Two Reasons Companies Fail
– and How to Avoid Them

TED Talk
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Instructions

Please watch this video and prepare the discussion questions for class.

English Tips

(These are the explanations of the **red words** *in the transcript)*

Exploitation – The action of fully making use of something and benefiting from it. To exploit something is positive if you use it responsibly without hurting people or the environment. However, if you "exploit a person" it means that you mistreat or abuse them (use them too much or inappropriately).

- Exploit a thing = positive
- Exploit a person = negative

"Luckily, we were able to exploit the market demand for IT services during the pandemic."
"The boss exploited his workers by making them work unpaid overtime."

Vicious circle – A negative pattern that continues or gets even worse; also referred to as a vicious cycle. The opposite is a virtuous circle (keeps going in a positive cycle).

"When my kids start fighting about something small it usually becomes a vicious cycle of conflict."

Discussion Questions

1. The speaker's main idea is that exploitation and exploration must be balanced and also shares four lessons (see images below). How are his ideas perceived in Japanese culture and how might this perception conflict with other cultures?
2. Share an example of an organization that demonstrated a good or bad balance of exploitation and exploration?
3. How does your company/organization (and/or you in your specific job) balance exploitation and exploration?
4. In your life and career path, how are you balancing exploitation and exploration? Is adjustment necessary?
5. **Scenario Exercise:** Imagine you are the CEO of Lawson convenience stores for all of Japan. Your best-selling fresh food item is *onigiri*.

   You need to make a decision:

   Should you keep maintaining and improving your *onigiri* quality, freshness and supply logistics? Or, should you diversify and experiment with other fresh foods that might be more popular and profitable? (How would you exploit, explore or somehow balance?)

Video Transcript

Here are two reasons companies fail: they only do more of the same, or they only do what's new.

00:30 To me the real, real solution to quality growth is figuring out the balance between two activities: exploration and **exploitation**. Both are necessary, but it can be too much of a good thing.

00:47 Consider Facit. I'm actually old enough to remember them. Facit was a fantastic company. They were born deep in the Swedish forest, and they made the best mechanical calculators in the world. Everybody used them. And what did Facit do when the electronic calculator came along? They continued doing exactly the same. In six months, they went from maximum **revenue** (*income before expenses are deducted*)... and they were gone. Gone.

01:18 To me, the irony about the Facit story is hearing about the Facit engineers, who had bought cheap, small electronic calculators in Japan that they used to double-check their calculators.

01:35 Facit did too much exploitation. But exploration can go wild, too.

01:41 A few years back, I worked closely alongside a European biotech company. Let's call them OncoSearch. The company was brilliant. They had applications that promised to **diagnose** (*identify, detect*), even cure, certain forms of blood cancer. Every day was about creating something new. They were extremely innovative, and the **mantra** *(motto, slogan)* was, "When we only get it right," or even, "We want it perfect." The sad thing is, before they became perfect – even good enough – they became **obsolete** (*outdated, no longer used*). OncoSearch did too much exploration.

02:24 I first heard about exploration and exploitation about 15 years ago, when I worked as a visiting scholar at Stanford University. The founder of the idea is Jim March. And to me the power of the idea is its **practicality** (*functionality, usefulness*).

02:41 Exploration. Exploration is about coming up with what's new. It's about search, it's about discovery, it's about new products, it's about new innovations. It's about changing our **frontiers** (*boundaries, limits*). Our heroes are people who have done exploration: Madame Curie, Picasso, Neil Armstrong, Sir Edmund Hillary, etc. I come from Norway. All our heroes are explorers, and they deserve to be. We all know that exploration is risky. We don't know the answers, we don't know if we're going to find them, and we know that the risks are high.

03:25 Exploitation is the opposite. Exploitation is taking the knowledge we have and making good – better. Exploitation is about making our trains run on time. It's about making good products faster and cheaper. Exploitation is not risky – in the short term. But if we only exploit, it's very risky in the long term. And I think we all have memories of the famous pop groups who keep singing the same songs again and again, until they become obsolete or even **pathetic** (*pitiful, insufficient, worthless*). That's the risk of exploitation.

04:07 So if we take a long-term perspective, we explore. If we take a short-term perspective, we exploit. Small children, they explore all day. All day it's about exploration. As we grow older, we explore less because we have more knowledge to exploit on. The same goes for companies. Companies become, by nature, less innovative as they become more **competent** (*capable, skillful*).

04:37 And this is, of course, a big worry to CEOs. And I hear very often questions phrased in different ways. For example, "How can I both effectively run and reinvent my company?" Or, "How can I make sure that our company changes before we become obsolete or are hit by a crisis?" So, doing one well is difficult. Doing both well at the same time is art – pushing both exploration and exploitation.

05:11 So one thing we've found is that only about two percent of companies are able to effectively explore and exploit at the same time, **in parallel** (*simultaneously, at the same time*). But when they do, the **payoffs** (*rewards*) are huge. So we have lots of great examples. We have Nestlé creating Nespresso, we have Lego going into animated films, Toyota creating the hybrids, Unilever pushing into sustainability – there are lots of examples, and the benefits are huge.

05:46 Why is balancing so difficult? I think it's difficult because there are so many traps that keep us where we are. So I'll talk about two, but there are many.

05:57 So let's talk about the **perpetual** (*constant, endless*) search trap. We discover something, but we don't have the patience or the persistence to **get at it** (*take action*) and make it work. So instead of staying with it, we create something new. But the same goes for that. Then we're in the **vicious circle** of actually coming up with ideas but being frustrated. OncoSearch was a good example. A famous example is, of course, Xerox. But we don't only see this in companies. We see this in the public sector as well. We all know that any kind of effective reform of education, research, healthcare, even defense, takes 10, 15, maybe 20 years to work. But still, we change much more often. We really don't give them the chance.

06:48 Another trap is the success trap. Facit fell into the success trap. They **literally** (*actually*) held the future in their hands, but they couldn't see it. They were simply so good at making what they loved doing that they wouldn't change. We are like that, too. When we know something well, it's difficult to change. Bill Gates has said: "Success is a **lousy** (*bad*) teacher. It **seduces** (*attracts, tricks*) us into thinking we cannot fail." That's the challenge with success.

07:26 So I think there are some lessons, and I think they apply to us. And they apply to our companies. **The first lesson is:** Get ahead of the crisis. And any company that's able to innovate is actually able to also buy an insurance in the future. Netflix – they could so easily have been content with earlier generations of distribution, but they always – and I think they will always – keep pushing for the next battle. I see other companies that say, "I'll win the next innovation cycle, whatever it takes."

08:02 **Second one:** Think in multiple time scales. I'll share a chart with you, and I think it's a wonderful one. Any company we look at, taking a one-year perspective and looking at the **valuation** (*value, worth, price*) of the company, innovation typically accounts for only about 30 percent. So when we think one year, innovation isn't really that important. Move ahead? Take a 10-year perspective on the same company? Suddenly, innovation and ability to renew account for 70 percent. But companies can't choose. They need to fund the journey and lead the long term.

08:39 Third: Invite talent. I don't think it's possible for any of us to be able to balance exploration and exploitation by ourselves. I think it's a team sport. I think we need to allow **challenging** (disagreeing, *critiquing*). I think the **mark** (*sign, evidence*) of a great company is being open to being challenged, and the mark of a good corporate board is to constructively challenge. I think that's also what good parenting is about.

09:09 Last one: Be skeptical of success. Maybe it's useful to think back at the old **triumph** (*victory*) marches in Rome, when the generals, after a big victory, were given their celebration. Riding into Rome on the carriage, they always had a companion whispering in their ear, "Remember, you're only human."

09:36 So I hope I made the point: balancing exploration and exploitation has a huge payoff. But it's difficult, and we need to be conscious.

09:46 I want to just point out two questions that I think are useful. **First question is:** Looking at your own company: In which areas do you see that the company is at the risk of falling into success traps, of just going on autopilot? And what can you do to challenge?

10:10 Second question is: When did I explore something new last, and what kind of effect did it have on me? Is that something I should do more of? In my case, yes.

10:25 So let me leave you with this. Whether you're an explorer by nature or whether you tend to exploit what you already know, don't forget: The beauty is in the balance. Thank you.