Dynamism of a Human Body, Umberto Boccioni

Accountably Creative

Empowering Creativity
While Being Accountable for Results

Life Lessons of John Warner

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Finding Gobsmackingly Great Ideas

Over forty years I've had the privilege of being involved in powerful open innovations where diverse organizations accomplished a big vision that none of them could have achieved alone. Each had an enlightened leader with resources who put an audacious vision on the table that was big enough to force us out of the silos we live in most of the time. Diverse people responded with intuitive ideas only they could have thought of that initially were personal, informal, and not fully formed. Data driven processes that worked in mature, operationally excellence organizations weren't effective in developing low data, ambiguous concepts. The data needed wasn't inside the leader's organization, but was outside where current or potential customers were struggling to find solutions to critical problems. Henry Ford said, "If I had asked them what they wanted they would have said faster horses." His customers couldn't have told him they wanted a car they had never seen, but they were experts in what was wrong with their horses. They ate a lot. They got sick. They were slow.

I've seen ambiguity paralyze leaders accountable for the resources they manage. from politicians concerned about being accountable to taxpayers to CEOs who had to report to their Board of Directors and to Wall Street. The challenge is basically the same. How do leaders manage the creative tension of inspiring their teams to think outside the box to develop gobsmackingly great ideas while also being accountable for results. Leaders can delegate authority to act, but they can't delegate responsibility for results.

Author Virginia Postrel coined "dynamism" to describe a culture which promotes unstructured experiments where "members gain from the things they themselves do not know but other people do." The superpower of dynamic cultures is tapping into the full human potential of everyone. Creative individuals in dynamic cultures need to be nurtured and protected by influential patrons like the Medici in the Italian Renaissance. Former Herman Miller CEO Max De Pree observed that tapping into the creative energy that exists in all organizations requires "spirit-lifting leadership that enables, enriches, holds the organization accountable, and in the end let's go."

Enlightened leaders can apply universal principles identified in these stories to create dynamic cultures supercharging their organizations to thrive in our time of profound change. Leaders must empower passionate, tenacious individuals to pursue their informed intuition that is informal, personal, and not fully formed. They must encourage big thinking that defines what success looks like, then starts small and iterates there. There must be a consensus about good governance that defines what everyone is accountable for, giving creative individuals license to contribute what only they can. Diversity must be respected as an asset, where each individual has a distinctive role to play. Leaders must nurture transformational ideas as startups inventing new systems designed for the future, knowing that startups are more likely to succeed than individuals who control today's status quo. Those given the privilege of thinking outside-the-box have an obligation to be accountable for results. Leaders must protect innovators from cultural antibodies which inevitably form to fight off disruptive ideas.

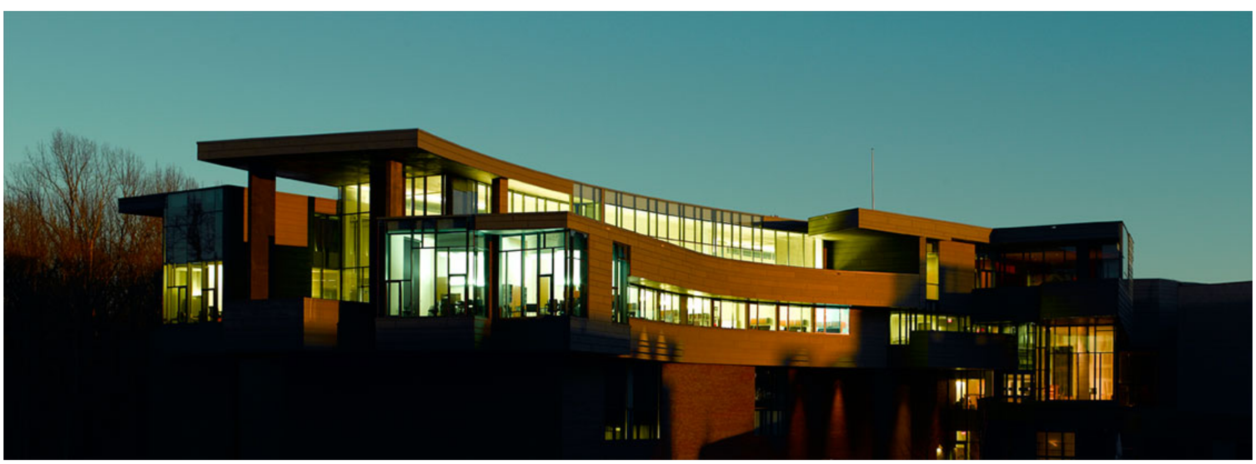
We live in a time of almost unlimited opportunities for those with the vision, courage, and ability to seize them. Carpe diem.

What If?

John graduated from Texas A&M in 1996 with Bachelors and Masters degrees in mechanical engineering. After working for a decade as a product strategist for National Instruments Corp., he enrolled as one of the first PhD students in the brand new Clemson University International Center for Automotive Research, CU-ICAR.

The journey that made that opportunity available to John began shortly after Jim became Clemson president in 1999. Jim's vision was for Clemson to become a top 20 public university, an aspiration that already existed among the broader Clemson community. Clemson is in a rural corner of South Carolina, about a 45 minute car ride from Greenville, the largest metropolitan area in the state. Greenville was experiencing a renaissance and had high aspirations too. Sensing that Clemson needed Greenville, and vice versa, Jim called a meeting of a few dozen community leaders and asked us, "If Clemson was in Greenville, what would we do differently?" That profound question sparked thoughts from better town and gown relationships to research collaborations. Then everyone went back to their day jobs.

George, a successful entrepreneur and civic leader, followed up asking Jim if he could continue a conversation about Clemson research in Greenville. "Well of course," Jim said. A few of us met monthly for a while to consider research in areas where Greenville had deep roots, like textiles, construction, and environmental, but nothing got much traction. The number of people attending the meetings dropped off.



Clemson University International Center for Automotive Research

Then Don, Director of the Clemson Brooks Motor Sports Institute, suggested building a rolling track wind tunnel like facilities in Europe, but unique in North America. Chris, Clemson's Vice President of

Research and Economic Development loved the idea. It fit the region's NASCAR heritage and base of automotive manufacturers led by BMW and Michelin.

Doug, owner of a construction company, got excited. While the research discussion rolled his eyes in the back of his head, the wind tunnel was something he could build. He paid for a business plan including a snazzy PowerPoint presentation.

Chris approached BMW Manufacturing's president, Helmut, with the plan for BMW to rent time on the wind tunnel. A few minutes into the presentation, Helmut said, "We don't need research here." Given the effort put into developing the plan Chris kept going. Helmut again said, "We don't need research," yet Chris continued. The third time Helmut said, "Chris, BMW has research in Germany and doesn't need research in South Carolina," Chris closed his laptop, crestfallen.

A lot of work by a lot of smart people trying to sell a solution to a problem that didn't exist crashed and burned on contact with the customer.

Then Chris asked the only question remaining he could. What was BMW's problem that Clemson could help solve? Helmut said BMW needed to attract and develop world-class talent. The seed sprouted that became CU-ICAR.

Over $230 million was invested in the CU-ICAR partnership including Clemson, the State of South Carolina and local governments, BWM, Michelin, and other industry partners to build a brand new graduate engineering school from the dirt up in a Greenville pine forest. The Carroll A. Campbell Graduate Engineering Center was designed to be the West Point of mobility, training the next generation of lieutenants to create the future of the automotive industry.

In December 2009, John graduated from CU-ICAR as the nation's first PhD Automotive Engineer and was employed by the Michelin Americas Research Company in Greenville.

BINGO! The talent magnet turned on, just as Helmut had requested.

Jim defining the metric of Clemson being a Top 20 public university was profound. I was in meetings with Greenville leaders when no one from Clemson was in the room and someone would ask how our decision impacted Clemson being in the Top 20. At the time Jim asked,"What would we do differently," no one could have imagined that the answer would be a de novo graduate engineering school in Greenville.

Clemson climbed to be recognized as the 22 best public universities in America. At a retirement reception, I asked Jim if he had a mulligan what would he have done differently. With a cheeky grin he said, "I would have set the bar at being a Top 25 public university."

Define What's Essential and Let Go

Martin grew up in Columbia, SC in the 1970s. His grandmother was a trained fashion designer who gave him a sewing machine, taught him to make patterns, and instilled in him a passion for fashion that would become his life.

While Martin was growing up, Virginia was a music teacher in a Greenville, SC, public school. As a child she wanted to be a performer. She worked hard in high school and earned a scholarship to Furman University, where she majored in music and got deeply involved in music education. Virginia apprenticed one summer with the Chautauqua Opera in New York. With limited resources to fall back on, her hopes for a professional singing career were dashed.

Fortunately, someone back home kept up with this talented young woman and offered her a job as music teacher. This lucky break changed her in a profound and unexpected way by defining her life's mission. Virginia said, "I walked into the classroom, and all of these children were sitting around me, listening to what I had to say. Something magical happened inside. I knew the classroom was my stage."

Floyd, the Greenville County School District superintendent, recognized Virginia's talent and appointed her to the group developing five-year goals for the school district. Virginia championed getting a magnet arts high school into the plan. Floyd liked the idea and appointed her director of the Fine Arts Center which opened in 1974. Heaven sent manna, and Virginia ate it.

South Carolina Governor's School for the Arts and Humanities

By 1979, Virginia's vision had grown into creating "the best arts high school in the country and perhaps the world" that she wanted to attend as a child. She took the idea to another Furman graduate, South Carolina Governor Dick Riley. With his support, she founded the South Carolina Governor's School for the Arts and Humanities operating as a summer program at Furman.

Virginia recruited out-of-the-box thinkers as prospective faculty to immerse students in a culture of excellence. By the time she retired, Virginia said her school was number one in the country in music theory for a school its size, one of sixteen schools in America doing service learning the right way, and one of the two finest dance training programs in the world for the number of students taught. Her Dance Department Chair and Artistic Director, Stanislav, had danced in the Bolshoi Ballet and was awarded the 1984 Nijinsky Prize as "the year's most distinguished male dancer in the world." Nureyev and Baryshnikov were previous winners.

Virginia emphasized that creating this new school inside the Greenville County School District would not have been possible. Like most large organizations from industry to academia, the existing public school culture rejects challenges to the status quo. You can almost hear the conversations inside the school district office. "It isn't prudent to divert resources from our main mission to this fringe initiative." "It's not fair to provide resources to one group of students if we don't provide them to all." "This is a risky start-up, and we can't afford to fail." The most vocal critics are those who feel resources are being pulled away from them and don't see themselves benefiting personally from the start-up's success. Protecting your turf from an invader is a normal human reaction. Chartering a new entity with its own governing board to create a new out-of-the-box school was essential to the Governor School's success.

Virginia emphasized that being out-of-the-box did not mean being unaccountable, in fact it meant being more accountable because she was given the privilege of coloring outside the lines. Virginia was accountable to private philanthropists and the South Carolina Legislature for the resources they provided to the school.

I asked how Virginia was able to organize a faculty of out-of-the-box thinkers to create a new model of education that delivered on commitments to her supporters. She said she created policies and procedures, taking what was out-of-the-box and making it fit into what was required.

I challenged her, "You take out-of-the-box thinkers and put them in the box? You hired a ballet teacher who had danced in the Bolshoi as the best male dancer in the world. Are you going to tell Stanislav how to teach dance?"

Impassionedly she replied, " Absolutely not! He is going to tell me how to teach dance."

To which I questioned, "Well, how do you manage the creative tension of thinking outside-of-the-box while being accountable for results?"

She furrowed her brow pensively as she likely considered that consciously for the first time. "I tell him what is essential for this school to exist. [That is what she promised the Legislature and donors.] He has to give me that. Then, I will build him a stage for his students to perform at the highest level."

Wow! Isn't that the school where we all want our children educated? Isn't that the place where we all want to work? Isn't that the place where all those who work for us want to work? Tell me what I have to be accountable for, and then let me pursue my passion.

Young Martin attended the Governor's School the second summer. Fashion design wasn't in the curriculum. He told Virginia that he didn't like the design program. She said, "It broke my heart. It hurt my feelings. I didn't know what to do."

Virginia's initial response wasn't intellectual. It was emotional. She didn't sift through all the facts to decide whether Martin's case had merit or not. She had the vision, raised the resources, recruited the faculty, and invested her career in building a stage for this student to perform at the highest level. For all her talk about being out-of-the-box, it hurt her feelings when a student challenged the box she had created for him.

She asked Martin, "Why don't you like the design program?"

He answered, "I want to be a fashion designer."

She said, "These are just principles of design, and they are transferable across every spectrum of the arts and in other areas as well, like architecture."

Not giving in, the passionate and tenacious young Martin insisted, 'Great, can I do my project in fashion design?'

Finally conceding, Virginia said, "He did it, and he did an incredible job. He got fabric, he made patterns, and he did designs."

Then beaming with pride, Virginia said that by working with companies like Calvin Klein, LL Tracey, and Burberrys, Martin became one of the best fashion designers in New York and London.

In describing to me how she created the stage for Martin and other students to excel, she emphasized the need to grow trust between the president, the dean, the faculty, the staff, the board, and funders.

“You sit with them and tell them what your vision is. You tell them how they can help satisfy that vision. Not for the president, not for the dean, not for the teachers, but for that child. That child does not know what his vision is yet, fully, but he knows, ‘I want to be a dancer! I want to be a dancer!’”

I interjected, “I want to be a fashion designer!”

Virginia’s eyes twinkled, and she smiled softly, “I want to be a fashion designer.”

On Contact Plans Change

Before the D-Day landing on June 6, 1944, General Dwight D. Eisenhower addressed his troops. “The free men of the world are marching together to Victory! I have full confidence in your courage, devotion to duty and skill in battle.”

In the fog of war, success is never that certain. On the evening of June 5, Eisenhower placed a hand written note in his drawer should he need it. "Our landings in the Cherbourg-Havre area have failed to gain a satisfactory foothold and I have withdrawn the troops. My decision to attack at this time and place was based upon the best information available. The troops, the air and the Navy did all that Bravery and devotion to duty could do. If any blame or fault attaches to the attempt it is mine alone." Fortunately for the world that announcement wasn’t necessary.

After the battle, the outcome seems inevitable. Having experienced “no plan survives contact with the enemy,” Eisenhower observed that, “Plans are nothing; planning is everything.”

I cofounded Hoowaki with Ralph, an MIT engineer, to design highly engineered surfaces to provide distinctive functionality customers needed like repelling water or being very low friction. Ralph and I had lunch with Admiral Albert Baciocco, formerly Chief of Naval Research, to suggest how the Navy might use Hoowaki surfaces. A problem we thought the Navy had when submarines operating in the arctic came to the surface ice immediately formed on their sensors. Repelling water would allow the sensors to work better. The Admiral quickly redirected our attention to Special Forces. The Navy values anything that gets a Navy SEAL with a greater payload on the beach faster or helps with a raid of the compound in Abbottabad, Pakistan to kill the world’s number one terrorist.

As lunch closed, I chatted that in today’s world, irregular troops are much more important than they used to be. The Admiral responded, “No, the focus is still on regular forces.” I clarified, “I mean personnel like Navy SEALs have become more important.” The Admiral looked me straight in the eye and bluntly said, “Special Forces now are the regular military.”

A strong, operationally excellent culture is necessary for a large organization like the military to deploy massive resources globally. In the movie *A Few Good Men*, the grizzled GITMO Commander Nathan Jessep barks at the young buck attorney Daniel Kaffee, ‘"We follow orders son. We follow orders, or people die. It's that simple. Are we clear?"

Like all of us, the US military operates in a world of drastic change. Many of the US military's 21st century enemies are no longer conventional forces like the former Soviet Union tied to a particular geography and respecting traditional country borders or organizational boundaries. In this dynamically changing environment, the "Doctrine for Joint Operations" published by the Joint Chiefs of Staff, emphasizes:

> The successful conduct of special operations relies on individual and small unit proficiency in a multitude of specialized, often nonconventional combat skills applied with adaptability, improvisation, innovation, and self-reliance.

Special Forces operate at the edges of traditional forces. Submarines deliver Navy SEALs close to the beach. The Air Force delivers air strikes called in by Army Rangers. In a time of drastic change, the sense and respond capabilities of the Special Forces are more important than ever in maximizing the massive scale of conventional military systems. All large organizations should take note of that.

Empower Informed Intuition

Milliken & Company has a world leading materials research center in Spartanburg, South Carolina. Thousands of products they developed are impressively displayed, including a chemical that makes the plastic used in water bottles transparent.

On a tour of the center years ago, the host said an insight had bubbled up inside Milliken. It was frustrating to open every opaque black plastic DVD movie case at home to see if the disks were inside.

Jim, a Milliken business developer, had an intuitive insight that finding movies would be easier if the cases were clear. Jim flew to California to convince the movie industry to switch to clear DVD cases. After some initial skepticism, he was able to convince the producers of Blu-ray discs to use translucent blue packaging to differentiate their product at retail from other formats. Jim then convinced the producers of High Definition DVDs, Blu-ray's primary competitors, to use translucent red packaging for their product. Both the blue and the red packaging created new markets for Milliken's chemical.

Jim's story is an excellent example of how significant innovations can emerge from the informed intuition of individuals inside large organizations. But there's a rub.

I asked the tour host, "What's the process that empowered Jim?"

Caught off guard, the host replied, "What do you mean?"

I refined my question, "Large organizations are process driven. Who said Jim could do that? How were the plane tickets paid for?"

The host answered, "There's no process. Jim's done things like this before, so we all trust he can do it again."

Most organizations are good at data driven, incremental innovations to existing products and services. Most large organizations aren't good at customer discovery to identify and nurture out-of-the-box ideas that may be significant. If fact, the opposite is too often true. Careers and bonuses of influential people inside an organization often depend on maintaining the status quo, especially in the short term. Cultural antibodies quickly form to kill any threat to the status quo before it metastasizes.

Depending on innovation heroes like Jim to overcome institutional and cultural barriers is not replicable or sustainable. Fortunately, Jim's not a freak of nature. Everyone is creative. Mere mortals in and around any organization can be empowered to discover and validate their informed intuition about significant, out-of-the-box innovations.

A Renaissance Requires a Patron

For a few years I was a Vice President of KEMET, a New York Stock Exchange company. Over four decades CEO Dave led KEMET to become a world leading manufacturer of electronic capacitors. Dave's leadership team created an operationally excellent company that delivered commodity products with near perfect quality and on time delivery anywhere in the world. Through the 1990s, American electronic manufacturing customers like Hewlett-Packard were willing to pay KEMET a small premium as a preferred supplier for helping them avoid warranty claims and production delays.

I joined KEMET in 2000, just as the dot com bubble burst. The tsunami washing over the electronic industry accelerated the outsourcing by KEMET's traditional North American customers of their production to Asian contract manufacturers, like Flextronics, who saw component vendors like KEMET as competitors for gross profit.

KEMET was losing hundreds of millions of dollars so I'd take Dave out-of-the-box ideas to expand out of capacitors into other electronic components where quality and delivery reliability weren't good enough. Other senior executives who had been there for decades had Dave on a pedestal and were amazed that I'd walk into his office and talk business strategy with him. Not that he was going to change KEMET. He probably found our conversations amusing distractions. His response was always, "Well John, if that were our business that would be a great idea," to which I'd respond, "Our customers speak Mandarin now."

In 2003, Dave turned the CEO reins over to a young executive with GE credentials, Jeff. Dave remained Chairman of the Board, which was a huge mistake. In a matter of months, KEMET quickly went from historically high profits at the peak of the bubble to massive losses after the bust. KEMET needed all the creativity the executive team could muster, but the team wasn't accustomed to their creative ideas being accepted so they didn't offer them.

Jeff led the senior team through several weeks of thinking through what a prosperous future could be given the changes in the electronics industry. Jeff tried to rally KEMET's senior team to share their informed intuition about how to use the company's excellence to respond to the external changes in the industry. Where else would electronics industry customers value near perfect quality and on time delivery anywhere in the world?

Fostering innovation outside of an organization's current structure can only be done by the top executive leader. For any renaissance to occur, patrons like Florence's Medicci are required. While Jeff's title was CEO, he did not have the authority from the Board of Directors to ignite a KEMET renaissance. When Jeff issued marching orders to redefine KEMET to be relevant in the changing market, senior managers knew Dave would never approve of these plans when they got to the Board of Directors so in unison they sat on their hands and did nothing. They knew Jeff couldn't fire them all. I would not have thought it is possible for a CEO to be ignored like that if I hadn't lived through it. In 2005, Jeff was allowed to resign. Dave retired from the board. I left the company. Not long thereafter, KEMET was delisted from the New York Stock Exchange.

Focus on the Bright Spots, and Do More of That

Ryan's Family Steak Houses was one of the best performing stocks on the NASDAQ from 1981 to 1987 when it was a Peat Marwick client of mine. Founder Alvin had been a building contractor engaged to construct a steakhouse for a client. Before the store opened, the client went bankrupt. Alvin found himself in the steak house business. Based on the store's success the first year, he opened several more restaurants. Ultimately he sold the small chain, which became Quincy's Family Steakhouses.

Having perfected his pioneering casual dining format, Alvin started a new chain. On most days at lunch during this time, Alvin was in the first booth of Ryan's #1 on Laurens Road in Greenville, SC, with a cup of coffee quietly watching employees serve customers as they dined.

In the mid-1980s, Ryan's was expanding from their South Carolina base into Atlanta. The company developed a very clear demographic profile of their customers─families of upper blue collar workers. On the top floor of their corporate headquarters was a "war room" covered in maps. Executives would travel around Atlanta and note intersections they intuitively felt were good locations. Back home in the war room they would pin these locations on their maps and order the demographics around them. Where the art of their intuition matched the science of the demographics, they built a new store. I had a number of conversations with real estate professionals in their war room about their model, which was so effective they opened dozens of new stores without a failure. It's why they were one of the most successful public companies at that time.

Because of his intimate knowledge of his customers and his operations, Alvin confidently made several important changes to Ryan's store format. He nurtured the evolution of the industry standard salad bar into the Megabar, a full smorgasbord of meats, vegetables and deserts which significantly enhanced revenue per unit and made Ryan's stock price soar. Alvin built a fortune of several hundred million dollars on a simple, compelling insight.

Fast forward ten years to the mid-1990s. I was running the angel investment firm Capital Insights and was invited to tour Earth Fare, an organic grocery store in Asheville, North Carolina. I noticed a special on soy milk, which was stacked almost to the ceiling at the front of the store. Founder Roger Derrough explained that Earth Fare sold more soy milk than any store in North Carolina, so they bought it in bulk and sold it at a discount. Hmmm, I thought, this is just a grocery store focused on a distinctive customer.

When we got to the produce section, I picked up an organic tomato.

"Gosh, Roger, this is expensive; how do you get this price for a tomato?," I asked.

"Well, John, you have to understand that half of our customers have a vegetarian in the family. If you are a vegetarian, produce is what you eat so you are willing to pay for higher quality merchandise. Plus, they don't buy meat, so the total price of the food in their cart is probably less than yours."

“Half your customers are vegetarians? Is that right?” I responded, amazed.

I was whisked back to Ryan's war room a decade earlier. This was a different demographic, but I could see rolling out a chain of grocery stores based on a real estate location model similar to Ryan’s.

Greenville, SC, where I lived, was about an hour and a half drive from Earth Fare’s first store in Asheville, NC. In the course of further due diligence, I spoke with the vegetarian wife of a Greenville physician. I told her that she would have to join me on an upcoming trip to visit a cool organic grocery store I had found.

She said, “Oh, I shop at Earth Fare all the time,”

Stunned, I asked, “You drive an hour and a half to go grocery shopping?”

Imagine the number of conventional grocery stores this Greenville resident must have passed to shop an hour and a half away in Asheville.

I asked, “Why?”

She explained, “Because no grocery store close to me has anywhere near the selection of natural and organic merchandise I prefer.”

“Wow!” was my visceral response.

Insights from these conversations validated a customer’s need that traditional grocery stores didn’t serve well and led to my firm’s investment in Earth Fare. The key was finding capabilities to satisfy the need I had identified. One of the Earth Fare directors I recruited was also a director of Ryan’s. Earth Fare engaged the former head of real estate at Ryan’s who was a consultant to help us create a real estate model for Earth Fare very similar to Ryan’s model with the demographics changed.

I became Chairman of the Earth Fare Board of Directors. From one grocery store with $7 million in revenue, we grew to a chain of fourteen stores with $100 million in revenue before selling it to a private equity firm, making Earth Fare Capital Insights’ most profitable investment.

Put New Wine in New Wineskins

As a child growing up in the 1960s and 70s, I tagged along on the weekends with my IBMer dad to the Charleston Navy Yard. He let me punch cards while he serviced mainframe computers. I joined the Greenville office of the public accounting firm Peat Marwick in 1982. There was a brand spanking new IBM PC in the corner, which the Peat Marwick home office had required my local office to buy. The only software that came with it was the operating system and the BASIC programming language. No one but me knew how to use it. I wrote a simple program to analyze a tax decision required by recent legislation. Like a Pacific cargo cult worshiping the planes flying overhead in World War II, the people in the office were amazed by this modern technology.

In the late 1970s, Apple Computer was an early warning signal that a radical new approach to computing was developing. As the world leader in computer technology, IBM would not be taken by surprise. They insightfully recognized that even though their Rochester, Minnesota, research center had overwhelming resources, it was unlikely that the developers responsible for their world standard mainframes could effectively develop a personal computer that empowered individuals. So IBM built a skunk works in Boca Raton, Florida, about as far from Rochester as possible in the continental United States. In 1981 IBM introduced the standard in personal computing—the PC. IBM quickly became the world's largest seller of personal computers. Why didn't they stay the market leader?

IBM had the dominant market share in the computer industry and unlimited resources from the perspective of any new entrant. But they did not fully understand the impact of the PC revolution in making computing power accessible to a new base of non-technical customers. Peat Marwick professionals weren't tapping into data in a massive mainframe, like IBM's traditional customers. IBM was proud of their Big Iron hardware with which they bundled their software. They didn't see software as a separate business. One of the first who did was the young Bill Gates. Recognizing IBM's blind spot, he licensed them Microsoft's Disk Operating System to power their PCs. This was Gate's game changer putting him on the path to becoming the world's richest person. The first killer application for PCs was Visicalc, an electronic spreadsheet. We loved it. Now we had a complete solution that made us much more productive. By the mid-1980s, most of the staff in my Peat Marwick office had become proficient PC users. We were boxing up desktop PCs and hauling them off to clients' offices where we worked.

In the mid-1980s, the entrepreneurial start-up Compaq listened to the problem customers were motivated to solve and introduced the first portable computer. Actually, they were the first luggable computers, but they were better than hauling around desktops. To sell to a new market, Compaq developed a network of retail stores throughout America where knowledgeable salespeople helped individuals and small-businesses select the Compaq model that best met their needs. Peat Marwick bought several portable personal computers from a local computer store that we could lug to our clients' offices. IBM tried to copy Compaq's innovations. IBM's heart wasn't in it, and their attempt never found acceptance among their customers.

IBM's believed PCs were no threat to the heavy lifting capabilities of IBM's profitable, industrial strength mainframes. The marketing professionals at IBM were well trained crack troops who performed the way they were trained to perform. IBM's customers were information technology professionals in large organizations. Nothing in conversations with these existing, highly profitable mainframe customers indicated that large numbers of new customers would buy PCs at retail. Quite frankly, these mainframe customers viewed personal computers as a major risk. They challenged IBM to explain how all these PCs could be properly maintained, upgraded, and protected. PCs were a major threat, taking power out of the hands of the information technology department and putting it into the hands of users. The last thing IT wanted was for this contagion to spread.

While IBM's leadership launched the PC because they sensed something radical was occurring, the voice of their existing customers proved very powerful. Compared to the other IBM markets, PCs were a small market with low margins. PC marketing was pulled back within the existing marketing organization with little knowledge of or contact with the new, emerging market of customers. Once PC marketing was folded back into the organization targeting existing

IBM customers, the game was over. IBM lost the ability to reach the new, rapidly growing customer base.

Microsoft, Visicalc, and Compaq succeeded precisely because they were not a part of the status quo in the computer industry. The companies understood there was a new and emerging base of non-technical users like me and my peers who wanted the power and freedom that personal computers provided. These companies observed closely what customers were trying to do and created products we wanted.

From the startups' perspective, the personal computer market looked very attractive, especially when the new customers that IBM was discounting were factored in. Starting from a small market with low margins, year by year, the startups sought out the next larger, more profitable market niche. To IBMers like my dad, computers were central intelligence units connected to users through dumb terminals. As microprocessors and software technology matured, personal computers turned this paradigm on its head, putting intelligence in the hands of the users. Networking personal computers together in client/server configurations created value propositions that rivaled and at times exceeded mainframes. Before long, the startups had products that were compelling enough to begin to attract IBM's core customers. The startups were highly cost competitive because they had to be to survive the low margin market they had dominated. Personal computers disrupted not just IBM, but the entire IBM value chain from its vendors to its customers.

In the late 1980s and early 1990s, IBM went through a wrenching period when it lost several billion dollars. The knowledge that was most strategic to IBM was understanding the massive shifts occurring in the marketplace. A CEO from the food industry, who had been a large customer, was brought in to right the ship and return IBM to profitability, though they will never regain their former lock on the computer market.

During this time I had a conversation with dad, whose anguish was intense as his net worth melted down with the decline in IBM's stock price. His blood ran IBM blue. I pointed to the PC sitting on his desk at home and observed, "You think it is a typewriter. If it's not blue, eighteen inches off the ground, air conditioned, and worshiped by an IBM priesthood, you don't really believe it is a computer."

This wasn't a lack of knowledge on dad's part. He forgot more about computers than I will ever know. This was an emotional issue. After decades of going to work every day and being successful, he just couldn't believe that the world had changed so fundamentally that what had worked for him in the past wouldn't work any more. He was a captive of his culture that prevented him from visualizing a transformational change away from what he knew to be true from all his prior experiences.

You Have To Get A Little Lucky

In South Carolina in 1992, there were entrepreneurs with informed intuition that could lead to high growth companies. Greenville wasn't Silicon Valley. There was almost no professionally managed venture capital. Entrepreneurs were having great difficulty finding the resources they needed to succeed. I started Capital Insights to organize a community of individual investors to earn exceptional returns by investing in entrepreneurs where I lived.

As a young KPMG professional, I noticed that informal groups of individuals tended to invest together. These small groups were the wakes of management teams who had worked together in the past. Each group had one or two champions who kept their informal group together. Today these wealthy individuals are called angel investors. I wouldn't learn that term for several years.

After leaving KPMG, I developed a business plan around my informed intuition that I could organize these informal groups of individuals to raise capital for investment in emerging private companies. To raise capital in private placements, securities laws required us to deal with individuals who were "accredited," which had a complex definition but basically meant they were millionaires.

I began having lots of conversations with business associates to get their feedback about my idea. One contact would refer me to the next. It was impossible to know in advance who all I would talk to and what would come of these discussions. A mentor who was kind enough to meet with me regularly was Derrell, who was the managing partner of my KPMG office. As it turned out, shortly after we began meeting, Derrell left KPMG to become president of a golf course development company. Becoming intrigued by conversations we were having about my idea, he offered to help me organize my new company.

Derrell said, "I really like your idea, and if you're OK with it I'd like to be Chairman of your new company."

Wow. How about that? I'm a young professional and the former managing partner of the local KPMG office just asked to become Chairman of my company which is still a vision in my head. Let me think about that for a moment. Well, yea.

I told him, "Derrell, that would be awesome!"

Derrell had the gravitas in the local business community, and I had the Energizer bunny tenacity to make Capital Insights successful. When I started talking with Derrell I had no idea he would leave KPMG, much less that he would be interested in helping me.

Derrell and I called on prominent business leaders in town, each of whom we thought was part of an informal investor network. We invited a small, core team of fifteen wealthy individuals to become the initial investors in Capital Insights.

We spent a couple of years meeting together every eight weeks. We discovered new business opportunities we might invest in from the region where we lived, like Telemessaging Devices, developing a novel wireless monitor, and Specialty Electronics, a manufacturer of electronic connectors. By reviewing opportunities and making investments together, we got to know each other really well. When we invested in a new company, my core team would introduce me to wealthy friends and associates of theirs. Our community of investors began to grow around their relationships.

Capital Insights developed in a way that was not anticipated at the beginning. The group was formed to make individual investments on a deal by deal basis. My partners were clear that they did not want to pool our resources into a committed venture capital fund. In 1994, I attended the Venture Capital Institute, sponsored by the National Venture Capital Association, to explore how we could be more successful. Afterwards, we held a planning meeting at the lake house of one of our partners, Ernie. I wanted to convince the group that we needed to raise a committed venture capital fund in order to improve the quality of the investments we were making. At our retreat I made an impassioned presentation to my partners—followed by silence.

Dejected on a stroll to the lake after the meeting, I told Ernie I was frustrated no one said anything. He replied, "Well, no one said no."

That was all the crack of daylight that a tenacious young entrepreneur needed. Within a couple of days, each of my partners had a private placement memorandum on his desk to raise $15 million in a venture capital fund to invest in a diversified portfolio of private companies. The name of the fund was Capital Insights Growth Investors, which we affectionately called CIGI. $15 million wasn't a rounding error on Wall Street, but it was a chunk of change in Greenville, SC, in 1995.

Derrell and I compiled a list of a thousand people we had some connection with who we believed had a net worth of over $1 million. In the next six months, I contacted these thousand potential investors, met personally with three hundred, and seventy-two invested. Through a systematic market discovery process, I built trust in a core team who helped grow a community of wealthy, angel investors.

Through CIGI I raised $6 million. That was enough to close the fund, but not enough to be successful long-term. Capital Insights iterated again in a way not planned. The private placement memorandum indicated we would not invest more than ten percent of the fund in any one transaction, which turned out to be $600,000. The first opportunity we had for the new fund was a follow-on investment in Specialty Electronics, a successful company we had invested in earlier as individuals. The company needed to raise $3 million.

Over a weekend, I put together a new private placement memorandum, which looked just like the one for CIGI, except that this partnership was dedicated to a single investment in just this one company, not in a diverse portfolio. The name of that partnership was Capital Insights Specialty Electronics Investors, or CISEI. I took this new private placement memorandum to my seventy-two new limited partners. While they were somewhat surprised, many of them invested in this new partnership too. A few of them shared the opportunity with friends. This new approach allowed us to raise the additional capital we needed to complete the investment.

The core team of fifteen colleagues met every other month in private meetings, where partners felt free to share frank opinions with others they knew well and trusted. I would document each investment opportunity in a standard format based on the CIGI model. This community standard was crucial. When we found an opportunity where we were willing to invest our personal funds, we would hold a series of meetings with others who had expressed an interest in investing with us. Because the core team and those who participated regularly in the broader community were familiar with the CIGI format, they could focus more effectively on the substance of each opportunity. It also allowed them to more easily compare and contrast opportunities with one another, and over time it allowed them to efficiently watch opportunities develop.

Once the core team decided to invest, we would hold investment presentations where we would invite the broader community of investors who had expressed interest in investing with us. Our core team would reach out to those they knew and personally invite them to attend. There was integrity to our process. We would share the reasons the core team found the opportunity compelling. We also shared what gave the core team heartburn in writing their own checks. From hundreds of investor prospects, a few dozen qualified prospects would self-identify as interested in a particular investment by attending these community meetings. Once someone expressed an interest in investing, typically I would follow up in a private meeting to address any personal concerns that they had.

People tended to self-identify as interested in investing for a variety of reasons. Some would have an affinity for the company we were investing in. For example, manufacturing people tended to be attracted to investing in manufacturing, and food people in food companies. People were more likely to invest if they had a close relationship with someone in the core team who had also invested.

Timing was crucial because risky investments tended to be made from discretionary funds. For example, if someone recently got a slug of cash from selling a piece of property, they were much more likely to invest than if they had recently made a large quarterly tax payment. I once had a partner worth tens of millions of dollars tell me that he didn't have the cash to make a $50,000 investment. What he really meant is that he didn't have any discretionary cash in his pot of "fun" money he used to make these kinds of interesting, but high risk, investments.

Over time, I could ferret out the industry affinities and the personal relationships investor prospects had. There was no way for me to know the cash position of a given individual at the particular time we were considering an investment. The event driven process we used was crucial to allowing people to self-identify as interested in an investment.

There was a group dynamic that would take hold in each of these meetings. We never organized investments unless members of the core team invested, so in each community meeting there were people in the room who had already committed to invest in each project. With no additional prompting from me, conversations would occur where people attending each meeting would validate each other's participation in the activity we were discussing.

We repeated the process of a core team sharing opportunities with a broader community of relationships numerous times. Like most vibrant communities, Capital Insights worked because at its core was a small group of trusted peers who saw it in their enlightened self-interest to make the community work. In dynamic cultures, timing is everything, and tenacity trumps talent.

Nurture a Portfolio of Intuitive Ideas

Throughout my career, leaders who are experts in their fields with decades of experience have failed to accept that it is impossible to pick the winners in advance. They can do all the due diligence they want, but usually there is more that is unknowable than is knowable. Most flat don't believe that.

Yet experts on disruptive innovation agree. Geoffrey Moore in *Crossing the Chasm*, states plainly that, "The biggest mistake in making a high-risk, low-data decision is turning to numeric information as a source of refuge or reassurance. The only proper response to this situation is to acknowledge the lack of data." Clayton Christensen in *The Innovator's Dilemma,* concurs, "It is simply impossible to predict with any useful degree of precision the impact of disruptive ideas. Demanding data when none exists is an exercise in flapping wings." (Both quotes are edited for clarity.)

Most leaders don't have too few ideas coming their way, they have too many. Capital Insights discovered hundreds of potential opportunities. We had a profile of what was essential for us to do due diligence on a new investment opportunity. The ultimate filter for us was that once I recommended an investment to the core team, eight of the fifteen of them had to be willing to write a personal check. Only then did we present the opportunity to others outside of our core team.

We made initial investments of $400,000 or so in about a dozen companies. Eight of those companies did not achieve the early milestones we were looking for, and we decided not to make another investment. Most of the eight were not successful. In four of the companies we made later investments bringing the total in each to about $3 million. In total we invested about $15 million.

While only a third of the companies we invested in ended up being successful, it's crucial that eighty percent of our investment was in those companies. This is the value of a portfolio approach to allocating resources to intuitive ideas. Make a small allocation of resources to a large number of intuitive ideas to reach an initial milestone. Invest more in the successful ideas to reach the next milestone. Rinse and repeat until the winning ideas are clear. Most resources go to the winners without having to be prescient at the beginning about who the winners will be. The hardest part is having the discipline to say no and walking away from the initial investments in ideas that don't work.

Two of the four companies are great illustrations of how hard it is for even experienced professionals to pick the winners. The fifteen people on our core team were all very experienced business executives.

One of the four companies we invested about $3,000,000 in was Paradyme Human Resources Corporation. Tim and Karen, a husband and wife team, had started and successfully grown a personnel staffing company before selling for $30 million to a New York private equity firm. Before the sale they spun off a small subsidiary that was a specialized type of employee benefits firm called a professional employer organization, or PEO. The private equity firm invested $10 million, and Tim and Karen invested $5 million, in the PEO. There were about eight companies in the PEO industry that had had an initial public offering in the prior year. Our PEO's plan was to quickly do several acquisitions of smaller PEOs to reach the size necessary to have our own initial public offering in eighteen months or so.

When this opportunity hit our radar, we quickly accessed the situation. The entrepreneurial couple had just had a successful sale of their prior company. They and smart New York money were investing. The public stock market was going crazy for companies in this industry. They planned to go public quickly, making a gazillion dollars for investors. We were told that this round was closing within the month so we needed to act fast. While there wasn't enough time for the normal due diligence, this seemed a slam dunk. I was never able to raise capital from angel investors quicker. In fact as word got out, I had potential investors contacting me for the first time.

Life is never this easy. Once this investment closed, a series of setbacks happened. Karen, who had been the operator in the staffing company, decided to become a stay-at-home-mom. Tim, who had been the marketing partner, was like a balloon flying through the air without Karen to anchor him to the ground. The other PEOs traded at their historical high stock price close to the days they went public. As their stock prices fell, the public stock market soured on the PEO industry. In retrospect, the leadership team had no experience buying and integrating other companies, so the acquisitions didn't go well. At the end of the day, Paradigm was the least successful of the four large investments we made.

About the same time, I met Roger, a hippie in Asheville, NC. He had opened an impressive organic grocery store in a strip shopping center. This was the early 1990s when organic foods had not yet become popular in the south. Roger planned to open a chain of stores, but had no experience doing that. Despite that, my firm invested so Earth Fare could repeat the success of the first store by opening a second store in Charleston, SC. Politically Asheville was a blue bubble in the southeast, which was the reddest part of the United States. Half of Earth Fare's customers had a vegetarian in the family. One of the biggest risks we took was whether we would find enough vegetarians anywhere in the southeast outside of Asheville. Personally I was sold on Earth Fare, but raising capital for an organic grocery store chain from politically conservative investors in the south was really hard. No one was calling me asking to invest.

As luck would have it, Earth Fare was the grand slam home run of all the investments we made. Even Earth Fare was a roller coaster. Revenue of the second store the first few days it was opened exceeded our projection. Then within ninety days revenue fell to about half of our projection. In three months we went from the ecstasy of victory to the agony of defeat. I wasn't a retailer, but it was clear even to me that we weren't opening a chain of stores like that. Fortunately several people in our core team had deep experience in the food industry. They were able to help Earth Fare regroup and grow to fourteen stores with $100 million in revenue. The irony is that had I told my partners when we started Capital Insights that our best investment would be in a grocery store chain, we likely would have never gotten off the ground.

When early opportunities are highly ambiguous, the best way to pick the winners is to place lots of small bets and let the cream rise to the top, doubling down on the best ones as they iterate to success.

Get The Right People On The Bus In The Right Seats

Bill, one of the core members of Capital Insights, had been CEO of several large engineering and construction companies.

Considering a business plan one day, Bill said, “There are ten ways to build a building. Three will fall down. Three are too expensive. The CEO’s job is to make sure the team is working on one of the four in the middle, and then that everyone on the team is working on the same set of blueprints."

Erol was a MIT trained engineer and CEO of Specialty Electronics. At the time my firm invested in Speciality, the company was headquartered in Landrum, SC. They generated about $3 million in revenue primarily from selling electronic connectors to disk drive manufacturers in Asia. Our investment helped them open a second manufacturing facility in Singapore.

Prior to co-founding Specialty Electronics, Erol had designed electronic connectors for Berg Electronics, a division of DuPont. Most of the Specialty Electronics’s core team of managers and engineers had worked with Erol at Berg in the past. Over a few years they entered the automotive market and grew the company to about $20 million in revenue.

It was clear to me that the Specialty Electronics’ leadership team was approaching the limit of their skillset. Regularly I would meet with Erol and discuss that he had a B team and needed to recruit an A team if the company was to continue to grow rapidly.

“Yes, John, you are right,” Erol would say. Then he would do nothing about it. Erol was a smart fellow. I grew increasingly frustrated he was unwilling to make the changes to his team that he agreed were necessary.

Ultimately Specialty Electronics was sold to Delphi Automotive. My firm made a modest return on our investment given the risk we had assumed. After the sale, Erol had a two year consulting and non-compete contract which he honored.

When the contact was over, his team threw him a retirement party at a swanky inn which I attended. Alcohol flowed freely and someone remnised, “Erol, you remember that time in Hong Kong when…” Another one upped that saying, “That was nothing, remember the time in Tokyo when…” It became clear that what I missed all those years talking to Erol was that his team was like his family. He knew their capabilities. I wasn’t telling him anything he didn’t already know. When I recommended he let some team members go to hire better ones, I might as well have told him to shoot his nephews. That wasn’t going to happen. Like most companies I have been involved with, Specialty Electronics grew to the skill set of its leadership. Erol intellectually knew what he needed to do to get to the next level. Emotionally he was unwilling to do it.

When the opening of the second Earth Fare store did not go well, I met with founder Roger in the Blue Room Bakery in Asheville, NC. Over breakfast, I asked Roger, “Do you want to run a company, or do you want to build a net worth?” He initially took that about like you would expect. So we kept meeting through lunch at the bakery. To Roger’s credit, when I left he was Chairman of the search team for Earth Fare’s new CEO.

One of my Capital Insights partners, Jim, was on the Earth Fare Board of Directors. He had had a long and successful career in the food industry. We made a list of everything Earth Fare should look for in a new CEO. That person didn't live on the planet. So we prioritized what was important. Earth Fare had a strong brand and store concept. Our firm provided financial expertise. We had marketing and finance covered. What Earth Fare most needed was operations and logistics to grow into the largest organic grocery chain in the southeastern United States over the next several years.

We interviewed several top notch candidates, including a former CEO of Dean & DeLuca in New York City. He was personally the most impressive candidate we met with. His expertise was marketing, and we didn't think his New York experience would translate well in the southeast. The consideration of most candidates was like this.

Then we found Mike. Mike wasn't a polished marketing guy like the Dean & DeLuca CEO. Had we not done our homework on what we needed, we might have passed on Mike. He had been CEO of an eighteen store chain in central Florida, Goodings Market. The founder who had been Mike's mentor died and left the company to his son. The company wasn't big enough for Mike and the son, so Mike left. Unlike Roger who had run only one store, Mike had run a chain and so knew how to implement the systems and processes Earth Fare needed to grow rapidly. Under Mike's leadership the company grew to fourteen stores and about $100 million in revenue.

The company had reached Mike's experience and skillset. Another of my Capital Insights partners, Marsh, had been CEO of Bi-Lo, a chain of 200 grocery stores. Over dinner, Marsh told Mike, "you can't run fifty stores the way you run fifteen." We weren't seeking to replace Mike, but to surround him with a much higher caliber team than he had. Rather than be self-aware of his limitations as Roger had been years ago, Mike got defensive and insisted that we didn't respect him. Not confident that we could continue to grow with Mike, rather than a shoot-out in the OK corral the elegant solution was to sell the company, which we did. Earth Fare was by far my firm's most successful investment. Mike stayed with the company for about eighteen months after the sale, when the new owners came to the same conclusion we had. It is essential to have the right people on the team, and to ensure every team member understands and plays their role, for the organization to realize its full potential.

Diversity Is An Asset

As a young professional, I attended a Peat Marwick management seminar affectionately known as "charm school." It's humorous to think you can make young accountants charming.

A dozen teams played a survival game, where each team's plane had crashed north of the Arctic Circle. Each team had an hour to rank twenty items on the plane in order of importance. Our team spent most of our time hashing out what was essential to survive. Would we stay with the plane or leave? Was the wind a greater threat than hunger? If we left the plane to find food, the compass was critical but the tarp wasn't. If we hunkered down and stayed with the plane until someone found us, the compass was worthless but the tarp was essential. There were lots of different ideas at the beginning. Over time we developed a strong consensus about what we needed to do together to make it out alive. We were forty five minutes into the hour exercise before we seriously considered prioritizing the items on the plane.

Because of our consensus, ranking the items was pretty easy... except for the water purification tablets. I grew up in Charleston, SC. Mr. Janzen, my scoutmaster, drilled into my head that you don't drink outside water unless you filter it or purify it. In the world I grew up in, that was so beyond question that it was "common sense." All but one member of the team were from urban areas too. The almost unanimous opinion based on all our prior experiences was that the purification tablets were essential.

One member of our team, a woman from rural northern Maine, observed that, "the snow is clean north of the Arctic Circle." The purification tablets were not needed. As soon as she said that, I paused... hmmm... she knew a lot more about snow than I did. Where I grew up we sprayed snow from a can on the windows at Christmas. Now she seemed to make common sense.

Fortunately we heard her and respected her informed insight. Army Rangers who developed the solution key ranked all twenty items in almost the same order we did. Our instructor said it was the best score he had ever seen.

Most of the other teams tried to solve the problem in a different way. They first had each team member individually rank the items in the plane. Only then did they begin to talk among themselves about what the solution should be. By that time, individuals had staked out their turf and spent the rest of the exercise advocating for their solution. They ended up focusing on their differences, rather than focusing on what they had in common. These teams missed the inherent strength of the diverse creativity in their groups.

Had our game been real life, everyone on our team was in this together. We didn't have to be friends. We may have had profound disagreements in other areas. Once we got home, we may have gone our separate ways. To get home we had to survive. To survive we had to focus on achieving our common mission and to tolerate our differences in order to get home alive.

The superpower of a dynamic culture is that diversity is an asset.

Provide Good Governance

JB is a friend I walk with most Saturday mornings who is chair of the rules committee of USA Track and Field and Hall of Fame official. We've had fascinating discussions about how to create good governance that allows individuals to excel in a culture everyone feels is fair. The best governance is taken for granted by the participants. The last thing a track official wants is to be part of the news story after a championship event.

Shortly after I graduated from Clemson University in 1981, a force of nature arrived at an Atlantic Coast Conference rival. Born in Brooklyn in 1963, Michael Jordan moved with his family to Wilmington, North Carolina when he was five. He was able to hone his craft to heights rarely seen because from the time he could shoot a ball every basket was ten feet off the ground. It took time, though, for his potential to be recognized. He failed to make his high school's varsity basketball team as a sophomore. After a strong junior and senior year, he played in the 1981 McDonald's All-American Game. Two players were named the game's MVPs. Michael wasn't one of them. He accepted a basketball scholarship to the University of North Carolina at Chapel Hill where his freshman team won the 1982 NCAA national championship.

Without future Hall of Famer James Worthy who skipped his senior year to join the NBA, Michael's UNC teams didn't win another championship.

By having among the worst records in the 1983 season, the Houston Rockets, the Indiana Pacers, and the Chicago Bulls had the first three picks in the 1984 NBA draft. The Portland Trailblazers traded center Tom Owens for Indiana's pick. Houston selected Hakeem Olajuwon and Portland selected Sam Bowie before the Chicago Bulls chose Michael as the third pick. Now that Michael is recognized as arguably the greatest basketball player of all time, it's easy to wonder what Houston and Portland were thinking, though that question wasn't asked early in Michael's professional career. Houston selected 7 feet Hakeem, who along with 7 feet 4 inches Ralph Sampson were the "Twin Towers" of the most successful run in Rockets' history. From 1985 through 1988, Michael's Bulls teams won only one of nine postseason games. Sam never had the professional impact that Hakeem and Michael had. Success is only obvious after the fact.

In 1987, Michael's Chicago team traded for Scottie Pippen. In 1990 the Bulls brought in zen master Phil Jackson as head coach. The rest is history. The Bulls won three NBA championships titles in a row from 1991 to 1993. When Michael surprised the basketball world by retiring to flirt with baseball for a couple of years, the Bulls didn't win a championship without him. In 1995 the Bulls acquired rebounding phenom Dennis Rodman. Michael dramatically returned to the Bulls for a second championship three-peat from 1996 to 1998. Jackson was the Bulls MVP because he was able to blend the talents of Michael, the human highlight film, with Dennis, who highlighted his hair different colors. Together Michael, Scottie, and Phil won six NBA titles in eight years.

Michael didn't create the high school, college, or professional basketball leagues he played in. He didn't develop the rules of the game or build the courts he played on. The governance of the NBA allowed the worst teams to pick the best young talent so the teams became more competitive, which attracted fans and benefited the entire league. The people who put all of this in place had no way of knowing that Michael would be the cream that rose to the top. Good governance creates common standards and a sense of fairness around which individuals collaborate, compete, and excel.

Trust is the Currency of Innovation

Mack Brown was head coach of the North Carolina football team playing #1 ranked Clemson. North Carolina was down by seven points three yards away from the end zone with time for one more play. North Carolina scored a touchdown to pull within a point. Mack had a choice of kicking an extra point to tie the game and send it into overtime, or attempting to score two points and win the game by running or throwing the ball into the end zone. In the moment, Mack made the judgment that #1 Clemson was likely to win in overtime, so North Carolina needed to win the game on this play. Mack called a play where the quarterback ran the ball around the right end of the North Carolina line, only to be tackled by Clemson linebackers in the field of play. North Carolina lost the game. On Monday, a reporter questioned Mack's judgment asking if he would make a different decision. Mack chuckled saying that going for two was absolutely the right decision, but given what he now knew he'd call a different play. It's much easier to know the right calls to make after the game is over. Entrepreneurs and other creative people are also judged after the fact when outcomes are known.

A while back, I started an innovation conference called InnoVenture. A couple of years in, I found a terrific operating partner, Butler. After a career in event management, he had forgotten more about the logistics of managing conferences than I will ever know. I was the content and sponsorship side of InnoVenture. Butler did everything else that made our events happen.

I found out where the exhibit booths were and what the food would be at the same time as other attendees. Once I went through the lunch line, which had small three-inch hotdogs with relish, mustard and other condiments. I took my food to a high top table designed for attendees to meet new people at lunch. I hung my head, embarrassed at food I didn't think was up to the quality standard of my high-end innovation conference. Others at my table said, "Aren't these tiny hotdogs really cool!" I lit up smiling, going with the flow and acknowledging that indeed they were. Butler was a professional. There was a reason he was in charge of the food and not me. He consistently exceeded our attendees' expectations by being fun and creative.

Once shortly after Butler and I began working together, we were producing an event at the University of South Carolina. We happened to be in Columbia, SC, for something else a week before the event. We were in the car at the end of the day when Butler asked, "Would you like to see the venue?" I panicked. Stopping by was about an hour out of our way home, but with only a week to go I thought we better go see the place.

The venue was on the top floor of a large building on campus. When we got out of the elevator, Butler jumped out to show me where everything would occur. Registration would be here. Coffee and pastries here. The presentations and the seating over there. I smiled and was relieved. When Butler asked, "Would you like to see the venue?" what he really meant was would I like to see it. He had been there well in advance and already had everything arranged. Had I understood what he meant, we'd have been home an hour earlier.

InnoVenture was my baby that I was very passionate about. Butler knew me well and had my back. He had earned my trust and was able to protect me from my worst impulses. At least most of the time.

I upset Butler's apple cart one year by changing a major element a few days before a conference. He didn't let me make that mistake again. After that, Butler would sit me down in his office about sixty days before each conference, close the door, and ask, "OK big guy, you got any other big ideas for this conference?" After that day, this year's conference was locked and loaded. All my other hair-brained ideas would have to wait for next year.

If I didn't hear from Butler that meant everything was OK. If anything had been wrong, he would already have told me.

The greatest compliment I can pay Butler is that when we were working on large events that took months to organize, if I didn't hear from Butler that meant everything was OK. If anything had been wrong, he would already have told me. The confidence inspired by the integrity of people like Butler is invaluable.

Butler and I were a great team. I was always pushing the envelope to take us to another level. Butler made sure we executed well and the envelope didn't bust open at the seams. When you find a partner like Butler who compliments you well, your life will be much easier.

Capital Insights invested in a young entrepreneur, Dave, who started a manufacturing company to introduce an innovative superabsorbent gel to the market. He had one customer, Ted, who repackaged the gel into a potting soil mixture sold through garden shops. The product's appearance as white crystals was very important to selling it at retail.

Since this customer was so important to the company, I flew to Ted's Boston headquarters to ask him in person, "If I invest in Dave's company, are you going to buy the product?" Ted said, "I won't commit to buying your capacity, but I will buy all I need from you." That was a good enough response to trigger my firm's investment.

Dave sent the first shipment to Ted, along with an invoice. For months, the receivable stayed on the books without being paid. Ted didn’t place another order. I grew increasingly agitated that Ted had broken his word. Finally, the time came to get an attorney involved, at least to collect the invoice. It was as much a matter of principle as it was money.

On the way home from an especially frustrating meeting with the company, the bookkeeper called and suggested I touch base with Ted directly. Ted’s version of what happened was eye opening.

After the investment, Dave began running behind schedule and started to feel pressure to perform. Unfortunately, the early batches of product were brown, not white as Ted expected. Low on cash, Dave shipped the product as it was, with no explanation to Ted. Already frustrated that the shipment was late, Ted was ticked off when he opened the shipping containers and the product was obviously unusable. Ted rejected the order and refused to pay for it.

Dave knew all this, but for months had not been straight with me. Feeling intense pressure, Dave took the first step on the slippery slope down into a hole he could not climb out of. Confronted with the facts, Dave conceded what Ted said was true. Trust was broken with Ted and with me. Once trust is gone, the game’s over. I was accountable to my investors and wrote to them explaining what happened. Dave was so horrified by my report that he moved to another city. We brought someone else in to run the company, but the wound was fatal.

Dave was an honorable fellow when he began his company. Like all entrepreneurs, he had to project confidence in spite of a lot of unknowns. It can be difficult to differentiate from the white of Dave giving his best effort to a plan that just didn’t work to the gray of Dave hiding that he executed poorly to the black of Dave not telling the truth. Worse for Dave, these judgements by his investors were made in the harsh light after it was known Dave failed.

One of Capital Insights core team members was Jim, a great securities attorney who had been here and done this many times before. Jim sagely advised me that after an investment fails, in the courtroom I’ll remember what I told investors one way, and they’ll all remember what we discussed another way. “Whatever you tell them,” Jim said, “write it down and send them a copy.”

I’ve tried to have integrity in my professional relationships, sharing what excites me about an opportunity and what keeps me up at night. I tried to keep partners informed along the way so they were never surprised. Sophisticated professionals generally can take failure if they know the risk going in, but negative surprises usually make them angry. Angry people sometimes hire lawyers. When important conversations were verbal, I followed Jim’s advice to write it down.

Over my career I have found that writing important agreements is critical. Most of the relationship problems I have experienced have been not being on the same page. When agreements are reduced to writing, people become more persnickety because it seems more of a commitment. A vendor recently told me a contract we were negotiating would be important when we got in front of a judge in court. I told him the most important thing about negotiating a contract was ensuring we had a meeting of the minds so we didn’t end up in court.

The energy and passion of intuitive leaders inspires the confidence of many people working with them, who don’t see what the future can be as clearly as the leaders. Being allowed to think out-of-the-box doesn't make you less accountable, it creates a great obligation not to violate the trust of others who are depending on you.

Ensure That We're All In This Together

Greenville, South Carolina is a tale of two cities. One part of town is experiencing an amazing renaissance and consistently showing up on top ten lists in the country for amazing parks, restaurants, and the like. William's personal financial planning office, Family Legacy, Inc., was in the shadow of the prestigious Poinsett Club, where the leaders of Greenville gathered daily at the bull table for lunch.

A short two mile walk away were the neighborhoods of the former Textile Crescent along Woodside Avenue. Once the Textile Capital of the World, foreign imports killed the Textile Crescent. The online real estate guide, NeighborhoodScout noted that: "The Woodside neighborhood has a greater percentage of children living in poverty (61.4 percent) than found in 95.8 percent of all U.S. neighborhoods… with just 1.7 percent of adults here having earned a bachelor's degree. This is a lower rate of college graduates than found in 98.8 percent of America's neighborhoods."

Many people strolling past the trees, shops, restaurants, and parks along Greenville's Main Street have no idea that the Woodside neighborhood exists. William does, and he had the audacity to do something about it. He bought an old high school building the school district shuttered when the textile mills closed and reinvented it as Legacy Charter School. A huge banner hanging on the front of the school shouts, "Go to college: START HERE," so no one can possibly miss the point.

Legacy achieves that mission. If Legacy didn't exist, most of its high school students would attend Berea High School run by the Greenville School District. Berea has a slightly lower percentage of students in poverty than Legacy, and Berea students tend to do slightly better on most performance indicators. The schools have dramatically different outcomes. Three quarters of Legacy's graduates enroll in higher education versus a third of Berea's graduates. William and I toured the Woodside neighborhood around Legacy to explore why.

"What opens up a kid's soul is what makes a difference," William instructed.

This animates William's passion for helping children in poverty succeed not just in school, but in life. William's admonition applies to the leaders in his community, to the educators in his school, and to the young scholars in his classrooms. Words create mental images, and young people attending Legacy are "scholars." Education can't be externally imposed; scholars can't be tested into becoming educated. True education has to be internally motivated; scholars have to want to be educated and work hard for it. The best proof of what scholars learn at Legacy isn't how they score on their final exams, but what they learn about themselves that empowers them to perform at a high level throughout their lives.

For William the non-negotiable, essential core of Legacy is accepting as an article of faith that all children can succeed. William followed up after our visit to make sure I noted that Legacy is a team effort. That's true, no one can take on a mission this massive alone. But William has shuffled his team more than once when people thought it unreasonable to expect all children to succeed regardless of the circumstances they come from. William will discuss how to accomplish the mission, but the mission itself is not subject to compromise. Not being willing or able to contribute to Legacy's essential mission doesn't make you a bad person, but you can't be on the Legacy team unless you are fully bought in.

William charges that we have a moral obligation to help these children. Beyond that, it is in our self-interest to help them. We all benefit from living in a community of highly skilled people, from the mechanics who tune the computers in our cars to the surgeons who operate on our hearts. If we don't help these children, the plague of crime and despair that destroys their neighborhoods will find its way into ours. William says he doesn't care what our motivations are, as long as we help.

Words do create mental images, and William lights up when he talks about how we label these children. They enter the school system behind in language and social skills compared to children from more privileged families. Children growing up in poverty have other skills highly tuned to their environment. Rather than see these children as capable, we test them to document their deficits and then label them as "special needs," which is a clearer reflection of where the children have been than of who they are. We misinterpret these labels to believe they determine the trajectory of a child's life. Children can read their environment, and whether adults expect them to be scholars or special needs, the adults tend to get what they expect.

As we come up to the parking lot beside the school, William glances at the school buses. He notes the school is about giving children choices. He didn't want to be in the transportation business, but for his scholars whose parents don't have cars he realizes that choice is where the bus takes you. Legacy is in the transportation business by necessity. While passionately visionary, William is also stubbornly pragmatic about what needs to be done to accomplish the mission.

Reaching the end of our visit, William takes more on his shoulders as he contemplates, "I must do a better job of convincing people who don't know this poverty exists that it is their responsibility to help these children which will have a direct impact on the lives of those who help by giving them a feeling of significance."

It's a moral imperative for winners in a culture to leave no one behind, but it is also in their enlightened self interest. Cultures perceived as unfair generate anger and resentment which impacts everyone. The winners pay a direct cost in supporting others, but there is also an opportunity cost of the talents and skills those left behind could have provided to others.

Provide Hope and a Path - Phil Yanov

My friend Phil and I were messaging back and forth at 3 am one morning about a project I was working on. Clearly what I was describing was too complicated for Phil, which is often the problem with my brainstorms. Phil admonished me insightfully. "John, people are looking for hope and a path."

Most organizations barely scratch the surface of tapping into the creative potential of people inside or around them. To become productive, we specialize, which causes us to work in silos, which cuts us off from the creative energy of a diverse community. The development of new business models which cut across the silos usually must occur outside existing business units. The antibodies of large organization cultures too often attack new upstarts as if they were mutant cancers before the upstarts have a chance to grow. Creative people with high potential ideas that do not fit inside existing operating models must be protected by executive patrons who form them into special forces teams to learn about new intersections of needs and capabilities outside of the existing organization's culture. Enlightened leaders form and bet on numerous special forces teams, because the leaders know it is impossible to predict in advance who the big winners will be. A high level of trust and commitment to accountability is essential to special forces who have the privilege of coloring outside the lines.

Years ago a television news program highlighted an exceptional high school teacher who adopted as a science project the reclamation of a once dead creek. The project took several years, and the early students were sustained only by their teacher's passionate vision of what the creek could become. After much hard work, clean, fresh-flowing water was restored to the creek. Excited students found the first steel-head trout in the creek in years. The news reporter closed with the observation that these kids were not exceptional, in a dynamic culture, “Everyone can achieve great things if given a vision, a purpose, and someone to lead.”