The Biggest Choice You Don’t Even Know You’re Making

Published on Sep 05, 2017 by Niko Canner



It’s three o’clock in the afternoon, and four washed-up recent entrepreneurs sitting in a dive bar go over, again, how their dreams got wrecked.

One says: “We didn’t focus. We overbuilt our team. We pursued too many products. When the music stopped, our core business wasn’t profitable. Another start-up that was two steps ahead in that business got bought. We went broke.”

The next, two beers ahead and already slurring, pounds his fist: “Ours was worse. We missed our chance. We had a better, earlier version the same technology that’s now made two unicorns. We’d started in a different market and just kept plugging away. A couple of engineers left, we were under financial pressure, and we just never saw the opportunity passing us by. We exited in the end, but for less than a penny on the dollar of what might have been.”

The third shares: “I guess I feel a little better. We were just outgunned. Our competitor raised more money. They hired fast, they bought market share. After a couple of years of this, our investors decided we just couldn’t compete, and left us for dead. We tried to pivot, but it was too late.”

The fourth has been waiting his turn: “I have to be honest. We got our shot—more than one shot—and we blew it. Our sales team wasn’t good enough. I stayed with the VP too long, and then when I finally let him go, the guy I hired wasn’t any better. Even so, we opened up some doors to what could have been monster customers, but there were quality issues, or we had one champion and didn’t have a back-up when she left, or we just never got from the demonstration project to the big buy. It wasn’t one big thing, it was just a thousand bloody, miserable cuts. And we died from them.”

These failures look very different. Has-Been #1 and Has-Been #2 seem like opposites. #3 and #4 seem, respectively, unlucky and hapless. I'd like to suggest these four are making versions of the same mistake: failing to achieve the right balance among four basic actions.

- **Exploit**: apply current capabilities to generate value in the most direct, efficient way
- **Explore**: look for opportunities that aren't yet evident or that you don't yet know how to exploit
- **Enable**: secure resources (e.g., capital, talent, alliances, patents) that can be used to make the enterprise more valuable
- **Build**: improve the organization's capability to deliver value in the future, using resources already available (e.g., refine products, improve processes, develop people)

There's no algorithm that provides a universal answer for how best to balance these four basic actions. In the field of probability theory, there's a large literature on the "multi-armed bandit" problem that contemplates the much simpler question of how to play a row of slot machines (one-armed bandits) – how to construct a strategy for pulling the levers without prior knowledge of the payout rate for the levers. This work originally gave rise to the distinction between "exploit" and "explore," and multi-armed bandit algorithms are used to approach problems like how to allocate resources among research departments or in clinical trials. Anecdotally, Allied scientists struggling with the multi-armed bandit problem during World War II found it so difficult that they joked it should be dropped on the Germans, so they could be equally distracted searching for a solution.

While the search for the one best way of balancing all four basic actions (explore, exploit, enable, build) is a fool's errand, wisdom about the practical question of how to balance the four at different stages in a company's evolution is at the heart of what's required to be an effective CEO.

Our four has-beens each had an imbalance that neglected one of the basic actions and created the business equivalent of a vitamin-deficiency disorder, like rickets or scurvy. The first dissipated energies and "exploited" too little. The second failed to explore, and didn't synthesize the importance of the technology they had or develop a decisive path to turn that technology into a business. The third got on with their business, and didn't drive "enable" to the level required to be competitive. They did a lot of things they must have thought were important, but that turned out not to be as important as raising more capital. The fourth didn't build the capabilities they needed. They just weren't good enough at the things they needed to excel at, and never focused deeply enough at getting better. The fourth company's CEO probably spent 70 hours each week doing things other than figuring out how to improve the Sales function, sharpen the discipline of building large accounts, and developing the other capabilities the lack of which ultimately sank them.

The right mix of the four basic actions evolves as a venture evolves, and its context shifts. As a venture achieves product-market fit, for instance, its ratio of exploit to explore should usually go way up—unless, perhaps, it has reason to believe it is poised on the brink of finding a much larger market. And its level of emphasis on enable versus build? Well, that depends on whether it has a leadership team that can go the distance, on how capital-intensive growth will be, and on whether it

needs to be good at a lot of things to win versus just one or two big things.

These questions aren't easy, even for smart, experienced entrepreneurs who have a good discipline of reflection. The unforced error that most entrepreneurs make is simply never seeing that the balance of the four basic actions is a choice they have to make.

Most leaders have a preferred style, which can be expressed as their default mixture of the four basic actions. Some are masters of execution who focus on exploit, except when it is palpably obvious they need to move their focus to enable or build – for instance, because they're running out of money. Some are promoters, who focus on enable in most of their waking hours – charming investors, wooing partners, and so on – and let the other three basic actions happen, or not happen, as the chips may fall. Some are engineers who will spend as much time as they can get away with improving products and fine-tuning processes. And so on.

Sometimes temperament lines up with market opportunity and a venture soars. Almost always, the eventual consequence of soaring is that the organization needs to focus on another basic action. The promoter's success in raising expectations requires building more capability and rigorously focusing those capabilities on the most significant opportunities for success (shifting from enable to exploit). The inventor's creation turns out not to be valuable enough in its initial target market but might generate a breakthrough in a different market (shift from build to explore). Anyone who sees a lot of companies has seen dozens of variations of these kinds of stories.

At the end of the day, it is the CEO's job to get the balance of the four basic actions right. The COO is positioned to exploit and build. The head of Sales won't explore unless asked and incented to, and might not even then. (Or else the head of sales is a passionate elephant-hunter, always exploring to find bigger game, and needs to be replaced if the business must be built on repeatable small wins.) If the organization needs to mobilize from a peacetime "balanced diet" of the four basic actions to a wartime laser focus on short-term exploit and enable, only the CEO can effect this about-face.

Big, mature companies face the question of balancing the four basic actions, too. Most big companies – with certain exceptions, such as Google – become more and more focused on exploit as they grow. The companies that don't generate tremendous value by exploiting never get big. Those who do grow big find that raising the ratio of exploit to everything else usually is rewarded. This incentive leads companies to become monocultures, growing row after row of identical wheat in vast, efficient factory farms. That isn't necessarily bad. Factory farms are so prevalent because they represent the best-known way to convert dollars into crops into dollars in many fields of agriculture. Strategy consultants tend not to spend much time with big companies for whom exploit is delivering all they need. Just like doctors spend a lot of time with patients who have made certain kinds of unfortunate choices, strategy consultants spend a lot of time with big companies who have built factory farms to exploit an opportunity that's now past its prime, have neglected to balance the other basic actions, and are suddenly discovering a need to work the muscles of explore, enable and build that have long since atrophied.

Individuals face choices about the four basic actions too. My post Living Two Stories: What to Do About Not Knowing What You Want, for instance, is about how to do just enough exploiting within one's current, not-good-enough role, while increasing emphasis on exploring, enabling and building, focused in on a specific "second story." We all know from our personal lives what imbalances of the basic actions look like: the friend who is always trying to find the miracle diet or the next, better relationship; the grind who pushes every assignment past its point of diminishing returns but never figures out how to develop others to do his work and earn a promotion; the parent who is always focused on ensuring children get the grades and markers that will secure future opportunity, never pausing to celebrate childhood.

Navigating among the four basic actions isn't simply a question of balance. Greatness often embraces great imbalance. Richard Feynman, patron saint of explore, didn't go to the grave wishing to have made a more balanced set of choices. Jasper Johns, national artist of the country of exploit – "if flags work, keep painting them!" – will be remembered because of, not despite, his steady, continual artistic development of a formula.

Navigating the four basic actions inescapably hinges on intentionality and judgment: two qualities that it couldn't be more human to rely upon or more elevating to cultivate. Like all good questions, the question of how to balance the basic actions makes us examine when the world is asking us to channel the strongest parts of ourselves, and when circumstances compel that we go against our own grain. We can answer the question of how to balance the basic actions provisionally. These answers can give us the confidence to make big choices – to commit, to pivot, to forego opportunities and tend our own gardens. The question of the four basic actions can never be put behind us; the best answers will bring us back to the question again, at a higher level and in a new form.