00:16
Okay, I think we're good.

Jacob Morgan 00:18
Ready to go? Yep. All right. Then I will push record and we'll jump right in. I'm assuming you can see and hear me. Okay.

00:31
I can hear you great. I should I need to just close the settings and then I'll go see. There we go. Okay, I can see. Why is that happening? Dropbox? So I want to disable this constant pinging from Dropbox. Oh no, I do that. Turn off all notifications. That's great. Okay.

Jacob Morgan 01:10
All right. Cool. Well, then, unless you have any other questions, I'll jump right in. Sure. Okay. Hey, everyone. Welcome to another episode of leading the future of work. My guest today Sebastian, Mallaby, Best Selling Author of the power lot venture capital and the making of the new future. Sebastian, thank you for joining me. Great to be with you. And it's Mallaby. And I said, my lobby, which is the exact way I said that I shouldn't say it. So that's okay. Now a B, thank you, Sebastian, for joining me really excited to talk to you about venture capital and some of the stuff that even non venture capital people can learn. So very first question for you people not familiar with that space. What is venture capital? How do you explain it?

01:56
Venture capital is the specialty that looks at startup companies, usually startups that are doing technology, and invest taking an equity stake, there's no debt involved. So the basic idea is a startup comes along, it consists of a couple of people in an idea, venture capitalist, checks out to people, and approves of the idea. And buys, let's say, one quarter of the company takes a seat on the board. And the money that the venture capitalist pays over to the startup, to buy that one quarter of the equity, creates a bunch of money in the bank for the startup and gives it a runway to try to build a product and find some customers.

Jacob Morgan 02:46
And I think it's clear for a lot of people in the VC space. And you know, earlier in my career, I used to live in the Bay Area, I live in Southern California now. And I was also very, very fascinated with the VC space, I almost had a startup when we went to go raise money. So I used to be very, very infatuated with the whole venture capital space as somebody that lived in the Bay Area. But why should people who are not? Or should people who have no relationship to the VC world? Should they care about any of this stuff? Should they care about venture capital? What's going on in that space?

03:21
I think there's a couple of reasons why people should care, even if they're not directly involved in venture capital. The first is simply that, you know, venture capital is changing the way the US economy works. It's backing these companies and some of them turn into a Google or an apple or what have you. And so that then impacts everybody in business. And the second thing is that venture capitalists

do have an interesting way of coming into the world, they think about risk in a special way. If they're told, hey, this startup has like a, you know, seven out of 10 chance of failing, and you won't get a single dollar back on your investment, they may still do the investment. Why? Because if it did work, then it would be such a big return, that the upside justifies the probability of losing. And it's that sort of risk adjustment to kind of probabilistic thinking that no, you can bet on number three on a roulette wheel and your chances of losing a 35 out of 36. But if you did win, it would be big.

Jacob Morgan 04:26
Yeah, yeah. No, and I like and I think I, I very much agree. We also see this in terms of how entrepreneurs approach the world versus traditional business leaders, in terms of in terms of how they think and approach things. So you mentioned VCs, for example, think differently in terms of how they view risk, probably also differently in terms of how they evaluate a business, what they look for in people and founders. You obviously talked to a lot of people in the VC space over the years. What did you find that makes VCs so unique in terms of how they view the world

05:01
It's partly that thing of being willing to bet on extremely long, short companies. And it's partly a sense that even if something looks like it can't work, if you think hard enough and get involved enough, maybe you could make it work. And so, you know, some investment is a basically a kind of sit back and analyze kind of job right, where you might be a stock market investor working at a hedge fund, I wrote an earlier book about hedge funds. And their that technique is, you know, you look at your screen, you figure out which stocks might be mispriced or which bonds might be mispriced. And you might trade on that mispricing. But with venture capital, you're evaluating two people with an idea. And you might think, well, oh, this idea won't work. But if I introduce them to other people who could bring in the missing skills, then I could change it, and then it would work. And so it's that kind of element of creative activism, that makes venture capital different.

Jacob Morgan 06:05
I wonder if, if organizations, people inside of companies can apply kind of a similar mentality and approach to how they view people and ideas? I'm just curious, have you seen any organizations out there or have any companies brought you in and said, Hey, we want to bring in kind of this VC mindset for our leaders, can you help us figure out how to do it?

06:25
That happens all the time. Because I mean, not that they bring the end all the time. But that kind of intellectual challenge is, is omnipresent, because everybody in big companies understand that a small company might be about to disrupt them. And that small companies have turned out to be the most innovative creators of applied science based companies, you know, corporate research in pharma. In the big farmers, tends to have a less good payout than lots of startups, you know, which have different incentives, where people are really, really motivated to make a single idea work, because that's all they got. And there isn't a kind of corporate environment around the research. It's very much more, you know, somebody has an idea starts the company and really goes for it without, you know, without so much bureaucracy around them. So lots of companies, whether it's Google, which for a long time, has had a policy that allows engineers to spend one day a week on some project outside their normal work.

Jacob Morgan 07:29
I remember that.

07:31
Yeah. Yeah. So I mean, that's an example of trying to get engineers to think out of the box and do something long shot with no certain payout. And the idea is that that might generate ideas for Google that turned out to be super valuable. And then there are other companies that do it through creating a special venture capital arm. So this is called corporate venture capital. And so they set up an office where the brief is the mission is go find startups that we could invest in, and then if they were corrupt, we can bring them into the main business. And that will make us more creative.

Jacob Morgan 08:06
But then you also get these stories of like Serrano's, you know, this company valuated at so many billions of dollars that disappears. I think we saw also with FTX recently as well. You hear stories of Twitter, obviously, you on Musk is now owner of Twitter, which is a surreal thing to say. So what happens in those types of situations because obviously, these types of organizations, you know, they, they do get money, they they raise money, and then all of a sudden you hear all these terrible stories about what happens. Do you think that in general, the venture capital in the startup world is still viewed with a optimistic and positive lens? Or are people starting to turn away from that a little bit?

08:51
I think people have a mixed view of venture capital. And one of the reasons is the stories you were citing Theranos, the blood testing company, which not only burnt up a lot of investors money, but also was lying about what its product could do and pretending that there was a proper testing technology in place where in fact, they were kind of taking blood from the patients and putting it into a different machine, which they bought from some other company. And then pretending that that was their machine that did it was just ridiculous. It was so that was outright fraud.

Jacob Morgan 09:25
Yeah, I remember watching that documentary with my wife and we were both watching that thinking like, how, how is that possible? I know it's mine. Like you raise so much money, you're evaluated billions of dollars and nobody is checking you. Same thing with even FTX right with what's going on in the crypto space, complete multi multi billion dollars and you're like, how does nobody? How does that happen?

09:49
Yeah, I mean, it's it is crazy. At the same time, one has to remember that, you know, it's not just in venture backed startups that you get these great As the stories you get lots of big companies take the way that GE went from hero to zero, right after Jack Welch left. And you took kind of the most iconic company in American industry and reduced it to almost nothing. It you know, things can go wrong, right all over the place. Look at what is happening with US inflation right now, the Federal Reserve the revered government institution overseeing the whole economy, which had kept inflation under control, basically from like, 1982 through to 2021. All of a sudden, it loses the plot, and we get this double digit

inflation going on. I mean, it's so things can go wrong in life. And venture capitalists especially likely to go wrong, because the nature of the business is you're backing the startups and kind of risk taking in wacky and most startups fail. Now, I'm not excusing Theranos because that wasn't just like, startup that failed. Honestly, it was a fraud, which is a different thing. And I think FTX we'll see what more comes out. But that was pretty close as well to being a fraud. And there, I think it is fair to say that these VCs that put money in really should have done better due diligence. And I think the VCs would admit that themselves. But, you know, in an industry, which allocates you know, billions of dollars a year, year after year, you're gonna get some stories like that.

Jacob Morgan 11:25
Yeah, actually, I had Steve Case, as a podcast guest little while ago, you know, the founder, CEO of AOL, which was a very interesting conversation on entrepreneurship and venture capital two. So we touched on some of those themes. But I'm curious from from a lot of the VCs that you spoke with, and the startups that you've been paying attention to? How do you find that VCs evaluate ideas? Like, is there a certain criteria that they look at? Is there a certain framework that they use? How do you know which company to invest in? What are the questions that they're asking? And my rationale for going down this sort of rabbit hole? Is because I think a lot of people that have full time jobs, a lot of leaders inside of companies, perhaps they can be asking some similar questions when they're thinking of new products to create new services to launch new areas to invest in. So what what should people be thinking about?

12:21
Yeah, that's a great question. I mean, it's not like other investing where, you know, you normally have a quantitative metric when you invest, right? So a stock market investor would say, Okay, what's the price earnings ratio on this stock? And with venture capital, there are no earnings. It's an early stage company, it doesn't have revenue, let alone profit. So it does, you know, the thought process is different. And you're right, I agree with you. It's probably more akin to what a manager inside a corporation might do. And I think it's a combination of evaluating the team that's proposing the idea do these people have what it takes to accomplish what they are proposing? Do they have the right skills? Do they have right connections? Do they have the right track record? Second of all, looking at the product or the service that they want to build? Can it be built? Is there technical risk there? And thirdly, if you built it, and it and the product really worked, and people started to buy it, you know, what's the sort of total addressable market? How big could this be? And that last question is key. I mean, every single venture capital pitch gets met with that question, what is the total addressable market here? And so, you know, one of the things that FTX and his and its founder, Sam Backman freed would say was, you know, the total addressable market for FTX? is, every single dollar on the planet, you know, we could manage all of it. And so you get these, or there was a story at the beginning of my book about the impossible food company that makes meat free burgers, right. And there, you just have to look at how much how many hamburgers are sold in United States every year, to see that the total addressable market is kind of big. And so that's a big thing. You know, if you could get it right, and you made the product. How much could it be? How much? How valuable? Could it be?

Jacob Morgan 14:20

Yeah. Was there anything that particularly shocked you or surprised you? I mean, obviously, you looked at a lot of very famous and known companies out there that people are familiar with, when you were doing research for the book. Was there anything that you came across where you're like, No, that can't be like, That's not. That's not how it works, or they couldn't have done that? Did anything like that popped into your mind?

14:43
Yeah, there's lots of them. I mean, you know, ranges from Elon Musk, being in a car with Peter Thiel, when they were both sort of CO leading PayPal back in the day and Musk had sold his first small company and spent a big chunk of the proceeds on a supercar. and McLaren sports car. And so till it goes to musk. So how fast this thing go and must, as I'll show you hits the accelerator, accelerate straight into the median strip of the highway goes up in the air does 360 lands, the two men camber out just before the engine starts to catch on fire. And Thiel is like, whoa, you almost killed us. And Musk is laughing his head off until says, Why are you laughing? And Musk says, because I didn't have insurance. That's an example of like, you can't believe that story. But apparently it's true. And the more we see about what Elon Musk is up to today, you see he does have that kind of crazy side that risk appetite, that recklessness? His kind of personal story. Yeah, kind of Yeah. His

Jacob Morgan 15:49
tweets are a source of of entertainment amongst many, you know, that says, but I guess when you're the world's richest man, and when you are actually the owner of one of the world's largest social networks, you feel like you can do and say anything. So yeah, that's it. Yeah. That's a interesting story with Elon and Peter Thiel. What about as far as a story that how an organization was funded, or how it grew, did anything capture or shock you there as far as what you learned about a particular company?

16:25
Well, one investment story, which is kind of amazing, is sort of the way that Messier. She's some of SoftBank is a big Jack, Japan based investor, but really a global figure how he invested in Alibaba in China, which turned out to be one of the most profitable investments in venture capital of all time. And what happened was that initially, the investment in Alibaba was done by Goldman Sachs. And a young partner called Shirley Lin, Taiwanese American, had found Alibaba when it was really small, had put in something like $3.3 million dollars, and Alibaba was starting to do well. But Goldman Sachs, after the technology crash, in 2000, decided that, hey, you know, we're not really a start up investment firm. This tech stuff is like, not worth the trouble. And they ordered Shirley Lynn, to sell it initially, just to get a another investor to come in, and then later they sold it. And so she didn't know who to sell it to. And she asked around, and she had that. Basically, this Japanese getting Messier, she said would invest in anything. And particularly if Goldman Sachs recommended it. So she had a bunch of these Japanese Chinese startups, she was trying to sell steaks and her colleague at Goldman Sachs said, well, let's sell masayoshi son a stake in whichever one you've got, which is like the most desperate the most, you know, the most crazy thing which you really want to get rid of some of it. And she said, Well, Ali Baba is really desperate. So they tried. They went to mass there, she found because they thought they were selling him a lemon. And actually, there's totally a chunk of what turned out to be the most successful startup that pretty much never.

Jacob Morgan 18:15
That's crazy. Yeah, there's stories you hear in the VC world are just nuts. You know, one of the other things that it seems like, venture capitalists are really good at relationships. And I think that's also something the business world can learn as far as innovation and as far as teams, because, you know, there are a lot of silos inside of organizations, you're in marketing, you stay in marketing, you're in sales, you stay in sales. But it seems like one of the things that VCs are really good at is identifying skill sets and different people, perhaps from different industries or geographies, and then bringing them together to solve problems. Would you say that that's an accurate description of one of the things that VCs do that business leaders inside of organizations can do a better job of?

19:01
Absolutely, I'm really pleased you brought that up, because that is actually a key point. There is a social science paper, going back to sort of the mid 20th century by a sociologist called Mark Granovetter. And it's called the strength of weak ties. It is, I think, one of the most cited social science papers of all time. And the idea of the strength of weak ties is essentially that if you've got lots of weak ties, connecting you to lots of, you know, colleagues and co workers and people who are in the same field, then whenever you've got a new idea, or you want to make a job move, or you want to launch a new project, you have this huge Rolodex of people who might be helpful. And it turns out that spending your time building a network of relatively weak ties, but you've got lots of them can pay off more than if you have a smaller number of ties but which are deeper. And I think that is something that big organizations do. tend to put people into one part of the organization so that they specialize in one function, they may lose sight of this strength of weak ties and VCs, who by their nature, you know, pay to get up in the morning, have breakfast with one person that they might fund, and then have a cup of coffee with the person they funded last week, and another cup of coffee with a person who might become the engineer at the company they funded last week, and then, you know, 12 more cups of coffee before they go to bed, we just have to hope that decaffeinated. You know, basically what venture capitalists are doing without realizing it, is that they are the enactors of the strength of weak ties, they make those weak ties come into existence. And I think big corporations could benefit from deliberately fostering weak ties within their own organizations.

Jacob Morgan 20:50
That's an interesting idea. How would you go about doing that? Like, how, how are the weak ties get created? Like what, what did VCs do to create these weak ties is just meeting with people just getting out there and going to events? How do you create these weak ties inside of an organization? Well, back in the

21:11
early days of the industry, it was really about going to meet people having lunch with them, you know, having a drink with them, it was sort of the classic, old school stuff. And people were very deliberate about it. I mean, one VC from the 1980s told me how he got into the business in Silicon Valley. And He began by, you know, looking at one of his professors at Stanford and saying, who are the two smartest people, you know, in Silicon Valley, so he went to see those two people. And at the end of each lunch, he would say to them, who are the two smartest people, you know, in Silicon Valley, and you can see those two people. And then having built it up to about 80 or 100. People, he would make a point of

sending a note to one of them, you know, saying, Hey, I just read this article in a technical journal, it might be relevant to what you're working on. Or he would phone somebody and say, Hey, I just had lunch with somebody you used to know a couple of jobs ago, and they were asking how you're doing, you would just keep in touch with people and said, was this deliberate curation of a group of 100 or so people? I think, as technology has moved on, you can do this in new ways. I think some venture capitalists do it by blogging, and creating a following on a blog or maybe doing a podcast and creating a following that way. I think another thing is to have conferences, where you bring together people who care about a certain sort of industrial field, and XL, which is one of the venture partnerships I read a lot about, deliberately had this idea and said they would do a telecommunications conference, once a year at Stanford, they were plugged that field, that map on the field, and sorry, plant their flag on the map as being the kind of telecoms convenience. So I think that's a bunch of ways of just sort of, you know, normal networking over lunch. Do you know conferences, doing blogs? Those are some of the ideas I would give you.

Jacob Morgan 23:07
Yeah, kind of have mixed feelings about kind of the technology because like you said, on one hand, it's easy to kind of get connect people, right, you can have a big LinkedIn network, you can blog, stuff like that. But on the other hand, part of me feels like a lot of people are forgetting how to interact with human beings in a face to face environment. Without a screen without a piece of technology, right? There's something to be said about building a relationship with somebody being able to look somebody in the eye, give somebody a handshake. Have you noticed that at all, because at least for me, even when I'm out and about and I just see people talking, even going out on dates, husbands wives, they simply everyone's everyone's on a phone on a piece of technology? You know, people walk across the street, they look down now instead of looking into your eyes or looking across the street. Kind of a random question. But do you think that maybe some of this technology stuff is causing us to forget how to build relationships and how to actually create these ties in the right way?

24:08
I think you're you're raising a great point. I do think that, you know, LinkedIn networks are so thin, that this is not the strength of weak ties. This is like the lack of strength of absurdly weak ties. Exactly. So I kind of agree with you. And I would I would add an additional kind of way of saying the same thing, which is that I used to live in Washington, DC, spent 18 years. And that really is a place where political networks matter enormously and one friend of mine who was very successful as a sort of policy person and political person would always give this advice to young people who arrived in Washington who he was, who he became the mentor for, he would say, it's not how many people you know, it's how many people you know who think you are fantastic. Is So that's kind of like, you know, correcting. It's a mixture, right. So the quality of the tie and the depth of the tie does matter a bit. You also want to have quite a few. So I guess it's a sweet spot between being too narrow and too deep on the one hand, and then being LinkedIn, which is crazy in the

Jacob Morgan 25:20
other direction. Yeah. I wanted to read a quote, I think this was from from your book, or, or, or an article, I'm pretty sure it was from your book, not from an article that you wrote. But you wrote the reasonable people, well adjusted people, people without hubris or naivete routinely fail in life's

important missions by not even attempting them. And I read that and I'm sure a lot of people would read that and hear that and be like, What the hell are you talking about? Reasonable people and well adjusted people fail at life. What can you explain that quote a little bit in what you meant by it?

25:57
Yeah, well, the context for all that was I was talking to Vinod Khosla, who runs a partnership called Khosla ventures. And back in the day in the in the 90s, when he was at Kleiner Perkins, was the number one venture capitalist in the world. And this quote that you just read out, in fact, his his words, not mine, but I did sort of use them. And I thought he had a point. It's not a general point about all of life, right? Reasonable and well adjusted, people can certainly have an excellent life and not feel it at all and be rather rounded and, you know, fulfilled. But I do think that there are certain tasks, which are kind of a stretch tasks that may well fail, where you might have to be a bit unreasonable, you know, to bet the next three to five years of your life, I'm trying to make it work, even though it's a long shot. And so in the context of entrepreneurship, and doing really difficult things, I think being unreasonable, can be helpful.

Jacob Morgan 27:02
Yeah, I mean, when I read that, quote, I thought of kind of fighting complacency. Like I interpreted it as people who are okay with the status quo, people who are scared to get out of their comfort zone, people who are just okay with what they have and what they're doing, you know, their content. Those people oftentimes don't make great entrepreneurs, and those people don't oftentimes change the world. But the people who want more than being just content more than just being, you know, complacent, those are the people who ultimately go out there and, you know, get stuff to change and get stuff to happen. At least that's kind of how I interpreted it. So I think it makes sense.

27:40
Yeah, and I think, you know, one important lesson that arises out of my book, is that we all should try to know ourselves. And, you know, some people would like a life that is balanced, between work and home, and hobbies, you know, leisure and whatever. And they don't really want to put 110% of themselves into their job. And that's a legitimate choice. You can live your life that way. And there's nothing at all wrong with it. And so the expression that one VC used is, you know, when he funds a company, this VC, he does want the entrepreneur to be working 100 times 110% on it. And he says, Look, I'm selling rocket fuel. If you don't want to build a rocket, don't take my money. If you would like to have a company that grows at a, you know, reasonable, but not excessive rate, and you're content with that. That's a perfectly fair choice, but don't come to a venture capitalist, because they're going to want you to grow fast.

Jacob Morgan 28:42
Yeah, it's interesting, kind of going back to Elon Musk, right? I mean, when he took over Twitter, as you know, one of the first things he did, he fired a lot of people. And then he kind of made an announcement that basically said, if you are not willing to work aggressively, hard, ridiculously long hours, like get the hell out of here. And so now you see pictures of him tweeting online of like him working with some of his engineers and air to like, one two in the morning. And it's really interesting, because on the one hand, you see, some people are like, yeah, work hard, change the world, like good

for you, you know, people are learning from Elon EA. And on the other hand, you hear you see people saying things like, What the hell is wrong with you? You're hijacking people, you're forcing them to work long hours, like this is not the sign of a great leader. So it's kind of interesting that there's still, you know, they're working long hours. It's got a stigma for some people and an appreciation for other people, which I find to be very interesting.

29:39
Yeah. And I think it's great that the United States as a society has room for both, right? Yeah. You know, Elon is a great example. He is not reasonable. He is not well adjusted. He's crazy. But he's crazy. Is he crazy good or crazy bad? We can debate that. But there are some good things that come from it for sure and in space Next, and Tesla are great, amazing companies. And we don't know what's gonna happen with Twitter. But who knows? Right. But, you know, I think one should at least concede with Elon that he's he's done amazing stuff. And that, you know, United States is stronger and better for it.

Jacob Morgan 30:17
I wanted to touch on something that you mentioned earlier and it is approaching risk. And so you mentioned that with VCs, they fund startups knowing that the majority of those startups are going to fail. And so is the mentality for a VC. I want just one out of my 10 startups to succeed? And could that same mentality be approached for leaders who say, hey, I want to drive innovation in our company? I just need one idea out of 10 to be successful? Is it similar? Or are there some different boundaries or rules between the venture capitalists versus the leader inside of an organization?

30:57
Well, I think there's a huge difference between developing a new product and monetizing an existing product. And when you're trying to monetize an existing product, you won't tolerate like nine of the 10, that you're trying to monetize this feeling, right? Because you've invested all this money in creating the thing, it's got product market fit, it's getting revenue, you want the revenue, you don't want to blow it up. So I think that is a fundamentally different sort of phase of a business's life. And it's a good reason why it makes sense for the company to maybe change leadership, change ownership structure, as it passes from that phase of experimental innovation to material sort of monetization.

Jacob Morgan 31:49
And maybe one more question for you before we switch to some action items that people might be able to apply in their organizations and in their lives. And somebody the last question for you is really around culture? And how does culture influence entrepreneurship? And again, I'm kind of thinking of in the VC world, and how this can apply inside of organizations. So what what is the environment that VCs try to create, that allow entrepreneurs and ideas to flourish? And is there a way that you think leaders can apply that same mentality inside of an organization where employees are okay to take risk, they're not scared to fail. When they do fail, they learn and they move on? Because it seems like that's the stereotype of what most people think of when they think of an entrepreneur. But I find it interesting that like, why can't we bring that same type of thinking and mentality inside of an of an organization? Why is it just reserved for VCs and entrepreneurs?

32:50
It's a great question. I mean, I get asked a variant on that question a lot, which is, you know, how come Silicon Valley has this culture, which allows startups to flourish, and other parts of the world do not, and even within the United States has been, you know, maybe only the last 10 years or something like that, that Silicon Valley has been potentially losing some of its monopoly on tech innovation. So what was in the water that people were drinking? That made them have a special culture? Right? That's the sort of question. And my answer is, it's actually not like culture or some freestanding force. It's that venture capitalists come along. And they are willing to help you when you set up a company. So you imagine this, you know, engineer who's working in a big company, and he or she has an idea. And the boss of the company or the boss, the research department says, No, we're not going to do that. And the engineer is frustrated. And that weekend, goes off and bumps into a venture capitalist in a at a party or something. And the conversation goes, like this engineer says, I've got a great idea. It's frustrating, I can't do it. And the venture capitalist says, Sure, you can do it, I'll help you. And the, you know, the engineer says, Yeah, but I don't have any money to do this with. And the venture capitalist says, well, I'll raise the money. And then the engineer says, Yeah, but I don't even know how you form a company. And the VC says, Well, I do that all the time. I've got lawyers who can help. And then the engineer says, Yeah, but how do you even hire people? Because I've only got a small company here. Why would they? Why would a good engineer come and work with me when the startup might fail? And then the venture capitalist pulls out the absolute trump card, which is to say, Yeah, I'm going to tell these engineers who come and work for you that it might fail, because that's the truth about startups. But I find new startups all the time. And if they do a great job, but the startup fails through no fault of their own, I'll put them in a new job in a different startup. So you turn a one shot game which is very rare. game into a repeat game. And then guess what failure becomes a learning experience. So it's not just culture in the abstract is is the nature of venture capital, which turns this one short game into repeat game. Now, could you repeat that in a corporation? It's an interesting question, I guess there are, there's a balance that you need to strike right with, with people who are working for you, or people who you fund as a VC. And that is that you got to keep people accountable. And failure sometimes has to be punished, right, you have to fire people, you have to just not fund them again. On the other hand, sometimes you give people a second chance, because they're good. And I think that's a case by case judgment. But I would say that maybe allowing managers inside big corporations to have the both the permission. And also importantly, the incentives to take the risk of giving somebody a second chance, is worthwhile, don't don't have a sort of rigid rule that you know, one foot wrong and you're at, give people a chance to have a to have a second crack at it.

Jacob Morgan 36:17
No, I love that. Okay, so last few minutes, I want to talk about some specific action items. And kind of I'm imagining a hypothetical scenario, let's say a big company comes to you, I don't know, an IBM, Coca Cola. And they say, Sebastian, you've been studying the VC world entrepreneurs for a long, long time. We want to bring some of that thinking and some of that way of working inside our organization. And we want you to lead the charge, teach our employees to think like entrepreneurs, teach our leaders to have the mindset of venture capitalists. So if you were brought in to do this for that kind of an organization? How would you even start or begin to encourage that type of thinking? Employees being like entrepreneurs, leaders, thinking like venture capitalists? Do you have any idea of like, Where? Where can? Where can leaders even begin with this?

37:12
It's a great question. I think the first thing I would advise IBM or Coca Cola, is that you can't aspire to do this all across the organization, there are going to be things like human resources, you know, accounting, maybe even sales, where it's just not appropriate. It's, you know, because the whole venture capital activity and the culture around that is to do with invention of Applied Science, like commercializing science. So I think you could try doing this in a research department, or inside an engineering department. But you couldn't do it everywhere. Now, how would you do it in those more sort of invention seeking departments? Well, we want

Jacob Morgan 37:59
to, even before you touched on that, I think you bring up an interesting point, which I don't want to lose, because I think a lot of people, a lot of leaders try to do this everywhere, right? They say we want all of our employees to think like entrepreneurs. But it sounds like what you're saying is that that way of thinking does not make sense, everywhere in the company. And I think it's important for leaders to understand where does that entrepreneurial mindset, that VC mindset makes sense? And where does it not? And so correct me if I'm wrong, but it sounds like according to you, it makes more sense in areas where there is an opportunity for invention or creativity. But some people might say, well, can't you do that in any department? Can you do that for any team, even for sales or HR?

38:42
I mean, I think sales is a borderline case, there could be, you know, room for invention, and like a new sales technique or creative choice about, you know, which market you go for, or a new method of selling. So I wouldn't rule that out. But I mean, I think, with human resources with compliance functions, legal accounting. You don't want to innovate there. You want to obey the rules, and have proper rules and proper disclosures and all that. And indeed, by the way, I mean, this is the this is a debate that goes on inside big startups to become unicorns like Uber did. And the whole problem there was that the whole thing was entrepreneurial. And that was the mistake page, they needed to sort of transition. As they were getting a bigger, becoming a bigger, more mature company, they needed proper legal compliance. And they didn't have it. So they went off the kind of moral and commercial rails, and the IPO had to be delayed and all that. So, you know, startups face the problem of how you create more rule based obedience, as they get bigger and big companies maybe have a bit too much of it and they want to get a bit looser, but you can't be loose everywhere.

Jacob Morgan 40:00
Okay, I'm sorry, you were going on your thought there of like, what what you would do in those teams or divisions where it is okay.

40:10
I think you would inside, say the research department of Coca Cola, you might say, Okay, we've got a whole bunch of, you know, food scientists who are inventing new flavors or new types of ways of making food. Why don't we structure that a bit like a venture capitalist word where you have this group of inventive people, they can partner up and form teams as they wish. And then they write proposals. And they come to a sort of manager of that department who has a finite budget, and can give grants to

back the research that's presented. And then importantly, we'll do it stage by stage. So in venture capital, there's Series A, Series B, Series C, and the point there is that by funding an idea for a limited time, like six months or nine months, you give the people some runway to go off and develop the idea. And then if they don't hit agreed benchmarks, you don't give them more money to carry on, you kill the idea. So I think that stage by stage financing creates accountability and is the healthy option.

Jacob Morgan 41:28
And then, okay, so that's how you it sounds like you can create that entrepreneurial mindset. How do you get leaders to think like VCs? How do you get them to be okay with risk? Or how are VCs? Okay, with risk? How do you get them to embrace failure? How do you get them to understand that not every deal, and that every idea is going to work? And, you know, I feel like a lot of leaders inside of organizations struggle with this, right? You have an idea, and it doesn't work, you're fired? VCs, you have an idea, and it doesn't work, it's okay, if we're going to try something else, you know, how do you get that mental shift?

42:05
I mean, I think part of the clue comes from looking at companies that became big, quickly, and so they kind of are big companies, but they have recent startup roots. So go back to Andy Grove at Intel, right, he was running into maybe a dozen years or so, or perhaps even less after it was founded from nothing. And he had this phrase only the Paranoid Survive. And I think that's a telling insight that, you know, one thing that venture capitalists and startups know, is that growth is not linear, things that take off, tend to grow exponentially. That's why I called my book The Power Law, because it's this exponential curve, like a parallel curve of growth. And so I think, you know, people who are running companies in mature markets, where growth tends to be a steady kind of 4% 5% a year or something, need to remember that somebody might come out of that field with a new way of coming at the business and growing at 50% a year. And so being open to you being paranoid about somebody else who grows really fast is, is one thing, you know, Google, circa 2005, like seven years after they were founded, would be another example, when they were, you know, they had the startup roots. But they were a big company. And they were doing stuff like saying, okay, engineers will spend one day out of five, working on some crazy project and shooting for the moon moon shots. So I think all big companies could do that with their research staff allow them to sort of do a main project. And then one kind of almost hobby like one to just see if something crazy comes out of it. Yeah, there's a couple of ideas.

Jacob Morgan 44:00
What should leaders do with an idea? As you can imagine, a lot of employees come to leaders with ideas. And ultimately, the leader then needs to say, Well, okay, I've been given a lot of ideas. What do I do with them? VCs? Same thing, right? A lot of people come to them with ideas all the time. How is there a framework that VCs use, where they try to understand where there's potential and an idea or how, you know, everyone can have an idea, but how do you take that idea and turn it into something?

44:37
Well, I think there's sort of this, this basic, three questions strategy, where you say, first of all, could this idea be done would it work? Secondly, are we the right people to do it? Like does it fit into our skill set? Would somebody else do it better in which case we probably shouldn't go there? And then thirdly, If

there is this, you know, blended approach to risk where you're thinking partly, how likely is it that we could build this and make it work? But also, if we did make it work, how big would the payoff be? Because there are things that, you know, you think you probably could do. But even if you did them wouldn't be transformative. So it's really not worth it. And I think, you know, an interesting experiment, which we haven't seen the end of yet, but is an interesting thing to think about, is the way that Facebook pivoted to become meta, right? Here's another example of a young company that can remember the days of its founding, and indeed, the founder is still the completely dominant chief executive. And he's willing to essentially renamed the company and re focus the whole thing on the metaverse, which hasn't even being built yet. It's a kind of concept without a sort of deliverable. And that is crazy risky, right? He's kind of pivoting away from a product that may be stagnant, but it's still very profitable. And he's moving into something that may not exist. That that's gesina deny, which would like my CEO to do if I was the shareholder, but But it's, it's an interesting thing to watch.

Jacob Morgan 46:24
Yeah, no, I there's been a lot of debates and arguments about that, too, and a couple investors coming out there publicly criticizing the company to so yeah, it will be very interesting to play out. And maybe last question for you going back to ideas? What's the difference between how ideas travel in the VC world versus how ideas travel inside of an organization? And do you think that there's something that we can do inside of an organization to allow ideas to travel more freely? And to get wings, so to speak and turn into something?

46:59
Yeah, I think you have to think carefully inside organizations about whether you're sort of inadvertently incentivizing the hoarding of information within a single department, people are basically playing in their turf battles with each other. And how would you try to break those silos and encourage the fertility of you know, ij, sharing and all that? I mean, people tried matrix structures, right? Where you try to break up vertical silos by adding a kind of cross character cutting thing, where we're, at least there'll be people who spot idea hoarding, because there'll be frustrated by it. And you, you know, you try to build linkages, across the silos through those, those matrix structures. So that I guess that's one idea, there's obviously you can try to manage, just try to mix people around by moving them from one department to another. Yeah, I think that's actually a quite a good idea. Because one of the things about Silicon Valley, which turns out to be very fertile, is that most startups do fail. So everybody knows when they're working for a startup, that in two years time, they may well be working in a different startup. And so they want to know and be friends with all kinds of rival people who are my rivals today at a different startup is competing with me. But hey, in two years, or four years time, we may well be colleagues. And so it's actually in my personal interest to be friendly to this guy and give him a couple of friendly tips, even though he's my competitor, because later he'll be my cooperator. And so that's called coopetition. And I think if you circulate people within an organization, you might be able to replicate that.

Jacob Morgan 48:54
Yeah, I think that kind of a model for organizations will also be very, very interesting. And I think we've seen a little bit of that happen over the years. But you know, as even the past few years, right, and we've seen how crazy things have gotten. And I think more and more leaders in organizations are realizing that they need to rely and depend on others as well and not just try to crush and kill everybody

out there with a pulse. So I like that mentality. Well, where can people go to learn more about you your book, anything that you want to mention for people to check out?

49:27
Well, my book is the power law of venture capital in the making of the new future and you can buy it from pretty much any bookstore. go to Amazon, if you like or your local independent one. I tweet at my panelists at s see like Sebastian, Christopher, FC Melibea ma L L A, B y. And you know, I'm on LinkedIn. I work at the Council on Foreign Relations in New York. And so see ya far.org is the website and you can find me there's a kind of web page for me there. There's a some ideas.

Jacob Morgan 50:08
Very cool. Well, thank you so much for taking time out of your day. I really appreciate it.

50:13
Yeah, my pleasure, nice chatting with you and great questions. Thank you.

Jacob Morgan 50:16
Thank you. I don't hang up just yet. I'm gonna just quickly say the introduction one more time. But say your name correctly this time. So can you just one sec. Hey everyone, welcome to another episode of leading the future of work. My guest today is Sebastian Mallaby Best Selling Author of the power law, venture capital and the making of the new future. Alright, how to do that time. That's it. I let me push stop record here.