

Above All, Try Something

The Alchemy of Success

When I was nine, I tried to start my first business. It was a straightforward venture - I opened a lemonade stand in the front yard. The strategy was sound, but the execution perhaps needed some work. My particular innovation was to offer a bowl of complimentary potato chips, hoping that the salt content would make customers thirsty and boost lemonade sales. What actually happened was the kids from down the street ate all the free potato chips and then went and got drinks from their own houses.

The next week, I was at it again but tried something a little different. The lemonade still didn't sell, but as a back-up plan I had taken some home-grown tomatoes from the garden and those were gone by noon, making it more or less a wash financially. Although my mother was a little annoyed when she discovered all her tomatoes had become fodder for the capitalist machine, my parents supported me in my lemonade business by buying the lemonade and helping me set up. And while it may not have yielded a smashing windfall of profits, the most valuable lesson learned was that in many ways the search for a big idea is its own reward. At a very microcosmic level, this experience captures the essential promise of the entrepreneurial society.

Peter Drucker defines entrepreneurial endeavours as those that create a new market by inventing or reinterpreting an idea in such a way as to stimulate demand where none existed before.¹ By this definition my own youthful flirtations with small business, as well as the experience of most small business owners throughout world, would not qualify as entrepreneurial. Drucker suggests that the process of transformational innovation and idea-generation can be managed by applying entrepreneurial principles in a systematic way. If done well, creative and adaptably organized companies will be able to evolve and produce new ideas and new sources of growth long after the initial seed that jump-started their success has gone to ground. Think, for example, of Google – now Alphabet – and its myriad passion projects that have nothing to do with web searches.

I agree that longevity in business hinges on the ability to imbue corporate structures with entrepreneurial principles. When innovation is buried in the drudgery of every-day corporate functions, it doesn't take much for a once dynamic industry leader to ossify. A good example of this is Microsoft, which was slow to catch onto the mobile revolution and is now desperately trying to play catch-up while horror stories of its Kafkaesque employee evaluation policy became a punch-line on tech blogs.² But Drucker's conceptual framework overlooks a key component of entrepreneurship, which is the individual appetite for risk and the willingness to embrace total failure as the ultimate price of success – this is largely a personal, not an organizational, quality. One cannot properly be called an entrepreneur, not in the nascent stages of innovation, without internalizing risk as part of the deal.

By applying principles of management to the process of innovation, I believe Drucker's intent was to minimize the risk inherent in innovation. But to my mind, it is a tall order to stage-manage the creative spark of inspiration with such precision. It is that very appetite for risk and the willingness to leap headlong into uncertain waters that drives successful entrepreneurial ventures of all stripes. In my view, an entrepreneur is one who has the vision to know when an idea's time has come, the audacity to strike boldly at that moment and the support of a society that facilitates and promotes risk-taking.

¹ Peter F. Drucker. *Innovation and Entrepreneurship*. London: Routledge, 1985, p 26.

² Jay Yarrow, "Microsoft Just Killed the Controversial 'Stack Ranking' Review System That Killed Employee Morale", *Business Insider*, November 12, 2013.

The Right Side of History

Having grown up in the United States, I come from a society where entrepreneurial vision has a long history of being incubated and encouraged. The mythologizing of self-made icons like John D. Rockefeller, Henry Ford and Bill Gates is built into the fabric of our national narrative. As the story is usually told, each of these individuals boot-strapped their way to success on the back of sheer ambition, skill and hard work. And indeed, those are essential ingredients in the alchemy of success.

But entrepreneurial success also depends on the ability to recognize when an idea's time has come, and to seize that moment. The truly transformative entrepreneurs are not just those with a good work ethic or an Ivy League education. They are the ones with an unshakeable belief in the strength of their own vision and the courage to pursue that vision even in the face of failure. Rockefeller lived in a time when the world was thirsty for cheap fuel to drive industrialization. He recognized this and capitalized on the mushrooming appetite for fossil fuels, organizing his company in an innovative way and in the process becoming one of the wealthiest men in the history of the planet.

A few decades later, Henry Ford rode an epochal shift in manufacturing technology that revolutionized the way automobiles were mass-produced. As a result his name is now synonymous with American enterprise, industry and car culture. Bill Gates developed his ubiquitous software just when industrial manufacturing was on the wane and the service economy, which would become heavily dependent on computer technology, was beginning to overtake the American economic landscape. Skill and hard work are certainly abundantly present in these stories. But the main characters were also living in the right time and they had the wisdom to know it.

Gazing backward through the looking-glass of history it seems obvious to us now that the US economy moved in this particular direction: from an oil boom that drove industrial expansion, to a period of mass industrial manufacturing and finally into a service economy dominated by computers and the internet. But for those entrepreneurs who were inside the envelope of history looking out into a future with murky horizons, this was anything but an inexorable trajectory. Successful entrepreneurs are those who, even when they are themselves trapped in the fog of contemporary circumstances, have the vision to believe in an idea and the courage to roll the dice on it. Rockefeller, Ford and Gates seem like inevitable successes now, but at the time they were just trying to capture an idea and hold on as the tidal forces of history lifted them up.

Society and Innovation

This is where the intersection between the entrepreneurial spirit of the individual and the social and political structures that facilitate the fullest expression of a good idea become critical. First of all, there is a normative social component. Americans are quite proud of their rugged individualism – it is a country, after all, that was formed out of collective distaste for taxes. And it is this individualism that, to a certain extent, is essential in underpinning a dynamic entrepreneurial economy.

As noted above, most entrepreneurs - if we use my broader definition of the term - are not tycoons who make the cover of *Time* magazine. They are the millions of average people who start their own small businesses, risking bankruptcy and uncertain incomes just for the pay-off of controlling their own destiny. Sometimes, these small business concerns develop and blossom into great titans of industry. But it starts at the bottom with a willingness to risk it all in the pursuit of the unknown.

Sam Walton started Wal-Mart as just another thrift store, which through hard work and a savant's touch for marketing and competitive pricing he turned into a game-changer.³ Over time, he revolutionized the retail industry by developing increasingly efficient computerized distribution and logistical processes, then floated an IPO that allowed the chain to benefit from previously undreamt of economies of scale. But it started with the willingness to risk everything on that first store. Sam Walton was no less an entrepreneur when he opened it than he was when that same entrepreneurial instinct contributed to the transformation of Wal-Mart's cutting edge supply and logistics technologies.

To some extent, a willingness to take these kinds of risks depends on social values that are inculcated in us from birth, values that promote resilience and minimize the fear of failure. Didn't sell any lemonade today? That's OK. Tinker with the idea and try again next weekend. The entrepreneurial society is laced with these types of lessons. It is an attitude toward failure that was perhaps most elegantly captured by Franklin Roosevelt during the Great Depression, as America flailed about trying to innovate its way out of economic doldrums: "It is common sense to take a method and try it. If it fails, admit it frankly and try another. But above all, try something."⁴ The fabric of the entrepreneurial society withers in the absence of tryers. Many of them will fail. Some of them will succeed. A select few will succeed spectacularly. But the willingness to try is the backbone of entrepreneurship and there can be no innovation without it.

Aside from this normative component, there is a socio-political element to incubating entrepreneurial principles. People have to feel like they are part of a system where they are empowered to succeed, as well as free to fail. Entrepreneurial principles can only be given their fullest expression when practiced within a society that protects property rights, honours contracts, and encourages risky but promising ventures through subsidies and tax breaks.

At the same time social and political structures must provide an environment where new ideas won't be punished by entrenched interests for challenging the status quo. Uber and Airbnb would probably not exist if they had been developed under different social conditions that protected and defended the interests of established business conglomerates at the expense of innovation and new ideas. The entrepreneurial society is thus one which provides structures necessary to maximize innovative ideas when they mature at expedient moments in history, and protects them from ideas whose time has passed.

The End of Innovation?

When Peter Drucker wrote *Innovation and Entrepreneurship*, he was to some extent responding to warnings throughout the 1970s that the economy was entering a phase of anaemic growth for the foreseeable future. He countered that what we were seeing was not the evaporation of economic growth as dictated by the law of diminishing returns, but the emergence of a new kind of growth rooted in the innovations of the entrepreneurial society.⁵ Technologies, techniques and uses of capital were being developed and deployed in new ways – often by venerable blue chip companies like General Electric – that took advantage of opportune conditions, and indeed created new market opportunities.

To me, this is Drucker's key insight, and a timely one. In 2016 we have already seen bond yields in many countries turn negative, indicating the bond market at least is predicting little or no growth in the global economy for the foreseeable future. Analysts are generally

³ Sam Walton. *Made in America*. New York: Bantam Books, 1993.

⁴ Franklin D. Roosevelt. *Looking Forward*. New York: Touchstone, reprinted 2009, p 51.

⁵ Peter F. Drucker. *Innovation and Entrepreneurship*. London: Routledge, 1985, p 1.

pessimistic about prospects for an uptick in global growth in the near term.⁶ According to economist Robert Gordon, this is because the most productive technologies - like the internal combustion engine, high-density commercial and residential office buildings, the telephone, the railroad - have already been invented and their utility for human efficiency exhausted.⁷ He believes productivity will increasingly be bounded by diminishing returns as new technologies cannot enhance productivity the way earlier technologies did.

It strikes me that the Luddites felt similarly about technological innovation once upon a time. They too believed the old way was simply the best way, and the future of innovation looked bleak indeed. But in order to accept Gordon's argument as true, we would have to concede that the extent of human innovation has been reached and exhausted. I find that notion absurd and defeatist, and irreconcilable with the totality of human history up to this point. Drucker had a similar response to the nay-sayers in the 1970s – we have not reached the end of growth. Instead, we are on the threshold of a different kind of growth rooted in the innovative prowess of the entrepreneurial society.

Certainly, I would not expect the economy to develop in the same way as it did in the 20th century. But that is the beauty of the entrepreneurial society. By applying entrepreneurial principles to the process of innovation, we as a society will continue to generate ideas and businesses and products that will alter the trajectory of economic growth and human history in unexpected and hard to predict ways. Such innovation will satisfy needs and create market demands that we don't even yet know we have.

I feel confident about the future because I believe the following to be true. There will always be some kid out there starting a lemonade stand, or experimenting with search algorithms in their garage, or figuring out how to generate income from their vacant apartment while they are studying abroad. And as long as human beings are driven by the inertia of their own natures to continually tinker with and try new things, the need to invent and improve and create will always feed innovation. Even when fear of failure compels us to doubt, there will be people and ideas that rise to the challenges of history and overcome them, sending us down new and exciting paths. Ultimately, this is both the great promise and the great gift of the entrepreneurial society.

⁶ "System Says Slow: The IMF Sees Political Danger in the Economic Doldrums", *The Economist*, April 16, 2016.

⁷ Robert Gordon. *The Rise and Fall of American Productivity: The US Standard of Living Since the Civil War*. Princeton: Princeton University Press, 2016.