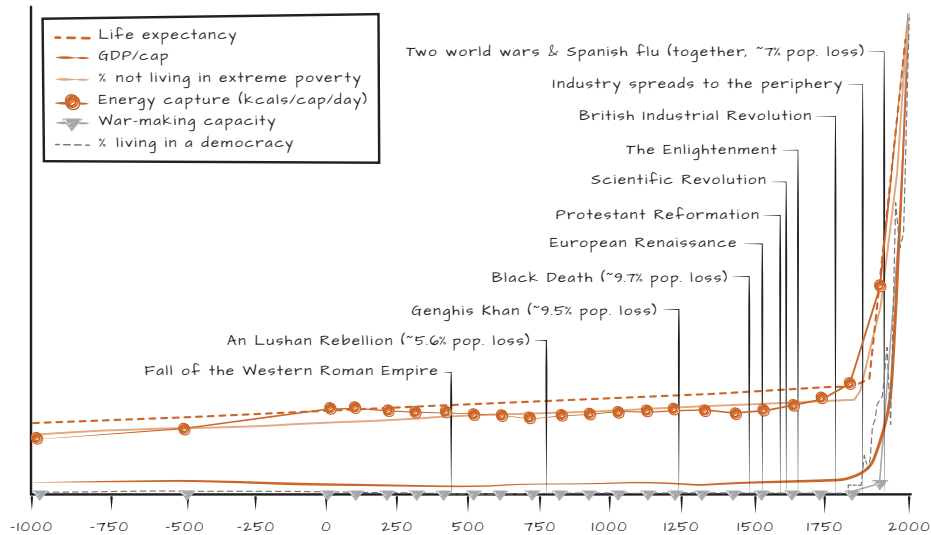
Exhibit I.1
SOURCE: LUKE MUEHLHAUSER.

expansion and the scale of investment is breathtaking: Just look at the pace to $1 billion in sales for recent internet media winners. Faster and faster (see Exhibit I.2).[2]

These disruptive technologies have a stark human as well as financial cost, destroying many of today's jobs, and not just at the manual end. Software and AI challenge everyone in the middle, as well as previously protected professions like the law, banking, medicine, dentistry, and programming. Software is eating the world, Marc Andreessen famously said—and now AI is eating software programming jobs. These technologies also create new jobs, of course, but the new roles are often inherently more fluid and less certain. As we will explain in this book, imperfectionism and its sister mindsets can provide the capability edge for individuals competing for such jobs.

Most new careers didn't exist 10 years ago, and many won't exist 10 years from now. No one will do the same thing for a lifetime as our grandparents did. In this vastly more complicated world, how can we and the organizations we work for be competitive? How can we shape strategies

INCREASING PACE OF CHANGE: REVENUE PATH OF
INTERNET START-UPS
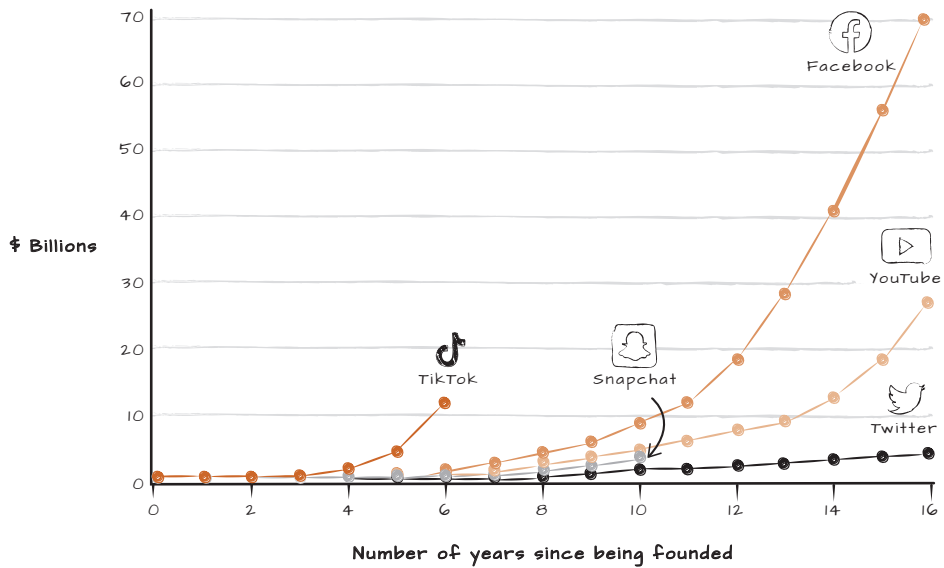
Exhibit I.2
SOURCE: CHARTR.

that allow us to be successful? How can we be creative disruptors rather than those who end up on the dust-heap of the disrupted?

Problem Solving Toolsets and Mindsets

One of the things that humans do better than artificial intelligence does is to creatively solve problems in teams—and the good news is that this should continue to be the case for some time. Today most machine learning and AI is good at sophisticated pattern recognition, not creative or truly generative problem solving. Pattern recognition may help develop unexpected strategies in chess or Go, but these are games with little or no uncertainty except the opponent's next move. Humans have the edge in creativity for now. No one can predict the future, but you can be ready for it if you combine a disciplined toolset for problem solving with powerful and mutually reinforcing strategic mindsets.

In our first book, *Bulletproof Problem Solving: The One Skill That Changes Everything*, we presented a seven-step toolset for structured problem solving (for an introduction to this model, see the Appendix). In this new book we will show how Imperfectionism and its sister mindsets can give you and your organization an even bigger advantage in this topsy-turvy new world. Logically, the mindsets around problem solving precede the toolset you employ, and are ultimately more important. The way you think about the future, how you gather and process information to make judgments to inform action, is fundamental to your success. Simply put, an imperfectionist mindset creates opportunities not available to those with conventional thinking.

The term *mindset* has been in use since the 1930s, but has received lasting attention in the work of psychologist Carol Dweck. Her distinction between growth mindsets and fixed mindsets is insightful, but our research into problem solving over three decades has allowed us to go beyond this simple dialectic and look at the mindsets that characterize nimble problem solvers.

Most dictionary definitions of mindset focus on a mental attitude or inclination, especially those that are habitual. Our working definition is different:

> A mindset is an orientation toward new information about future states that provides a favorable vantage point for action.

In this definition a mindset is a way of thinking that allows the risks generated by uncertainty to be managed and successful actions to be undertaken. Mindsets are not the same as positive or wishful thinking; their power lies in the way they encourage this orientation toward the future, and in their contribution to driving better outcomes. They stand in stark contrast to the static bodies of information still taught by many educational institutions on the assumption that we will have a single career of four decades or more, just as our grandparents did, rather than multiple roles across several industries. The best training for the jobs of tomorrow is creative problem solving tools and mindsets.

We have been working together on problem solving in complex environments for 30 years, first on business and nonprofit problems at McKinsey & Company, later as entrepreneurs and advisors to start-ups,

and finally on the large-scale problems of environment and society as board members of foundations and NGOs, including as fellow Regional Council members at The Nature Conservancy. In the past decade we have conducted focused research with teams at Oxford University and the University of Sydney on the mechanics and mindsets of great problem solving.

The six mindsets we explore and explain here are like old companions who have been on a long journey together but haven't had their names called out until now. It took the paralyzing uncertainty most organizations faced in responding to COVID-19 for us to fully appreciate their value in an age of extreme and increasing uncertainty. Along the way we encountered some remarkable and at times surprising examples of problem solving, from how unschooled woodworker John Harrison cracked the longitude problem to how parson Thomas Bayes uncovered the power of conditional probability in responding to uncertain events.

We wrote this book as a practical guide to help you understand, assess, and embrace risk, and to solve hard problems with creativity and boldness. In short, to allow you to harness the power of imperfectionism—to be an imperfectionist.

Six Mindsets for Problem Solving under Uncertainty

We have already introduced Imperfectionism, one of the mindsets we believe is critical for understanding and then stepping into uncertainty. Imperfectionism is also our overarching term for this set of six mindsets for embracing risk. Some of the other mindsets we describe, like curiosity, will be familiar; others, like occurrent behavior, less so. However, the six mindsets in total and in combination should allow those who adopt them to navigate the seas of unknown unknowns and to leave behind the comfort of corporate certainty, expert knowledge, historical data, and pyramid-structured presentations—most of the things we learned in university and in our early careers.

That's right, we are saying that in times of rapid change, you should be curious, embrace risk and not avoid it, you should be suspicious of experts, you should think about how to run your own experiments, you should consider ways to source ideas from entirely different fields, and you should

convince your colleagues that you have the right answer with rich and visual storytelling that speaks to their values rather than to logic alone.

Most companies and nonprofits still assume away uncertainty—think of all those budget forecasts and strategy documents with no mention of potential disruption from unexpected events, or deliberately constructed with a lackluster upside and downside case to focus attention on the base case. The related pathology is paralysis by uncertainty, a dogged attachment to business as usual, waiting for the certainty that never comes. In both cases organizations are unprepared for disruptive new entrants and fresh sources of competition. Warren Buffett tells us to be fearful when others are greedy, and greedy when others are fearful, but most of us go along with the herd . . . and then get picked off by the lions.

Combing through our research spanning hundreds of problem types, we have distilled six mindsets that will help you avoid this fate. Let's take a look at them (see Exhibit I.3).

Ever Curious

Young children still learning the patterns of the world are relentless askers of the question "Why?" Unfortunately, as we get older, and solve basic problems like how to tie a shoelace, we rein in our curiosity. Pattern seekers in youth, we become pattern imposers in later life as we become more certain that we know the answer to everything. Recognizing patterns is useful in many circumstances (driver: curve coming up, slow down), but it is deadly for problem solving in situations of high uncertainty. Why? Because we often get the pattern wrong when things are changing quickly.

We assume, for example, that a strategy that has always worked will continue to work. Charles ran a start-up online city guide company called Citysearch in the 1990s. The company was up against century-old dominant newspapers. They had survived the entry of radio and television, and they knew they would survive this upstart internet thing. They knew the bases of media competition: Hire brilliant writers and create wonderful content, build readership, and dominate local advertising. But in actual fact, the bases of competition in local media were changing, and changing fast.

The internet allowed users to *generate their own content* and share it with each other, and with a variety and creativity that could never be matched in broadsheet print. Worse, thanks to superior searching and

MINDSETS FOR PROBLEM SOLVING UNDER UNCERTAINTY

Being an **imperfectionist** with a high tolerance for **ambiguity**

Practicing **show and tell**, recognizing that storytelling begets action

Being **ever curious** about every element of your problem

6 MUTUALLY REINFORCING MINDSETS

Tapping into **collective intelligence**, acknowledging that the smartest people are not in the room

Having a **dragonfly eye** view of the world, to see through multiple lenses

Pursuing **occurrent behavior** with restless experimenting

Exhibit I.3

matching, valuable classified advertising for cars, jobs, homes, and personal ads actually works better online. Newspapers produced remarkable content, and had rich advertising franchises. They likely could have been effective competitors in the new world had they been more curious about the internet and about how local media strategies would have to change.

On the whole, they weren't. With falling readership and declining advertising revenues, editorial staffs were slashed, leading to a further downward spiral in readership and economics. Today only a small set of newspapers are vibrant businesses.

Curiosity is an essential orientation for problem solving in uncertain times. Managers must be able to suspend their natural pattern recognition impulses long enough to see evolving challenges in a fresh light, especially when uncertainty is not just about known patterns (it will rain, it will not rain), but instead is governed by entirely novel events. When great problem solvers seek to close the gap between what they know and what they need to know, curiosity reduces uncertainty. That may strike some readers as counterintuitive. Particularly in uncertain times, wouldn't it be better to bridle curiosity, and try to moor in certainty? In our experience such a recipe is likely to be steamrolled by change.

Dragonfly Eye

Our pattern-imposing brains evolved in a dangerous world where quick decisions were required to stay alive. Rustling leaves triggered rapid pattern recognition (predator, run). But dangers four million years ago only came in a few varieties. With massive changes in technology, there is now a kaleidoscope of possibilities. In this new environment there is huge value in testing several different perspectives on each problem, rather than assuming it is business as usual.

We call this mindset the dragonfly eye, a term we first learned from Philip Tetlock and Dan Gardner's work on superforecasters. Dragonflies have huge compound eyes, with hundreds of lenses that are sensitive to different wavelengths of light. We do not know exactly how their insect brains process all this visual information, but we do know that they gather much more data than our human eyes, perceiving colors and movement unseen by us. By analogy, when faced with new and uncertain information, great problem solvers try on several different lenses in an effort to understand the problem. They zoom in and then zoom out, or widen the aperture to make sure they are seeing the real structure in front of them, and are not imposing an old solution or addressing its surface.

Take Peloton, a home exercise company started by one of Charles's former Citysearch colleagues, John Foley. The company has recently