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REVERSING THE RISK EQUATION: How Producers Avoid Risks Others Take and Take Risks Others Avoid

Far better it is to dare mighty things, to win
glorious triumphs, even though checkered by
failure, than to take rank with those poor
spirits who neither enjoy much nor suffer
much, because they live in the gray twilight
that knows neither victory nor defeat.

—THEODORE ROOSEVELT

When she was twenty-seven years old, Yan Cheung used all of her savings—a sum of five thousand Hong Kong dollars—to start a Hong Kong-based paper-trading company that supplied paper pulp to manufacturers in mainland China. Five years later, in 1990, she abruptly shut down that growing business and moved to California to start over.¹

Moving overseas looked like a huge risk. Mrs. Cheung spoke tentative English. She knew no one. Her list of local contacts was short, and the U.S. waste business was very insular.² Practically any outside observer would have called her decision to bet her entire savings—again—foolhardy. But within ten years, the paper-trading company she started in California, America Chung Nam, had become the leading paper exporter in the United States—and she was only just beginning.

Many observers of entrepreneurial behavior would look at this example and conclude that Mrs. Cheung had a large appetite for risk, but they would be wrong. Our research uncovered no evidence that Mrs. Cheung, or any of the self-made billionaires, took more, or more extreme, risks than the average individual. For every move Mrs. Cheung made that seemed, from the outside, to carry a lot of risk, there were many others who could be better defined as simply smart, even risk avoidant.

The cliché of the entrepreneur as risk taker is so ingrained in business culture that we expected our study subjects to reveal a lifelong love of risk taking. There were some outliers. Kirk Kerkorian had spent two and a half years during World War II delivering planes to Scotland on behalf of the Royal Canadian Air Force, flying them across a stretch of the North Atlantic where high winds and ice on the wings reportedly downed one in four pilots.³ And there's Sir Richard Branson, founder of the Virgin Group of companies and as famous a sportsman as he is an entrepreneur. Branson once broke the record for crossing the Atlantic Ocean in a speedboat, and was the first person to make the same trip in a hot air balloon. He has also made numerous attempts to circumnavigate the globe by balloon, and has crashed—nearly dying—more than once.⁴

But these stories, colorful though they are, are exceptions. Far from out-of-control risk taking, we observed instead that Producers have the ability to take a Relative View of Risk: they are able to more reasonably assess what they stand to gain compared with what they might lose. When losses do occur, Producers have the personal resilience to recover and try again.

WHERE THE REAL RISK LIES

Taking the Relative View of Risk does not mean that billionaires eschew risks. It means instead that the risks they take are not any larger than the risks present in everyday business transactions. More important, the real source of risk resides in other places than the average professional would see them.

Risk is a matter of perception. This may seem like an uncontroversial statement, but viewing risk as a subjective rather than objective factor moves

against economic orthodoxy—not to mention corporate practice. The Nobel Prize winner Daniel Kahneman and his research partner Amos Tversky first proposed the subjective nature of risk in a 1979 paper in which they describe a series of experiments they conducted to come up with their famous Prospect Theory, a model for human decision making. At its core, Prospect Theory argues that individual perceptions of risk can be influenced by how an opportunity is framed, the context in which it is presented, personal experience, and other factors. Among other ideas, Prospect Theory first introduced the world to the concept of loss aversion, the now-accepted notion that people are more afraid of losing what they have than they are eager to gain something new.⁵

For most people, the subjective nature of risk causes them to overestimate the risk of failure and underestimate the risk of missing out on a gain. Producers, in contrast, have the ability to turn that tendency on its head. People like Yan Cheung are willing to risk failure. If California didn't work out, she would just try something else. What Producers are not willing to risk is the chance to capture an opportunity. This dynamic creates a critical duality between the *right* kind of risk taking and the resilience needed to do it all over again when the original plan doesn't work out.

A closer look at the context behind Mrs. Cheung's move to the United States reveals the relative nature of the risks she faced. Apparently, she wasn't worried about how things would unfold in a foreign country. She *was* worried that staying in Hong Kong would threaten her livelihood. Hong Kong offered limited access to the resources needed to run her business, and China itself had limited materials from which to make strong, high-quality paper products. North America and Europe still had forests, as well as tree farms and reams of used material spilling out of homes and offices.

"If I'd stayed in Hong Kong I wouldn't have been able to satisfy the China demand. As at the time most of China's paper was imported, the market potential was vast, she has said."⁶ So she moved to a place where the paper supply was unlimited and set up a company that exported raw materials to regions where the supply was meager.

Consider as well what she brought with her. Mrs. Cheung knew the market in China at a time when the nation was just beginning to open its economy to outside investors. She understood the demand for paper. She had connections with paper producers in China who would buy her pulp supply. She didn't speak English, but her soon-to-be husband and Performer business partner, Ming Chung Liu, did. And she had confidence in her ability to make the connections

she needed to source her materials—she’d just finished building a successful business that did just that. Perhaps most important was her strong reputation. Paper is exported as pulp, which many exporters in Hong Kong in the 1980s watered down in order to increase output. Mrs. Cheung didn’t water down her product. It was a point of pride for her, and her refusal to do it reportedly earned her threats from an organized crime syndicate with investments in her market. The least risky way to build the supply-side connections she needed to ride the huge and growing demand for paper in China was to go all in by moving somewhere with ample raw materials.

These details suggest that Yan Cheung’s move was much less risky than her alternatives. And yet, the fact that she faced less risk by moving was not obvious—if it had been, everyone would have done it. The ability to see the opportunity and understand where the real risk lay is at the heart of her Producer’s perspective.

Not all bets pan out—even for Producers. Throughout the population of self-made billionaires we saw repeated experience with significant setbacks that would have moved many to abandon any dreams of entrepreneurial independence. Setbacks such as those experienced by Mark Cuban, who had to rebuild his first major business, MicroSolutions, after a secretary defrauded the company of its entire cash flow. Setbacks at the level experienced by the oil-and-gas magnate T. Boone Pickens, who was ousted from the business he’d spent decades building, Mesa Petroleum, in a scenario similar to that faced by the now-iconic Steve Jobs when he was removed from Apple.

The economists Richard Thaler and Eric Johnson have studied individuals who have suffered investment losses or business failures, and posit that the experience causes them to view future opportunities through a different, more pessimistic lens than they would otherwise. In the context of this chapter, past failure makes *most people* less able to take a relative view.⁷ There are few things more anxiety provoking than the prospect of making a bad call that will cost you your job or your business. Producers nonetheless seem able to make the hard calls. When calls go wrong, they are able to dust off and start again. This ability requires not just capital but a level of personal fortitude and self-confidence that allows Producers to believe fully in the idea and in their ability to execute it.

Where does that confidence come from? When Yan Cheung talks about her history and her business, it is clear she has an accurate perspective about her own gifts and the challenges she will need to overcome. Back in the late 1980s, when she left for California, she didn’t think she was going to fail, but if she had it would have been far from the greatest challenge she’d faced in her life

had, it would have been far from the greatest challenge she'd faced in her life.

Mrs. Cheung was born in a coal-mining district in the far northeast of China, the oldest of eight children. Her father was imprisoned for three years when she was a child and the family did not have much money, which required Mrs. Cheung to start working early in life. While Mrs. Cheung was still a teenager, the family moved south to Guangdong Province. There she got her first job in business as a bookkeeper with a textile company. She used this experience as a launch pad to bigger companies and better jobs.⁸ By that calculus, at twenty-seven she was already a seasoned businesswoman with nearly a decade of corporate experience. It seems no surprise, given her history, that she would feel confident in her abilities to make the right calls later on.

Yan Cheung's story is still unfolding, but she and Mr. Liu grew America Chung Nam through the 1990s by cultivating relationships with U.S. waste collection companies, garbage dump operators, and other sources of paper waste. Theirs is something of a road trip story—they bought a used Dodge Caravan and drove it around the United States cultivating relationships with potential suppliers and collecting materials. By 2001, America Chung Nam had become the leading exporter of paper materials. But by then it was only *part* of the Cheung empire. In 1996, while still building the paper materials supply in Los Angeles, Yan Cheung went back to China and set up a company called Nine Dragons with Mr. Liu and her brother. Among other activities, Nine Dragons owns paper-processing businesses that manufacture cardboard boxes.

The cyclicity is brilliant—America Chung Nam collects paper materials from the United States and sends them to Nine Dragons and other Chinese paper processors, which convert the paper material into cardboard boxes. Inexpensive Chinese goods are then packed into the boxes and shipped to consumers in the United States, where the cycle starts again. America Chung Nam and Nine Dragons made Yan Cheung, Ming Chung Liu, and Mrs. Cheung's brother—an officer in the company—billionaires.⁹

In sum, for Mrs. Cheung, the real risk is losing the opportunity, not failing in the attempt. We see this perspective repeatedly across the billionaire population. Michael Bloomberg was not worried about failing when he launched his financial data publishing company mere months after his ouster from Salomon Brothers. He was worried, at the age of thirty-nine, about how he was going to spend the rest of his life.¹⁰ Alex Spanos, now known as one of the largest developers of multifamily housing in the United States, wasn't worried about failing when at the age of twenty-seven he walked out of his father's bakery,

where he had worked for his entire life. He was worried about missing out on the opportunities for expansion that his father was unwilling to take.¹¹ Carnival Cruise magnate Micky Arison was not worried about how he would run the sleepy four-ship cruise line that his father passed down to him. He was worried about reframing the cruise experience as a mainstream vacation.¹²

This perspective seems unique to billionaire Producers in part because it goes against the rules corporate employees have been trained to follow. For aspiring executives, the risk of failure costs them far more in terms of career prospects than the risk of missing an opportunity.

MORE EVIDENCE THAT BILLIONAIRES ARE NOT BIG RISK TAKERS

We were surprised, and somewhat skeptical, by our finding that billionaires do not possess a greater tolerance for risk than the average businessperson—the cliché of the entrepreneur as risk taker is so strong and pervasive in business culture. Yet as we thought about it more and did more research, it became clear that the issue is not risk tolerance but risk attitudes. Billionaires do not overweigh failure, nor do they take irrational risks.

One story that Dean Spanos, son of the billionaire Alex Spanos, shared with us when we sat down with him and his siblings in Stockton, California, underscores this idea of the kind of risks billionaires are—and are not—willing to take.

“We were interested in buying a savings and loan about twenty years ago in Florida,” Dean Spanos began, “so Jerry Murphy, the CFO, and Dad and I flew to Florida and we went into this meeting where there was a conference table as long as the room filled with attorneys and investment bankers.

“We sat there for three and a half hours and listened to them talk about the structure of the company and the sale and everything. And I looked over at Jerry Murphy, who is a very, very, very bright guy, and I said, ‘I really don’t understand anything. Am I missing something?’ Jerry says, ‘No. I’m not sure I follow what they’re talking about either.’ So this goes on for three hours—and that’s a long time for my dad—until the chairman looks at Dad and says, ‘Well, Alex, what do you think? Are you interested? You think we can put this deal

ALEX, what do you think? Are you interested? You think we can put this deal together?’ And Dad says, ‘I have one question. I asked that question three hours ago and I’ll ask it again: Does this company make money or not? I’m talking about real, green bucks.’

“Nobody in that whole room would answer. So Dad gets up and says, ‘When you can answer that question, give me a call; I might be interested.’ And we walked out. Thirty days later, the savings and loan was taken over by the FDIC.”

Alex Spanos was interested in buying a savings and loan, and this one was available and (as far as appearances went) operational. Plenty of successful businesses begin with the acquisition of a struggling company that the entrepreneur eventually turns around—Michael Jaharis did just that with Key Pharmaceuticals. The point of the story is not that Alex Spanos’s risk radar prevented him from buying a struggling company but that he had a clear view in his mind of where the risk lay in the transaction and where it did not. Everyone in the room was talking about the structure of the company and the structure of the deal, but Alex Spanos wanted to know a simple fact: Does the company make money? That no one could, or would, answer was a red flag signaling that either this company was so complexly managed that no one knew for sure, or that management was hiding something.

The anecdote about Alex Spanos and the savings and loan deal that wasn’t is representative of a “cut to the core” mind-set we have seen in many of the billionaires we studied. Walter Isaacson highlighted a similar quality in the way Steve Jobs negotiated contracts—he didn’t want a hundred-page complex arrangement with this clause and that protection. He wanted simple agreements laid out in a few pages.^{[13](#)}

Having an accurate sense of what will bring value and what will only bring risk is a truly rare skill in corporate environments. We have known companies that would willingly spend \$500 million on an ERP software implementation (a high-risk prospect with unclear rewards) but fret over a few million dollars needed to launch a new product. Producers are simply better judges than the average person of where the real risk lies, and what the potential payoff might be.

We aren’t the only ones having a hard time finding evidence to show that entrepreneurs are more willing risk takers. Michel Villette and Catherine Vuillermot, a sociologist and a historian, respectively, wrote a recent study on iconic business figures published as *From Predators to Icons*. In it, they argue

that actions taken by business icons are often mistakenly labeled as high risk. Many “risky” deals, the authors argue, are better described as asymmetrical: The icon knew something about the value of an asset or the market that the person with whom he was doing business did not. In some instances, the icon owned another asset that could make a purchase more valuable.¹⁴

Villette and Vuillermot belong to a line of academic scholars investigating the relationship between entrepreneurship and risk. Among them is Robert Brockhaus, a professor of entrepreneurship at Saint Louis University. In 1980, Brockhaus published one of the first academic papers on entrepreneurs and risk taking. Even then, the received wisdom held that entrepreneurs are active risk takers. But when Brockhaus set out to compare the risk-taking propensities of people who started their own businesses with those of people who worked as managers in existing enterprises, he found no difference.¹⁵ Other scholars have followed and have drawn the same conclusion.¹⁶

Morningstar founder Joe Mansueto confirmed what we observed in our research when we asked him about the risks he faced when he first started the mutual fund ratings company. Mansueto’s own money was at risk—in the first few years he reportedly spent \$250,000 of personal savings getting the company off the ground. To start Morningstar, he cashed in bonds his father had bought each month when Mansueto was a child. He was quite literally betting his nest egg. But to hear him talk about it, he wasn’t really worried. “When I started I never felt risk,” he said. “I knew at some level I could make this work. Worst case is my parents would take me in. I never felt I was embarking on a risky venture. It didn’t take a lot of capital. I wasn’t married. I didn’t have a family or a mortgage. Thinking about risk and things not working out doesn’t come naturally to me. I think more about growing a company. I am a builder. I believe the risks are manageable.”¹⁷

MAINTAINING THE RELATIVE VIEW AFTER A SETBACK

Stephen Ross, the billionaire founder of the real estate development firm Related Companies, offers another case study in both resilience and the Relative View of

Risk. Ross is no stranger to making big moves. Probably his best known project to date is the redevelopment of Columbus Circle in New York City, current home to the Time Warner Center. When Ross first began eyeing the parcel of land at the corner of Fifty-ninth Street and Broadway, it was a decrepit, highly trafficked, disorganized spot with ugly buildings and an outdated street design. Ross saw something different.¹⁸

When we met with him in his offices at the Time Warner Center, he reflected on what he saw in the area. “I looked out of my window and I said, ‘Hey, you know, that is the best site in New York. Look at the exposure and all that.’” Stephen Ross envisioned what the site could become: a gateway to the Upper West Side featuring high-end shopping and mixed-use office, residential, and hotel space, with gourmet restaurants and a jazz venue prominently featured in a way worthy of its association with Lincoln Center, New York’s famed performance hall and home to the Metropolitan Opera and the New York City Ballet. He said, “The economy wasn’t there but I saw this as a world-class site and we wanted it.” Today, the Time Warner Center is exactly the world-class site Ross imagined.

Ross seems to have always thought big, though he needed the right circumstances to pursue his big plans. When he was in his midtwenties he relocated to New York from his native Detroit to work for the investment bank Laird, Inc. His job at the time was to structure affordable housing deals for clients seeking investments to use as tax shelters. But Ross had been in New York only a year when he lost his job in a leadership coup.

Ross quickly found a home in the real estate division at Bear Stearns, but there too he met with problems. Though Ross knew his market, he was too junior to close deals on his own. Real estate was a niche area of investment banking at the time and considered very high risk. Ross needed his boss at the table to make deals happen but, according to Ross, his boss treated him in a disrespectful and condescending manner. The situation eventually came to a head with a public confrontation between the two men, and Ross found himself again out of a job, twenty-nine years old and living in New York City, which was as lonely and expensive in the 1970s as it is today.

“Two jobs in a little over two years on Wall Street?” Ross mused when he told us about it. “With that track record, I’m not employable.”

Starting a business is not risk free, of course. But Ross viewed his risks on the employment market as far greater than the ones he faced setting up his own real estate development business. Investment banking is a small world, and the

real estate specialty is even smaller. A guy who has been ousted twice in two years is not going to land easily. He might have tried his luck, but Ross's assessment of himself as "unemployable" was right at least in the sense that a job at an existing Wall Street firm would shut him out of any meaningful opportunities.

He's not alone. Quite a few of our self-made billionaires had unstable experiences as employees—25 percent of those in our quantitative sample were fired or pushed out by an employer.¹⁹ Steve Jobs had to work the night shift at Atari because his poor hygiene and petulant manner made the other employees complain.²⁰ Mark Cuban was a serial employee, moving from job to job every six months. He started his first business, MicroSolutions, at the age of twenty-five after getting fired for going on a sales call that his boss had forbidden him to attend.²¹ John Paul DeJoria, the founder of John Paul Mitchell Systems and Patrón Spirits, got fired from both Redken Laboratories and the Institute of Trichology because of conflicts with a superior.²² Michael Bloomberg was laid off from Salomon Brothers as part of acquisition fallout.²³

An equally common experience for Producers within established firms is exemplified by that of the oil-and-gas magnate T. Boone Pickens, who wasn't so much an unsuccessful young employee as an unhappy one, annoyed and frustrated by the slow movement, waste, and lack of innovation he saw at Phillips Petroleum, his first postcollege employer.²⁴ Producers like the young Pickens are not necessarily pushed down or out of the companies where they worked, but they are chomping at the bit to have a bigger job, take a bigger opportunity, or negotiate a bigger deal. When it becomes clear to them that the firms they work for will not let them take those chances, they go out on their own. For these people, the risk of staying in an unhappy situation was far higher than the risk they faced working for themselves.

CONSIDER THE ALTERNATIVE

One way Producers look at risk is to negotiate their futures with a clear knowledge of their personal BATNA—the Best Alternative to a Negotiated Agreement, which was coined in *Getting to Yes*. Knowing the BATNA allows a

negotiator to avoid the near-universal mistake of focusing on the deal itself, the internal complexities of which cloud the larger context.²⁵ In the case of Producers, the point of negotiation is how they will spend their time and how high they will go in their careers. They are less concerned about what they have to lose *now* and better able to assess what they have to gain from the opportunity in the future. Drawing again on the lessons from behavioral science, Producers seem overwhelmingly able to accept the risk of short-term loss or sacrifice in order to increase the odds of generating enormous value in the future.²⁶ Producers can take the relative view because they have a very clear understanding of the best alternative acceptable to them within that larger, more relative context.

For unsatisfied employees like Stephen Ross the best alternative they can see is working for a boss or a company who doesn't "get" them and who doesn't see the world and the opportunities it presents. At worst, they can be unemployed.

Having left Bear Stearns, Ross was already unemployed, so he had little to lose as he worked to create a business as a real estate developer. He had written up a business plan for a company while still with Laird, and he wondered if he could launch it. Ross was thinking big and using Empathetic Imagination based on his existing knowledge: he imagined a company that married all of the component parts of affordable housing development, including developing new properties, financing mortgages, syndicating existing developments, and obtaining government subsidies for housing and urban development. The challenge was that the development portion of the business required capital—a lot of it—and Ross didn't have any.

He had also seen the way the rapid business cycles of the 1970s and 1980s put a lot of pressure on real estate developers. While developers needed to develop new properties just to get the development fees, even a brief lull in demand could put their entire investment at risk. So Ross knew he urgently needed another source of income to provide the cash flow needed to ensure he could pay his bills while he worked on development deals. For that income he turned to syndication, which in real estate involves buying other people's developments and selling them to third-party investors. In his first year on his own, Ross managed to close three syndication deals and bring in \$120,000—he had been making \$25,000 a year on Wall Street. With each influx of money he pocketed only what he needed to live and put the rest of the cash back into the business.

Throughout the history of the Related Companies, Ross would lean on annuitized income sources for guaranteed cash. He started with syndication and added rental income once he had developed enough real estate to own his own properties. At more than one point those reliable sources served as a lifeline when he was faced with the possibility of severe business failure. He told us, for example, that during the 1991 real estate crash in the Northeast, as the result of the way he'd structured some deals he was left *personally* owing a number of banks \$120 million. A competing developer then tried to acquire the debt from the banks and effectively wipe out Ross, but the coup was unsuccessful. The banks stuck with Ross and worked with him to structure a repayment arrangement, their faith firm in the slower, but still consistent cash flow the Related Companies enjoyed from its syndication and rental businesses. Within three years, Ross had paid back the banks.

Today, Ross's resilience, survival, and relative view have allowed his gaze to land on Hudson Yards, an audacious development initiative on the West Side of Manhattan, where Ross is currently the majority landowner among a number of development players. Several earlier attempts to finance the Hudson Yards project failed. Investors thought the plans too risky and too dependent upon the city of New York and the extension of subway lines by the perennially cash-strapped Metropolitan Transportation Authority, the operator of the city's public transportation system. Ross, however, has been patient and undeterred, his land rights acquisitions facilitated—if indirectly—by the advocacy of another self-made billionaire with a huge vested interest in seeing the Hudson Yards development happen: Michael Bloomberg.

Ross reflected on his ability to see what is possible and overcome when things don't go well. "When things are the worst you look for the positive," he explained. "Nothing goes straight up. You will always have times when you really have a major problem, something really goes wrong. You need to look and see where the positives are."

NEVER BET YOUR LAST PENNY

Though it is less flashy than the glamour and style of developments like the Time Warner Center and Hudson Yards, the syndication arm of Ross's business

is a useful example of one of the ways we believe self-made billionaires put themselves in positions to maintain a relative view of the risks they face: they leave some resources available for the next year. Throughout the population of self-made billionaires we see them consistently engaging in the billionaire equivalent of shoving bills into the mattress. They invest big, but they often have a parallel spring of income or a safe source of cash they can count on to keep them solvent while they work the more exciting higher-stakes opportunities.

The parallel work can be pretty bland. When the Texas oil-and-gas billionaire T. Boone Pickens launched his first independent venture in the early 1950s, his sideline was well-site consulting work that paid \$75 a day.²⁷ When Pickens left Phillips Petroleum, he was twenty-six years old with two children and a pregnant wife. In his view, his best prospects at Phillips would land him after twenty or thirty years with a vice president's position in exploration, a job he neither wanted nor was guaranteed to get—by his own estimation he was far from the best geologist in the company. Going out on his own looked remarkably better than staying to pursue an uncertain path about which he was lukewarm. He left to try his luck, but he knew he needed to put food on the table. Well-site work was grueling, but it kept money coming in while he worked on his maps and developed the relationships he needed to buy his first leases and form Mesa Petroleum, his first business.

Staying in a position to make the next investment is not quite the same as hedging your bets. Producers aren't setting up a source of income or investment specifically to balance another risky position. It is more like a philosophy or lifestyle approach with unique manifestations depending on the individual.

Alex Spanos, the construction billionaire who got his start by providing catering and housing for migrant farmworkers in California's Central Valley, operates according to a "cash-in cash-out" philosophy—even in the capital-intensive development business. Alexis Spanos Ruhl, one of Alex Spanos's daughters, told us that her father saw only one way to make any purchase, whether a car or a major land acquisition. "He would not buy something unless he paid cash for it," she said. "He was against debt. Against credit cards. He didn't like or believe in that. You want to buy something, you pay cash for it or you don't buy it. A lot of people didn't agree with that, still don't agree with that, but it works."

Mark Cuban's approach is not so different. He, too, advises young entrepreneurs to avoid debt and live simply so that the amount of money they need to get by is as low as possible. That changes one's perspective on risk while

enabling a growing cushion against failure. “We each take our own path,” Cuban has written, “but nothing shortcuts the dreams of a 22-year-old more than owing a shitload of money.”²⁸

Cuban likes to tell stories about his early postcollege days kicking around and trying to find his true calling. He slept on the floor of a friend’s apartment, moved from job to job, and seemed to survive on bar wings and beer. He had a roommate well after he was financially stable and bringing in good money with MicroSolutions. These choices put him in the position, if the business collapsed, to start again.

He has had to use this cushion more than once. In the first two years that MicroSolutions was in business, Cuban and his business partner, Martin Woodall, had \$85,000 stolen from them by their secretary—worse because it was their *only* \$85,000. A few years later, his apartment burned down with everything he owned, including the \$25,000 engagement ring he had just bought for his girlfriend. These experiences were clearly formative. Even today, the fifty-four-year-old billionaire sounds surprisingly conservative when he talks about building a business: “There are only two reasonable sources of capital for startup entrepreneurs: your own pocket and your customers’ pockets.”²⁹

Staying in a position to make the next financial investment does not imply that Producers are not fully committed to their opportunities. They are. But for them, the definition of unreasonable risk is one that leaves them unable, in the event of failure, to dust off and start again.

REVISITING RESILIENCE

As we discussed in the early pages of this chapter, the ability to start again is necessary for breakthrough success. This is clear in the fact that the majority of self-made billionaires in our sample create huge value only with their second, third, or fourth business. Joe Mansueto with Morningstar, Mark Cuban with Broadcast.com, T. Boone Pickens with Boone Pickens Capital, Richard Branson with Virgin, Yan Cheung with America Chung Nam and Nine Dragons, Steve Jobs with Pixar, Steve Wynn with Wynn Resorts—all Producers mentioned in this chapter and dozens of others made their first billion after failure or moderate success with earlier ventures. Some of their preliminary ventures are tiny. Others

are substantial, like Mirage Resorts, the Vegas real estate development business that Steve Wynn formed, grew, and was kicked out of in a 2000 takeover by Kirk Kerkorian.

Serial business creation seems to improve the survival prospects of a new venture. A recent study sponsored by the nonprofit Ewing Marion Kauffman Foundation shows that businesses started by serial entrepreneurs (in some cases with serial failures) were more likely to survive than those started by first timers.³⁰ In the world of risk, many Producers need these early ventures to acquire decision-making skills and get quick feedback about what is working and what isn't. That feedback is critical if an entrepreneur is to overcome biases about the real sources of risk to the business. Whether these early ventures are big or small, serial entrepreneurs learn through them about the vision needed to cultivate Empathetic Imagination, about the design skills and deal making critical for Inventive Execution, about how to operate with Patient Urgency. They also learn talent management, marketing, partnership, and so forth. These ventures are practice runs that give Producers the experience they need to take a Relative View of Risk. The fact that most organizations demote or eject people who fail is just one of the ways that companies hamstring their future value creation.

Yet we don't want to give the impression that it is easy to fail and then try again, especially not after spectacular failure at the scale experienced by Wynn, or by Steve Jobs when he was ousted from Apple, or by T. Boone Pickens when he was kicked out after almost forty years at the helm of Mesa Petroleum, the oil-and-gas company he founded. The year was 1996, and Pickens was sixty-eight years old and in the middle of a contentious divorce. He writes in his book, *The First Billion Is the Hardest*, that the times and circumstances dumped him into a deep depression.³¹

Boone Pickens was no stranger to difficult times. From a young age he had a clear view of his personal BATNA. "I got a job as a roughneck when I was sixteen," he told us when we sat down with him in his offices in Dallas. "And it was one of those jobs I knew there had to be something better than this somewhere. And then I worked for the railroad in '44, '45, '46; all summer jobs. And I was a boilermaker's helper, signal maintenance helper, and ended up a fireman on a switch engine, which is a guy who sits on the right of the engineer on the switch engine. And I thought, 'This is good training but what I'm doing is I'm seeing the jobs I'll have if I don't get an education, what I'm going to be doing the rest of my life.' And I thought, 'I'm not ready for this one or that

one.’”

This fine sense of what he wanted for himself in fact served as the impetus behind Boone Pickens’s decision to leave Phillips in his twenties and go out on his own, a path that eventually led him to form Mesa Petroleum with funding from two partners. The company grew incrementally at first by purchasing leases and prospecting for oil. Mesa’s leases produced well, which allowed it to buy more leases, and so on. Growth continued in this manner for about ten years, and Mesa developed a strong reputation. But by the mid-1960s, Boone Pickens began to see that the scale of the deals was severely constrained by Mesa’s relatively small size. He had initiated an IPO a few years earlier in order to increase the company’s access to capital and to buy out one of the two founding partners, but further growth would require a more aggressive approach.

Put in the context of the Relative View of Risk, Boone Pickens saw a far greater risk in trying to continue on a path of incremental growth—which might sound the death knell—than in taking the opportunity to do bigger deals. Boone Pickens chose the latter, and proposed that Mesa grow exponentially through the purchase of larger companies that possessed underpriced assets. Hugoton Production Company was to be the first deal.

“I had spent time studying Hugoton, a sleepy company which owned the majority of the rights to Hugoton Field [the country’s largest natural gas field] in southwest Kansas. I looked at it and then I got to know the CEO of the company and another guy who ran the company. I went to my board of directors and I said, ‘I think we’ll be able to acquire this company.’ I will never forget that one of [the board members] said, ‘Boone, you don’t have a snowball’s chance in hell of getting this company. You’re a dreamer and there isn’t even a prospect for us to do that.’”

There was every reason for the board member to see the acquisition as impossible. Hugoton was twenty times the size of Mesa Petroleum. Furthermore, the CEO and head executive Boone Pickens had courted were not open to acquisition. But Boone Pickens found another way—he persuaded the board to let him offer Hugoton stockholders 1.8 shares of Mesa Petroleum stock for every one Hugoton Production Company share they were willing to sell. In this way, Mesa acquired 30 percent of Hugoton, and Boone Pickens began to earn a reputation as a corporate raider.³²

The Hugoton acquisition paved the way for Mesa to become the oil-and-gas giant it remains today, but it was not without personal loss for T. Boone Pickens. The billionaire owned 23 percent of Mesa when he went after Hugoton. “If I’d

been as smart as I am today I would've said to that board member, 'If I'm able to pull it off, I take no dilution.' But I didn't say that. We acquired them. They're twenty times our size. Now I have one-and-a-half percent."

Thirty years later T. Boone Pickens had worked his way back up to 7.5 percent of the company he founded, but it wasn't enough to protect himself from getting kicked out when he again found himself in opposition to other company leaders and the board.

Many at that point would have simply stopped working. Pickens didn't need the money. He'd earned nowhere near his first billion, but he had enough money to retire and live a comfortable life golfing and hanging out at the ranch. Yet he told us that the thought never occurred to him. He liked working then, and still continues now that he is in his eighties. Instead, he took five employees and a desk from Mesa and set up a new company, Boone Pickens Capital (known as BP Capital). His plan was to create an investment fund to trade oil-and-gas commodities. He planned to raise between \$50 million and \$100 million from old contacts and true believers, but the early days did not go as planned. First, he failed the National Futures Association exam he needed to become a commodity pool operator—twice. Then he had trouble raising the money he needed to launch. In the end, the fund went live with \$37 million he managed to cobble together from a handful of trusting friends.

From bad to worse, by January 1999, the fund had plummeted to its last \$2.7 million. Every investment the company made ended in a loss, topped off by a bad bet on deep-water oil drilling in the Gulf of Mexico. Within two years, the BP Capital Energy Fund had lost 90 percent of its value and Pickens was staring down the barrel of another failure. "Don't worry," a friend and fund investor said to one of the BP Capital employees. "Boone will pull us out."

The friend proved prescient. While still at Mesa, Pickens had been pushing his board to invest more in natural gas reserves, motivated by the decrease in new oil discoveries in the United States. Now leading his own commodities fund, Pickens still believed that the price of gas would increase as demand from power plants and new buildings shifted to gas as a primary fuel for power and heat. Few shared his optimism, and the unmovable price of gas during the 1990s left Pickens on the losing side of that argument. But with BP Capital he got the timing right. In early 2000, Boone Pickens bought as many natural gas futures as he could with the \$2.7 million he had left, and over the course of the year the price of gas skyrocketed, bringing the BP Capital Energy Fund up to \$252 million in less than twelve months. He sold at the peak price of around \$10 per cubic foot of gas and distributed \$222 million to the investors. The next year

Boone Pickens opened a second fund with a new idea cultivated from Empathetic Imagination, and was on his way to becoming a billionaire.

Today, Boone Pickens thinks far less about the low times he has faced throughout his career than he does about the wins he has earned. “There were sad days, bad days, scary days, all of that,” he told us. “But those sort of fade in the past and you remember the good days not the bad days. What I did, it worked out right for me.”

Compare Boone Pickens’s resiliency to the hesitancy that affected Ron Wayne, an original partner in Apple Computer. Wayne had started a slot machine business that failed, swallowing \$50,000 of savings. After that failure he went to work at Atari, where he met Steve Jobs. When Jobs later asked Wayne to join Apple Computer as a third partner to balance and adjudicate between Jobs and the engineering wunderkind Steve Wozniak, Wayne was initially enthusiastic. But then it became clear that they were going to structure the nascent Apple Computer as a partnership. Wayne, who was significantly older than his partners, was worried about the personal liability he would incur if all the borrowing and spending Jobs was doing to manufacture the Apple I at volume did not pan out. The fear overcame him and a few days after they filed the business paperwork he pulled out.³³

HOW EXECUTIVES CAN LEARN TO REVERSE THE RISK EQUATION

Producers aren’t knocked out of the entrepreneurial game by defeats—even those that seem entirely devastating. Mark Cuban likes to say, “You can try and fail a hundred times, but you only have to get it right once.”³⁴ It would be hard to overstate how different those Producer actions and attitudes around risk are to the standard thinking within large businesses. Corporations talk about managing risk, but that can be a misnomer. Producers *manage* risk. Performers, and the corporations they work for, avoid it. Failure, in this context, is widely viewed as incompetent risk avoidance, with clear consequences for the tools that executives bring to their jobs.

The risk-avoidance perspective plays out in some proscribed ways in corporations, specifically as it applies to the pursuit of new opportunities

corporations, specifically as it applies to the pursuit of new opportunities. Standard corporate practice is to assign a high-potential employee to the challenge and see how she does. It's a way to vet that person's skills before elevating her to the next level. But if the process isn't managed carefully, that practice encourages high potentials to look only as far as the incremental win: get the new venture up and running; return a failing division to profitability; manage a change process.

Incremental wins are good and necessary—in some cases they can even clear the way for a company to see an opportunity for Empathetic Imagination. But in too many corporations incremental is all there is. There is no blockbuster idea or pursuit driving the effort. As a result, the incremental wins are still wins, but they dead-end with themselves. They do not open up into anything larger, and even if they could, your performing high-potential employee has no reason or incentive to look for those possibilities. She knows she'll get the next gig if she proves herself; she also knows that any imaginative idea she comes up with is not likely to be led by her. Either she'll rotate to her next position before the idea begins to realize its potential, or it will be given to someone senior to her. She is not going to risk losing the low-risk incremental bump for the high-risk incremental bump, so she stays on the safe road.

And what if she fails? When a new product bombs, a new development costs too much to earn a profit, or a failing business unit cannot be turned around, the leader running it is blamed and either fired or demoted. The effect is at best neutral to a person's career, at worst completely destabilizing. The practice of punishing failure discourages leaders from taking the kinds of relative risks that can pay off, and it destroys the organization's ability to take advantage of that leader's resilience and apply her lessons to new ventures in the future. Professionals who have experienced failure are pushed out, and any learning they get from the experience is lost to the company.

The Producers we studied show a different way. Their view of risk, their resilience, and the benefits they gain from failure reveal how pursuing opportunities, testing new ideas, and iterative learning bring new value to the forefront. That value depends on the critical duality between a willingness and ability to look differently at the risks they face, and personal resilience to try again when the effort does not pan out.

In this book's introduction we explain that organizations will want to apply the lessons of each chapter to an ever-decreasing number of employees to help identify emerging Producers. Taking the Relative View of Risk is a privilege afforded to only a small few. Only definite Producers should be given the

leeway. Your pure Performers—no matter how skilled they are in their specific field—do not have the relative view needed to see where the real risk lies and make bets with high payoff potential. They don't have the Producer's skill of bringing together different resources to create new value.

With that perspective in mind, we recommend taking the following steps to reverse the risk equation in your organization.

Give Permission to Take Risks

When identifying emergent Producers you'd like to challenge with more responsibility, look at the range of risks they have taken in their lives and in their careers. Did they start a new line of business or service? Did they move to a new geographic location to extend or develop a market opportunity, or even to learn or explore something new? Ask them about it and listen to how they describe the experience. Did they view the effort as risky or as the logical, right approach given the circumstances? Did they see the real risks as lying elsewhere? If a prospect answers in the negative—no, I didn't feel the risk—and can offer a salient reason, you may have a Producer in your ranks.

Look for ways to challenge your talent. Give emergent Producers projects or roles that stretch their skills. The ones you think have huge potential should be given a chance to try out important roles that you aren't sure they can handle yet. You are not setting up anyone to fail. On the contrary, you are challenging them to succeed. When you give people something they have to reach for, their risk tolerance increases and you give them a chance to show themselves what they are capable of. Ideally, the Producers you challenge have either a proven track record or a palpable ability to see the upside—opportunities lost should be as salient to them as risks avoided.

When deciding who should get what role or opportunity, make sure as well that the managers and leaders evaluating the options also have the appropriate risk balance in mind. Performers in a leadership role who take an absolute view of the risks involved are going to be nervous about giving a chance to Producers whose risk perspectives are relative.

Beyond how you encourage individuals to expand their perspectives on risk, consider the culture of risk that exists within subgroups or functions in your organization, and work to make sure that the culture supports the relative view. Structure conversations about new opportunities to give the right time and weight to both the pros and the cons. Be careful to maintain balance—don't

allow the concerns about risk to overrun the conversation. And keep in mind as you consider the risks that the billionaire Producers we studied are able to ask deeper questions about the real level of risk they face. Is the risk real? Is it likely? What is the material nature of the risk—if something went wrong would it put the entire business at risk or just the initiative that is exposed? What is the proportion between what the company might lose and what it could gain? Would the odds change if you had access to certain assets?

Question Your Automatic Risk Perceptions

As part of this practice of taking a balanced view of the risks, take the time to question your automatic assumptions—from both the individual view and the team view. Why do you think the way you do? When pursuing a new product, venture, or project, take the time to think through what path you want to instinctively follow and then pause and ask yourself *why*. Why do you want to go that way? Is it because it is the route with the greatest potential for Inventive Execution? Is it the route with the greatest in-house consensus? Is it the route with the least amount of risk? Is it the most obvious given your skills, capabilities, and resources?

The answers to those questions should tell you a lot about the opportunity and your approach to risk. If your plan of action has a great deal of consensus within the organization, for example, then you have good reason to suspect that you are pursuing an opportunity with only incremental value. Truly empathetically imaginative ideas will meet with resistance. And if your approach is chosen based on the fact that you have resources or skills that are widely available in your market, then you can feel confident that your route will be well traveled by others.

Humans like to think in terms of narrative, which is one reason scenario planning is such a powerful tool for strategists. The negative consequence of this tendency, however, is that we tend to slide down the same sluiceways in our thinking. The same “then” can frequently follow that one “if.” You can dig a new channel by asking why and then match it with *what if*? *What if* we tried something else? *What if* the impossible actually transpired? “What if” is the Producer’s path, the question that Stephen Ross asked about launching his own business, that Boone Pickens asked about the timing of natural gas investments, and that Steve Jobs asked when the artists at Pixar asked for more money to

make animated films.

Shifting perspectives can also make clear that the sources of risk are not always obvious. Risk is a shape-shifter. Consider again Yan Cheung and her early business experiences as a useful thought exercise on the ways that risk can elude even skilled business minds. The “safe” move for Mrs. Cheung might have been to stay in Hong Kong and fight for dominance in that market. It is possible with that approach she might have thrived—she is a Producer, after all, able to see her possibilities where others see only a downward spiral. But arguably it would have been a much rockier path, marked by shrinking margins as she struggled to outbid competitors for the dwindling pulp supply, and watched as China sought alternative options. From that perspective, the low-risk low-reward approach that so many businesses embrace as key to incremental growth begins to resemble something closer to a corporate suicide pact, where incremental growth turns on a dime to incremental loss.

We by no means intend to minimize how hard it is to change risk perceptions. The habits of mind that cause people to take an absolute view of risk are legitimately difficult to break. It is not enough to say you should try to look at risk in a different way when you have been trained for your entire career in one approach.

This is one more reason leaders need to be selective about whom they cultivate to take the Relative View of Risk: Producers, really, are the ones who know how to use it. Performers, though skilled, are more likely to emerge from such an exercise with self-perception that resembles overconfidence—they are so used to excelling in their own area of expertise that they dramatically underestimate the amount of time and/or money it will take to realize a goal that requires multiple contributors with varying skills. This tendency is so ubiquitous in some areas that organizations have developed compensation systems for correcting such excess. The UK government, for example, has invested significant resources to understand and overcome the “mega-project performance paradox,” whereby huge public-private projects—like the defunct luxury airliner Concorde and the eventually successful Sydney Opera House—are both very popular and overbudget (often by as much as 15,000 percent).³⁵

Recruit for Difference

In addition to the work you do to challenge the talent you have and question the automatic ways of thinking that operate in your teams and groups, you should

different ways of thinking that operate in your teams and groups, you should look to grow your organizations with Producers capable of challenging you to take the relative view. Make sure that you are hiring and promoting people who show capacity for Empathetic Imagination, Patient Urgency, Inventive Execution, and a Relative View of Risk. By definition, this is going to result in hiring high potentials who are different from the typical candidate that may have appealed to your organization in the past. Companies talk a lot about the importance of “cultural fit” in their recruiting, and we agree that culture is very important for corporate harmony. But culture can also become code for hiring people who all think alike. Recall that in the world of breakthrough value, consensus is more a warning sign than a signal of potential. When everyone in the organization agrees, you don’t have enough people pushing the boundaries of what could be. Producers encourage important and productive tension and different thinking, along with some of the impatience that comes from their desire to make big ideas real.

So take advantage of it. Ask your Producers what they would do if you gave them 20 percent of their time to pursue breakthrough value. If a Producer has just finished one initiative and is at loose ends, ask him what he would like to do next for the firm. He may suggest a role for himself that doesn’t yet exist, or ask to pursue a venture that is beyond what you already do. Listen to those suggestions and see what you can cull from them—they may lead to the next breakthrough.

Adopt a Learning Mentality Toward Failure

As a long-term effort, work on the environment you cultivate inside your team and in the organization. How do you handle failure? How do you tell stories about big opportunities that went bad? Do you celebrate the attempts, or construct narratives of warning about them?

It has become something of a life platitude to encourage people to embrace failure. There is even a whole catalog of clichés intended to value the attempt (no pain no gain, you miss every shot you don’t take, and so on). It’s in fashion today to *talk about* celebrating failure, but few firms of any size do it and almost no big firms do. We know of only one organization that makes a public event of it. In 2011, the World Bank hosted the first FAILFaire, a conference aimed at discussing major failures in the development community as a way for multilateral organizations, nonprofits, social enterprises, and others engaged in

global development to learn and share lessons.

Businesses can afford to do more in-house to celebrate the good lessons inherent in any failure. Note that we say to “celebrate” lessons, not the failure itself—you don’t want to make failure the goal. You are, however, trying to reframe useful failures as an outcome of thinking big and taking the right kinds of risks. It requires a nuanced view of when projects go wrong and why. Celebrate those that represent taking the right risks for the right reasons, and try to determine what might have turned things around.