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The Starfish and the Spider: *The Unstoppable Power of Leaderless Organizations*

By Ori Brafman and Rod A. Beckstrom, \$24.95, Portfolio Hardcover

The book begins with an account of how the Apaches, unlike the Aztecs, the Incas and every other group of Native Americans, were undefeated by both the Spanish and American armies for 200 years. According to Ori Brafman and Rod A. Beckstrom, the Apaches' unique advantage was decentralization. They lived in small groups and did not have tribal chiefs or a rigid society and hierarchical political structure. Every individual was free to do as they wished. Leaders would emerge by doing something remarkable, inspiring others to follow them by choice.

When the Spanish army showed up, the Apaches would simply disperse into the wilderness. When one leader was killed, another would rise in his place. The more pressure the Spanish and Americans applied, the more dispersed, resilient and fanatical the Apaches became. Such is the nature of leaderless (or decentralized) organizations. The Apaches were eventually subdued, but not by force. U.S. government Indian agents gave them cows — creating an economy of ownership that led to a more centralized and therefore controllable society.

Brafman and Beckstrom compare the story of the Apaches directly to the conflict between modern-day entertainment companies and file-sharing Web sites. Initially, music-sharing Web sites were not created for profit. They offered contributions from thousands of sources and existed solely because their users wanted easy access to music.

The big entertainment companies did not understand the decentralized nature of file sharing. They reacted through the courts and by developing digital rights management technology, just as they would to confront any threat from a centralized foe. But for every file-sharing Web site they managed to successfully close down through litigation, a dozen more sprang up in its place. Rather than putting a stop to file sharing, they have alienated good customers with heavy-handed rights management schemes and legal tactics.

In *The Starfish and the Spider*, Brafman and Beckstrom give us example after example of the incredible growth potential, vitality and resilience of decentralized organizations. The book is filled with engaging stories such as how Alcoholics Anonymous, despite its lack of headquarters or franchise organization, grew to become one of the world's largest organizations and how subsequent difficulties developed once a foundation was created to receive book royalties. They also

delve into the challenges that terrorist organizations such as al Qaeda present, and offer some interesting examples of how similar organizations have been rendered ineffectual.

But for the business reader, *The Starfish and the Spider* really pays off as Brafman and Beckstrom dissect business strategy in the modern age of the Internet — the most decentralized of all environments. Using the stories of Skype, Craigslist, eBay, Napster, Wikipedia and many other businesses, they show how new business is increasingly being built by decentralized organizations on the graves of corporate giants and sometimes entire industries.

The title for *The Starfish and the Spider* came about after a

naturalist friend pointed out an analogy between their description of decentralized organizations and the anatomy of a starfish. The starfish's central nervous system is dispersed uniformly throughout the whole organism. If you chop off one of the arms of a starfish, it grows another one. Sometimes the severed appendage will even grow into a separate starfish.

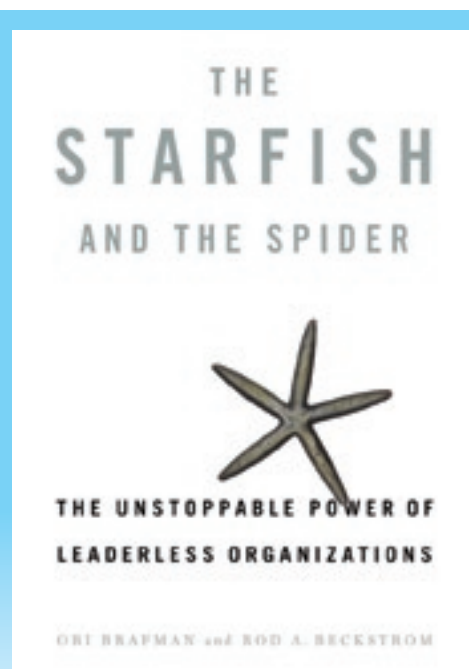
Although it looks similar to a starfish, a spider has a central nervous system and head. If you chop off its leg, you get a crippled spider. Chop off more legs or injure its head, and it dies.

In the *Starfish and the Spider*, Brafman and Beckstrom do more than simply tell tales of starfish organizations that are changing the world. They have used their research to clearly identify the five operating principles necessary for a decentralized organization to thrive.

Decentralized organizations are typically founded by individuals who act as a catalyst (1) to create circles of devotees (2) around an ideology (3). They usually are built on a pre-existing network (4) and then grow through the committed efforts of a champion (5). Each one of these legs is explored in depth, with applicable real-world examples.

While Brafman and Beckstrom make no predictions about the business world of tomorrow, through copious research and insightful analysis they give pretty clear indications that surviving and thriving businesses in the future will need to metamorphose away from their spider-like qualities to become more like starfish.

The Starfish and the Spider is written in an engaging anecdotal style that most readers will warm to immediately. It is a natural selection for anyone who plans to evolve in business over the next few decades.



'The Unstoppable Power of Leaderless Organizations'



Image: iStockphoto.com, blaneyphoto

Editor's Note: Prior to this interview, we took a few minutes to acquaint Rod Beckstrom and Ori Brafman with our readership and the ValueRich Small-cap Financial Expos. We also showed them the beta site for iValueRich.com, our new Web 2.0 Wall Street and public company community.

ValueRich: The idea of decentralization, as you describe it in *The Starfish and the Spider*, is interesting. You take a rather broad view and give us a lot of very different examples of successful decentralized organizations and companies. It is quite an eye opener. It got me to thinking about the challenges that small public companies face. I'm wondering if the kind of networking that is emerging online — coupled with some **IVALUERICH.com** aspects of decentralization, as you illustrate in your book — could really be of benefit to small companies.

Rod Beckstrom: I think in this new world, where hierarchies are being flat-

tened, individuals, small companies and small groups can have tremendous power where they didn't have power before. And they can have a voice where they didn't have a voice before. Clearly, when I look at the network you are building [iValueRich.com], you are directly addressing this. When you develop a mass of companies that is of

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*I think in this new world, where hierarchies are being flattened, individuals, small companies and small groups can have tremendous power where they didn't have power before.*  
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sufficient interest so that investors can make efficient use of their time to get access to a lot of company information, that's a really compelling model. You are

creating a network that those companies can then leverage and tap to get their message out there and to build their linkages.

But more broadly, those companies can use new technologies to have a much bigger footprint than they ever had before — in the outward-bound communications sense. By blogging about what they're up to and their products, or about how their customers use their products, they'll increase and enhance the whole customer interface by being direct — not necessarily having to spend a ton of money on advertising and traditional marketing, but gearing it more toward honest communication.

Secondly, a lot of companies can put up wikis [a wiki is a collaborative Web site whose content can be edited by anyone who has access to it] where their employees and their customers can jointly create large knowledge bases and information. This is one example of what companies can do to get a larger footprint and add a lot more value in the market space.

And also, there is the notion of companies acting as catalysts, in other words becoming players — kind of like you are — to catalyze new interactions among market participants within their own respective markets. Whether they are making lawnmowers, specialized analog chips or measurement devices or whatever, there are probably new ways that they can network with their suppliers, customers and the world to leverage this.

Ori Brafman: In the old days (pre-1995) there was nothing that you could really do to compete with large-cap companies in terms of gaining visibility. How could you really compete with the PR budget of GM? In this new world, there is really an advantage to what we call the diseconomies of scale. Not only

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are you strategically able to be more flexible in the marketplace but, as a smaller-cap company, you are actually more able to adopt these new technolo-

gies earlier — whether it is a wiki or a community, etc.

From the consumer or analysts' perspective, people are just now starting to understand a more "starfish" or decentralized company, and really appreciate its power. I think a lot of your companies are going to be able to tap into this nascent awareness. People are beginning to say, "Wait a second. I'm evaluating AT&T vs. Skype. By the old measurements, AT&T should have completely won! Right?"



There is no reason why Skype should have won the battle. AT&T was better capitalized. It had a track record. It had excellent senior management. And Skype was just these guys in London and Estonia, for God's sake. But they're completely decimating AT&T, Deutsch Telekom, and really all the huge telecoms by doing the "starfish" play.

**VR: In the book, you mentioned Oprah's Book Club, which I thought was an interesting example because she and her people thought they were just using programming to promote reading. But what happened was a kind of network effect, where the club circles took on a life of their own. Then you had all of these bestsellers coming out of the group, a fact that was then picked up by the news media. It created incredible trans-media power for Oprah in the publishing industry.**

**It got me thinking about how the shareholders of small companies are often knowledgeable industry types who have talents and experience they could bring to bear for the company. I suppose, taking the more decentralized starfish approach, a small company could really put their shareholders to work for them, could they not?**

**Rod:** That's a great analysis.

**Ori:** The interesting thing about the network effect is that it is difficult to create, but once you create it, it starts building on itself incredibly rapidly.

I would argue that a company like Google, which has a huge market cap, hasn't been able to create a network



**Ori Brafman (left) and Rod Beckstrom**

## About the Authors:

**Born in Israel and raised in Texas**, Ori Brafman holds a BA in Peace and Conflict Studies from UC Berkeley and an MBA from Stanford University's Graduate School of Business, where he has since facilitated an MBA course on interpersonal dynamics. Brafman is the co-founder of Vegan Action, a starfish organization with 36 national and international chapters that has brought vegan foods into numerous college dining halls.

Rod Beckstrom moved from Oklahoma to California to attend Stanford, where he was president of the combined undergraduate and graduate student bodies. While earning his MBA at Stanford, Beckstrom started a risk management company on the side to help cover tuition. C\*ATS software grew into a multinational NASDAQ-traded company. Rod "retired" from his position as CEO in 1999, but has since served in leadership positions with the Young Presidents Organization (YPO) and several technology startups. Prodded and coached by Nobel Laureate William F. Sharpe, Beckstrom co-edited the first book on Value at Risk, a modern theory of risk management. He has been cited on issues of technology and finance in *The Wall Street Journal*, *Financial Times* and many other international publications.

Brafman and Beckstrom have also co-founded Global Peace Networks, a network of CEOs working on conflict resolution and economic development in Africa and the Middle East.

*The interesting thing about the network effect is that it is difficult to create, but once you create it, it starts building on itself incredibly rapidly.*

effect in any of its properties yet. There is a little bit of network effect in e-mail or in their search engine — a tiny bit.

Back in 1999 or 2000, when I was a big Yahoo! user, someone told me about Google, and I said, "Well, Google's better," and I switched. I didn't shed a tear for Yahoo! Google



now faces a similar kind of problem. It is going to be very easy to shift away from Google because they do not yet

have a network effect either of investors or users.

In contrast, the network effect is really eBay's biggest competitive advantage. The sellers stay at eBay because they have spent years building up their ratings. I would argue that the network effect is what is keeping eBay alive.

The network effect really does well in a more decentralized, open system, just like what you talked about with Oprah's Book Club. If Oprah didn't have those circles of viewers and just said, "You

know what, everyone? We're going to read a book and I'm going to talk about it on the show," I don't think it would have lasted beyond the first book. The genius was telling people to start these circles and support each other. That's when it started taking off.

I think that is also going to be the same challenge in terms of creating network effects of investors. I don't know how companies go about creating a sense of community where investors actually have something to do with each other as opposed to just having a one-way relationship with the company.

**VR: One of the longstanding principles of business networking is that you don't merely promote yourself, but you also try to find a need to fill with each new contact. You help them accomplish something, without asking anything in return, and build relationships that way. That's kind of similar to the catalysts you talk about in *The Starfish and the Spider*, individuals who start decentralized movements, is it not?**

**Ori:** Exactly, because all relationships are based on trust and really helping each other. If you look at how the catalyst enters the situation, one of the first things they do is ask, "How can I help you?" What can they do to make your life better in any way, whether it is to fight alcoholism or start an Internet brand?

Look at Wikipedia for example. Why do people volunteer hours and hours making the site better? It doesn't make sense from a pure economic perspective. You would think people would just want to take and not contribute. To trigger this really interesting response from people, you create an environment of trust and open giving.

**Rod:** What you guys at ValueRich are facilitating in some way, or can facilitate, is to help create more peer-to-peer and direct interaction between companies and institutional investors. Whereas the investors in the past relied more on the investment banking analysts writ-

ing their research reports, they are now getting a chance to go direct.

**Ori:** You know, we've been talking about the ValueRich shows and the magazine and some of your new ideas about creating networks. It's so counter to how a lot of people think about business: the idea that you trust people first, the idea that you let go, the idea that you try to give them something without asking anything in return. This is counter to the last century of business thinking of "How am I going to create command-and-control systems? How am I going to incentivize people to do what I want them to do? How do I control structure?"

There is a power to these networks that is difficult to describe to people until they've experienced it.

To my mind, the first step for leveraging off of a "starfish" is really to start turning all of these ideas on their head and seeing how they play out — and learn that they actually have power. Because honestly, when we think about lots of these ideas prima facie, we think, "Well, that's kind of touchy-feely. OK, that's nice, but that's not necessarily something for a public company to do."

**VR: That has been one of our biggest challenges all the way through. We've experienced a fair amount of resistance when it comes to opening up what many believe are proprietary connections — until they actually get to one of our Small-cap Financial Expos and start to participate and see the incredible energy that is created by it. Then it just blows people away.**


**Ori:** There is a power to these networks that is difficult to describe to people until they've experienced it. One of my good friends came up with this term called "organized serendipity." The notion is that you invite people into the room together and create some kind of structure for them. But you make it loose enough where they have freedom, and all of a sudden these really serendipitous, amazing things start happening.

It is very difficult to predict or measure and monitor. Are you familiar with Bar Camp?

**VR: No.**

**Ori:** There've been all these conferences lately about Web 2.0 and stuff like that, but people discovered that the most interesting conversations happen in the bar, where people really get a chance to talk with each other. So they started these conferences called Bar Camp. Anyone can start a Bar Camp. There is no agenda. You just sign up and show up. Different people give presentations about different topics. And some really incredible people have been showing up. They are completely open conferences, organized around a wiki and completely unstructured. And some really interesting things come out of them.

**VR: Do any recent examples come to mind of companies for profit that have decentralized part of their business and are expanding their business that way?**

**Rod:** Clearly YouTube is a phenomenon. I mean here is a company, less than two years old, that goes from obscurity to literally being a global player and in the process is really ripping up the road with global TV viewing and video content. It's a fascinating play. I think if we were writing the book today, we'd certainly have told their story. As you know, we covered the music industry pretty thoroughly regarding what's going on.  But YouTube is really the first major game-changing phenomenon in the film industry. There are huge implications with what's going on there. Yahoo! is very concerned right now about the implications of Google taking prominence with that acquisition. It's going to be a real challenge for Yahoo! to try to play catch-up now.

**VR: I guess we'll have to catch up on YouTube's starfish story with the sequel. Thanks, guys, this was a really interesting conversation we just had — with big implications for the future of small-caps. VR**

