Business Example

Wesfarmers Australia

Homebase, the UK DIY hardware company, was purchased by the Australian company Wesfarmers for £340 million in 2016. Two years later the business was sold to Hilco for £1. It has been stated that Wesfarmers lost AUD1.5 billion during these two years. That is around USD1 billion. This deal is a recent example of completed reflexivity. Wesfarmers owns Bunnings Australia, which is a very successful Australian hardware chain. Wesfarmers rank in the top 10 of Australian listed companies, based on market capitalization. Yet they lost a billion dollars from one simple reflexive cycle.

As soon as Wesfarmers purchased Homebase, they changed 24 of their almost 250 stores to be just like Bunnings Australia stores. They also changed the product range and distribution process in the remaining Homebase stores to match their Bunnings Australia system. I did an analysis of this deal as I was visiting the UK at the time, and being Australian, I knew the Bunnings hardware stores. Using completed reflexivity I expected Wesfarmers to lose money in this deal, then make up excuses for their self created failure.

At the start of this deal, the managing director of Wesfarmers, Richard Goyder, said this: "The Bunnings team has done a lot of work to make sure it understands the market and the opportunity, including having visited hundreds of stores, spending significant time researching the market and closely studying international retail expansions into the UK and other markets."

After this investment failed, Richard Goyder retired and Rob Scott took over. He soon announced, "While the review confirmed the business is capable of returning to profitability over time, further capital investment is necessary to support the turnaround. The materiality of the opportunity and risks associated with the turnaround are not considered to justify the additional capital and management attention required from Bunnings and Wesfarmers." Rob Scott also said, "The investment has been disappointing, with the problems arising from poor execution post-acquisition being compounded by a deterioration in the macro environment and retail sector in the UK." Later he said that, "Obviously the outlook has deteriorated post-Brexit, I believe that would be a factor." Rob Scott later on said, "There is no doubt that the macro environment and outlook particularly the retail market conditions and outlook are more negative than when we first evaluated the opportunity."

These public comments were lies. Their pre-deal analysis had missed the most basic fact, that the DIY hardware consumer in the UK is not the same as the DIY hardware consumer in Australia. I know that the Wesfarmers senior management were told this fact by multiple UK managers, yet ignored their advice. There were no "post-acquisition" problems. All the problems originated from the biases that Wesfarmers had when they entered the deal.

One of the main excuses given for the failure of Bunnings UK was unusually cold weather in the UK in the company's first year of operation. Managers often blame their mistakes on unforeseen events. Yet their job is to protect their company against unforeseen events, so this is never a valid excuse. You have lived in the UK, so you know that there is always unpredictable weather each year. A £340 million business investment that did not have a buffer to deal with the predictably unpredictable UK weather was a bad deal.

The Real Problem

Bunnings is successful in Australia because Australians spend time outside. They are house proud, visiting friends for BBQs and pool parties. They fix up their houses as this is a fun experience in the warm weather. In the UK it is cold and wet for nine months of the year, so people in the UK will pay trades people to fix up their houses. They do not have the DIY mentality that Australians have. DIY in the cold and wet is not fun. This isn't rocket science.

When there is nice weather the last thing that people in the UK want to do is work on their house. They want to enjoy those three months of sunshine, or fly to a warm country and sit on the beach. People in the UK are not focused on DIY. Also people in the UK do not fix up their gardens as they spend most of their time inside. Wesfarmers did not know of this large cultural difference between Australia and the UK. But if they had talked to anyone who knew both DIY markets, they would have discovered this difference.

I was introduced to the Homebase deal, when one of the first Bunnings stores opened in the UK. I happened to be staying near to the store, and I went there to speak to the store management. It took me around one hour to discover that Wesfarmers had spent £340m to buy an existing business in a country where they had no experience, that was already making a good profit for the UK DIY market. They planned to change all of the stores to their Bunnings Australia model. Wesfarmers changed Homebase's management, branding, stock, interiors and warehouses. Nothing of the original Homebase concept was left. This means that Wesfarmers bought the Homebase property leases, and nothing else. Yet the property leases were the worst part of the Homebase deal as they were long term, and priced over market value. A decline in retail sales due to online shopping pushed retail leases down, but Homebase already had existing long term leases. Wesfarmers could not exit the deal without paying about £800m in "lease break" costs; a huge risk.

By replacing the Homebase management with their managers from Bunnings Australia, who did not know the UK DIY market, the Bunnings UK business was badly managed. It lost customers and money. With the UK business failing, Wesfarmers hired David Haydon, an Australian with 10 years experience working at B&Q (the UK rival of Homebase). He was appointed as the managing director. He may have told the Wesfarmers board how badly they had done, as they soon sold Homebase to Hilco for £1. Now David is closing poor performing stores, renegotiating most of the retail leases, and reintroducing stock that appeals to the UK market.

I spoke to a Homebase manager, who was sent to Australia to observe the Australian Bunnings operations. He was not asked to give his opinion on how those stores would work in the UK. He was only there to learn the Australian way, to apply it to the UK. Yet he saw that the Australian model would fail in the UK, and he told the Bunnings Australia senior management that fact. But he was ignored, as that would have required the Bunnings Australia senior management to admit that they did not understand the UK market. If they admitted this then they would not be needed, as it would be easier for Wesfarmers to keep its Homebase managers, or hire Australian managers with UK DIY experience, like David Haydon. The selfishness of the Bunnings Australia management caused them to ignore the warnings from UK managers. This is a highly predictable situation, yet no one at Wesfarmers looked for it. Because people are dishonest about being selfish, they pretend that everyone is good, so there is no need to look for selfishness.

There were other issues with this deal, which I learned from conversations with Homebase managers. But these issues all came from the same underlying bias, so I won't discuss them here. The key point is that I have nothing to do with Wesfarmers, yet after a few brief chats with three managers in one Homebase store in the UK I was able to determine everything that was wrong with this £340m Homebase purchase. My total time spent talking to these managers was about one hour. Yet in that hour I determined the problems with an investment that lost Wesfarmers over a billion dollars. This is how obvious the key problems were to me, and yet they were ignored by the management of one of Australia's most successful companies. This shows the power of human bias. The answers were available to an outsider after 1 hour of conversation, but the management of Wesfarmers could not find those answers, because they never looked for them. With 1 hour talking to middle management, and the attention of the Wesfarmers board, I would have saved them one billion dollars. But CEO's of large companies rarely listen to outside advice, which is the real problem.

Bias Filters

Wesfarmers did research into the UK warehouse market and saw an investment opportunity that did not exist. That is because the information that they gathered was put through a filter of bias that gave them a false assessment of reality. I know this because it took me 30 minutes online to determine that their numbers were wrong. Homebase was making around £40m a year in profit from almost 250 stores and around £1.5 billion in revenue. A similar UK DIY store is Wilko. It makes around £50m a year in profit, from about 380 stores and £1.5 billion in revenue. It is considered a UK retail success. From this information, found online in 30 minutes, I saw that Homebase was doing well. There wasn't any major slack in the Homebase business that Wesfarmers could fix. Wesfarmers invested £340m, and lost $1B in two years, by ignoring this fact.

It seems crazy that no one at Wesfarmers saw this major flaw in their investment, but this is what biases do. They cause highly intelligent people to ignore the truth, and fixate on ideas that are invalid. This is the same as when people invest in the stock market when it is going up (when there is no logical reason for the market to go up), then lose money when the stock market crashes. While there are many biases, the main ones are a Hope Based cycle and a Doom Based cycle. Wesfarmers suffered from a Hope Based cycle. I don't know what happened, but one scenario is this - the CEO of Wesfarmers was near to retiring, and he wanted to do one last big deal. He decided to buy an international hardware store. Since he speaks English he told his team to buy Homebase or B&Q in the UK. As Homebase was the easier deal, they chose Homebase.

People do not like telling the CEO of their company that they are wrong. They don't want to get fired, or be passed up for future promotions, so they agree with their CEO. His management team made up reasons to justify this deal. As each member of the team came up with justifications, this encouraged the other members to find their own justifications. The positive justifications for the deal were then fed back to the CEO, giving him an impression that his idea was good. External consultants were hired, to give the CEO an "external validation" of the deal. These consultants would earn far more if the deal went ahead, than if it didn't, so they made up justifications for the deal. Soon everyone agreed that this deal was great, and it went ahead. This is the Hope Based reflexive cycle, where everyone hopes that the deal will work, and they discount anything that contradicts that hope. The deal proceeded without a real risk assessment, but no one noticed that this was happening.

The opposite of this Hope Based reflexive cycle is the Doom Based reflexive cycle. People who have this bias always see the negative in every deal, and encourage others to see that negativity. There are risks in every action (and in every inaction) and doom focused people exaggerate these risks. They avoid doing deals and miss out on opportunities that could benefit their company. They do not create success, so they typically do not get promoted. The people who use the Hope Based cycle tend to be promoted, due to any lucky successes from deals that they supported. This is why disastrous business decisions often get made. The people who can stop bad business decisions often get ignored, as they don't have a history of success behind them. Often people that "dream big" get listened to, even though their dreams are often flawed.

These reflexive cycles are self supporting. The more hopeful outcomes that people see in a deal, the more hopeful they become about that deal, then they see even more hopeful outcomes in the deal. The more doom people see in the deal, the more concerned they become about that deal, and the more doom they see in the deal. In both of these cycles, every new piece of information gets moved into two categories: those that support the deal and those that reject the deal. The hopeful person discounts information that does not support the deal, and focuses on information that does. This filtered information then becomes their "logical proof" that their deal is good, as they don't see their own biased filtering. The doom focused person does the exact opposite filtering process.

Limited Feedback

In a business reflexive cycle, there is no immediate feedback to see that a reflexive cycle is happening (which is not what you have in the financial markets). In business the reflexive cycle affects the positive or negative opinions of everyone on the team. The boom phase of a Hope Based business cycle is when everybody agrees to a deal. This hope carries through into the implementation phase. Only after a deal is completed, when hope meets reality, does the bust phase of this reflexive cycle occur. Investors see no reflexive cycle until it is too late, as they are not privy to the Hope Based management meetings (the boom phase). Only when a deal loses money do they see that a Hope Based business cycle occurred.

Apple has a Hope Based cycle with their new products. They are positive about their new designs. They build these products, release them with great fanfare, then do not understand why these products don't sell as well as they used to. They then have more of these Hope Based meetings, and make slight variations to these products, and hope these variations will lead to sales. They do not see that they are operating on Hope Based product development cycles. As these cycles take years, from an idea being approved, to that product being on sale in all of their stores, Apple do not have immediate feedback to tell them that they are on the wrong path. When Steve Jobs was alive, he was that voice of reason, immune to Hope or Doom Based cycles. Now that Steve has gone it is clear to me that one main Apple manager had too much power and ego to listen to criticism. Tim Cook didn't see that this one person had no counterbalance in Apple, and the Hope Based cycles persisted.

Cycle Breaker

Hope and Doom Based cycles happen because managers don't want to "rock the boat" or "upset the team dynamics" (this is called Groupthink). Companies need someone immune to Groupthink to end these Hope and Doom Based cycles. Like the child in the tale of "The Emperor's New Clothes." This is someone outside of the company, who is paid to tell the CEO the truth, not to support their opinions. That doesn't usually happen, as the manager in the company hiring this outside person is usually the CEO, and is the cause of their Hope or Doom cycle. For example Tim Cook might hire an external company to tell him when Apple have designed a bad product. But because Tim Cook hired them they might not tell Tim when this has happened, to not upset him. This is why Steve Jobs asked his friend Larry Ellison for his opinion on the secret (at that time) Apple Store Concept. Steve knew that Larry, who was a billionaire and a friend, would not lie to him. This allowed Steve to avoid a Hope or Doom Based cycle. I don't think that Tim Cook has a Larry Ellison, who gives him honest, intelligent advice. This is because Tim does not realize that he needs a Larry Ellison.

Few people talk about company wide bias. No one talks about a Doom Based or Hope Based reflexive cycle. Yet these biases control all human decision making. The facade of "logical decision making" is a part of our species survival mechanism, as it allows people to be selfish. People cannot make biased decisions if they admit that they are biased. The way that a bias functions is that it pretends that it is not biased. People don't tell their boss, "I am agreeing with you so that I do not get fired." Rather they say, "I'm agreeing with you because your ideas are great." You cannot sit in a meeting and ask if anyone is biased, as no one will admit to that. Likewise people at the OSI will not tell you that the OSI is wasting your money, as they fear that they won't have a job if they tell you the truth. I suspect that you don't have a Larry Ellison in your life.

This is what Wesfarmers said when they started the Homebase UK deal: "The Bunnings team has done a lot of work to make sure it understands the market and the opportunity, including having visited hundreds of stores, spending significant time researching the market and closely studying international retail expansions into the UK and other markets." Then they lost one billion dollars, in two years, and it took me only one hour to work out why.

If I had been working with the Wesfarmers CEO I would have said: "You are buying a company that is already making almost as much money as it can in its market. You are planning to change its name, so you are not buying Goodwill. You are going to fire all of the management, so you are not buying its management expertise. You are changing all the store interiors, so you are not buying the infrastructure. You are changing a lot of the product range, so you are not buying the stock. All you are really buying are overpriced long term leases, on several hundred properties, in a country were you have no expertise. Are you crazy?" He wouldn't have listened to me, as he was caught in a Hope Based biased reflexive cycle. If he did listen to me he would have saved Wesfarmers $2 billion.

Every reflective cycle is defeated by something outside of that cycle. This ends the lie that the reflective cycle was based upon. To stop a Hope Based cycle or Doom Based cycle, requires someone outside of the cycle with the authority to be listened to by those who are in caught up in the cycle. That is the key problem in these situations. The people inside of these Hope based or Doom Based cycles are usually the people in charge of the company. As they are senior management they won't listen to outsiders. The people who need my advice are the least likely people to listen to my advice. It is one of the many reflexive paradoxes. These cycles form because the people who need outside help to break the cycle reject all help.

To stop Hope Based cycles or Doom Based cycles starting, a company must have structures in place in advance to achieve this. They need someone outside of the company, who is fearless and unbiased, who gets no benefit from the company doing deals. This is not an easy person to find. Few people can express an unbiased opinion in opposition to the CEO of a company, with enough force to be listened to. A CEO won't want this person to speak, as most CEO's fight to get to the top of their company, to have power over everyone around them. A company must have structures in place that force their CEO to listen to this external person. I discuss this topic in more detail in a later section called "Counterbalance."

Steve Jobs was the voice of reason at Apple, and he was also the boss. Tim Cook is the boss at Apple, but he is not their voice of reason. When Steve was not the boss at Apple (when John Sculley was the CEO) Steve was the voice of reason but nobody listened to him. At this time Apple was a few months away from bankruptcy. Having someone who sees reflexive cycle is worth nothing. They also have to be listened to. But most people don't listen to others, as that is a sign of weakness, and species survival prohibits people being seen as weak. If John Sculley had listened to Steve Jobs, then he would have realized that Steve should be the CEO of Apple, and would have resigned. Almost no CEO is selfless enough to do this. Eventually Apple shareholders saw the truth for themselves, fired John Sculley, then brought back Steve Jobs. Only when Steve (the voice of reason) was also the CEO, did Apple become great.

In late December 2018 Tesla announced that Larry Ellison will become a non executive director. He was an independent voice of reason for Steve Jobs. Will Larry be listened to at Tesla? I do not know, as I do not know their management structure. From some comments that Elon Musk made, Larry probably won't be listened to. Elon Musk, and his relatives and friends, own enough of Tesla to control any decisions that the company makes. Larry probably has the personal strength and financial success to be heard, but he was not invited with the respect that Steve Jobs gave him. While I admire what Elon has done, he needs to listen to Larry Ellison.

At the OSI you are the boss but you are not the voice of reason. I don't see any voice of reason at the OSI. Their work is not like the financial markets, where you can tell from the financial results when someone did a good job or a bad job. And their work is not like a business, where if management gets it wrong they can lose a billion dollars in 2 years, as Wesfarmers did. You have no measure of when the OSI are getting it right or wrong. Having any voice of reason within the OSI is irrelevant, if you don't listen to them; and it is doubly irrelevant if the OSI does not have any measures for what constitutes a victorious outcome.

People Matter

Due to CEO's not listening to the voice of reason in their own companies, success is about having the right people in charge, not about having the right strategies. Wesfarmers had a good strategy for their Homebase purchase of buying Homebase UK then slowly testing out store modifications until they had a winning formula. This strategy was clearly stated by Wesfarmers. Yet the people in charge of the purchase didn't follow this strategy. They closed the distribution centers, send containers of stock directly to the stores, changed a lot of the stock to match that of Bunnings Australia, and ignored the advice of their experienced Homebase managers, then fired them. That was not their plan, but senior managers rarely do what they are told to do. Managers want to put their "own stamp" on a deal to feel significant. Bunnings Australia management were caught in a Hope Based reflexive cycle, that told them to (lazily) replicate their Bunnings Australian operations in the UK. Then the CEO of Wesfarmers didn't see that they were ignoring his plan.

The right strategy plus the wrong management resulted in the strategy being turned into something that it was not meant to be. Therefore while I can look into a company and see if they have the chance to create a positive reflective cycle, I can't create one if the people who run the company are not interested in creating one. If Tony Fernandes leaves Air Asia there will probably be a new CEO who will want to change things to leave their "own stamp" on the company. They will break the Air Asia positive reflexive cycle. Or they won't understand the cycle, and they will break it by making "positive changes" (in their opinion), that are negative changes in the eyes of the Air Asia customers.

Apple is a good example of a smart and well intentioned CEO getting it wrong. Tim Cook has done his best to run Apple in the way that Steve Jobs ran Apple. But Tim does not understand what Steve did. So he keeps on making slightly wrong decisions. At first it didn't matter, as the products and processes in place kept Apple at the front of their positive reflexive cycle. Over time, changes to the existing Apple products have been slightly wrong. This made them less user friendly, less stylish, with more bugs and harder to connect to each other. Also over time, Apple has failed to create any innovative new products. While Tim Cook thinks that Apple is being innovative, compared to the Steve Jobs era, they are not.

Apple's positive reflective cycle requires them to be constantly innovating whilst maintaining the interconnect-ability of all their products. Under Tim Cook Apple has not innovated. Rather it has focused on improving existing products with marginal increments that are not what its customer wants, but where the industry is heading towards. An example of this is the "edge to edge screen" that smart phone manufacturers are focused on. This is about the front of a phone being all screen and nothing else. Customers like big screens, but don't care if the last few millimeters at the edge of the phone are not screen. If they are like me, they cannot securely hold these edge to edge phones, without accidentally touching the phone's screen, and selecting things they don't want to select.

For their iPhone X, Apple pushed this idea too far. They made a "notch" at the top of the phone to house the front camera, facial recognition sensors and speaker. This reduced the status bar area by about 50%. Few customers wanted to lose 50% of the status bar to get a few percentage points in screen size relative to phone size. But Tim Cook does not understand this. He thinks that customers want an edge to edge screen because everyone else in the industry is talking about it. This is a reflexive cycle, where an idea becomes implemented because people in an industry say it will be popular, so others in the industry (who are looking at each other) repeat the same statement. But it's not what the customers actually want.

By making this decision, Tim Cook is listening inwardly to the people within his industry, and not listening to his customers. This is what Wesfarmers did with Homebase UK. They listened to their own managers who said that UK customers want Australian style hardware stores. But they didn't listen to UK customers, who did not want Australian style hardware stores (as evidenced by their existing spending habits). That is not how Steve Jobs ran Apple. Steve was firstly focused outside of Apple, on its customers. Only when Steve knew what they wanted did he focus internally, to get those products made. Tim Cook broke Apple's reflective cycle by not following this process. Some managers at Apple will be telling Tim what his customers want, but Tim doesn't listen to them.

I cannot fix Apple because I am not yet running it. Tim Cook is not going to listen to anyone outside of Apple, and he is listening to the wrong people inside Apple. They told Tim that it's OK to put a notch on the top of iPhones, rather than push hard to design thinner cameras, speakers and facial recognition sensors for the top part of the iPhone. They are telling Tim that people don't care if half the status bar is missing and they don't want a home button or a fingerprint sensor. This is wrong, which is why the iPhone 8 is selling better than Apple expected, and the iPhone X is not selling as well as expected. Like any reflexive cycle, there comes a point where reality defeats the lie. The lie is that Apple are innovative and focused on giving their customers the highest quality and best looking products. Apple did that when Steve Jobs was CEO, but not now, because Tim Cook (like the former Wesfarmers CEO) is focused on what his team tell him, and not on his customers.

You giving control of the OSI money to a committee is a major mistake. It puts the wrong people in control. A committee will get caught up in Hope Based and Doom Based reflexive cycles. That structure is not going to manage the OSI in line with your desires. You need to give control of the OSI money to just one person, who understands your goals and shares them deeply; not a committee, who will try to guess what you wanted. The biggest challenge for any successful individual is to find the right person to donate their accumulated achievements to. Steve Jobs chose Tim Cook, but Tim is not the best CEO for Apple. Steve should have looked harder, or cultivated a better replacement, helping them to think as he did.

Reward and Risk

People talk about the "risk reward tradeoff." I do not see it as a tradeoff. Nor do I put risk at the front of this statement. That is the action of a doom focused person. It is easy to focus on doom, as it allows you to do nothing. Companies do not become successful if they focus on the negative and do nothing. They have to focus on the rewards from being in business, having innovative ideas that create new products and increase revenues. Only when they have new ideas and create new products can they focus on the risk that these products might create. I put reward first, as a reminder that people have to be in business, before they can manage the risks of being in business. I focus on "reward and risk optimization."

Steve Jobs taught me to look at the rewards first, and then look at the risks. And Steve taught me that these two are not correlated. The pathways that Steve chose for Apple increased their rewards while reducing their risks at the same time. Steve had people who did the innovative thinking needed to take Apple into unknown areas of profit. Steve also had people who turned these innovative ideas into quality mass produced products to make Apple money. One of the key people on this side of the equation was Tim Cook. He was the head of Apple's worldwide operations, managing the supply chain, making sure Apple products were made cheaply.

Steve Jobs was focused on reward and risk. He encouraged his teams to pursue great ideas, but he also rejected bad ideas and the poor implementation of great ideas. Steve made sure that his staff could take risks, as Apple had billions in retained earnings if one idea failed. This is a major element in our human survival system. Parents create stability, so their children can take the risks needed to make new discoveries, that advance our species survival. In the Wesfarmers purchase of Homebase, the management was looking at the rewards but not at the risks. At Apple, Tim Cook is focused on maximizing the rewards from their existing products, but he is not willing to face the risk of creating innovative new products.

Risk and Reward management is like playing football (called soccer in Europe). A team needs flamboyant attacking players who create opportunities and score unexpected goals. They also need a defensive players who are structured and organized, to shut down opportunities to score for other teams. In attack they need a risk taking mentality, and in defense they need a no risk mentality. In the midfield a team needs players who can flip between these two mentalities. These are the hardest players to find. Reward and risk management is like being in the midfield of a team, managing the balance between the attacking players and the defending players.

A company needs to inspire people to take risks, to create new products and services that make money for the company. People whop do this are like the flamboyant attacking players in football. Their risk taking coming up with new products are like shots on goal. These efforts don't always work out, but if a football team is not kicking towards the goal (and being willing to miss) they will never score a goal. In financial markets trading, this is the traders who take positions, hoping to succeed while being willing to fail.

Risk management is like the defense that protects against any possible attack. Structure in defense is needed, not risk taking. If a rival team kicks at goal, the defense has to stop that kick. They do not take a risk, and hope to stop the goal. Structure in defense and freedom in attack. In a company this is having a structured risk management focus and a risk taking profit focus. This is a difficult combination to achieve. Some CEO's focus on rewards. This is the attitude at Facebook. This attitude has worked well for a while but now their unmanaged risks will cost them billions. This is also the attitude at Tesla, who took a huge risk with their budget Model 3 car as it might send them bankrupt.

Some CEO's only focus on risk. This is the underlying attitude at Microsoft, who have not made any significantly new innovative products in years. They can barely keep up with copying Google and Apple. Microsoft still make billions each year, but they do not make half of what they would be making if they had the reward and risk balance of Apple or Google. In financial markets trading this is the attitude of those traders who analyze the markets, then rarely take a major position, always fearing that they will fail.

Few CEO's are able to support freedom and structure attitudes in the same company. A company's focus will typically mirror the personal focus of the CEO. It is no surprise that the focus at Apple changed when Tim Cook became the CEO. He was previously the supply chain manager at Apple, which is a risk focused structured role. Under Tim Apple has reduced its innovation and focused on marginal improvements in existing products (as Microsoft did).

Most importantly, very few CEO's are willing to deal with the conflict created by supporting dual attitudes in a company. This is the same conflicts that exists in all human interactions, due to our species survival mechanism. Every new idea is challenged by the existing ideology, before it is adopted, to ensue that our species is not embracing a new ideology that could lead to our extinction. In a company someone develops an idea for a new product. Then the "bean counter" accountants say that it won't make a profit. This is not a fact, it is their opinion. Since the accountants are risk focused they are more likely to say that a new product won't make a profit than not. The argument between the product developer and these accountants leads to the best outcome. This is counterbalance that I discuss in detail later. This process requires arguments, and most CEO's are too lazy and selfish to deal with this type of conflict.

Steve Jobs was a master of this situation. He both encouraged innovation, then hounded his staff to get every detail of a product perfect. Steve did this so Apple could charge the most possible for each product. Then Steve hounded his suppliers to reduce the cost of manufacturing and increase the quality of their products. Steve put billions in Apple's bank account to protect Apple from future mistakes. Steve was like the midfield player in football, who plays structured defense, then joins in a flamboyant attack on goal.

Elon Musk takes risks, but he does not have a base of stability like the one that Steve Jobs built up at Apple. Elon has no retained earnings to protect against any failed risky ideas. Like his Model 3 car, or his robot only factory to build it (that didn't work out). He is the same as Wesfarmers management, acting on his Hope Based reflexive cycle, not managing his risk side. Tesla's Model S car was a high reward, high risk decision. The Model X was a high reward low risk decision, as it was an extension of his existing technology, but in the highly profitable luxury SUV market. His Model 3 was a low reward, high risk decision, as it required a multi billion dollar "Gigafactory," increasing Tesla's interest cost through junk bonds. Elon chose to build the Model 3 in a robot only factory, which is a huge risk as this idea had never been tried before (and it failed). Add in the risk of the profit margin on the Model 3 being minimal. These factors make the Model 3 both a high risk and a low reward product, which is the opposite of Tesla's successful Model X.

The approach that Wesfarmers used with the Homebase deal was equally wrong. They were only rewards focused, and ignored the risks in the deal. When a CEO is only risks or rewards focused, their company does not create positive reflexive cycles. Either no innovative products are created, and the company stagnates (like Microsoft and Yahoo), or the company creates innovative products that make short term gains but create long term costs (Facebook). The purchase of Homebase was a low reward high risk deal where Wesfarmers focused only on their rewards. This is a football team that tries to kick goals, but never defends their own goal.