



Failure University

Resilience in the face of failure is the secret ingredient that drives both Israeli and American entrepreneurs

THE IMPACT “Start-up Nation,” Dan Senor and Saul Singer’s bestseller about Israeli entrepreneurs, has had on Israel’s image all over the world is enormous. More than seven million copies of the book have been sold; and Technion-Israel Institute of Technology President Peretz Lavie reports there is now an endless, blessed stream of visitors from all over the world coming to the institute, where Israel’s high-tech industry was born in Professor Yitzhak Kidron’s microelectronics lab.

I am fortunate to meet and greet many of those visitors. Scholars, ambassadors, professors, students, they all want to know one thing – the recipe for cooking up their own start-up nation. They want to know the secret ingredient that generates armies of intrepid and creative entrepreneurs who build wealth, employment and growth.

I tell them stories about legendary entrepreneurs, like the late Efi Arazi (*The Jerusalem Report*, May 7). But as a management educator and innovation researcher for the past 46 years, I have learned that defining the one key start-up ingredient – the yeast that makes start-up bread rise – is elusive.

Perhaps, after an email chat with 58-year-old serial entrepreneur Dov Moran, I am a bit closer to finding the answer. The secret ingredient is the ability to deal with failure.

Writing in the business daily *The Marker*, Inbal Orpaz recently observed, “Every few years, Israel’s tech sector experiences a ‘Big Bang,’ in which an important company disintegrates and its employees, founders and

executives scatter in all directions. For the founders and investors, it’s a nasty shock; while for the employees, who are rudely thrust back into the job market, it means beginning a new chapter in their lives. Sometimes the trauma ends up being of immense value to the entrepreneurial environment.”

The failure of Modu is just such a “Big Bang.”

At noon on a chilly November day in 2010, Moran left the offices of Modu, the company he had founded and that made the world’s lightest, modular, touchscreen mobile phone, a tiny three-inch marvel, an early smartphone. Modu was broke. Its attempt to raise money by selling shares had failed. Apple’s iPhone had proved too tough a competitor. Some 120 talented workers were unemployed. “Good night, Modu,” wrote a blogger. “We’ll always remember you as the audacious underdog who had the brass to tell Nokia to say their prayers.” Moran later sold Modu’s key patents to Google and paid off his creditors.

AT 12:30 P.M., Moran walked to the nearby offices of his next start-up, Comigo, where a handful of Modu veterans were launching a new change-the-world idea. Moran had been unemployed for 30 minutes. And he was already at work, scheming about how his new idea would create new value for people everywhere. Far from being deterred by Modu’s failure, Moran’s alums competed fiercely for the right to join his new venture. (Comigo is developing smart set-top boxes that link TV with smartphones).

Moran made his fortune from an earlier exit. His company, M-Systems, invented the memory stick, also known as the thumb drive or disk-on-key and was acquired by global giant SanDisk for \$1.6 billion in January 2007. He didn’t need to put in the 20-hour days that start-ups require. But for Moran, like many Israeli entrepreneurs, it is not about the money. It is about the challenge of doing things others say are impossible, to change the world for the better.

Everyone knew no Israeli company could succeed in the field of mass-market consumer electronics. That did not stop Moran from launching Modu. When you tackle the near-impossible, you often fail, as Moran did with Modu. But entrepreneurs regard failure not as a graveyard, not as an end, but as a beginning, a school where you learn bitter lessons, make mistakes, and avoid them in the future. Failure, for Moran and other entrepreneurs, is a university. And, I have to admit, the Technion, where Moran studied electrical engineering and graduated in 1977, and the other Israeli universities, too, afford entrepreneurs a stellar education, but the “University of Failure” is where the cold steel of will and resolve is tempered.

Resilience in the face of failure is, I believe, the secret ingredient that drives both Israeli and American entrepreneurs. It is widely known that in Silicon Valley, when entrepreneurs pitch to venture capitalists, a track record of three failures is far more attractive to investors than a clean track record without them.

When addressing entrepreneurs in Israel



and abroad, I use the events to do some research. I often give them a list of a dozen factors thought to drive entrepreneurial innovation and ask them to assign points to each, reflecting their importance. Among Israeli entrepreneurs, the top two are: Resilience – the ability to recover from misfortune and failure, which heads the list; and Stubborn Persistence, a close second. Among Chinese entrepreneurs, the dominant driver by far is Desire for Wealth. Resilience is an also-ran. (Desire for Wealth is a distant sixth among Israelis).

Today, everyone talks about the “cloud,” the system of distributed computing running on computers linked by a network. But there is another cloud – one with a silver lining – the cloud of new start-ups that emerge from old failed ones. The Marker recently ran a graphic showing 15 such start-ups that emerged from the failed Modu’s employees and managers. Moran himself is running one of them, Comigo, as CEO, and has invested in others. They have names like Flayvr, Loopjoy, Vidmind, Onavo, GrabIt, Triapodi and Minit; and some, like Gammado, are headed by women.

I saw another such cloud in the office of Yehuda Zisapel, legendary founder and president of the RAD group. On the wall of his office is a chart with some 80 start-ups, all born directly or indirectly from the womb of the mother ship, RAD, shown at the center. The RAD cloud has concentric circles, with the outer start-ups launched from those in the inner ring, like ripples in a pond.

YEHUDA AND his brother, Zohar, started RAD, an early high-tech pioneer specializing in low-cost modems, with fierce single-minded focus. When a worker had an innovative idea outside of RAD’s core business, Zisapel encouraged him or her to leave and start a new business. Zisapel provided investment funds for some, mentoring for others. I’m now studying this amazing cloud of companies, many of which are located not far from RAD’s offices on Wallenberg St. in Ramat Hahayal, a northern Tel Aviv suburb. The RAD cloud is not a result of failure; but it is an ecosystem driven by a key mentor, Yehuda Zisapel, like Moran, low-key and soft-spoken, who inspires those around him to innovate.

Another instance of Failure U was recounted by current Minister of Economy, Trade and Industry Naftali Bennett. Last year, he told Technion students how he was informed, while on vacation with his family

in France, that a competitor had beaten his start-up, Cyota, to market with pioneering software. Instead of accepting defeat, Bennett and his team quickly changed direction, developed successful anti-fraud software, and then sold Cyota to RSA Security in 2005 for \$145 million.

Moran’s company, M-Systems, was acquired by SanDisk, founded by Israeli-born entrepreneur Eli Harari. Harari, too, is a graduate of Failure U. He told interviewers from the Computer History Museum that at age 43, he was kicked out of Waferscale, a company he founded three years earlier, after a dispute with its board. “It was an unmitigated disaster,” Harari recalled. “I was an also-ran.”

The ‘University of Failure’ is where the cold steel of will and resolve is tempered

Harari then went on to found and build SanDisk into the global leader in flash memory cards, with just-announced second-quarter revenues of \$1.5 billion and net income of \$262 million.

Here is what I learned from Dov Moran about failure, leadership, resilience, mentoring, and what drives the legions of Israeli entrepreneurs. He prepared the answers to my email queries during a long flight to Tokyo. He flew economy, a chance, he says, “to speak with his Comigo workers,” crammed into a narrow seat to show deep respect for investors’ money when he could afford to buy the whole airplane.

On start-up DNA – “What was different at M-Systems and Modu was the DNA of innovation – the constant desire to innovate, to talk about it with all the employees, to be excited by it, to let people raise all kinds of strange ideas and respect them for it, even if the company couldn’t implement them all. It is the understanding that many of the ideas will fail, but it is OK. It is the understanding that innovation is not just related to the product but to everything we do – hiring, finding partners, presenting at trade fairs. It is the crazy belief we can do everything – even compete with Microsoft and Apple. Most importantly, we strived to bring value, not profits. If you create value for your end customers and your partners, the company will prosper. If the CEO acts thus, it penetrates the deepest parts

of the company.”

Why did the group from Modu want to work with you again?

“You need to ask them. What they told me was they enjoyed working with me, so why not continue? There are active ex-Modu groups on Facebook and LinkedIn. For instance, recently there was a meeting of Modu alums arranged by Inbal Arieli at her new start-up. I am in touch with many of my former workers through email and Friday meetings. If I can help, I will invest my time and connections for them, or provide them with advice... although most are smarter than me.”

THAT LAST comment brought me another insight. In start-ups, egos destroy far more ventures than they build. A touch of humility goes a long way – and nothing fosters humility more than a Failure U diploma. As Eli Harari says, “It’s amazing what you can achieve if you don’t mind that somebody else gets the credit.” Dov Moran agrees.

On his dreams for future inventions – “I believe the medical world needs to move forward. Smarter medical devices, better medicine, closer monitoring. It may sound distant, but Comigo, which develops better TV/display operating systems, is tied to this vision. One of these days, we will hopefully merge the two. I hope not too far in the future.”

Before entrepreneurs even approach Failure U, they often serve long apprenticeships. After graduating, Moran spent seven years developing electronics for the Israel Navy and another five as an industry consultant. He launched his first start-up, M-Systems, in 1989, when he was 34.

How did Moran get the idea for the disk-on-key? In 1988, at a New York seminar, he failed to close his laptop computer properly, the battery was depleted, and he lost his entire presentation and notes just minutes before he was due to start. “I swore never again to be without backup,” he recounts and went on to develop the USB flash drive.

Many entrepreneurs invent things they themselves want and need. Often, the task is immensely difficult. Often, they fail. And often, they pick themselves up and try again. What we learn from Dov Moran and many others like him is that a diploma from Failure U is an entry ticket into the start-up Hall of Fame. ■

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