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Disruptive entrepreneurs: An interview with Eric Ries

Companies are all too aware of the disruptive power of technology. The author of *The Lean Startup* argues that the competitive reaction of many organizations remains fatally flawed.

Digital technology has enabled the creation of new industries and upended many more. In this interview, Silicon Valley entrepreneur and author Eric Ries explains how individuals with minimal funding can now challenge incumbent companies, and he argues that the response of most organizations to this threat is flawed because they continue to measure—and reward—the wrong performance. This interview was conducted by McKinsey Global Institute partner Michael Chui. An edited transcript of Ries's remarks follows.

Renting the means of production

I have spent a lot of time with major companies where I'm considered some kind of innovation expert, whatever that means. Is that an oxymoron? I don't know. Is that a contradiction in terms? Can you be an innovation expert? I don't know. But anyway, I get the phone call now from companies who want to know, "Why should my big company innovate?"

And I always tell them the same thing: "Because your company will die otherwise." And they get so offended. Like, "We are a 100-year-old company. We're the leader in our . . ." I'm, like, "Hey, listen. Listen. You called *me*. I'm just telling you what I think." And then I try to tell them stories about a kid with a credit card—with a \$1,000 budget—I just saw build a product that, from the consumer's point of view, is indistinguishable from your highly polished, multiyear-generation, established product.

And their first reaction is always the same: “Well, we’ll just buy that kid if his product is successful.” And I’m, like, “You’re not understanding the moral of the story. It’s not that this one kid with a credit card could do this; *anyone* with a credit card can rent the means of production and compete with you on a first-class basis in their market. And so you’re not dealing with one potential competitor but with thousands or millions. Are you really geared up for innovation at that pace?” And that’s usually when they hang up the phone and say, “I’m going to call a different expert to tell us what posters to put on the wall. We’re looking for easy answers, not that kind of stuff.”

But I think that is what is so exciting about technology today. It’s like putting Karl Marx on his head. Anybody can rent the means of production, which means entrepreneurship is becoming truly democratized, which means nobody is safe.

Productive failure

All of our process diagrams [in major corporations] are linear, boxed diagrams that go one way. But entrepreneurship is fundamentally iterative. So our diagrams need to be in circles. We have to be willing to be wrong and to fail. But modern management says, “Failure means you get dinged.”

For example, one of things I’ve tried to do is to tell companies, “Put on your employees’ performance evaluation a concept we call *productive failure*: ‘How many productive failures did you have this year?’ If someone comes to you and claims that they didn’t fail this year, you know one of two things: they’re either lying to your face or they were incredibly, unbelievably conservative.”

In both cases, it’s actually not a positive attribute. You want to say, “Show me a time when you failed but learned something really valuable, or were able to pivot from something that didn’t work to something that did.” I have a lot of examples now where it’s possible to say: “You saved the company an incredible amount of money, because instead of spending \$10 million on something, we spent \$100,000 and did an experiment that proves conclusively there ain’t no business here.”

Executive sponsorship of a start-up is about learning and supporting the team and going on the journey with them. It’s not about reviews and evaluation and go-kill decisions. It’s a really different change required at the executive level, at the middle-manager level, and at the line-manager level to do this thing.

But the alternative is to die. So I feel, like, yes, it’s hard—but that’s better than having your company go the way of Kodak or BlackBerry or, you know, pick your favorite company in the last few years that’s gone from a \$100 billion market cap to \$5 billion. And ask yourself, “Was playing it safe actually that safe?” I don’t see the evidence that that’s true.

Pro-entrepreneurship public policy


I think what's happening in government today is actually very exciting. People look at the political dysfunction that makes it onto the cable news programs, and you're, like, "Oh God, we've got problems." And, listen, we've got problems, no doubt.

But behind the scenes, off the radar, not where people are willing to put the cameras, are really small, but I think very hopeful, signs—that we are stumbling our way to a whole new form of governance that is much more about the government as a creator of platforms that allow citizens to solve their own problems.

To me, one of the most precious commodities that government is hoarding at the moment is data. And we have an opportunity to turn that data into useful solutions if we're willing to open it up and allow citizens, who ultimately paid for the collection of that data, to have access to it.

So this is not about revealing people's private secrets; rather, it's about taking the data that's already being lawfully and legally collected and making programmatic access to that information available to everybody. And when you do that, you see incredible innovations start to open up, because I think what we are on the verge of is what I call a pro-entrepreneurship public policy.

To be pro-entrepreneurship as a matter of public policy means to make government a tool for helping entrepreneurs get started. That's what we want. Entrepreneur start-ups are experiments. So just like in a science lab, the more experiments you run, the more likely you are to create something great.

So you've got to ask yourself, "What's going to make it more likely for someone to start a start-up in the first place?" Open data is one such thing. If you give people access to the tools, the information about what's happening in the world, you give them the opportunity to stumble on more novel solutions. 

Eric Ries is a Silicon Valley entrepreneur and the author of *The Lean Startup* (Crown Business, 2011). **Michael Chui** is a partner at the McKinsey Global Institute and is based in McKinsey's San Francisco office.

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