- Winston Churchill's line about democracy, that it's "the worst system, except for all the others that have been tried."

- The idea that entrepreneurship is a meritocracy is a myth. In the real world, money flows to the ideas that are the most convenient to find or the most familiar, not necessarily those that are the best.

- innovation today suffers from three major blind spots. The first has to do with how we pick new ideas, the second with where we find new ideas and who we invest in, and the third with why—why we invest in new ideas to begin with.

- We tend to look for innovation by investing in the people, places, and industries we know—

- The blind spot: we artificially separate our jobs and our careers from our values.

- I'll argue that when we integrate what we do with why we do it, we get better results.

- As one example: In 2015 and 2016, Wharton and Cambridge Associates released separate studies that illustrated how when investors integrate financial returns with a broader social or environmental purpose, the financial returns were as good as—or, in some cases, better than—those of traditional investment firms.

- When, in January 2016, I reviewed the industries of over 150 "unicorn" companies, I found that only 15 percent of the enterprises were solving problems in the top six areas that the majority of the world's population spends its budget on: food, health, energy, agriculture, financial services, and housing.

- third, outline some steps you can take in your own life to become aware of these blind spots and make a difference.

- As AOL cofounder Steve Case likes to say, America itself was once a startup—250 years

- It's much harder to make decisions, and take the time, to diligence a problem you've never faced, but it is the most important thing you can do."

- the states that voted for Donald Trump in the 2016 presidential election received only 15 percent of all venture capital in 2015.

- To finance the day-to-day operations of whaling voyages, the agents, investors, and ship captains developed a structure for who got paid what. At the end of a voyage, the crew would return to port with their whale fat, known as their "carry." The crew would get 20 percent of the carry, with investors retaining the other 80 percent. (Moby-Dick describes a spirited argument in which the crew negotiates about the "lay" they get after the voyage—the percentage of the carry.) Meanwhile, the captain would negotiate a percentage of the whole investment—say, 2 percent—to cover the cost of buying food and supplies for the crew. This "two and twenty" structure would eventually be copied and pasted for investing in startups.

- Because venture funds are under extreme pressure to deliver quick profits to investors, they prioritize short-term value capture over long-term value creation.

- Wilson wrote, “The goal of VC fund economics is to incent the partners to focus on carry and not on current cash compensation. . . . [The system] can break down as the dollars under management get larger and larger and the management fees turn into huge numbers. We have purposely kept USV small to avoid that. And I think that has been a good decision for us.”

- investors Dave McClure and Christine Tsai founded a group called 500 Startups in the Bay Area, which has launched $10 to $20 million micro-funds around the world (as 500 Luchadores in Latin America, 500 Kulfi in India, 500 TukTuks in Thailand, and so on). Instead of setting up a Mexico City, Bangalore, or Bangkok office, McClure and Tsai recruit local fund managers, seed their work with a small base investment,

- If you invest outside the hotbeds where everyone else is, and the company succeeds, on average you’ll pay 35 percent less to get the same end financial result.

- Many times, investors don’t understand the problems entrepreneurs are solving, because they don’t have the same experiences.

- How Short-Term Thinking Sets Us Up for Long-Term Failure

- Real generosity to the future lies in giving all to the present. —Albert Camus

- Most companies, when they talk about their “contribution to society,” mention their philanthropic work or their “corporate social responsibility” budget. Like Jane in the introduction, they have two separate pockets, one for business, and one for philanthropy. The problem with this model: the “philanthropy pocket” represents only a tiny fraction of the company’s resources.

- But as eBay founder Pierre Omidyar once said, “Giving back implies, at one point, that you were taking. We’re dissociating what we do from what we value, and it’s becoming very difficult to improve the world as a result.”46

- Public companies that trade in the global capital markets hold $200 trillion in wealth; trillions more are likely privately held. In the philanthropy world, the value of all of the charitable foundations in the world combined add up to less than $1 trillion—

- “Decisions are a combination of information and values.

- The psychological blind spot known as “moral licensing” may play a role here. This subconscious phenomenon allows us to give ourselves disproportionate credit for doing one good thing while ignoring other consequences of our behavior.

- In a 2014 study, Cambridge Associates illustrated how funds that intentionally integrated social impact and financial returns performed similarly in developed markets and outperformed in emerging markets.

- And a 2015 Wharton study showed that smaller funds that integrated purpose likewise outperformed those that didn’t.

- It’s not who you know, it’s who you get to know. —Chris Matthews, Hardball

- Bob understood that when you're investing where no one else is, you can outperform those who are following the same patterns.

- He understands that what's good for society in the long term and what's good for business in the short term do not have to be mutually exclusive. His investments are one-pocket.

- If I had an hour to solve a problem, I'd spend fifty-five minutes figuring out the actual problem, and five minutes on the solution. —Albert Einstein

- entrepreneurs turned out to be better forecasters of what ideas will be successful.

- In "Balancing on the Creative High-Wire," Berg investigated whether Managers (the ringmasters) or Makers (the circus performers who designed new feats) were more successful at predicting what acts audiences would like. Berg found that Managers were worse at spotting the best ideas; specifically, they were often poor predictors of which performances would be popular. "Pattern recognition" dictated that they would choose new acts based on what had worked in the past rather than on what audiences would want in the future.

- Makers never stop generating new ideas, which helps keep their minds open to novel ways to succeed. The Manager Mindset, on the other hand, encourages the Decision-Maker to sit back and evaluate ideas pitched to them, so they end up doubling down on outdated models of success. Makers are also more likely to respect constructive, honest criticism from fellow Makers, whom they know face the same struggles of going onstage every night and having to make an impression on the audience.

- When someone with a Manager mind-set looks at a new idea, they typically make what I'll call an assessment. They evaluate the idea with a series of yes/no questions, and identify all the reasons why it will fail. Is the team fully staffed? Is the idea profitable yet? Have they raised money from anyone else? Does this look like other things that have succeeded? If the answer to these questions is no, the idea is unlikely to go forward. So if you have a great idea but don't fit within anyone's assessment, you're sunk. A Maker thinks very differently about an idea, making what I'll call a forecast. The Maker looks at the idea and thinks of all the reasons why it will succeed. Whereas an assessment is an evaluation against a fixed framework, a forecast evaluates a probability that a certain outcome will happen. Instead of "Do they have the right team?" it's "How likely is it that with the right resources, they can build the right team?" Instead of "Do they have traction?" it's "How likely is it that with the right resources, they can get market traction?"

- Experts are great at figuring out how new ideas might fit into existing patterns (assessment), but they often stifle creativity regarding how ideas might work in the future (forecasting).

- Philip Tetlock's book Superforecasters

- He said he wanted entrepreneurs, not investment bankers, to find the entrepreneurs he'd invest

- Under the surface, they were asking themselves, "What do we need to do to get investment?" rather than asking us, "What do you think we need to do to be successful as a company?" The power dynamic was not helping the companies, and it was making our jobs as investors difficult. There had to be a better way.

- We designed a series of pilot programs in which we connected entrepreneurs who were trying to raise capital for their ideas with entrepreneurs who were already working full-time on their ventures.

- Over time, we have retooled the process to make it structured and transparent. Teams evaluate one another on two criteria: potential and return on investment. If I rank you well or poorly, the entire peer group can see the results.

- Yet when firms with women cofounders receive a first investment in their first two years of operation, we found that their revenue growth exceeds male-run companies even more—30 percent—and the entire fundraising gap is closed.

- Financial health: One in three people in the United States don't have a bank account, and 50 percent of Americans can't access $400 in an emergency. • Education: By 2020, two-thirds of jobs in the United States will require some amount of post-secondary training or certification. Today, only one in three Americans have reached this. • Healthcare: 20 percent of the US GDP is spent on healthcare, and the population is rapidly aging.

- Agriculture: We will need to produce as much food in the next forty years as we have in the last eight thousand years to feed a projected global population of ten billion people.

- David, as a CEO, had quit a two-pocket career to launch a one-pocket firm.

- Broader societal trends back up what I'm seeing at a ground level: 69 percent of millennials value the impact of their investments over their financial returns.63 Careers that represent one-pocket thinking, such as social entrepreneurship and impact investing (we'll discuss both further, below), are now top-five career choices for students from the best business schools.64 And 90 percent of millennials say it's important that their job has a purpose beyond just a paycheck.

- If you want to understand how the impact investing movement has grown, there are several great books on the subject. Antony and Jed Emerson, who pioneered the term "blended value" and was one of the early "one-pocket thinkers," coauthored a book called Impact Investing. Judith Rodin, CEO of the Rockefeller Foundation, provided much of the early funding for the movement; her book is called The Power of Impact Investing. A third book, Collaborative Capitalism and the Rise of Impact Investing, by Cathy Clark, Jed Emerson, and Ben Thornley, tells more of the background story, which is an often surprising clash of cultures:

- In innovation, it's better to be specific and wrong than vague and right.

- "I learned that the most important way to be happy is to codify who you want to be: What do you care about? And how can all aspects of your life—work, family, home—reflect that?" Kim recognized early on that the secret to happiness was one-pocket thinking.

- Do you wish to be great? Then begin by being. Do you desire to construct a high and lofty fabric? Think first about the foundations of humility. The higher your structure is to be, the deeper its foundation. —St. Augustine

- type 1 errors occur when you pick the wrong idea; type 2 errors happen when you don't ever look at the right idea.

- The VIRAL framework outlines nine levels that companies go through as they grow—what Tom Bird, a partner of ours, always calls "laps in a relay race." We've included this framework on pages 98–99

- Transparency empowers entrepreneurs and investors to frame the conversation at the outset. It changes the investor's framework from investment-worthiness—"yes" or "no"—to investment-readiness—"How ready am I to make an investment in this idea?" And the innovator gets three valuable pieces of feedback from the investor: 1. Here are your strengths and weaknesses as a founder. 2. Here is your level of investment-readiness, compared to where we invest. 3. Here are the questions that investors who invest at your current level will ask you, and that you should be prepared to answer.

- We now use the VIRAL framework to undergird the process. Entrepreneurs evaluate one another using the VIRAL categories, with their rankings made public, and entrepreneurs don't score themselves. So far we're seeing a 90 percent survival rate (compared to 50 percent in the average process), and seven times the revenue growth and additional capital raised compared to a control group.

- There are no shortcuts to avoiding type 2 errors; you have to invest the time in building the pipeline you want to invest in.

- The trait most strongly correlated with success was self-awareness. Let's say an innovator is disorganized, but she's aware of it. Or an entrepreneur is a jerk, and he knows it. Both are fine—and positively correlated with success. The second trait most correlated with success is whether a firm has a female cofounder. Based on the data, here's my top piece of advice to any guy starting a company: be more self-aware, and get a woman as a cofounder!

- We now use this data to replace the resume, which we think has no predictive power for a founder's success. To forecast the potential of founders across the board, Brittney developed a survey we call STAR (Startup Team Aptitude and Readiness) that we implement when we're screening for new ideas. Instead of asking for a "warm introduction" or looking at an entrepreneur's resume, we screen teams for personality traits that seem to tip off success.

- If you want to change the way you find and select ideas, and these initial thoughts are encouraging, I've put together some resources for you. Go to innovation-blindspot.com to learn more.

- Know what you own, and know why you own it. —Peter Lynch

- The real estate part of the pie chart would be affordable housing. The fixed income investment would be small business loans in groups like Scarlet's Bakery. The stocks would be in companies that created quality living-wage jobs in the communities. And the “alternative investments” would be in startup entrepreneurs.

- We decided to go with another strategy: royalty-based financing. This is a very common investment structure used in books, movies, and restaurants. The investor provides cash up front and then receives a share of the revenue. In Lula’s case, we invested $50,000, with a goal of receiving 5 percent of the company’s top-line revenue until we tripled our money. This style of financing is less risky than equity and has a higher upside than debt—and Fin Gourmet gets to retain ownership of the entire company.

- GroFin, a small-business investor in the Middle East and Africa, has invested nearly a billion dollars using a revenue-sharing arrangement.

- If you’re an entrepreneur, offering an investor a share of your revenue may be a way to get the cash you need now—and incentivize investors to help you increase your revenue rather than just flip your company.

- This “telephone” has too many shortcomings to be seriously considered as a means of communication. The device is inherently of no value to us. —Western Union internal memo, 1876 I think there is a world market for maybe five computers. —Thomas Watson, chairman of IBM, 1943 The horse is here to stay but the automobile is only a novelty—a fad. —President of the Michigan Savings Bank advising Henry Ford’s lawyer not to invest in the Ford Motor Co., 1903

- Other startups are trying to bring new people into the conversation as well, such as LaborX (“LinkedIn for the LinkedOut”), which assesses candidates at community colleges, and Pairin (a startup we have invested in), which identifies a candidate’s job talents and matches them with an open job, with an eye toward candidates coming from community colleges and looking for working-class jobs.

- Every corporation wonders how they’re going to avoid the Kodak problem—and find the next M-Pesa.

- Vision without execution is hallucination. —Thomas Edison

- A few years back we released a study at Village Capital about what Deloitte calls the “pioneer gap”: the paradox where early-stage innovators can’t find money while billions of dollars in “impact investment” can’t find ideas.

- We ultimately worked with PACE to design an innovative structure: PACE would make a grant directly to our fund so that we could resource the team appropriately, and we would keep private market management fees at 2 percent so that private capital would come in. With a $2.6 million up-front commitment, USAID unlocked $15 million that otherwise wouldn’t have come from the private sector into early-stage startups addressing global challenges. And we’ll be able to give over seventy entrepreneurs their first investment. The federal government—so often

- Just as companies recruit the best entrepreneurial talent, so should the country.

- Timing, perseverance, and ten years of trying will eventually make you look like an overnight success. —Biz Stone, cofounder of Twitter

- If you want a tactical tool, my brother Henry once taught me a simple formula to ask for help, called GVAP. In any interaction, you should have a GOAL, a VALUE you're proposing, an AGENDA, and PERMISSION. See innovation-blindspot.com for a GVAP template and a sample e-mail I've written to get you started.

- A decade ago, not many people were walking down the main streets of Detroit at all, let alone for a tour. But in the last few years, the city has seen an impressive resurgence. Unemployment has decreased from 28 percent to 6 percent, and there's been a 73 percent growth in new startups. And the FOC is perhaps the largest reason why.

- Detroit is coming back because it's working as an ecosystem rather than a collection of firms.

- Successful ecosystems create one-pocket thinkers in the process. "I hate the phrases 'nonprofit' and 'for-profit,'" says Dan. "I think of what we do as more-than-profit. People have a hard time understanding that when you do more than profit, you also make more profit. Not only are people here impacting things, they're better at their day job because they're impacting things."

- Investing in an ecosystem improves the pool of candidates for founders, early employees, and future angel investors. Investing in an ecosystem is less tangible than throwing your money and support behind one entrepreneur. But it's planting a forest you'll harvest over time, and remember: the second-best time to plant a tree is now.

- The most common version of an accelerator program will recruit ten founders to one shared working space and provide them with three months of mentorship and support—and possibly cash—in exchange for equity.

- People don't write books because they've got a great deal of wisdom to impart to somebody; they write books because they want to find the answers for themselves and share the search. It's not "I have a thing to tell you," even if you say it is. It's an exploration and a discovery. —Shelby Foote