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Building High-Impact Entrepreneurship and Investing Communities in Flyover Country | Part II: Embracing Risk

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In the first part of this series I argued that building high-impact entrepreneurial and investing communities in places like Northeast Wisconsin demands a certain kind of venture capital investor. Specifically, venture investors who had “been there, done that” as technologists and high-impact entrepreneurs themselves, and have gotten their hands dirty helping entrepreneurs launch and build emerging growth companies before and after their investment. Old-style “nurture” venture investors: company builders who could work their magic with limited amounts of capital and prodigious amounts of elbow grease.

Today, I’ll start looking beyond the risk capital challenge at the softer elements of the equation. The cultural attributes that define the ethos of places like Silicon Valley, and that are just as critical to success as risk capital. I’ll finally conclude with a blog post collecting some thoughts about how we might get from where we are today to our own high-impact entrepreneurship and investing promised land.

The most obvious and widely recognized element of the Silicon Valley ethos that is missing in most corners of flyover country is its acceptance of risk. Silicon Valley entrepreneurs and investors are comfortable, indeed seek out, high-risk/reward opportunities where the outcomes are largely binary. They place bets well-knowing that most of them will fail – but that a few of them will not just win, but win big. They embrace the reality that somewhere around twenty percent of early stage venture capital investments produce something like ninety percent of venture capital returns.

Risk tolerance, indeed risk seeking, is of course what risk capital investing is all about. If my career in and around high-impact entrepreneurship and investing over the last three decades plus has taught me anything, it’s that risk and reward are most definitely correlated. (They teach that is B-

School, but it's just not the same.) Just as there are a lot more losing lottery tickets than there are winners, so a lot more high-impact startups/investments crater than change the world. The key is to learn from the former so you can profit from the latter.

The role of risk tolerance, though, involves a lot more than just accepting that building a risk capital company is risky. Risk tolerance is embedded in the broader culture of Silicon Valley, and reflected in the way that culture – social as well as business – functions. For example, at the “big picture” level, risk tolerance generates a cultural respect for failure that makes taking big entrepreneurial risks, well, less personally risky. In more traditional cultures, including here in the New North, failure is often perceived as a black mark; a stain on one's character or competence, or both. In places like Silicon Valley, failure is a badge of honor – and something your colleagues and neighbors assume you learned from, not just walked away from.

Being comfortable with risk is, as well, integral to the nuts and bolts of managing high-impact startups and investments. Successful company builders on both sides of that equation are typically comfortable making mission-critical decisions faster, and with less information, than their counterparts in more established businesses.

Partly, this is a function of having less to lose (freedom, as Janis Joplin sang, being just another word nothing left to lose). As well, being comfortable, and good, at “shooting from the hip” is a critical part of managing startups where timely, cheap “good enough” answers are highly-prized, and where “failing fast” is a management mantra.

Most folks in the New North interested in getting a high-impact entrepreneurship and investing community going here understand that changing attitudes towards risk is a big part of the challenge. What is not as well understood, but in fact equally critical, is grasping that embracing risk is more than just accepting the 80/20 rule (20% of the investments produce 80% of the returns). It goes much deeper than that, where it translates into a cultural respect for failure, and management principles that promote making big decisions faster, with less information.

Next time, the way high-impact entrepreneurs and investors think about competition.

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