Internal Logic: What Is Our Business For?

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All organizations embody an **external logic**: what value they provide to whom, and how they deliver the elements most critical to providing this value. If this external logic frays, an organization is somewhere on the path toward dying. The early search for product-market fit represents a search for an external logic tight and powerful enough to build a company around.

There's great value in thinking about external logic with greater precision, and many resources to draw upon for that work. In an earlier piece, I lay out seven questions that we often focus on as building blocks for working through the market logic of a business.

Equally fundamental is the organization's **internal logic**: what the business is *for*; what objectives it is ultimately *in service of*; *why* it matters and *who has the most important claims*. Often, these questions are left completely unanswered. Or the answers are treated as obvious, needing little discussion. Or perhaps there's a focus on wordsmithing a lofty mission without much reflection on how that mission should turn the gears of daily operation.

George Santayana wrote "Fanaticism consists in redoubling your effort when you have forgotten your aim." By this standard, many founders and many CEOs count as fanatics.

I'll have more to say elsewhere about the internal logic of different kinds of non-profit organizations, a critical and under-explored topic in the social sector. In working out the internal logic of a *business*, one good starting place is the question:

Is our business fundamentally in service of an idea?

One of the ventures we're most significantly involved in building, Catchafire, is a business built in service of an idea. As an investment banking analyst, Rachael Chong was seized by the idea that it would be immensely more valuable to volunteer her *skills* to advance causes she cared about than to help build a house or paint a school – but there was no place for her to find opportunities to do this kind of skills-based volunteering. What became Catchafire was initially prototyped in a spreadsheet matching friends with skills they wanted to volunteer with non-profits who needed projects done. Catchafire is now a flourishing company, still in service of the same idea: providing talented individuals with meaningful pro bono experiences in order to build capacity for social good organizations.

Companies fundamentally in service of an idea might take as their mantra the lines from Jorie Graham's poem "Reading Plato":

> this is
> his good idea, what drives
> the silly days
>
> together.

A litmus test of seriousness for companies in service of a big idea is how much they wrestle with the inevitable gap between what they've committed to achieve and what they are currently capable of achieving. These companies, the good ones, wrestle with angels.

Precision is important here, because slightly different versions of the same commitment will have radically different consequences. For instance, it's been critical to Catchafire's success that they've focused on the quality of the skills-based volunteering experience – measured both in terms of the impact of the work and the sense of meaning created for the volunteer – rather than on maximizing the quantity of transactions. It's very hard to create consistently high quality in a platform built to enable transactions for highly heterogeneous services – everything from rebranding an arts organization to an accounting systems redesign for a homeless shelter – that are performed for free. Despite this high degree of difficulty, or perhaps because of the careful design work that's followed from confronting the difficulties head on, Catchafire's net promoter scores for both volunteers and non-profits are among the highest that I've seen in any industry. Catchafire's scale is growing, but even eight years in, they're still delivering on a tiny bay in a vast ocean of unmet need. Perhaps a different team might have focused primarily on scale – perhaps succeeding more dramatically, or perhaps failing – which would have been a very different path. An ambivalent middle course, with the team agonizing or debating about what the commitment really was, would almost certainly have failed.

In his book *The Leap*, Rick Smith explores the magnetic force of ideas that are big, simple and selfless, using as his central illustration Bob Geldof's inspiration to create Live Aid as the largest concert in the history of the world to save children dying of famine in Ethiopia. The concert came together in seven months, and raised $245 million – in 1985, a decade before the web began to make achieving this kind of momentum behind an idea orders of magnitude faster and more powerful. Catchafire and other businesses built to be in service of an idea can harness this powerful force – *if* they truly subordinate themselves to the power of the idea *and* if they are clear, precise and focused enough about the path they'll take. Any idea big enough to be worth serving will overwhelm a founding team unless clear boundaries can be set.

Most businesses are built around ideas but aren't fundamentally *in service of* an idea. Pushed to achieve clarity, many founders and CEOs view the fundamental purpose of their business as creating financial value. That's fine, as the beginning of an answer. If money's the point, it becomes all the more critical to think with precision about what kind of financial purpose a business aims to fulfill. This Fundamental Financial Question might be formulated as:

What kind of financial value do we fundamentally aim to create, for whom, with what fundamental parameters of time and risk?

Here we enter into the space of founders as owners, distinct from founders as builders. Most founders aren't particularly clear about their financial goals, and don't create particularly clear expectations about a financial purpose to their key early recruits. They then raise money. Venture capitalists as a rule *are* quite clear about their answers to these questions, and generally drive a model of building companies that focuses immense energy on hitting next funding milestones. Each milestone will involve fulfilling the parameters a next group of financial investors set for this Fundamental Financial Question, in turn creating still more powerful voices for just this answer.

This process of staged venture investment builds companies that move very fast to pursue high upside, consuming large amounts of capital, and generally creating a kind of "all or none" financial payout outcome for founders and for key executives – with the possibility that some M&A scenarios like an "acquihire" might produce an outcome in between. Multiple rounds of preferred stock financing, perhaps with aggressive liquidity preferences, creates an incentive scheme in which founders and the hired management that might follow them must swing for the fences. To a venture capitalist, this is a feature, not a bug. Whatever the outcome for a given company, for a portfolio, turning the dial toward greater aggressiveness is an important element of how to produce the return profile that LPs are seeking.

Taking multiple rounds of venture funding generally ties founders to the mast of taking this high-risk, high-return, capital-intensive path. This tying to the mast may be a good thing—or at least a "best available trade"—for a company that is ultimately *for* moving the needle in a specific market at the largest achievable scale and willing to accept a significantly lower probability of success in return for a better shot, but still an outside shot, at achieving the "home run" of rapid scale. That choice of goals should be made intentionally rather than reflexively.

It is important to recognize that this path is often not consistent with how thoughtful founders would answer the Fundamental Financial Question from the perspective of their own interest as owners. The marginal utility of money declines as wealth increases, and founders as individuals would generally be much better off—viewed purely in economic terms – with less dramatic upside and less risk. $100 million of wealth in an unlikely "home run" exit versus $20 million in a "triple" probably doesn't make much difference to a founder's life. Before going down a path that puts emphasis on the "home run," founders will be well-served to reflect on the question of what they believe the company is *for* and whether that makes this choice make sense. They're likely to find that this answer must be something other than their own financial success. Certainly, the fundamental commitment isn't likely to be maximizing fit with the financial production process of the venture capitalist—but it is very easy to fall into a pattern in which a company will *act as if* this is indeed their deepest commitment. Explicit identification of the fundamental commitment that animates the company, and a way to keep this commitment in the foreground as the pressures of capital begin to mount, are essential to making a "mission" more than words on paper.

Businesses early in their development are often still largely owned and primarily shaped by their founders. A third critical question of internal logic that should be addressed explicitly rather than left to whim and chance is about how *personal* the business is: to what degree and in what ways the business is *for* its founders (or *for* some group of insiders which is meant to grow beyond the founders, as is the case for many partnership firms)?

There are many things that founders or other key players who have the power to shape a venture's evolution and to choose whether/how to make the venture meaningfully *for* them might want. They might aspire to pursue a certain vision of the world or to create wealth, which relate to the points we've explored above. They might want to be in charge, or to be able to focus on certain kinds of work they like doing, or to work with particular people whose company they enjoy, or to build their personal brands.

At one end of a continuum is a business that's created and fully acknowledged to be a "lifestyle business." If two brothers want to restore classic cars together, make a certain level of income doing so, and take July and August off, more power to them. Would that every business should be so clear about its commitments.

The great danger here lies in the middle ground, where the point of the organization isn't explicitly meant to be the fulfillment of the founders' vision for their own good lives, but where the personal desires of founders (or other powerful people) in fact shape a range of decisions. The founder who isn't a strong CEO but who wants to be in charge (perhaps wants to be active in the business and "doesn't want to have a boss" or perhaps just values being able to call all the shots) not only risks managing poorly, but risks undermining the belief that the organization truly stands for a commitment to something larger than himself. Strong founders and strong leaders make clear that they are accountable to higher goals and to impersonal standards—they create a "government of laws, not men."

This doesn't mean that founders can't navigate the advancement of goals that reflect their values and preferences, alongside advancing the organization's mission. Perhaps three founders are dog lovers who have always wanted to build an organization that supports people to spend quality time with family and pursue their passions in areas like community service and the arts. These could be distinctive facets of a culture, particularly if the founders find like-minded individuals who value being able to work an environment built around those ideals. What's important here is that commitments have a clear hierarchy: are we fundamentally *for* applying machine learning to enable companies to recruit better talent and enjoy being able to do that work in an environment where we can bring our dogs to work and honor a broader range of life goals… or are we a company built *for* creating a certain kind of supportive work environment for its people, pursuing the application of machine learning to recruiting as a vehicle for achieving that goal for our employees? Often, perhaps, these two goals won't conflict – but when they do, the point of having clear commitments is not to let the higher-order commitment be undermined by second-order goals.

A good commitment to a "how"—to *being* a certain way, as distinct from advancing a mission out in the world—should be explicit and stated in impersonal terms, versus personalized in terms of the desires of founders or leaders.

A relatively small number of organizations are built in service of an idea that's about the company's way of being or what it produces for its employees or community, rather than for its customers. Greyston Bakery, founded by Zen Buddhist Bernie Glassman to create jobs for people in the Bronx, hiring them no questions asked, is one compelling example. 35 years later, Greyston is advancing its philosophy of Open Hiring beyond its own operations, for instance through a pilot with Unilever that we had the honor of helping set into motion through our work on employment of opportunity youth. While producing brownies is important to Greyston, serving Ben & Jerry's as a customer is really a vehicle for Greyston's primary goal, which is the creation of opportunity in the surrounding community.

Another small group of organizations are approximately balanced in their intrinsic commitments to a *what* they achieve in the world and a *how* they exemplify on the inside. An example that stands out is Valve, the video game development and technology company and perhaps the world's most successful exemplar of radically non-hierarchical management. The preface to Valve's employee handbook – which I'd nominate as one of the most interesting business documents in the world – begins:

"In 1996, we set out to make great games, but we knew back then that we had to first create a place that was designed to foster that greatness. A place where incredibly talented individuals are empowered to put their best work into the hands of millions of people, with very little in their way."

Plenty of companies might *write* something similar, but almost none would *make the choices* Valve has made based on the depth of their commitment to these ideas: for instance, allowing employees to work on any project they choose, refusing to take any external funding and adjusting compensation to fit value creation as judged by an individual's peers.

The question of whether commitment to a *how* is viewed as having deep, intrinsic value may seem like a philosophical debate. Perhaps so. But certain companies embrace a distinctive way of operating – whom they hire, how they manage, how they treat customers, what objectives they prioritize, etc. – that becomes integral to how they succeed out in the world. They tie themselves to the mast by treating this way of being as something they can't compromise. Southwest is truly commited to irreverence and fun, and they've done the hard work of reconciling that with their equally bedrock commitment to make air travel cheap. In contrast, United may genuinely aspire to "fly the friendly skies," but the operational priorities that would make that a reality for customers haven't been viewed as intrinsically important and unacceptable to compromise. Rather, the "friendly skies" are a second-order goal, generally placed behind the goal of optimizing capacity utilization and pricing.

These questions about commitments can be illuminated through the question of *who has the most important claims* on the organization, a question that comes to life when potential claims conflict. Valve doesn't report its financials, but has been estimated to be the most profitable company in the US on a per-employee basis. There's no mechanism, however, for the *interests* of shareholders – co-founder Gabe Newell being by far the largest owner – to outweigh other priorities for the company. What Valve's team members do is driven by their personal views of what's valuable for Valve to accomplish, not through any process of budgeting and allocating resources where they'd generate highest shareholder return. Financial logic doesn't explain why Valve did X or didn't do Y – that can only be understood through the lens of the people at Valve and why they believed X mattered and Y didn't. By contrast, financial logic, connected to specific beliefs about what will deliver shareholder returns, explains almost all of the choices United has made in recent years. As explored above, a core question for founder-led organizations is whether the founders, in practice, have the most important claim on the enterprise, or whether the founders put the organization in service of something, to which the founders' own opinions and even interests become subordinate.

The general consequence of failing to establish internal logic purposefully is that a default logic takes over. Three kinds of defaults typically shape businesses:

1. **Defaulting to the logic of an asset class** – for instance, the default logic for venture-backed companies pursue rapid growth, advancing through successive rounds of funding along the way to an exit; public companies build predictable economic engines that can be relied upon to achieve quarterly earnings targets
2. **Defaulting to the logic of an industry**, the embedded way that, for instance, banks and pharmaceutical companies tend to operate, carried from one company to another by people who are experienced in the industry (and in some industries, like these two, further hardwired by regulatory forces)
3. **Defaulting to the professional norms associated with different roles**, where the ways that Engineers typically operate, Finance people typically operate, Marketers typically operate and so on shape how the organization actually works to a far greater extent than anything specific about the company's own "logic"

None of these defaults are *necessarily* bad. Making the kinds of decisions that represent the interests of Series B investors may be just the right thing for a company, and operating in the way one typically does in industry X might be just right for Company Y. However, the defaults are enemies of greatness. The first two defaults shape a company to be similar to competitors, where great companies are highly differentiated. The default to professional norms associated with different roles drives fragmentation, where great companies are powerfully coherent.

Founders have great power to overcome the three defaults and build companies animated by a tight internal logic of what they're for and a tight external logic of the value they provide. In the best companies, these two logics fit hand in glove.

Strong answers to the question of what a company is *for* are powerfully simplifying and clarifying. One company we're involved in building took pride in writing off their very first invoice, "firing a customer" even in their insecure early days because it is so important to their commitment to patient impact that they have the *right* customers. In equal measure, however, strong answers to the question of what the organization is *for* are powerfully unsettling. An organization truly in service of a big idea will be constantly on edge, uneasy about all the ways they're falling short of this fundamental commitment. Catchafire certainly feels pride in their sky-high net promoter scores, but finds unsettling the fact that most of their non-profit users draw on the platform infrequently, even though the incremental financial cost to their organizations is zero. Valve fears hiring the wrong people. ("This is one downside of the organic design of the company – a poor hiring decision can cause lots of damage, and can sometimes go unchecked for too long. Ultimately, people who cause damage always get weeded out, but the harm they do can still be significant.") Greyston is acutely conscious of their own small size, which compels them to think about how they can play on a larger stage and influence larger organizations to adopt Open Hiring.

There is no field in which the path to greatness is comfortable. Deep belief that an organization is in service of something larger builds strength of resolve to take what remains a more demanding path than the paths represented by the three defaults. Commitments need not always be lofty, and most organizations don't need to be great to achieve their goals. The universal standard for the internal logic of any organization is that it be clear, consistent, and connected to an accurate understanding of what's required to achieve the organization's goals out in the world.