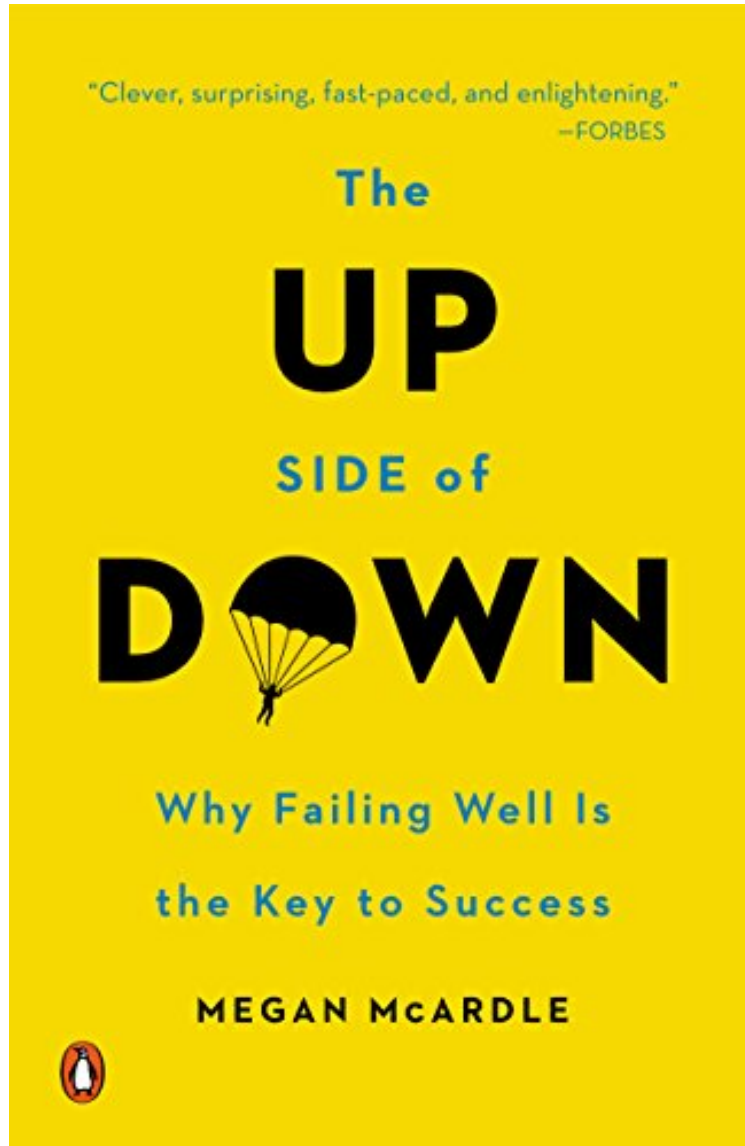


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# The Up Side of Down: Why Failing Well Is the Key to Success

*Megan McArdle*

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**Megan McArdle : The Up Side of Down: Why Failing Well Is the Key to Success** before purchasing it in order to gauge whether or not it would be worth my time, and all praised The Up Side of Down: Why Failing Well Is the Key to Success:

0 of 0 people found the following review helpful. fun+thought-provokingBy CustomerI was sure that anything by McArdle would be a fun read; it was. I thought there was a good chance that it would be too fluffy, and that it might merely confirm the libertarianish biases that I think I share with her; indeed I wouldn't describe it as Deep Thought and it doesn't jar my biases as much as they probably need, but it was thought-provoking. I'll re-read it, and I'm

recommending it to my (adult and high-school) kids. Like most people I've done a lot of failing; I haven't always failed well, but I think that my childhood in the 50s and 60s did have a (very) few advantages over more recent childhoods, and one of those advantages was greater freedom to fail, and recover. 0 of 0 people found the following review helpful. Go out and FAIL! By Coach Roy If you do not know that all successful people have learned the most from their failures, read this book. I suppose that it is a sad commentary of the US educational system that has parents/caregivers teach children that winning is everything and to fail is a disgrace, (which of course, is just the opposite). 1 of 1 people found the following review helpful. Good but sometimes rambling By Robert834 A fun easy read this book is also sometimes rambling; often the author sidesteps into more of the authors personal experiences and gripes rather than being scientifically informed (which you can easily skim). Still an enjoyable read with a valuable perspective.

“Clever, surprisingly fast-paced, and enlightening.” —Forbes Most new products fail. So do most businesses. And most of us, if we are honest, have experienced a major setback in our personal or professional lives. So what determines who will bounce back and follow up with a home run? What separates those who keep treading water from those who harness the lessons from their mistakes? One of our most popular business bloggers, Megan McArdle takes insights from emergency room doctors, kindergarten teachers, bankruptcy judges, and venture capitalists to teach us how to reinvent ourselves in the face of failure. *The Up Side of Down* is a book that just might change the way you lead your life.

Praise for *The Up Side of Down* “Clever, surprising, fast-paced, and enlightening . . . It’s okay to fail, and as Americans we understand this liberating fact better than, say, Europeans or Asians. . . . Acknowledging failure, McArdle writes in her engrossing book, is a necessary first step in learning from it.” —Forbes “A vivid example of how leaning in to low confidence—and the real and imagined failures it can bring about—can turn you around. . . . McArdle weaves together corporate case studies of triumphs and flops, core findings of behavioral economics, and her own bad luck in losing a succession of jobs during the Great Recession. . . . To get where you want to go, McArdle sagely notes, you must first give yourself “permission to suck.” Seeing how this epiphany earns her a freer, failure-embracing growth mindset is like watching a flower unfold.” —Elle “McArdle combines a shrewd knowledge of economics and practical experience with a writing style that every so often segues into comedy monologue. . . . Americans fail a lot, she argues. . . . But good judgment comes from experience. And experience comes from bad judgment—from failures. The key question is how you respond, whether you learn from failure and rebound.” —The Washington Examiner “A thought-provoking study of failure—our greatest fear and greatest motivator. McArdle’s lively prose underscores an entertaining roster of tales of risk-taking. . . . Her advice is important not only for individuals, but for wider economic growth; society has to reward experimentation, risk-taking, and working outside our comfort zones. This funny, cheerful look at helping teams overcome failure and find room to experiment will be a boon to business readers.” —Publishers Weekly “An illuminating look at the psychology behind rebounding from defeat. . . . McArdle has found a humble, intelligent way of infusing positivity and opportunity into personal losses. . . . Her message is a significant one with both personal and economic impact: There can be no vast success without initial failures, and it’s important to foster a culture of risk-takers who embrace experimentation in working outside of their comfort zones. . . . Sage counsel on how to learn from failure with humor and grace.” —Kirkus “*The Up Side of Down* reveals a forgotten secret to success: failure. This gracefully written, carefully researched book offers a timely and critical message. In a world that’s obsessed with perfection, Megan McArdle shows that our accomplishments depend on whether we can make mistakes and learn from them.” —Adam Grant, Wharton professor and author of *Give and Take* “This is a vibrant book on a vital subject. It’s full of unexpected insights and is a pleasure to read.” —Tim Harford, author of *Adapt* and *The Undercover Economist* and the *Dear Economist* column at the *Financial Times* “Megan McArdle has written the seminal book about renewal and American greatness: *The Up Side of Down* will teach you to embrace failure and use it to reinvent yourself and your organization.” —Tyler Cowen, author of *Discover Your Inner Economist* and *The Great Stagnation*, co-creator of the economics blog *Marginal Revolution* “This is both a surprising and an immensely comforting book. Drawing on academic research, reporting, and not least the failures in her own life, Megan McArdle convincingly demonstrates that avoiding failure isn’t what matters, but how we cope with failure. Sparkling with wit and insight in every chapter, *The Up Side of Down* has something for anyone who has ever failed, or lived in fear of failure—in other words, all of us.” —Greg Ip, author of *The Little Book of Economics* “It’s time for defeat, not just victory, to have a thousand fathers. In this wise, thought-provoking, and personal book, Megan McArdle makes the powerful case that we have as much or more to learn from our failures as we do from successes. With relevant case studies from Detroit to Hollywood, she seamlessly weaves together strategic and tactical insights into how to make big decisions—and learn from the many bad decisions we inevitably make along the way. Essential reading for executives, entrepreneurs, and students of life.” —Parag Khanna, author of *How to Run the World* and

Director of the Hybrid Reality Institute  
About the Author Megan McArdlen is a special correspondent for Newsweek/The Daily Beast. A graduate of the Booth School of Business at the University of Chicago, she has been a finance and economics correspondent for The Economist and a business columnist and blogger for The Atlantic. She lives with her husband, Peter, in Washington, D.C. Excerpt. copy; Reprinted by permission. All rights reserved.

1 Failure is Fundamental  
How a Brain Scientist and a Psychologist Helped Me Stop Procrastinating  
Around the turn of the millennium, Peter Skillman embarked on an interesting exercise in design philosophy. Skillman, who is now an executive at Nokia, was the head of "user experience" for Palm, the company that essentially invented the handheld computer. For five years, he ran various groups of people through a design exercise he created, which would come to be called the Spaghetti Problem. He assembled a variety of different groups, from American students to 150 Taiwanese telecom engineers, and split them into smaller units of three or four, at which point they were given twenty pieces of spaghetti, a meter of tape, a marshmallow, and a piece of string. They had eighteen minutes to create the tallest freestanding structure that would support a marshmallow. This sort of team-building exercise is not new; I did a version of it involving straws and an egg with eight fellow students during my business school orientation weekend. What was new was Skillman's perspective: instead of looking at it like a management guru, Skillman thought about it like a designer. In 2007, he shared what he had learned with the Gel conference, a sort of smaller version of TED.

1 Unsurprisingly, the engineers did very well. The business school students finished dead last, which is probably also unsurprising to anyone who has spent a weekend doing team-building exercises with future MBAs. According to Skillman, they spent too much time arguing about who was going to be the CEO of Spaghetti, Inc. Lawyers did almost as badly. And who did the very best? Skillman unveiled their pictures, and a wave of laughter swept through the audience. Up on the screen was a series of snapshots of kindergarten students, mugging for the camera in front of . . . well, about what you'd expect if your kindergartner made you something out of spaghetti and tape. How did the kindergartners beat the engineers? By the simple process of experimentation and iteration. They didn't let themselves get hemmed in by assumptions about what the rules were; they were the only group of people who asked for more spaghetti. And because they had more spaghetti, they didn't have to waste time sitting around talking about how the tower should look, or who should get to write the vision statement. They just dove in and started creating, discarding anything that didn't work. Since, as Skillman points out, "very few people understand the structural properties of spaghetti," this was the fastest route to success. The structures built by the engineers rose above the workspace with the elegant logic of a suspension bridge. The wild, asymmetrical kindergarten creations lurched drunkenly like modern art installations on a debauched spree. Yet they all supported a marshmallow, at a height that was on average a full inch taller than what the engineers had achieved. The engineers had years of schooling and work experience to teach them how to build sound structures. But the kindergartners had something even more powerful: they were not afraid of failure. By trying and failing, they learned what didn't work; which, it turned out, was all the knowledge they needed to figure out what did. "Multiple iterations," Skillman told the audience, "almost always beats single-minded focus around a single idea." The people who were planning weren't learning. The people who were trying and failing were. "If you have a short amount of time, it's more important that you fail," he said minutes later. "You fail early to succeed soon." I was sitting in the audience the day he gave that talk. Five years later, interviewing people for this book, I have heard this thesis echoed over and over again by entrepreneurs. For most of the rest of us, Skillman's story goes against every instinct we have about how the world is supposed to work. It should not be possible to blunder your way to the top. Success is supposed to be the product of hard-won skill and prudent planning, not breaking spaghetti with abandon. The problem is, most of our instincts about failure are wrong. Jim Manzi, the founder of Applied Predictive Technologies, tells a typical story. His company, which you'll hear about in a later chapter, was struggling with its business model. They were designing custom software products that they then installed at the client's location using thousands of dollars worth of equipment, and struggling to get enough sales. Then one day, their biggest client happened to notice the on-site team using a Web interface to do some testing. "Can't we just do it this way, on the Web?" the client asked. Manzi said no. Then he said it again. And again. The client kept asking. Eventually, with money getting very tight, Manzi gave in. He had discovered the software-as-a-service model of delivering applications to a client, where you own the servers, and they pay you monthly rent to access your product. Then novel, it now dominates most application development. "It was a combination of luck, having our backs to the wall, running out of money, and listening to what the market was telling us," says Manzi. "In my experience, most entrepreneurs, I have a similar story. The company almost died, and then we figured out in crisis what we really did for a living." "When we're sitting in our offices perfecting a product," says Jeff Stibel, the CEO of Dun Bradstreet Credibility Corp, "we're making the product better for us. The problem is, we're not the customer." Failure, says Stibel, is "the only way a business grows," because "it's the only way you really learn." When he says that, he's not just taking out a philosophical position. Before he was a serial entrepreneur, Stibel was a graduate student in cognitive science at Brown University, where he talked his way into the program by passionately arguing to his adviser that "the Internet is a brain." Stibel is the

distilled essence of a successful entrepreneur: lean and compact, with an intense dark gaze, and the hypomanic charm you find in so many business founders. He fires off ideas like "the Internet is a brain" at a steady rate of about one per minute, usually some mixture of philosophy, management theory, technofuturism, and his beloved cognitive science. Like Skillman, he is voluble on the role that failure plays in learning. Only, he thinks that failure isn't just a way to learn faster: it's the only way to learn at all. "The brain is a failure machine," he told me. "When you're born, you have about all the neurons you'll ever have. When you're four, you have pretty much all the connections between those neurons you'll ever have. Then the brain starts pruning. The brain starts shrinking." "When the brain is shrinking," Stibel says, "you're actually learning by failure." Think about the last time you tried to learn a new skill—using a spreadsheet, hitting a badminton shuttlecock, baking a cake. When you watched someone else do it, or read the instructions, it probably seemed pretty straightforward. Then you tried it, and nothing came out right. You lost a column and couldn't get it back. The shuttlecock flew off in entirely unexpected directions, or landed, unmo- lested, on the ground near your feet. The cake was half an inch of soggy crumbs. Maybe you gave up right then. But if you tried again, you probably had a few more frustrating efforts. And then, after a little while, something clicked. Possibly by accident, this time when you hit the shuttlecock, it went in the direction you'd intended. And you had that little flash of joy that comes from getting something right for the first time. That flash is your brain's reward system. Dopamine serves a lot of functions in the brain—it's implicated in everything from Parkinson's disease to heroin addiction. One thing it does consistently is regulate your reward systems. It's like a teacher handing out gold stars when your work is done correctly, and an extra sticker or two when your performance is superlative. When you're expecting something to happen, dopamine levels rise in anticipation. And if what you expected doesn't happen, they plummet. We perceive this rise and fall as elation and frustration. What we don't notice, says Stibel, is the role of dopamine in pruning the synaptic connections we've made. If our anticipation is correct, dopamine levels stay high, and strengthen the association between action and reward. ("When I beat the eggs and sugar together for a full five minutes, the cake is lighter and fluffier.") If something we anticipated fails to occur, the connection weakens. ("I thought moving my hand like that would make the shuttlecock go to the right, but it didn't happen.") That's why everyone mostly gains skills by practicing, not by watching someone else or developing an elaborate theory of shuttlecock physics. The naturally gifted get a head start, of course. I could practice for ten hours a day, and I still wouldn't be a candidate for the Bolshoi Ballet, or MIT's physics department. But even the most extraordinary prodigy will not qualify for those august institutions unless they spend years practicing their art over and over and over, letting their frequent mistakes and occasional moments of triumph strengthen the neural connections that tell their body how to pirouette across the stage or solve a mathematical equation. What Skillman and Stibel and Manzi and about a zillion management theorists are telling us is that effective groups work with the brain's natural learning style, instead of trying to supplant it. They fail early and often—"fail heroically," as Stibel puts it. "When most people look back on their successes," he told me, "they realize they were a series of failures that allowed them to navigate to success." Stibel is very serious about failure. When he took over at Dun Bradstreet Credibility Corp, a spin-off of Dun Bradstreet that provides credit counseling to businesses, the company was stagnant— not losing tons of money, but not really succeeding either. He decided he needed to put failure back at the heart of the firm— literally. He, his wife, and his assistant spent an evening with a few gallons of paint and a bottle of wine, stenciling quotations about failure on an office wall. It took almost all night, but when workers came in the next day, there was Jeff, writing on the wall about his own worst failure. Slowly, other workers followed suit. He knew hers—d succeeded, Stibel says, when he overheard one employee yelling at another, "Why haven't you written on the wall? Why don't I get to learn from your failures?" Even his performance reviews include a section on failure—"It's a positive section," he says. "We want to know, has the employee failed? Have they failed enough? Have they shared that with other people?" That doesn't mean wildly betting the farm, of course; it means calculated risks. "You don't want to fail too much," Manzi acknowledges. Rather, it's about "being able to kind of fall down, dust yourself off, get up and move on." Stibel agrees that it's about taking smart chances, not failing for the sake of failure. He is careful never to bet the farm on anything and puts a great deal of effort into ensuring that the failures aren't too costly. The object is to take lots of small, manageable risks, because that, he says, is the only way to figure out what really works. Of course, as Manzi drily notes, failure is, well . . . "it's very difficult, for obvious reasons." Those plummeting dopamine levels may be doing important work in our brain, but they don't feel good. That's unfortunately inherent: failure feels bad precisely because it's the way your brain says, "Hey, don't do that anymore." That's why Stibel had to work so hard to convince his colleagues that failure was a positive thing. If we want an educated population, a skilled workforce, an innovative society, then we will have to work just as hard as he did to persuade people that the pain of failure is like a blister in tennis— a sign that you are trying hard enough to improve. The Opposite of Failure is Not Safety: It's Nothing Like most writers, I am an inveterate procrastinator. In the course of writing this one chapter, I have checked my e-mail approximately 3,000 times, made

and discarded multiple grocery lists, conducted a lengthy Twitter battle over whether the gold standard is actually the worst economic policy ever proposed, written Facebook messages to schoolmates I haven't seen in at least a decade, invented a delicious new recipe for chocolate berry protein smoothies, and googled my own name several times to make sure that I have at least once written something that someone would actually want to read. Lots of people procrastinate, of course, but for writers it is a peculiarly common occupational hazard. One book editor I talked to fondly reminisced about the first book she was assigned to work on, back in the late 1990s. It had gone under contract in 1972. I once asked a talented and fairly famous colleague how he managed to regularly produce such highly regarded 8,000 word features. "Well," he said, "first, I put it off for two or three weeks. Then I sit down to write. That's when I get up and go clean the garage. After that, I go upstairs, and then I come back downstairs and complain to my wife for a couple of hours. Finally, but only after a couple more days have passed and I'm really freaking out about missing my deadline, I ultimately sit down and write." Over the years, I developed a theory about why writers are such procrastinators: we were too good in English class. This sounds crazy, but hear me out. Most writers were the kids who easily, almost automatically, got As in English class. (There are exceptions, but they often also seem