



Burn your ships

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What do Grameen Bank, Cirque du Soleil and BMW's decision not to participate in Formula 1 have in common?

In his book "Predictably Irrational", Dan Ariely reports the following experiment: a homogeneous group of basketball fans eager to get a ticket to attend the final of a major tournament, were offered the opportunity of being in a raffle in which they could earn a ticket for the game, but only after queuing for hours.

Their willingness to remain in queue for long hours, including overnight is evidence that these people were eager to win the lottery. In the end, the raffle split the group in two: non-winners and winners.

The winners obtained the ticket while the others did not obtain the coveted opportunity to watch the game. Ariely's experiment continued thus: on a telephone call participants were asked questions and made offers to determine how valuable the ticket was to them. In the case of the non-winners, they were offered the opportunity to purchase a ticket and this was followed by a procedure in which the maximum price they would be willing to pay was determined. The winners, on the other hand, had an opportunity to sell their tickets and then the minimum price at which they were willing to sell was determined.

The result of the experiment is striking: in spite of the fact that all participants were thinking of the same result (obtaining a ticket to a coveted game) and this gave them a reason to stand in line for hours, now the possession of the ticket made a surprising difference between those who had tickets and those who did not. The minimum amount of money the owners of tickets were willing to accept was in the order of ten times as much the maximum amount that those who didn't have tickets were willing to pay. In other words, not a single transaction was possible between potential buyers and sellers.



When someone is confronted with the choice between a half full and a half empty glass, the most frequent result is that people see the choices as different even though there is no objective difference. This observation and results of experiments similar to the one reported above, led Daniel Kahneman to win Nobel Prize in Economics in 2002. He and his colleagues showed that the prospect for a person who has something leads them to show a strong tendency to cling to this possession, while the prospect for someone who focuses on the lack of a specific holding makes this person willing to take alternative and risky paths to achieve their goals.

With these findings in experimental economics we can now approach the initial question: what is common in the three cases, is that in all of them the companies mentioned are giving up one or more elements that appear to be central in the prevalent business model: in the traditional model of banking obtaining a collateral to guarantee the loan appears to be a must; in the business model of a circus before Cirque du Soleil the show requires several animal routines; in the industry of high performance cars performance used to be tested at the F-1, that is before BMW's decision.

As in Arielly's experiment in these three cases we can see that the world is divided into two: those who have a characteristic in point and who lost it.

Thus, we have three cases of breaking away with what is "conventional": micro-loans for the poor, the solution offered by Muhammad Yunus and the Grameen Bank, are under the principle of "No Collateral, No Legal Instrument, No Group-Guarantee or Joint Liability". This result earned them the Nobel Peace Prize (and many other awards later) because of its potential to help the poor overcome their condition in a sustainable manner (without donations and with profitability for the Bank and its shareholders). This way of lending money parts away from the conventional way in granting credits.

Cirque du Soleil breaks away from the classic definition of circus by removing animal routines; a circus without trained dogs, with no camels or lions. Today this is a business with 19 simultaneous shows throughout the world and more than 4,000



employees from 40 different countries, among which 1.000 are artists. This business began in Montreal in 1984 with 20 street performers.

We cannot yet know the results BMW will obtain with its decision (taken just about a month ago). However, we can assume that this option will produce a fundamental break-away in the path of research and development focused on speed and the extreme conditions of Formula 1. BMW offers to move to a new definition of high performance in the motor industry.

When confronted with the prospect of implementing an innovative idea, a manager is in a situation similar to that of the winners of the tickets in the Arielly experiment. They will focus on their possession and will tend to ask a high price for the possibility of giving it up. If, on the contrary, they are put in a situation where the possession has been proactively taken away they will focus on finding alternative ways to achieve their needs.

It is crucial to be able to ask specific questions that will help us focus our efforts to innovate: how can we lend money to those who cannot provide collateral? How can we make good circus shows without trained animals? How can we develop high-performance cars without racing? Innovation is not the result of spontaneous ideas that appear without justification; on the contrary it is the product of a focalized process.

It is said that Hernan Cortes burned his ships before starting the conquest of Mexico. In doing so, he eliminated the possibility of seeking safety by escaping even though he faced a difficult and hostile prospect. It seems sensible to burn our ships in order to encourage innovation because this allows considering scenarios in which we will revise what we deem as obvious: the collateral seems obvious for the loan, animals are obvious thing in the circus and competition appears to be obvious for the development of high performance cars. Reformulating the obvious is to create the context to change prospects and therefore has the potential to open our eyes to new opportunities. Thus we can put in practice Einstein's idea that: "You cannot solve a problem using the same mental model with which the problem was originated".



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The tool we can use is to ask ourselves what we are going to stop doing, or what the ships are that we will burn. In asking this question, however, we must think of stopping what we have at the very core of our mental model. However paradoxical this might seem this tool has a clear potential to put us on the path to innovation.