

Commandment One—Top of the List

Quit Taking Risks

“He that is overcautious will accomplish little.”

—Friedrich von Schiller

FOR MOST OF MANKIND FOR most of history risk aversion was the prevailing mood. Hunters and gatherers wandered far and wide, we presume, but after the agricultural revolution allowed people to settle down, most of them did so. People chose to live as their fathers and mothers and their grandfathers and grandmothers before them had lived, never venturing far from the village. And with good reason. It was a dangerous world out there. Just look at the old maritime maps with their ominous areas labeled “terra incognita”—territory unknown—sometimes embellished with even more threatening warnings, such as “Here be dragons.” Who would want to take a risk sailing into such places?

A few did, of course. But most people stayed home. Many things could happen to you if you took a risk, and most of them were probably bad.

Even today, much of the world in sub-Saharan

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Africa, parts of the Middle East, and parts of Southeast Asia is still mired in a risk-averse “Let’s-do-it-like-we-always-did-it-because-that’s-the-way-we-always-did-it” culture. The cycle of sameness is unbroken from generation unto generation, often in families and groups living in the deepest poverty.

America, on the other hand, has been from the very beginning about risk taking. From Columbus to Jamestown to the Second Continental Congress and Thomas Jefferson’s eloquent Declaration of Independence, this nation has been built on one risk after another. We are the descendants of tough, resilient risk takers who put everything, including their lives, on the line and survived almost insurmountable odds. Hector St. John de Crevecoeur wrote in 1782, “Here individuals of all nations are melted into a new race of men whose labours and posterity will one day cause great changes in the world. . . . The American is a new man.”

My own great grandfather Michael Keough was only eighteen in 1848 when he left Ireland and all alone took the risk to cross the “bitter bowl of tears,” as the Atlantic was called. Conditions on the ships were ghastly, with overcrowding, rats, filth, disease, and hard-bitten captains who cared little for their cargo. En route, bodies were tossed overboard or off-loaded at the first landfall. On the island of Grosse Île in Canada, thousands of Irish immigrants are buried in unmarked graves. Only

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the African slaves reached the United States in worse shape.

Those immigrants who did make it discovered that what awaited them was seldom the Promised Land, but a future of brutal dawn-to-dark work. My great grandfather found the only job he could get was lifting stone in a Pittsfield, Massachusetts, quarry, sixteen hours a day, one step above prison work. Nevertheless, this hard labor provided a little food and security and, because he soon married and had children, it's reasonable to think that Michael might have been tempted to settle down and stay in Pittsfield.

It's reasonable to think that because when you achieve something, even very little, there is the great temptation to quit taking risks.

It's human nature. I've got something. Why risk it? Who knows what's on the other side of the mountain? Don't go there!

I imagine my great grandfather heard such voices in his head and probably from some of the people around him in Pittsfield.

"Stay here. You've got a job. Lifting rocks is an honorable occupation. There are thousands out there who have nothing!"

But instead of settling into the known, albeit back-breaking, routine Pittsfield offered, Michael took a risk and migrated across half the continent in an oxen-drawn

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prairie schooner to a far-off land called Iowa. I'm glad he did.

His son, John, my grandfather, continued to expand the Iowa homestead, risking everything, year after year on crops that were subject to blizzards, dust storms, and grasshoppers. I remember being told that because there were so few trees on the property, grandfather had to drive a team of horses about twenty miles once a week to the Rock River, where he would cut wood, the only source of fuel. One day, he swung the ax and cut off his toe. He simply shoved the toe back on, bound it up with burlap, and finished his work.

The toe, the foot, and my grandfather survived—without antibiotics, I might add.

We in this country have a unique gene pool. Most of us come from a long line of remarkable individuals who boarded the boat when most other people stayed behind. Many didn't even get a chance to get to shore. And those who did survive the journey across the Atlantic or the Pacific (or the mountains or the prairies or the desert) were then rewarded with season after season of unbelievable hardship on farms or in building railroads or in dangerous and dirty mines and factories unimaginable today. In 1900, American families spent nearly twice as much on funerals as they did on medicine. Somehow they prevailed.

Against a background of overcoming challenges like

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those our ancestors overcame makes a day, any day, at the office a walk in the park.

Yet as our lives get softer and richer and more comfortable, the temptation to quit taking risks is so great.

It's one of the major diseases of success. It's easy to succumb, particularly as you get older. I don't mean age sixty. This disease can strike at age forty. You say to yourself, "I've been out on a limb all my life . . . worrying, losing sleep. Let somebody else do that now. I'm content with the status quo."

Some might conclude that the risk taken by the start-up entrepreneur who mortgages his house and everything else in order to try a new idea or even pioneer a whole new industry is the most difficult kind of risk to take. Four out of five new businesses fail. Most new products never make it out of the test market, and if they do they have only a one in thirteen chance of success. The National Federation of Independent Business Research Foundation estimates that after just five years only half of new businesses with employees are still operating, and many of those at a loss. It certainly isn't easy.

But equally difficult, and sometimes more so, is to undertake a risk from a position of substantial ongoing success—to undertake a risk when there is considerable evidence that it might not even be necessary. Today, there is a substantial amount of time and effort devoted

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to risk assessment from one perspective or another, ranging from the statistical odds of actual loss to the chances of running afoul of governance rules and regulations. I am not an expert in the science of risk assessment. In my experience, the main prerequisite for exploring the possibility of the need to take a new or greater risk was the unsettled feeling that things ought to be better, that the future was indeed in some jeopardy unless we took some action—even worse, that we were missing an opportunity. I would get very uncomfortable from time to time at The Coca-Cola Company whenever things seemed to be going awfully well. Like the Russians say, “Having things too good is also not good.”

I must have irritated quite a few people when, with considerable regularity, I’d go around asking our top people, “Tell me again why everything is so good. Isn’t there something more we ought to be worrying about today in order to make sure we have something else to worry about tomorrow?”

“The world belongs to the discontented.”

—Oscar Wilde

ROBERT WOODRUFF, the patriarch and real builder of the modern Coca-Cola Company, was fond of the Oscar Wilde admonition “The world belongs to the discontented.” He quoted it often.

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Coca-Cola was founded in 1886. In 1930, even with years of success behind it, Woodruff was discontented. He wanted to consolidate the then-fledgling foreign business and expand even further in the international market. Understandably, the board of directors thought it was not at all the right time for such adventuring. The stock market had just crashed in 1929. Germany and Italy and Japan were all rattling their sabers. Extreme uncertainty was the only certainty.

So what did Woodruff do? He did what today would raise eyebrows. But in those pre-SEC days Woodruff took an enormous personal risk. He circumvented the board, went to New York, and established the separate Coca-Cola Export Corporation. I can't imagine where Coke would be today if he hadn't done that. Certainly it would not be doing business in more than two hundred countries around the globe.

The Export Corporation was pretty much independent until about 1973. During those forty-three years the company's top domestic executives hardly ever interacted with international executives. Woodruff gave individuals he selected a ticket to a foreign outpost and some money and didn't see them again until they determined when and how a Coca-Cola business could be built. Communications around the globe were slow and erratic. The business had to be built on trust. That set a strong precedent and created an enduring international management philosophy for years to come.

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I remember being in Japan in 1964 with the man Woodruff had selected to found our business in that country. He would get all these memos and directives from the headquarters staff, glance at them, and most of them ended up in the wastebasket. He knew that he had the trust and support of management at the highest levels and that was all that mattered.

One other risk that Woodruff took during the 1930s was perhaps even more important than the move to expand in the export market.

As the Great Depression wore on to the depths of 1933, businesses were failing, the stock market remained down, a quarter of all able-bodied American men were flat out of work. Most experts agreed that prospects for renewed prosperity in this country were very dim. Yet against this bleak landscape, Woodruff raised the advertising budget for the company to \$4.3 million, a staggering record sum for the time.

We should all be pleased that he did because it was during the 1930s that the rosy-cheeked, chubby Santa Claus we all know and love was created by the artist Haddon Sundblom for a series of ads that ran every Christmas. Prior to these ads, Santa was a rather austere figure who looked like he would just as soon bring you a lump of coal for Christmas if you'd been the least bit naughty. Thanks to Woodruff's multimillion-dollar risk taking we all got a much kinder, gentler, cuddly Santa—and Coca-Cola sales soared.

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Over time, many, many successful companies have failed to take important risks at critical points, and they have paid a price. Some have merely stumbled and found later redemption, but quite a few have not only fallen but disappeared. In the 1980s alone, 230 companies disappeared from the *Fortune* 500. In fact, only 16 of the 100 largest companies that were around in the early 1900s are still with us. Who knows how many of the tombstones in the graveyard of capitalism should bear the epitaph "Here lies a company that died risk free."

Perhaps one of the most dramatic and widely studied business histories of risks taken, and subsequently risks not taken, is the well-known story of Xerox. It has a full measure of both triumph and tragedy.

Xerox's roots go all the way back to 1906, when it was known as the Haloid Company. As such, they had been successfully manufacturing photographic paper in Rochester, New York, for forty-one years when, in 1947, they took a big risk on a revolutionary idea that everyone else had passed up. Chester Carlson, a relatively obscure inventor from Queens, New York, had spent years trying to interest anyone in his "electrophotographic" copying. "Carbon paper works just fine," people said, and more than twenty companies, including IBM and General Electric, turned down Carlson. They greeted his invention with what he described as "an enthusiastic lack of interest."

Carlson eventually contracted with the Battelle

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Memorial Institute in Columbus, Ohio, to help refine his process. There Haloid found the invention and obtained a license to develop and market a copying machine based on Carlson's technology. A professor of classical languages at Ohio State University is credited with the term "xerography," derived from the Greek words for "dry" and "writing."

When I first came to know Haloid-Xerox, as they had been renamed, they were a moderately sized, rather stodgy firm. There was nothing pretentious about them. Their offices in Rochester had plain rubber-tile floors and metal desks and they were populated with engineers wearing plastic pocket protectors and earnest expressions. But there was an atmosphere of excitement about the place and a mood of passionate dedication.

Then in 1958, a decade after taking on Carlson's idea, a plain beige and brown metal box rolled off the pilot assembly line. It was the world's first automatic plain-paper copier, and when it was launched in 1959 as the Xerox 914, suddenly, in offices across the nation carbon paper became a quaint relic of bygone days. And a new noun, a "Xerox," and to the chagrin of their trademark attorneys a verb, "to Xerox," entered the global lexicon.

The 914 went on to become one of the world's most successful industrial products. More than two hundred thousand units were made between 1959 and 1976, the

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year the company stopped production of the 914. Today, the Xerox 914 is part of American history as an artifact in the Smithsonian Institution.

Xerox had grown to more than \$1 billion in revenue in less than ten years based on taking a risk on a single technology. Then they temporarily lost their way because they stopped taking risks—on their own inventions, no less.

They moved their headquarters out of Rochester to the more glamorous Stamford, Connecticut. The rubber-tile floors gave way to thick carpets and the metal desks were replaced with fine wood ones. Most of the people at headquarters were “box” guys. They had grown up and grown rich with the boxy Xerox copiers, and selling more copiers was how they saw the future unfolding.

Meanwhile, in 1970, the company had set up a research facility in Palo Alto, California. In 1973 the facility demonstrated the Alto. It was the first “personal computer,” with a graphics-oriented monitor with icons, overlapping “pages” on the screen, and a funny little thing called a mouse.

At that moment Xerox had at least a five-year head start over its future rivals. But the box guys at headquarters failed to take a risk. That, as I said, is one of the major diseases of success. Two others are complacency and arrogance. Engineers who finally left the Palo Alto Research Center to sign on with firms such as Apple and

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Microsoft complained that they couldn't even get the attention of the top managers in the thickly carpeted offices in Stamford.

By the late 1990s, Xerox had lost its leadership in copiers and was posting losses and announcing large layoffs. In 2002 the SEC charged the firm with accounting irregularities and several of its executives with securities fraud. As of this writing, however, Xerox is still with us, reinventing itself under new management.

Here we have a proud company, built on technological innovation, so swept up in its success with one kind of product that it completely failed to take a risk on new opportunities springing up within its own ranks, albeit on the other side of the continent. They ignored the simple truth that to create profits in the long term requires innovation in the short term.

Of course, the way forward will always generate some failures. Walter Isaacson in his wonderful biography of Einstein tells a story about what Einstein said he needed in his new office at Princeton: a desk or a table, a chair, some pencils, paper, and a very large wastebasket "for all the mistakes I will make." In business, you can make a good argument for mistakes like Steve Jobs's Lisa or Power MacCube because the highly creative Apple environment that spawned them also produced big winners like iPod and iPhone. You can even justify those mistakes that have become the folkloric case studies in how-not-to-do-it courses in business schools all

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over the country, such as the Edsel or 45 rpm records or even New Coke. These failures, for all the valuable lessons that they teach us in hindsight about management blunders, are simply risks that just didn't work out. Such miscalculations, costly though they might be at the time, are part of the price of staying in business. As Peter Drucker pointed out nearly fifty years ago, it is management's major task to prudently risk a company's present assets in order to ensure its future existence. In fact, if a company never has a failure, I submit that their management is probably not discontented enough to justify their salaries.

Xerox was not discontented in any way. They were very, very comfortable, and, as I've noted, when you're comfortable, the temptation to quit taking risks is so great, it's almost irresistible. And failure is almost inevitable.