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The Educable Entrepreneur

One characteristic most venture investors look for in entrepreneurs is the ability to hear, process and timely respond to new information. Good entrepreneurs know a lot; better entrepreneurs know as well that they don't know everything. The very best entrepreneurs are educable: they can live and learn, evolving as the world around (and within) them, and their understanding of those worlds, evolves.

Educability is a critical founder trait because high-risk/reward startups are creatures of chaos; internally, as they push the envelope, and externally, as the envelope (customers, competitors, capital markets, etc.) pushes back. Emerging companies are almost continuously buffeted by new information, some of it confirmatory of current thinking, more of it contradictory and much of it just so much noise. How they handle new information – whether they absorb it or ignore it, and how they process and act on it – in large measure determines when and how they and their businesses succeed or fail.

Educability has, I think, three key facets: listening, processing, and deciding. Entrepreneurs who listen well are tenacious: those who don't are stubborn. Entrepreneurs who process well are shrewd: those who don't are dense. Entrepreneurs who act decisively are leaders: those who don't are tentative. Fall seriously short on any one of those spectra and entrepreneurial failure is all but certain. Nail all three and success, if not timely, is as assured as it gets in the high risk/reward world.

If listening carefully, processing shrewdly and acting decisively are the loadstones of the educable entrepreneur, how do you evaluate those elements in any give entrepreneur? Herewith some thoughts.

Tenacious or Stubborn?

Confronted with new information, or a question they don't know the answer to, a tenacious entrepreneur will engage with it, and see where the information or question leads. They may ultimately reject the information, or give an unsatisfactory or unexpected answer to the question, but they take it seriously.

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When stubborn entrepreneurs – the ones that don't listen well – are confronted with new information, or get a question that they don't know the answer to, they tend to ignore or discount it, or just blow by it and stay on their script. Often they are defensive and take questions personally, as if they were some sort of unfair critique of their character or intelligence.

Evaluating the listening skills of an entrepreneur is best accomplished by challenging her assumptions or conclusions (preferably both). If that means asking a few questions that you already know the answer to (or at least think you do), ask them anyway. If the entrepreneur responds thoughtfully and with equanimity, you're probably dealing with a tenacious entrepreneur. If instead the entrepreneur deflects your questions, or gets defensive, you've probably got a stubborn entrepreneur. Give the later a wide berth.

Shrewd or Dense?

The line between insight and insanity is sometimes blurry, particularly in the world of high risk/reward startups, many of which are based on ideas that lie close to it. And, of course, the line moves as time rolls on. Many of big industries are rooted in insights that were, in an earlier age, the province of the insane. (Think Steve Jobs' Newton PDA – an example of an insane idea that resurfaced as a brilliant idea when the technology caught up with it.)

Still, getting a handle on the insight/insanity line is a crucial exercise for high risk/return emerging business investors. Truly insane ideas – and the entrepreneurs who peddle them – seldom deliver good investment returns. At least not in relevant time frames.

Alas, the difference between the fruitcake and the real deal, entrepreneur-wise, can be difficult to evaluate. Sure, there are obvious nut jobs: my own experience includes a couple of grey matter-deprived folks who tried to sell me on ideas that violated the second law of thermodynamics. The tougher cases encompass entrepreneurs with ideas at least plausibly within the bounds of nature, including even human nature.

For me a good proxy for whether an entrepreneur is shrewd or dense is whether she can explain her thinking in ways that a reasonably intelligent and interested layperson can intuitively grasp. That is, in terms of what she is doing, why she is doing it and how she is doing it. In my experience, entrepreneurs who can't do that are likely pitching ideas that in fact don't make business sense.

Decisive or Tentative?

Decisive entrepreneurs are good at making and implementing important decisions quickly, with limited information, while communicating confidence in themselves and their team. They may be wrong (and often are, actually), but they are not in doubt. When they are wrong, they don't dwell on it (and certainly not advertise it), but they will act decisively to get it right. They are good, if you will, at the "live and learn" game.

Tentative entrepreneurs fall into two main categories. There are Hamlets, and there are Tail Chasers.

Hamlets are (surprise) indecisive. They can't pull the trigger on mission critical issues. They tangle themselves up in uncertainty. Ultimately, their fear of being wrong gets in the way of making and executing on timely decisions. The Hamlet entrepreneur is, finally, a time waster, and time is too precious for startups to waste.

Tail Chasers, on the other hand, are very decisive. Too decisive, in fact. They are constantly changing course, going this way and that with the proverbial wind. They don't steer their startup, they drift with it. Don't get me wrong, you can learn a lot on an Aboriginal Walkabout – but don't expect much in the way of investment returns.

Hamlets are easy to spot, and can be very frustrating. Their business plans, and even more so their pitches, often lack focus. Business models are ill-defined, and target markets are overbroad. Hamlets are frustrating because you find yourself just wanting to grab them by the shoulders and say “make up your damned mind!” Invest in a Hamlet, and prepare for a long, expensive journey where more will be said than done. Much more. (For a longer discussion of the Hamlet entrepreneur, see my previous article “To Be or Not to Be: The Entrepreneur as Hamlet.”)

Tail Chasers are creatures of the recency effect. I confess occasions where I toyed with entrepreneurs willing and even eager to jump on some nutty idea of my own suggestion at the expense of their own ideas. Educability is responding to new information, not reacting to it. If you sense that an entrepreneur is a reactor, not a responder, look elsewhere for your next investment.

Summary

Educability is a rare quality that demands a unique blend of tenacity, shrewdness, and decisiveness. Find an entrepreneur who can pull-off the often wrong but never in doubt trick, and you've found an entrepreneur worth putting some capital behind. Which, of course, means only that you are in the game, not that you will win it.

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