LEADERSHIP LESSONS

WARREN BUFFETT
WALT DISNEY
THOMAS EDISON
KATHARINE GRAHAM
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INTRODUCTION

Leadership is a slippery concept. There are almost as many definitions of leadership as there have been leaders in world history; the descriptions range from General George Patton's bellicose "Lead me, follow me, or get out of my way" to the whispery counsel of the Chinese sage Lao-tse: "A leader is best when people barely know he exists. When his work is done, his aim fulfilled, they will say: We did it ourselves."

The confusion is appropriate. As this book will show, leaders come in so many flavors that no single description could cover them all. In real life, situations are always changing, and different circumstances call for new varieties of leadership. The traits needed in a battlefield commander may or may not be appropriate for a CEO fighting off a hostile takeover; what a volunteer has to do to run a support group for victims of gun violence can't be compared with what's expected from her sister, who heads high-tech development at a Silicon Valley startup. They're all leaders, but they will be judged by different standards.

Yet we all sense – rightly – that by studying successful leaders, we can learn useful lessons in becoming leaders ourselves. Almost surely, no readers of this book will be called on, as Warren Buffett was, to rescue a floundering investment-banking firm whose demise could have disrupted the whole world of finance. None of us will bet their business, as Katharine Graham did, to uncover a scandal that drives an American president to resign. But knowing what Buffett and Graham did in those crises, and how and why they did it, adds to our knowledge of the tactics and strategies available when we face our own lesser problems. Knowing how Thomas Edison dealt with deafness and his lonely childhood can inspire and help us to overcome our own handicaps. The late-blooming Ray Kroc never opened a restaurant until he was fifty-two, but that restaurant became the fast-food colossus McDonald's. So he can show us how he did it, and we, too, can persevere and win in the end.

Even within narrowly defined categories, leaders vary widely in talents, character traits, and individual styles. The leaders chosen to make up this book, five men and a woman, all operated in the wide field of business. But the lessons they teach can be antithetical, even contradictory. Buffett never made an investment without a margin of safety to protect him if something went sour, but Walt Disney repeatedly – perhaps compulsively – gambled his whole empire on ventures almost universally expected to fail. In deciding which example to follow, we have to be selective, assessing our own strengths and weaknesses honestly: Are you naturally cautious or do you have the guts of Disney and Graham?

In drawing the lessons each of these leaders offers, I have skipped a few obvious traits that all of them shared. All six, for example, persisted through obstacles and opposition but ended in triumph. In varying degrees, all were workaholic perfectionists who sweated the details. Like them, all of us will have to work hard and long and overcome hardships and our own shortcomings to have any hope of achieving great success. It goes without saying that tenacity and hard work are part of the dues that leaders pay. Luck plays a part, too. At key points, all six of our leaders benefited from lucky breaks. But they worked hard for that, too.

None of them conformed to conventional wisdom; all chose their own distinctive paths in life. It may dismay most parents to realize that four of the six – Edison, Disney, Kroc, and Steve Jobs – were dropouts from school. Most of them put their family lives second to their obsession with their work. Disney, Edison, and Jobs were singled out as harsh taskmasters and demanding bosses, but none of our leaders were easy to work for; of them all, only Buffett and Graham could actually laugh at themselves.

Just two of the group – Edison and Jobs – had a claim to the label of genius. They set out purposely to change the world by making things no one had imagined wanting, and they made it happen. Fortunately, as the rest of them prove, you don’t have to be a genius to be a winner: Disney and Kroc had a well-honed sense of public tastes and appetites; Buffett and Graham were smart, independent, and brave. But all of them changed history.

Few of us are geniuses. But we can all learn to analyze and understand the world around us. And if we see it clearly enough, with the help and through the eyes of these great leaders of the recent past, we can also begin to turn it to our own advantage. That’s another definition of winning and part of what sets real leaders apart. You can do it, too, and the purpose of this book is to help make that happen.

Good luck.

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WARREN BUFFETT

Every investor knows and reveres Warren Buffett - the Oracle of Omaha, the rumpled, plain-spoken financial genius whose talents and homespun precepts have made him one of the wealthiest people in the world. He avoids bubbles, whether in technology, housing, or complex financial instruments. Buffett's success, self-deprecating wit, honesty, and humble ways have made him a person we can all learn from and emulate.

Of course, all this comes with footnotes. Buffett is a complex, hard-driven striver. His folksiness, populist politics, and generous philanthropy hide a hard-eyed focus on the bottom line. He can be self-absorbed and even callous, and his personal life raises eyebrows. In his investing, he has said he is governed by three easy rules: One, never lose money; two, never forget rule number one; and three, never go into debt. Yet he has repeatedly broken all those rules – and more – in a career that has included learning (and often unlearning) dozens of tough financial lessons.

Emotionally abused as a child, Buffett has been physically timid all his life. He dreads confrontations. He has repeatedly avoided firing underperforming managers - only to be prodded to action when their losses inevitably mounted. His public image has waxed and waned - from expert to has-been to elder statesman - and he couldn't have cared less. When he topped *Forbes* magazine's list of the world's richest people (a status he no longer holds), he was still living in the Omaha house he had bought sixty years earlier. But the Buffett name has become magical: At last count, there are nearly 100 books purporting to draw on his wisdom.

Here, we'll follow Buffett's journey, from the years of the Great Depression to the pinnacle of his investment fame. And along the way, we'll assess his principles and precepts to see which ones can be applied by people who aren't Warren Buffett.

An Early Focus on Money

Buffett's father Howard, the son of an Omaha grocer, became a stockbroker for a bank in the Roaring Twenties. After the Black Tuesday crash of October 29, 1929, Howard went four months without making a single sale. His wife, Leila, would go along on his calls for moral support, waiting outside the homes of potential clients until her husband emerged to be consoled yet again. Warren, their second child, was born the following August. Within a year, Howard lost his job and his savings when his employer went bankrupt.

With little possibility of work and against all odds, Howard and two partners set up their own brokerage firm. They found customers and prospered by focusing on stocks and bonds in solid, conservative businesses. Thus, Warren's boyhood was never as bleak as that of many in the Omaha of the 1930s. Still, the hard times, dust storms, heat waves, and plagues of locusts left their mark. Warren grew up a cautious child with a steady, focused gaze. He kept his knees bent while learning to walk. And even from his preschool days, he was interested in numbers and money. When he was seven, he asked Santa to bring him a book - William Townsend's *Bond Salesmanship*. He read it, too.

Buffett's mother impressed her neighbors as a model of duty, sacrifice, and social virtues. At home, however, she lacked warmth, complained of frequent headaches, and subjected Warren and his big sister, Doris, to tirades of rage. Buffett reacted by seeking shelter at his friends' homes and drawing emotional support from their mothers. He also retreated to numbers and books - listing the license plate of every car that passed his house, for instance, or obsessively collecting coins, stamps, and bottle caps. A born skeptic, he always sought evidence to support any theory. During sermons in church, he passed the time by calculating the life spans of composers of hymns from the dates of their births and deaths listed in the hymnal. His hypothesis was that their faith should give them an advantage over nonbelievers. But when it turned out that their lives were no longer than average, he began to doubt. In later life, he would call himself an agnostic.

Precocious and competitive, Buffett skipped a grade in school and excelled at spelling bees and blackboard arithmetic contests. His favorite book was the *World Almanac*, and he memorized the population of every major city in the

United States.

He was six when he started his business career, selling packs of chewing gum for five cents each and earning a profit of two cents over what he paid his grandfather the grocer for his supplies. He went on to peddle Coca-Cola door-to-door, along with copies of *The Saturday Evening Post* and *Liberty* magazine. At ten, he got a job selling peanuts and popcorn at Omaha University football games.

After that, Buffett's father took him to New York, where he visited the New York Stock Exchange. He spoke briefly with the legendary investment banker Sidney Weinberg and had an epiphany when he and his father were taken to lunch in the members' dining room at the stock exchange. Their host ordered a customized cigar, picking leaves from a tray of assorted tobacco carried by a waiter, who then rolled the cigar. "I thought this is it. It doesn't get any better than this," Buffett told his biographer, Alice Schroeder. He vowed to become a millionaire by the time he was thirty-five.

The next year, having saved $120 from his enterprises, Buffett bought three shares of Cities Service Preferred - one of the conventional stocks his father favored - for $35 a share. Doris was his partner in the deal. When the stock sank from its earlier high of $38.25 to $27 a share, she was disappointed. When it recovered to $40, Warren sold for a $5 per share profit. But when the stock soared to $202 a share, he brooded over having been too quick to sell. He promised never to make that mistake again and also not to invest someone else's money unless he was sure he would earn a respectable return.

In later years, Warren Buffett usually managed to keep both those promises, but he sometimes had to maneuver adroitly to make investments come out on top.

Capital Magic

Buffett's father - a conservative Republican and no fan of President Franklin D. Roosevelt - ran for Congress in 1942 and won. The family moved to Washington, where Buffett continued his voracious reading, focusing now on biographies of famous businessmen. He made money by delivering newspapers and selling used golf balls retrieved from water hazards. The weekly income from his paper route alone was $175, at the time a good wage for a working man. At thirteen, Buffett filed his first income-tax return. He claimed a $35 deduction for the use of his bike and his watch on his paper route.

The next year, Buffett discovered the magic of compounded capital: an investment that churns out returns that can be reinvested over and over. He and a mechanically gifted friend bought an old pinball machine for $25. After the friend refurbished it, Buffett talked a neighborhood barber into installing it in his shop in exchange for half the proceeds. The machine paid for itself in its first week of service, and the boys soon had six more installed in other barber shops. From that time on, Buffett saw each dollar in his pocket as not one but ten - what it would become if he let it grow. That perspective permanently affected his attitude toward spending money. With few exceptions, he has been careful all his life. By the time he finished high school, Buffett's savings equaled $5,000 - more than ten times that much in today's dollars.

Opportunity, Buffett knew, is where you find it. If you don't try something, you can't succeed. Energy and initiative count as much as talent and luck. Winners win because they work hard and hold onto their money.

Buffett had also developed an interest in horse racing. Early on in Nebraska, the mother of one of his friends took both boys to the local track, where Warren discovered "stooping" - sorting among the trash, cigarette butts, and empty beer cups on the ground for winning tickets that had been carelessly tossed. (Some amateur bettors didn't realize that the apparent winner of a race had been disqualified or that there was a payoff for second-and third-place horses, too.) The boys picked up all the torn ticket stubs they could find, and sorting through them, found some winners. They were too young to cash them in, but the friend's mother took care of that.

In Washington, Buffett went on to learn about handicapping horses.

Characteristically, he did it to the point of obsession. He had his father borrow hundreds of books on horse racing from the Library of Congress, and he wrote off for several months' worth of back copies of the *Daily Racing Form*. He would look at a long-past day's races, practice handicapping the horses, and then pick up the next day's issue to see how his choices had actually done. Then he would start over with that day's races before pulling the next day's *Racing Form* from his pile. Testing his theories, he went to the racetrack with friends, betting $6 to $10 when the odds seemed in his favor. If he found a decidedly undervalued horse, he would risk more of his hard-earned, paper-route money. Unlike many bettors, he won more often than he lost.

In later years, Buffett would show the same concentration in picking investments. He would comb through months of *Moody's Manual*, a basic source of information on public companies, in search of undervalued stocks selling for less than the company's assets were worth. He would travel hundreds of miles to talk with executives or fellow investors who knew about a promising business.

Learning from the Master

Buffett studied for two years at the University of Pennsylvania’s Wharton School, but he didn’t enjoy it. In 1948, when his father lost his race for a fourth term in Congress, Buffett was ready to return to Omaha, transferring to the University of Nebraska in nearby Lincoln. It was there that he found the most influential book in his life, Benjamin Graham’s *The Intelligent Investor.* After graduation, he applied but did not gain admission to the Harvard Business School and instead went to New York to enroll at Columbia University’s Graduate School of Business. Graham was teaching a course there. He and one of his disciples, David Dodd, instructed Buffett in the basics of value investing: how to see stocks not as bets but as pieces of a business; how to use the stock market’s often irrational ups and downs as an opportunity to buy low and sell high; how to wait patiently to find stocks so undervalued that they provided an ample margin of safety in case their fortunes declined.

The concept of a margin of safety proved crucial in Buffett’s career. Time after time, companies he invested in stumbled. Nearly always he lost no money because he had bought them at a significant discount to their intrinsic value.

When Graham found an undervalued stock, he would quietly purchase enough of it to win a seat on its board of directors. At Columbia, Buffett discovered that Graham had done just that with an obscure corporation called GEICO, the Government Employees Insurance Company, becoming its biggest shareholder and board chairman. Intrigued, Buffett hopped a Saturday morning train to Washington, talked his way through GEICO’s door, and spent four hours learning the insurance business from the company’s financial vice president. It turned out that GEICO was built on low premiums, low costs, and low-risk customers with excellent driving records. But its true brilliance was its wise investment of the float, the premiums that piled up before customers filed damage claims. Using other people’s money to invest for his own benefit struck Buffett as an ideal way to do business, and he put three-quarters of his money into GEICO stock. He kept buying more and promoted the stock to his customers for years. Companies that piled up float would become the basis of his empire.

With a graduate degree from Columbia in 1951, Buffett wanted nothing more than to be hired by Ben Graham’s investment firm; he even offered to work without pay. But both Graham and Buffett’s father advised him to start his career elsewhere, so he went back to Omaha as a broker at his father’s company. He found plenty of promising investments, so many that he broke his rule against going into debt. He borrowed $500 from a bank to buy into them (since he wasn’t yet twenty-one, his father had to co-sign the loan). And all the time, he was learning the nitty-gritty lessons of dealing with customers, explaining his theories, and being put down for his youth.

Doing It His Way

Buffett could talk endlessly about business and investing, but he had no skills when it came to small talk, outside interests, or social graces. He dressed in anything that came to hand and a pair of ragged tennis shoes. Any kind of public speaking froze him with stage fright, and he struck out repeatedly when it came to dates with young women. By now, however, he had fallen in love with Susie Thompson, daughter of an Omaha University dean. In desperation, Buffett signed up for a Dale Carnegie course and began to learn basic ways to relate to other people. When Susie showed little interest in him, he courted her father, singing along with his ukulele while "Doc" Thompson played the mandolin. Eventually, Susie learned to see him as a talented but challenging man who would succeed only with a lot of support from others. Caring for people was her life-long vocation, and he became her primary case. When Buffett proposed, she accepted, and he won the weekly Dale Carnegie prize for the student in his class who had overcome the biggest challenge.

They married in 1952, and it was one of the best moves he ever made. For years, Susie dedicated herself to Buffett. She adjusted to his long, solitary hours of business study, beginning on their honeymoon. She struggled patiently to upgrade and update his wardrobe. She tolerated the fact that he would eat hardly anything except hamburgers, potatoes, peas, and ice cream. She bore their three children and taught them to cherish his sincere but sporadic affection. She made her own social life, collecting scores of needy souls and helping them through life. She put up with Buffett's frugality, living patiently in the stucco house he bought in 1957 for $31,500 - the house he still occupies - and wheedling increasing sums from him for her causes and later a vacation home in California.

When Buffett bought shares in The Washington Post Company in 1973, he became a business adviser to its famous publisher, Katharine Graham. Susie also put up with what became an apparent love affair - so obvious that, at one charity event, Graham tossed Buffett the keys to her house. Susie even wrote Graham a letter to say she didn't object to their relationship. And soon after that, Susie moved out of the Omaha house and began her own more discreet affair.

Susie introduced Warren to her friend Astrid Menks, who then began to look after him in Susie's stead. When his affair with Graham cooled and Menks moved in with Warren, Susie still remained his close friend and official wife. The arrangement was anything but conventional, but the three made no effort to hide it. Their Christmas cards were signed “Warren, Susie, and Astrid.”

Susie was only the first of Buffett’s women to assist him in every part of his life. His assistants were loyal and guarded his time and privacy. He enlisted a respected *Fortune* writer, Carol Loomis, as the decades-long editor of his smart, forthright annual letters to his shareholders. When he took up competitive bridge as his chief entertainment, he persuaded Sharon Osberg, a two-time national championship team winner, to be his mentor and partner. She flew to meet him almost every time he wanted to play in a tournament. And Menks, who sought no prominence, for years cooked his hamburgers and pork chops while he studied his papers, worked on his computer, and played Internet bridge games. Only when Susie died in 2006 did Buffett marry Menks.

It isn’t easy, of course, to make the world conform to your whims. Even Buffett sometimes had to sit down to Chinese or Japanese food, although he never actually ate it. At Kay Graham’s celebrated dinner parties, he eschewed the classic French fare for hamburgers and fries. Late in his life when his new friend Bill Gates took Buffett on a visit to China, Gates sent people ahead of them to teach Chinese chefs how to cook a hamburger to Buffett’s liking. He also managed to get Buffett’s copy of *The Wall Street Journal* delivered every morning.

Profits from Cigar Butts

In 1954, after three years as an apprentice stockbroker, Buffett received the invitation he had been waiting for: an offer to work for Ben Graham's firm in New York. "I felt I'd struck the mother lode," he said. He read all the files in Graham's offices. He remembered everything he read, and soon he became Graham's standout employee. His knack for racetrack "stooping" took a different form: spotting what Graham called "cigar butts," spurned and often failing companies whose stock sold for less than the companies' assets were worth.

Graham's approach was based solely on the numbers. He paid no attention to industry trends, management talent, or any intangibles that could affect a company's value. And for a long while, that suited his new apprentice. Tirelessly poring through dense financial documents at Moody's, Standard & Poor's, and the Securities & Exchange Commission offices, Buffett found some remarkable cigar butts. There was Western Insurance, a company whose stock was selling at just $3 a share in spite of the fact that it had earned $29 a share the previous year - the cheapest stock with the highest margin of safety Buffett had ever seen.

In 1956, Ben Graham announced his retirement. Buffett was offered a partnership in the firm. But if he couldn't work for Graham, he wanted to go out on his own back in Omaha. So he started a limited investment partnership, with $105,000 raised from family and friends. At the age of twenty-five, Buffett himself now had assets of more than $174,000. But as the fund's general partner, he put up only $100. The limited partners were promised a return of 6 percent annually, and they would split 75 percent of any further profit. Buffett would take the other 25 percent. He had found his own, thoroughly legal, way of using other people's money for his own profit, but his investors had no complaints. Over the next thirteen years, while the Dow Jones Industrial Average rose and (in five different years) fell, Buffett's partnership never had a down year and compounded investment dollars at an annual rate of 29.5 percent.

A Dropout from the Boom

As more people asked him to invest their money, Buffett formed more partnerships, eleven in all. In 1962, he merged them into a single venture, Buffett Partnerships Limited. By 1965, its assets had grown to $26 million. But four years later, with the stock market booming and undervalued stocks ever harder to find, he decided to liquidate. To go on, he told his partners, he would have to abandon the value investment strategy he understood and use tactics he had never tried and which he thought might end disastrously. The funds were distributed. The partnership had assets of more than $100 million; $10,000 invested in 1957 had grown in just twelve years to $260,000. Buffett's own portion was $25 million. He gave some of his ex-partners lessons in bond investing and referred others to investment counselors. A few said they would follow him into whatever he tried next.

In breaking up his successful venture, Buffett was heeding another Ben Graham precept: Stay within your "circle of competence." Buffett often broke that rule, mostly to his regret, but he stuck to it when it came to critical decisions. All through the high-tech bubble of the late 1990s, for instance, he was derided for turning down winners like Cisco Systems, Intel, and Microsoft. He replied that he didn't understand technology, and he wouldn't put money into anything he didn't understand. When the bubble popped, he was recognized as the Oracle of Omaha, whose homespun common sense had served him and his investors well.

One of the cigar butts that Buffett had picked up for his partnership was a failing New England textile company called Berkshire Hathaway. By his reckoning, its assets and cash flow were worth $19.46 per share of outstanding stock, but the market was pricing it at only $7.50. Buffett planned to take a majority stake, close down the company and pocket the profit. But when the local newspaper warned that "outside interests" were threatening to destroy jobs, Buffett, who dreaded being disliked, publicly promised to keep the business alive. That commitment proved to be a mistake. The textile trade was far outside his circle of competence. Berkshire's New England plant had already been outmoded by modern mills in the South, and the entire American industry was about to be decimated by cheap imports from Asia.

Berkshire Hathaway eked by on its cash flow, and Buffett found a use for the money by merging Berkshire with an insurance company, National Indemnity, which needed capital to grow. In turn, investing National Indemnity's float kept Berkshire profitable. But when the textile machinery wore out and had to be replaced, Buffett finally shuttered the business in 1968.

The corporate shell remained as a container and investment vehicle for National Indemnity and a growing number of businesses that Buffett had bought. And for whatever reason, he chose to use the Berkshire Hathaway name for the investment company he would build into a colossus after folding his partnership.

More mistakes would follow. Buffett formed a holding company to go into retailing and bought a Baltimore department store and Associated Retail Stores, a downscale women's clothing chain. He found that retailing was a difficult and cutthroat industry that demanded expertise in merchandising, well beyond his own financial circle of competence. His consolation was that Associated brought him Ben Rosner, a manager with Buffett's own level of energy and commitment. Rosner kept the profits rolling in until he retired, and then the chain collapsed without his leadership, and Buffett sold it off at a fire-sale price.

Perhaps most notably, Buffett would drop $383 million into USAir - another business he knew only from a distance. He had often talked of the pitfalls of the airline industry, which he said had piled up a combined net loss ever since its beginnings. From an investor's point of view, he quipped, it would have been better if someone had shot down Orville Wright at Kitty Hawk. But he was taken in by USAir's numbers: It had been returning 14 percent on equity and chalking up pretax earnings of 8 to 12 percent annually. Besides, what he was buying was convertible preferred stock yielding 9.25 percent, a conservative investment with what seemed a wide margin of safety.

As he confessed later, however, the deal showed "exquisite timing. As soon as the check cleared, the company went into the red." It took years for the investment to get back above water. Buffett's own belated understanding of the basic problem was that the airline industry is a commodity business plagued by brutal pricing wars. Nowadays, he says, whenever he is tempted to buy into an airline, "I have an 800 number I call and say, 'My name is Warren Buffett, and I'm an air-aholic.' They talk me down."

That kind of self-deprecating wit became another of Buffett's trademarks.

Whenever he makes a mistake, he is the first to admit it and claim the blame. After one underperforming year, he told stockholders that they would have been better off if he had stayed at home all year instead of going to the office.

A Kindred Spirit – and a New Idea

Warren Buffett's approach to investing was undergoing a sea-change. In 1959, he met Charles T. Munger, a man who would become his closest associate and lifelong business partner. At their first meeting over lunch with friends at the Omaha Club, the two spent all afternoon obsessively discussing business and investments. For years to come, they would spend hours on the phone every week, continuing the conversation. A lawyer in Los Angeles, Munger started his own investment partnership, and the two often bought into the same companies.

While Buffett had been influenced primarily by Ben Graham, Munger was a disciple of another notable investor, Philip Fisher. Fisher held that numbers alone weren't enough to evaluate a company - that good management, sustained growth, the quality of research and development, and other intangibles were what made companies great. Munger argued that Buffett should go beyond cigar butts and start looking for outstanding businesses. Slowly, Buffett came to accept that theory. In the end, he would say, "I'm 85 percent Graham and 15 percent Fisher."

He would use that thinking in buying more insurance companies, including Omaha National Indemnity and National Fire & Marine, both known for their financial soundness and aversion to conventional thinking – the all-but-universal habit that Buffett came to call the "institutional imperative" of running with the herd. He also bought a dozen other small companies in businesses ranging from furniture and shoes to jewelry and banking. In each case, he tried to offset his ignorance about the business by finding talented managers and letting them run their companies as they saw fit.

But Buffett and Munger still weren't above what Munger called "buying dollar bills for 40 cents." In the late sixties, they partnered in buying one more cigar butt, Blue Chip Stamps, a California maker of trading stamps. The stamps - distributed by supermarkets as premiums for their customers to paste into booklets and redeem for toasters and other prizes - were already relics of a lost era of thrift. In the long run, the business was as doomed as textile mills. But like insurance, stamps generated float in the lengthy interval between their sale to merchants and their redemption by customers, and the partners were sure they could invest those funds profitably. While Blue Chip slowly collapsed in a tangle of antitrust suits and dwindling sales, they used its float to buy two strong companies, See’s Candies, a West Coast producer and retailer of premium chocolates, and the *Buffalo News*, the dominant paper in upstate New York. In 1983, Blue Chip merged with Berkshire Hathaway, and Munger finally joined Berkshire full time, taking the position of vice chairman.

He is still Buffett’s alter ego. At the Berkshire annual meeting, attended these days by thousands of investors from around the world, the two sit together on the stage in straight-backed chairs, answering shareholders’ questions and finishing each other’s sentences. Munger is even more frugal and self-effacing than Buffett. Buffett enjoys being lionized at high-profile gatherings, which Munger shuns. Munger still flies coach, while Buffett indulges in his corporate jet. When Buffett sheepishly confessed at an annual meeting that he had yielded to temptation and bought a plane, Munger decreed that it would be named *The Indefensible*. Buffett’s guilt was relieved a few years later when he skipped another 1-800-airaholic call and bought the NetJets fleet of private planes, so he could sell *The Indefensible* and fly in time-shared luxury instead.

Staking a Claim to Greatness

Buffett made his first significant bet on the Fisher-Munger thesis in 1963 when American Express, then emerging as a financial titan with its ubiquitous credit cards and travelers' checks, hit a rough patch. One of the company's smallest subsidiaries, a New Jersey tank farm, got enmeshed in a scam when it vouched for the value of $150 million in soybean oil that turned out to be seawater. With lawsuits looming, the Amex stock price was cut in half.

Thinking like Fisher, Buffett reasoned that the company's true value was its brand. American Express stood for trust, and millions of people around the world took it for granted that the company would keep its word. As it happened, the scandal broke just as the assassination of President John F. Kennedy stunned the world, and American Express's problem was relegated to the financial pages. How badly had its image been tarnished? To find out, Buffett sent scouts to talk to travelers, bank officers, restaurants, hotels, and credit-card users. The reports he got were purely anecdotal, with no pretense of scientific polling. But Buffett concluded that the American Express brand was still strong and that the company would come through only slightly scathed.

With plenty of cash on hand, Buffett started buying Amex shares, both for Berkshire and on his own account. By June 1964, he had $3 million in stock. Soon, American Express was Berkshire Hathaway's biggest investment. When the company settled the lawsuits for $60 million, the stock price rebounded from its low of $35 to $49 a share. Buffett kept buying, having proved to himself that even though the stock was now expensive, American Express was an almost indestructible franchise. The upward trend in the stock continued, contributing heavily to Berkshire's remarkable record in 1965. Buffett had started the year promising to beat the Dow by 10 percent. The actual margin of victory was 29 percent, and he noted dryly in his annual letter, "Naturally, no writer likes to be publicly humiliated by such a mistake. It is unlikely to be repeated."

But Buffett was set on his new course. From then on, he has aimed at investing primarily in companies with a claim to greatness. In most cases, he holds out for a margin of safety, but in some cases, he considers the brand its own margin of safety.

From his days as a paperboy, Buffett had been interested in newspapers. More than once he said that if he hadn’t become a money manager, he would have taken up journalism. His friendship with Carol Loomis began in 1969, and it was Loomis who taught him the basics of professional journalism. On the theory that publishing could raise his profile and give him authority beyond the world of money, he began to study newspapers as obsessively as he had explored Graham’s cigar butts or American Express.

His first Berkshire Hathaway purchase in publishing was a chain of papers that included the *Omaha Sun*. The weekly *Sun* was an underdog to the daily *Omaha World Herald*, but it specialized in investigative journalism and competed by covering the crimes and follies of the city’s officials and prominent citizens. Buffett also took a small stake in *The Washington Monthly*, a liberal magazine whose editor, Charles Peters, had won a name for himself by digging up stories that embarrassed the national establishment.

A Pulitzer for the *Sun*

In 1973, Buffett heard from a friend about a looming scandal at one of Omaha's icons, Boys Town. Founded by Father Edward Flanagan, a priest dedicated to rescuing orphans and homeless boys, the refuge became world-famous in a 1938 Oscar-winning movie starring Spencer Tracy and Mickey Rooney. An enormous fundraising campaign expanded Boys Town, enabling it to nurture 1,000 boys on a 1,300-acre campus with a farm, vocational training facilities, and even a stadium.

But after Father Flanagan died in 1948, the boys became secondary to the enterprise itself. As the money rolled in and the staff expanded to more than 600 people, the number of boys in residence dwindled to 665 - carefully screened to rule out the delinquents, the mentally disabled, and the emotionally disturbed cases that Father Flanagan would have welcomed. The boys worked at menial jobs, lived under military-style discipline, and had little fun. Buffett saw all this as an embarrassment to his city and an abdication of fiduciary trust - but also as a story to be broken and one that would resonate nationally.

He first tried to interest Charles Peters in the story, but the fiercely independent staffers at *The Washington Monthly* wanted no tips from investors. So Buffett took it to the *Sun*, where editor Paul Williams knew a story when he saw one. It was Buffett himself who had the idea of tracking down the Boys Town income-tax returns and helped the *Sun's* reporters decipher the forms. They showed that the refuge had a net worth of $209 million, which was growing by $18 million a year, the excess of donations over expenses. In fact, Boys Town could have covered its costs with its investment income without raising a dime, but scores of professional fundraisers were hard at work year-round, all the while telling donors that the boys themselves were writing the appeals.

When the *Sun* broke the story, it was a national scandal, and Buffett encouraged Williams to submit the paper's coverage for the Pulitzer Prize. It faced tough competition: That was the year two young reporters for *The Washington Post*, Bob Woodward and Carl Bernstein, had exposed the inside story of the Watergate scandal that was to end Richard Nixon's presidency. But in the end, both papers won Pulitzers - the *Post* for public service, the *Sun* for local investigative reporting.

Investing in Relationships

That was both a thrill and a sizeable coup for Buffett, and it only whetted his appetite for more publishing businesses. He and Munger had previously tried unsuccessfully to buy the *Cincinnati Enquirer* and The *Albuquerque Tribune*, and Buffett had attempted to obtain *The New Yorker* magazine and half a dozen lesser trophies. Now he changed his approach, deciding to purchase a substantial stake in a paper he could never control – *The Washington Post* itself.

The *Post*, which had been owned since 1931 by the financier Eugene Meyer, became profitable under Meyer's son-in-law Philip Graham, who bought *Newsweek* magazine and several television stations to make the company a national presence in publishing. After Graham's suicide in 1963, his widow, Katharine, took over. Although she was inexperienced in business and uncertain about her own abilities, she would win fame for her courageous decisions. In 1971, the *Post* was just selling its first public offering of stock when she had to decide whether to defy the government and publish the *Pentagon Papers*, the purloined official State Department record of the war in Vietnam. Her attorneys and business advisors told her not to do it, but her editors implored her to break the story. She gave editor Ben Bradlee the nod. Weeks later, the Supreme Court backed her up.

The *Post* stock was in two classes, with the Graham family holding all the class A voting stock and Katharine Graham herself owning 50 percent of that. The B stock sold to the public could elect only a minority of the board of directors. It had risen as high as $38 a share after the *Pentagon Papers* triumph, but in 1973, when it fell to the low twenties, Buffett judged that it was severely undervalued. At first, when he told Katharine Graham that he had bought 5 percent of the B stock, she worried that he might somehow manage to take control of the paper. He soothed her by promising never to buy shares without her approval and by giving her son, Donald, the proxy to vote all of Berkshire's shares.

She quickly invited Buffett to join the board and began consulting him on many decisions. He advised against several proposed purchases of newspapers that he saw as overpriced, teaching her to use her capital instead to buy back *Post* stock whenever the market undervalued it. He supported her through the Watergate crisis when Nixon's minions tried to discredit the paper and weaken the company by challenging renewal of its television licenses.

Buffett and Kay Graham became friends and then more than friends. He relished the world of power and glamor that she introduced him to, and she soaked up his lore about business. Both were essentially shy people, for all their wealth and power. Both had endured emotionally abusive mothers, and for a while, their common tinder fed a fierce blaze. But even after the affair cooled, he remained close to her and Donald, whom he tutored in business and investment. When Don succeeded his mother as *The Post's* publisher, president, and CEO, he had Buffett's full support. Buffett classed The Washington Post Company as one of his few lifetime investments, a stock that Berkshire Hathaway would never sell. And over the years, his portfolio would benefit immensely as the stock trended upward. That long-term relationship ended in 2014, a year after Amazon founder Jeff Bezos bought the *Post* from the Graham family's holding company. With the newspaper gone, Buffett then sold his stake in the Graham holding company for cash and assets, including a television station, totaling $1.1 billion.

Rescuing an Old Friend

Buffett's next significant step took him back to his roots in Ben Graham's office: He bought a sizeable chunk of GEICO, his once and future favorite stock, and helped make it a winner.

Soon after starting his partnership, Buffett had sold his original holding in GEICO - not because he stopped liking the company, but because he was finding attractive deals everywhere and needed funds to invest in them. In 1975, however, he took another look at the company and was surprised at what he found. GEICO, which had originally prospered by insuring only safer-than-average government workers as drivers, then branched out to include good risks in the general population and thrived mightily. But with growth as its mantra and with the approval of its regulators, GEICO made the mistake of reaching out to blue-collar workers and drivers under twenty-one, whose safety record was a lot spottier, and underestimating the claims it would have to pay on their policies. In 1974, the company had to report its first underwriting loss in twenty-eight years. But its reserves for paying claims had fallen to just one-fifth of its total premiums, far below the traditional ratio of one to three.

Buffett tried to warn CEO Norman Gidden that GEICO was in danger, but found him, he said, "in deep denial. He really sort of hustled me out of the office and would not respond on the subject." The next year, GEICO had to suspend its dividend, and Gidden belatedly woke up and tried frantically to bolster reserves. With no additional capital available, the board fired Gidden and his top managers. Insurance regulators were investigating. The stock, which had traded as high as $61 a share, dropped to $2. Sam Butler, a Wall Street lawyer on the board, took over as acting CEO and brought in Jack Byrne, who had rescued the Travelers Insurance home and auto lines two years earlier.

For Buffett, this was a prime opportunity on par with the crisis at American Express. At that point, however, GEICO didn't have the strong brand of Amex, and his question was whether Byrne was tough and experienced enough to pull off the rescue. He asked Katharine Graham to arrange a meeting with Byrne. They talked for two hours, and Buffett decided that the charismatic Byrne was a born leader and promoter who understood the insurance business and could solve GEICO's problems. The next morning, he placed Berkshire's order for

500,000 shares of GEICO, with instructions to pick up millions more as stock became available.

Byrne still had to find a way to raise the necessary capital, and also to get reinsurers to back up GEICO's underwriting. By now, however, Buffett had become part of his own margin of safety: His growing reputation meant that the mere fact that he was willing to gamble on GEICO would reassure other investors. In 1969, his record had inspired an admiring article in *Forbes* magazine under the headline, "How Omaha Beats Wall Street." It noted that Buffett's partnership had grown at an annual compounded rate of 31 percent for twelve years without ever suffering a down year. And three years later, in his book *Supermoney*, the author George Goodman (under the pen name Adam Smith) portrayed Buffett as the all-American antithesis of the people on Wall Street who had perpetrated the boom and crash of the sixties. The book sold a million copies, and Warren Buffett became a financial legend.

As Jack Byrne tramped up and down Wall Street looking for buyers of $76 million in GEICO preferred stock to shore up his reserves, he trumpeted Buffett's large bet on the company. Even so, he found few takers. So Buffett himself lent a hand, approaching Salomon Brothers, the old-line bond house that had agreed to underwrite the deal. Both Salomon and its chief executive, John Gutfreund, were known as straight shooters - big players who put their clients' interests ahead of their own. Now Buffett told Gutfreund that if necessary, Berkshire stood ready to take the whole offering. When word of that fact got out (as Gutfreund made sure it would), there were suddenly more buyers than shares offered, and Buffett ended up with only 25 percent of the deal. A group of reinsurers quickly agreed to support GEICO, and soon the common stock had quadrupled, trading at $8 a share.

The battle wasn't over. Byrne still had to instill a new corporate culture, trim overhead, get rid of his riskiest customers, and raise GEICO's premiums to reflect its actual costs. But when New Jersey's insurance commissioner wouldn't allow a rate increase, Byrne reacted by canceling all GEICO policies in the state and furloughing 2,000 employees the next day.

GEICO pulled through, and Buffett kept buying the stock. By 1980, Berkshire Hathaway had invested $47 million in 7.2 million shares, which had risen to a market value of $105 million, giving him a paper profit of 123 percent. Buffett added GEICO to his list of permanent investments, a company he would never sell. And in 1995, after GEICO's market value had soared to nearly $5 billion, Buffett paid $2.3 billion for another 52 percent of the company, giving him overwhelming control. What's more, even though GEICO was far from undervalued, he wanted it so badly that he broke another of his longstanding rules and paid with Berkshire Hathaway's stock when the seller would take nothing else.

Saving Wall Street from Itself

In 1987, Buffett got a call from Gutfreund at Salomon Brothers. Salomon was being stalked by corporate raider Ronald Perelman, Gutfreund said, and Buffett quickly agreed to a deal. To help insulate Salomon, Berkshire Hathaway would buy $700 million of a new preferred stock, paying 9 percent interest. The preferred would be convertible to common stock at $38 a share, a $5 premium over the current price. Buffett thought it was a good deal. Although he knew little of investment banking, his margin of safety was the interest payments. If Salomon's common stock were to regain its 1986 high of $59, Berkshire's potential profit would be 88 percent.

Unfortunately, the precipitous market crash of 1987 hit Salomon along with other Wall Street firms. The common stock tumbled to $16 and took four years to battle back to $37, a dollar below the conversion price. Still, the margin of safety held: Buffett was collecting $63 million a year in interest and could afford to wait.

Then, at 6:45 a.m. on August 16, 1991, he got another phone call. Gutfreund had been caught trying to hide cheating by his firm's traders in the U.S. Treasury bond market. Gutfreund and Salomon's top managers were resigning under pressure. Salomon's daily operations gave it bigger obligations than any other company in the nation, $146 billion of debt, not counting hundreds of billions of derivative trades with counterparties all over the world. This tangled network was supported by just $4 billion of equity. The firm was in danger of imploding, a disaster that would shake the financial world to its core.

Now, with Buffett struggling to understand the problems, Gutfreund was asking: Would Buffett rescue the firm as Salomon's interim chairman?

This would be another venture far beyond Buffett's circle of competence, and he took some time to think it over, but he finally said yes. Once again exploiting his position as a Wall Street outsider and common-sense leader, he persuaded federal regulators to allow Salomon time to solve its problems. He and Charlie Munger vetoed a $35 million golden parachute sought by Gutfreund. Buffett installed as CEO the veteran Salomon executive Deryk Maughan, and he and Robert Denham, a corporate lawyer drawn from Munger's firm, were instructed to negotiate a $290 million settlement of Salomon's trading violations.

Over the next ten months, Buffett supervised the overhaul of Salomon's management, compensation structure and performance evaluations. He slashed bonuses and decimated Salomon's generous perks. He decreed a policy of full disclosure and cooperation with the Federal officials looking into Salomon's misdeeds, and he ruled out a public relations campaign to portray the firm in the best possible light. "It isn't that we're misunderstood, for Christ's sake," Buffett said. "We don't have a public relations problem. We have a problem with what we *did*."

When Buffett left the Salomon management the following June, Maughan was CEO and Denham was chairman. Salomon survived, and its stock price slowly recovered. On Wall Street and Main Street, Warren Buffett was hailed as a hero who had saved the financial world from disaster.

In 1994, Buffett showed his continuing faith in Salomon by buying 5.5 million shares of its common stock. And in 1996, he sold his entire stake to Travelers Insurance. The price was $9 billion, a tidy profit.

Finding a Sure Thing

In much the same fashion, Buffett found himself forced to intervene when one of his permanent investments, the Coca-Cola Company, stumbled badly. This time, however, he was not as successful.

When he first started buying Coke stock in 1988, it seemed to him the perfect company. The business was easy to understand, with Coke selling concentrate to bottlers and fast-food chains around the world. It dominated the soft-drink business and almost certainly would remain the leader. If he had to make a single investment that he couldn't change and then leave the scene for a decade, Buffett said, "I'd be relatively sure that when I came back they would be doing a hell of a lot more business than they do now." In fact, he liked to say, the brand was so strong that "a ham sandwich could run Coca-Cola."

When he started buying the stock, a ham sandwich had actually been in the driver's seat. Paul Austin, Coke's chairman in the seventies, had made a series of calamitous moves - alienating the bottlers, triggering an antitrust investigation, losing foreign markets, and making misguided attempts to diversify. Even so, the company proved Buffett's thesis by continuing to earn 20 percent on equity.

Finally stirred to action, the board had ousted Austin, replacing him with the talented CEO Roberto Goizueta, who was moving effectively to fix the problems. By the time Buffett started buying, pretax profit margins, which had slipped as low as 12 percent, were back in the range of 19 percent. The stock was by no means cheap, but it had taken a slight hit as Coke waged a price war with its rival Pepsi. Buffett began secretly buying at $38 a share. Because his moves now moved the market, the Securities and Exchange Commission gave him unusual permission to keep his purchases quiet for longer than usual. By the time he disclosed them in 1989, he had bought 14 million shares of Coke, more than 6 percent of the company, for $1.2 billion.

Goizueta invited Buffett to join Coke's board, and all went well for the next ten years. By 1998, Berkshire's stake in Coke had soared to $13 billion, and Buffett told his shareholders it had become "inevitable" - a cash machine that would continue producing profits forever. By his standards, the stock was now overvalued, selling at forty times earnings. Nevertheless, he made no move to cash in. He knew that if he began selling, that disclosure could decimate the stock price. But he also knew that sheer inertia had often saved him from mistakes; he made most of his money, he said, by “sitting on his ass.”

Watching It Falter

When Goizueta died of lung cancer in 1997, his handpicked successor, Doug Ivester, turned out to be another ham sandwich. The burly, likable Ivester had been credited with much of the company's success as its hands-on chief financial officer. But now he kept fumbling. He responded arrogantly, for instance, to reports that Coke products were poisoning children in Europe, and he fattened the payroll for ambitious projects despite falling sales. When the bottlers again rose in revolt, Buffett and another key director, the investment banker Herbert Allen, decided that Ivester had to go. Knowing that it would take them at least a year to win over a majority of the sluggish, complacent board, the two confronted Ivester in a private meeting. He chose to leave rather than be fired and abruptly told the board he was resigning.

The market reacted sharply to the graceless transition. Buffett was pummeled by writers now eager to find tarnish on his halo, and the value of Berkshire's stake in Coca-Cola dropped by a third. Over the next few years, Ivester's replacement, Douglas Daft, proved to be no improvement. Sales kept falling, and Coke stock, which had been in the $80 range, fell below $50 a share. When a whistle-blower accused the company of accounting fraud, Federal investigations took aim, and the stock fell to $43.

Finally, in 2004, Daft resigned, and the board discovered that he and Ivester had been exaggerating the company's earnings for years and hiding their misdeeds from the directors as well as from government regulators. The directors turned to Neville Isdell, a veteran Coke hand who had retired early after being sidelined by Ivester. And this time, the choice was right. Isdell settled a Justice Department investigation of Coke's managed earnings and began refurbishing the corporate culture. Profits rose steadily, and the stock recovered to $58 a share.

When Buffett left the board in 2006, Coke was again The Real Thing. It was "a damn good thing" that a ham sandwich could run Coca-Cola, Buffett mused, because "if it hadn't been that great of a business, it might not have survived." As for his and Allen's clumsy confrontation of Ivester and bypassing of the other directors, he told biographer Schroeder: "It was carried out badly, except that there wasn't anything better that we could have carried out. It was almost a disaster the way we did it, but if we hadn't, it would have been a disaster for sure."

Buffett would have to deal with similar crises in his other businesses. Most conspicuously, his $22 billion acquisition of the reinsurance giant General Re in 1998 almost immediately threatened to become a fiasco. In the complex field of insuring other insurers to cover their excess risks, Gen Re had had excellent results and built a solid reputation for judgment and integrity. Buffett thought so highly of the company that he bought it with Berkshire Hathaway's own stock, at a then-record price of $80,900 a share. But then it turned out that General Re's managers had been making mistakes and questionable deals, compounded by underwriting losses that were to total $8 billion. That was by far the biggest loss Buffett's company had ever suffered. By now, however, Berkshire had become so large that it provided its own margin of safety. Buffett could afford to be patient while he bolstered General Re's management and turned the business around, restoring it to profitability in 2003.

In all these crises, Buffett toiled to fix the problems and do what was right. In the Salomon case, his firm intervention saved the day. At Coca-Cola and General Re, solutions took longer to work out and came at a higher price. But each time, Buffett could fall back on his margin of safety, waiting out the problems until he found the right answers.

“Warren, What’s Wrong?”

Over the years, Warren Buffett’s public image would wax and wane, generally in tandem with the Berkshire Hathaway stock price. He never cared much about either. With Buffett, a falling price in a good security was just a buying opportunity. In 1969, when *Forbes* first profiled him as the shrewd hayseed in Omaha who was outperforming the Wall Street pros, Buffett had already bought a controlling stake in Berkshire Hathaway at prices averaging $15 a share. Ten years later, the stock had risen to $1,310 a share. Buffett, who by then had personal assets of $620 million according to *Forbes*, always resisted calls to split the stock and make it more accessible to small investors. In June 1998, with Buffett a national celebrity and the hero of the Salomon rescue, the stock hit $80,900.

But then troubles came. Berkshire’s biggest holding - Coca-Cola - was mired in problems, and the General Re acquisition soon would turn sour. Worse, Buffett stubbornly clung to his circle of competence, which was working against him. The vast high-tech stock bubble had been inflating for years, and Buffett had turned down winner after winner - from Microsoft and Intel to Cisco Systems and Amazon - repeating his mantra that he didn’t understand what they did, and he wouldn’t put his money in businesses he didn’t understand. As the millennium approached and Berkshire’s stock price fell, *Barron’s*, the Dow Jones weekly, put Buffett on its cover with the mocking headline, “Warren, What’s Wrong?”

He had gone from icon to has-been, but he insisted that the new image didn’t bother him. Successful investing demanded independent thought, he said; you weren’t right because people agreed with you, you were right because your facts and logic were right. But by January 1, 2000, Berkshire Hathaway was selling for just $56,100 a share. In February, a blogger posted a false rumor that Buffett was critically ill. Denials only fed the story. In early March, the stock was down to $41,300 a share, little more than its book value. *The Wall Street Journal* compared Berkshire’s performance - down 48 percent from its high - with the portfolio of a retired AT&T worker whose high-tech holdings had risen by 35 percent and concluded that the retiree “isn’t exactly Warren Buffett - thank goodness!”

Buffett hunkered down. In his annual letter to his stockholders, he graded himself a “D” for failing to find good investments for Berkshire’s capital. But he didn’t say he had been wrong to shun technology stocks. Instead, he offered to take any Berkshire shares his stockholders wanted to sell. That amounted to a judgment that the stock was now undervalued, and the offer immediately increased the share price by 24 percent. It wasn’t long before the NASDAQ index of technology stocks, which had soared above 9,000 points, began plummeting as the high-tech bubble collapsed. The index would fall by more than half before the damage was done. By the summer of 2001, more than $4 trillion in total stock-market value had been erased. And it wasn’t just high-tech stocks that had suffered. Buffett was now using the crash as an opportunity to buy undervalued companies, including Johns Manville, manufacturer of home-building products, and the paint maker Benjamin Moore. And once again, he was hailed as the wise man not taken in by false prophets. Berkshire’s stock took off, and it now trades above $200,000 a share.

Dodging the Biggest Bubble

The tech surge of the late 1990s would not be the last time Buffett was out of step with the markets. Under Alan Greenspan, the Federal Reserve saw almost every passing setback as a reason to slash interest rates and pump money into the economy. As the Federal budget turned from a modest surplus to an ever-rising deficit, the tide of low-cost money encouraged corporate and credit-card borrowers to splurge as well. Mortgage lenders tempted new homeowners with loans that both parties knew would never be repaid. Then the loans were packaged into derivative instruments, which got blessed with phony credit ratings and were then sold to large investors who believed - or pretended to believe - that derivatives actually spread risk and offered safety.

Buffett knew otherwise. As early as 2002, he called derivatives “toxic” and said they could touch off a catastrophic chain reaction of defaults. In his 2003 annual meeting, he famously labeled derivatives “financial weapons of mass destruction.” He forced General Re to unwind and shut down its derivatives business, and Berkshire stuck to its conservative ways all through what became the massive debt bubble of the decade. When it burst, good securities suffered along with the high flyers. Berkshire stock slid from its high of $140,000 to a 2008 low near $80,000 a share. Sure enough, that was another buying opportunity. After the bubble burst that year, triggering a crisis that threatened the whole financial world, Buffett was proved right yet again.

And Warren Buffett’s reputation as a straight-shooting sage and business statesman has only grown. In his early years, he hadn’t gone in for philanthropy. His role, he said, was to make money through compounded investments, and if he gave it away too soon, it couldn’t multiply for later donation. But in 2006, he announced a plan to give 85 percent of his Berkshire Hathaway stock - a stake then worth $37 billion - to a group of foundations. Eighty percent of the money would go in annual installments to the Bill and Melinda Gates Foundation, which Buffett considered a model of responsible philanthropy. The rest would go to foundations set up by his family members. But each installment had to be fully spent before the next would be given to make sure that the foundations didn’t simply perpetuate themselves.

It was an extraordinary gesture. Against all the traditions of philanthropy, Buffett was giving away his massive fortune without demanding anything that would immortalize his name. He wasn’t even trying to control the way the money was spent. Yet, characteristically, he was donating the cake and eating it, too. The annual installments meant he could keep investing most of his funds for years to come.

Billionaire for the Masses

Buffett was also endearing himself to liberal causes - and alienating conservatives - with his outspoken denunciations of the political power of money. He opposed President George W. Bush’s proposal to eliminate the estate tax, arguing that it would return America to the robber-baron era of the nineteenth century and sustain a plutocracy based on inherited wealth. He criticized the tax loopholes that had helped him prosper, pointing out repeatedly how unfair it was that his assistant paid a higher percentage of her income in taxes than he did. He denounced the army of lobbyists who ensured that Federal policies would support the rapacity of the wealthy, pointing out that no one was lobbying for “the other 98 percent” of Americans, let alone donating vast sums to re-elect compliant Congressmen. The campaign financing system was corrupt, he said flatly, and created “government by the wealthy, for the wealthy.” He crusaded against stock options and particularly against the accounting rules that falsely made options appear cost-free to the companies granting them. And he called Bush’s plan to reduce the tax on dividends “class welfare for the rich.”

“Millionaires are seething at Warren Buffett’s betrayal of their class,” wrote a conservative critic. Once again, Buffett didn’t care. He called for more government regulation of the markets and demanded auditors who would actually look out for the shareholders’ interests.

As Warren Buffett’s story shows, successful investing requires skill and strength of character. It also demands a tremendous amount of research and hard work, the basis for understanding the markets in every imaginable crisis.

In the chaos of the 2008 market crash, Buffett predicted with uncanny accuracy that Lehman Brothers and Merrill Lynch would follow Bear Stearns as targets for collapse. He said the Federal Reserve had no good options to protect the financial system and predicted that the recession triggered by the crash would turn out to be long and deep. On Berkshire’s behalf, Buffett himself was looking for undervalued stocks and stooping for cigar butts. He was even dabbling in derivatives, selling credit default swaps to protect investments that he considered underpriced. But he didn’t recommend trying to follow his example.

Over time, he said, sound stocks were the only real asset to be trusted. Whatever happened to debt instruments and the value of money, stocks in good companies would reflect real economic activity and intrinsic value. And in Alice Schroeder's biography, *The Snowball*, which he authorized but didn't try to control, Buffett added a final word of advice to ordinary investors.

"Don't think you can outsmart the market," he said. "Very few people should be active investors." The keys to success, he said, are to refrain from buying and selling at precisely the wrong times – as most investors wind up doing – and to avoid the high trading fees that eat up profits. What most people should want is a cross-section of industry that will do well over time. So in the end, the best route for most of us "is to buy a low-cost index fund and to buy it over time."

That's probably not the advice most investors want. But as Warren Buffett's story shows, you ignore his wisdom at your peril. And all of us can be grateful to him, both for his example and for his advice.

Lessons

Apart from that basic message, what can ordinary mortals learn from Warren Buffett's example?

Start early, and understand your goal.

If you didn't start your own business at the age of seven and decide to be a millionaire at ten, it doesn't condemn you to defeat. But an early start gives you a definite edge. Also, it doesn't hurt to be as bright and tenacious as Warren Buffett.

From early boyhood, Buffett was interested in money and numbers, and he drew his conclusions from the facts of any case - to the point where he began to doubt his religion when he figured out that the writers of hymns weren't blessed with longer-than-average lives. Be guided by your own talents and passions, but never forget that facts are all-important: Even in the stock market, reality rules in the long run.

Work hard and save your money.

Buffett never counted on windfalls or lucky breaks (although he got more than a few) to build up his stake. His success is based on energy, initiative, and dogged hard work. His boyhood newspaper delivery route meant getting up before dawn, folding the papers to be delivered, and riding his bike for miles in all kinds of weather to fling them onto front porches.

For all his love of private jets and being lionized, Buffett's frugality is the stuff of legend. Early on, he discovered the miracle of compounded capital and saw each dollar in his pocket as a potential $10 bill if he put it to work instead of spending it. He still spends long hours each day at work, searching out potential deals. He has lived in the same modest house for decades and would be happy to live on nothing but hamburgers, potatoes, peas, and ice cream, with just an occasional pork chop to ease the monotony.

For years, Buffett's charitable giving was equally limited. He saw his role as using money to make more money, which he would give away in due time, but not before he had made as much as possible. Sure enough, when he decided that the time had come and announced spectacularly that he was giving away the majority of his vast wealth, he did it in a way that allowed him to keep on controlling and investing the money for years to come.

You can never know too much.

Buffett's research is obsessive and endless. When young Warren began handicapping horses, he read hundreds of books on racing and sent away for old *Racing Forms* so he could hone his skills on past races. Working in Ben Graham's office, he read every document in the files and studied reams of statistics from obscure ledgers and reports. He traveled tirelessly to seek out the facts about companies that caught his attention. In every deal, he tried to get the edge in information about the companies and their industries – and he usually succeeded.

In any deal, the one who knows the most will usually come out on top.

Keep a margin of safety.

Be sure there's something to protect you if anything goes wrong. Buffett first learned how to pick sure things at the race track, when he and his friend stooped to scavenge winning tickets that careless bettors had thrown away. In Ben Graham's office, he learned to adapt that technique to find "cigar butts," failing companies whose stock was trading for less than their assets were worth. He went on to arbitrage, trading to take advantage of discrepancies in prices in different markets. Then he learned how to use other people's money for his own benefit, buying up companies such as insurers that generated surplus cash he could invest until it was needed to pay claims.

In Buffett's rescue of Salomon Brothers, he was breaking his strongest rule by investing in a business he didn't know much about, investment banking. But he had a hefty margin of safety in the 9 percent interest Salomon would pay until his convertible preferred stock could be exchanged at a profit. In addition, as with the deal to save GEICO, he had another margin of safety in his own growing reputation as a winner: Seeing him taking a hand, other investors would be likely to think he must be right and would help promote the stock to higher ground.

Look for great businesses, and be patient.

As Buffett told Berkshire Hathaway shareholders in one of his latest annual reports, Munger taught him decades ago that it's much better "to get a wonderful business at a fair price than to get a fair business at a wonderful price." He prides himself on buying into companies with a franchise so durable that, as in the case of Coca-Cola, it can survive even being run "by a ham sandwich." And when Buffett takes a stake in such a company, he often considers it a lifetime investment.

He is endlessly patient through market gyrations. He has made more money by sheer inertia, he says, than by most of his active moves. When he can't find a deal he likes, he will cheerfully do nothing. He broke up his first investment partnership because the markets had become too frothy for his liking. But these days, his investors have learned to be patient with him – and Berkshire's stock price reflects their confidence.

Never run with the herd.

In the late 1990s, when high-tech stocks were eclipsing everything else in the markets and seemingly everyone was chalking up profits from them, Buffett took scathing criticism for refusing to climb aboard the bandwagon. He shrugged it off. He might well be wrong, he conceded, but he knew nothing about technology, and he had learned never to invest in anything he didn't understand. Berkshire's price stagnated. Then it dropped almost by half, and some investors sold out in disgust. *Barron's* taunted Buffett with a headline: "Warren, What's Wrong?" But when the high-tech bubble burst spectacularly, he was vindicated – and proved right yet again when the financial crisis of 2008 showed that derivatives were just what he had called them, "financial weapons of mass destruction."

Warren Buffett is the modern-day epitome of Rudyard Kipling's Cat Who Walked by Himself. "Be greedy when others are fearful and fearful when others are greedy," he advised, and time and again he has profited from his own counsel. In recent years, he has been buying newspapers for Berkshire Hathaway, which now owns more than thirty daily publications. At a time when papers are struggling all over the country, rival investors believe that this time, Buffett has certainly gone mad. You may be thinking that, too. But he has done his homework and is serenely confident. Ask yourself: Do you have the courage to buy when everyone else is selling?

Own up to your mistakes.

Always the first to point out his errors, Buffett has won a reputation for candor, humility, and cheerful self-deprecation – not to mention wrenching triumph from the jaws of his disasters. After one memorable year when Berkshire failed to beat the market, Buffett told his shareholders that they would have been better off if he hadn't shown up at the office all year. Self-deprecation works: Shareholders chuckle and forgive him, confident that this year he will chalk up another winner.

Everybody makes mistakes, and you will, too. What's important is to recognize them, and what's even more significant is what you do to correct what's gone wrong (think of Berkshire Hathaway's textile business) and avoid repeating it. Even those hurt by your blunders will shrug them off if you produce enough winners in the future. And by showing humility, you gain loyalty and even affection as well as success.

Be willing to rethink basic strategies.

Following Ben Graham's precepts, Buffett made a fortune picking up his "cigar butts." But after he bonded with his kindred spirit Charlie Munger, Buffett saw the wisdom in Munger's advice that it was better to start with a good company in the first place and be along for the ride as the company became great. From then on, while Buffett would still stoop for the occasional discarded cigar, he was on the lookout for businesses with the market position, resources, and talented managers to rise to the top and stay there.

His great holding company, Berkshire Hathaway, amounts to a trophy case of Buffett's successes in spotting such companies. Its holdings have included the likes of Coca-Cola, GEICO, The Washington Post Company, BNSF Railroad, and American Express. These businesses can, and do, run into trouble from time to time. But the key fact about them is that they have the basic strength to solve their problems and regain their momentum.

Buffett's flexibility is one of his main assets: He is always learning. He is also willing – within reason and at the right time – to break his own rules for investing, including the basic precept of staying within his own circle of competence. But knowing what's reasonable - and when is the right time - is even more difficult. That's what makes Warren Buffett unique and why he's probably right that most people shouldn't try. Think hard before you ignore his advice to stick to index funds.

Remember, we can't all be Warren Buffett, but we'd all be better off if more of us behaved like Warren Buffett. And remember, too, he was doing that long before he became a billionaire, so it’s an example all of us can follow.

2

WALT DISNEY

Walter Elias Disney was only sixty-five when he died of lung cancer in 1966. But he played many roles during his relatively short life: artist, animator, entrepreneur, producer, entertainer, icon, family man, and philanthropist. He spurred the imaginations and shaped the childhoods of countless millions of children around the world, and he continues to do so today. He gave us Mickey Mouse (Disney himself provided Mickey's voice in the early days), Donald Duck, Snow White, and many other beloved characters and stories. He was an innovator, embracing technology as a tool to keep on making his products better. He won more Academy Awards than anyone else in history – he was the recipient of four honorary and twenty-two actual Oscars, including a record four in one year. Disney also won seven Emmy Awards, built Disneyland (which boasts more than 16 million visitors a year) and Disney World (which opened after his death and draws more than 47 million visitors a year). The Walt Disney Company, which he founded with his brother Roy, now grosses more than $55 billion a year.

But all was not happy endings and cartoon bluebirds in the Magic Kingdom. As is so often the case, genius is a complex equation, and there were shadows to Disney's carefully honed, folksy public persona. He was notoriously tough on his employees, anti-union, and often an arbitrary, hot-tempered, micro-managing, and even tyrannical boss.

There are far worse sins than being a tough taskmaster. Chief among them - confirmed by *The New York Times* after examining Disney's Federal Bureau of Investigation file: In 1940, he became an undercover spy for the FBI, charged with ferreting out communists in Hollywood. In the file, the names of those he gave to the House Un-American Activities Committee were blacked out, so we don't know who was harmed. But this was an ugly time - gifted artists saw their careers derailed and even destroyed because of their political beliefs - and Disney was part of it. He was also accused of being anti-Semitic. In 1938, he welcomed German filmmaker and Nazi propagandist Leni Riefenstahl to Hollywood. During that same decade, he went to Europe and met with Nazi and Fascist leaders, including Benito Mussolini, but most observers believe those meetings were an attempt to retain his toehold in the European market.

So this remarkable man, who brought so much joy into the world, also had an unsavory side. That might shock the children frolicking at one of his theme parks, but it should come as no surprise to adults. When someone is as talented, driven, and successful as Walt Disney, there are usually complications. As he himself put it, “I always like to look on the optimistic side of life, but I am realistic enough to know that life is a complex matter.”

And that’s just what makes Walt Disney’s story so compelling. It also, of course, contains a wealth of business lessons applicable in just about any field. Let’s take a look.

Opening Credits

Walt Disney came into the world on December 5, 1901, in Chicago, in the bedroom of a modest house his father had built. He had three older brothers; a sister, Ruth, came along two years later. His parents, Elias and Flora Disney, were of Irish-Canadian and German descent respectively, although the name Disney has French origins - a distant ancestor named Robert d'Isigny came to Ireland from France with William the Conqueror in 1066. Walt's father, who had an erratic employment history, moved the family to a farm in Marceline, Missouri, in 1906. It was there that Disney's artistic talent first asserted itself. A retired doctor who lived nearby spotted Walt's drawing talent and paid him to create a portrait of his horse Rupert. It was also in rural Missouri that he developed a passion for trains, ignited by the Atchison, Topeka and Santa Fe line that ran through town; he would put his ear to the tracks to listen for approaching locomotives.

In 1911, the Disneys moved to Kansas City, where Walt and Ruth attended the Benton Grammar School. A classmate who came from a family of entertainment buffs introduced Walt to the world of vaudeville and motion pictures, which had only recently gone from being viewed on individual Nickelodeon machines to being projected onto screens in theaters. Disney was fascinated by the silent movies and also by the way they enthralled audiences. And he was hooked on the Saturday classes he took at the Kansas City Art Institute. But the greatest influence on young Walt was Electric Park, an early amusement park only fifteen blocks from his home. In those days, amusement parks had not yet degenerated into the scruffy state most of them reached after World War II, and Walt and Ruth were dazzled and delighted during their frequent visits to Electric Park. It featured a train track that ringed the park, meticulous landscaping that framed the various rides and led visitors unobtrusively through all the attractions, multicolored lights focused on spouting fountains, and daily fireworks at closing time.

In 1917, the family moved back to Chicago after Elias became part owner of the O-Zell jelly factory. Walt enrolled at McKinley High School - he quickly became cartoonist for the school newspaper - and took night courses at the Chicago Art Institute. World War I was raging, and sixteen-year-old Walt quit school and tried to enlist in the Army, but was rejected as underage. Determined to be part of the war effort, he joined the Red Cross and was sent to France. The Armistice was signed on November 11, 1918, and Disney arrived soon after that and stayed for a year, driving an ambulance, as the shattered country recovered. He decorated his ambulance with cartoons, drew posters for the Red Cross, and sent cartoons to humor magazines back home. They were all rejected.

Laughing All the Way to Bankruptcy

After returning from France, Disney had no interest in going back to high school and his formal education ended. He knew what he wanted to do with his life, and it didn't include sitting in a classroom or working at his father's jelly factory. He moved back to Kansas City and, through his older brother Roy, found temporary work at the Pesmen-Rubin Art Studio, where he created ads for newspapers, magazines, and movie theaters. It was here that he befriended fellow cartoonist Ubbe Iwerks, the son of a Frisian immigrant who would come to play an oversized role in Disney's success. The two decided to start their own business.

And so in January 1920, at the tender age of eighteen, Walt and Ubbe founded Iwerks-Disney Commercial Artists. The orders didn't surge in, and Disney was forced to take a job at the Kansas City Film Ad Company, where he was soon joined by Iwerks. Their own company limped to its demise, which was a blessing for Disney and the world because it was at the Kansas City Film Ad Company that - while making crude, animated commercials using cutouts - he fell in love with the process and potential of animation: creating the illusion of motion by shooting a film one frame at a time, with images varying just enough to make the viewer see smooth action at several frames per second.

Disney resolved to become an animator, and the owner of the company lent him a camera to experiment with at home. An obsession took hold - Disney read everything he could find on the subject and became convinced that drawings on celluloid would produce far better results than cutouts.

In those days, going to the movies was a distinctly different experience than it is today. The phenomenal success of the young medium had led to the construction of ornate movie palaces designed to lure people in with a taste of elegance and the exotic, and most of these theaters showed double and even triple features. Between films were cartoons and newsreels. Times were flush for the film business: It had few competitors and millions of customers who couldn't get enough of smoldering stars and funny cartoons.

In May 1922, Disney raised $15,000 from local investors and opened his own animation studio, called Laugh-O-Gram Films, staffed with Iwerks and other gifted pioneers of the animation arts. The company quickly signed a contract with a local theater owner to produce six cartoons based on popular fairy tales, including *Little Red Riding Hood*, *Jack and the Beanstalk*, and *Goldilocks and the Three Bears*.

Disney's Laugh-O-Grams proved to be popular, and the studio has earned a place in animation history. It provided Disney, just twenty-one years old, with the inspiration for his most enduring creation. Here's how he told it: "They [mice] used to fight for crumbs in my wastebasket when I worked alone late at night. I lifted them out and kept them in wire cages on my desk. I grew particularly fond of one brown house mouse. He was a timid little guy. By tapping him on the nose with my pencil, I trained him to run inside a black circle I drew on my drawing board. When I left Kansas to try my luck at Hollywood, I hated to leave him behind. So I carefully carried him to a backyard, making sure it was a nice neighborhood, and the tame little fellow scampered to freedom."

Disney's departure was also forced. Even with the orders for the fairy tales, expenses were high, and Laugh-O-Gram Films had trouble breaking even. By the end of 1922, Disney was living in the office and taking his weekly bath at Union Station. In July 1923, after making one last picture - a live-action/animation hybrid titled *Alice's Wonderland* - Laugh-O-Gram was forced to file for bankruptcy. Undaunted, Disney sold his camera and bought a one-way ticket to Hollywood, the new home of the burgeoning film industry. As he later said, "You may not realize it when it happens, but a kick in the teeth may be the best thing in the world for you."

Next Stop: Hollywood

Soon after arriving in Los Angeles, Walt Disney and his brother Roy pooled their resources and opened Disney Brothers' Studio. They formalized an arrangement that was the foundation of all that was to come and that remained in place until Walt's death: Roy took care of business, leaving Walt free to dream and create. To help make his vision a reality, Walt brought out many of the animators who had worked with him in Kansas City, including Iwerks. The studio was on Hyperion Avenue in the hilly Silver Lake district of Los Angeles, where it remained until 1939. Historian Neal Gabler, in his biography of Disney, described the studio as "not a particularly prepossessing place, situated among wild oats and abutting a pipe organ factory and a gas station." The location may have been unexceptional, but the work that was done there made movie history. Today, a Gelson's supermarket sits on the site, graced with a Disney historical marker on the sidewalk in front of its parking lot.

Using *Alice's Wonderland* as their calling card, Walt and Roy Disney looked for a distributor; they hoped that the film would become the basis for a series of shorts called *Alice Comedies*. They soon heard from New York distributor Margaret Winkler, who ordered a number of *Alice Comedies.* At the age of twenty-two, Disney was on his way to establishing himself in Hollywood.

In 1925, the studio hired a young secretary named Lillian Bounds. She had grown up in Idaho, on the Nez Perce Indian Reservation, where her father worked as a blacksmith and a U.S. marshal. An independent and adventurous young woman, Bounds had moved to Los Angeles on her own to make a life for herself. She was small and stylish, and she quickly caught Disney's eye. And no doubt he caught hers - photos of him from this time show a confident young man, already sporting the mustache and combed-back hair that would become his trademarks. Appropriately enough for Los Angeles, their early courtship blossomed in a car. Being a gentleman, Disney was in the habit of driving female employees home after work, and Bounds noted that he took the other young women home first, even though she lived closest to the studio. Disney and Bounds married later that year in Idaho. From all accounts, theirs was a happy marriage. Their daughter, Diana, was born in 1933, and they adopted a second child, Sharon, in 1936.

Alice Comedies proved reasonably successful, but Disney's passion was focused on animation. He believed he had discovered the universal language of delight, saying, "Animation offers a medium of storytelling and visual entertainment which can bring pleasure to people of all ages everywhere in the world." With each *Alice Comedies* installment, the animation gained more and more screen time, gradually eclipsing the young actresses who played Alice. Soon Disney was ready to leave live action behind; he became convinced that the path to greater success lay in developing a captivating cartoon star. He and Iwerks came up with Oswald the Lucky Rabbit, a good-natured, intrepid Everyrabbit who conquers adversity with ingenuity. The first Oswald cartoon was *Trolley Troubles*. The sheer exuberant delight that Disney and Iwerks took in the animation itself is apparent in this five-minute smile fest, as is their growing virtuosity with the medium.

Then Disney hit an obstacle, one that shaped and hardened his attitude toward business for the rest of his life. Margaret Winkler - Disney's New York-based distributor - married a man named Charles Mintz, and he took control of her business. *Oswald the Lucky Rabbit* was an instant success with audiences across the country, and Mintz ordered more. Meanwhile, he had also cut his own distribution deal with Universal Pictures. The Disney Studio expanded and hired additional animators to meet the demand.

In February 1928, Walt Disney traveled to New York to negotiate a per-cartoon fee increase with Mintz. He was blindsided when Mintz told him he was going to reduce Disney's fee instead. Mintz went on to explain that he had secretly put most of Disney's animators (but not the loyal Iwerks) under contract and would open his own studio if Disney didn't accept his terms. Since Universal, not Disney, owned the Oswald copyright, it could make the cartoons without Disney. Outmaneuvered, Disney angrily rejected Mintz's terms and found himself with neither his rabbit nor most of his animators. At the age of twenty-seven, he learned a painful lesson about business, and he never lost control of his product again. (The ever-tenacious Disney tried to regain rights to the Oswald character over the years and, in 2006, forty years after Walt Disney's death, the company finally did.)

Who Needs a Silly Rabbit?

Once again, Disney turned adversity to his advantage. As he said later, “I have been up against tough competition all my life. I wouldn’t know how to get along without it.” Wasting no time on the trip back to California after his meeting with Mintz, Disney started to sketch, and one of the most iconic characters in history appeared: “He popped out of my mind onto a drawing pad . . . on a train ride from Manhattan to Hollywood at a time when the business fortunes of my brother Roy and myself were at lowest ebb and disaster seemed right around the corner.” When Disney showed the drawings to his wife and told her he was going to call the little rodent Mortimer Mouse, she said that was “too pompous” and suggested Mickey instead.

Iwerks tweaked Disney’s original Mickey to make him easier to animate, and Disney developed his personality and supplied his voice. In the words of one Disney employee, “Ub designed Mickey’s physical appearance, but Walt gave him his soul.” After a couple of silent Mickey cartoons failed to catch fire, Disney added sound, and Mickey made his true debut in November 1928 in *Steamboat Willie*, the first synchronized-sound cartoon.

Mickey Mouse was a wild success; the American public fell in love with him. Adorable, luckless, resourceful, mischievous, and cheerful, the little fellow struck a chord on the film’s release and later as the country struggled through tough economic times. In his book *The Disney Version: The Life, Times, Art and Commerce of Walt Disney*, film critic and historian Richard Schickel writes that Mickey was “a symbol of the unconquerably chipper American spirit in the depths of the Depression.” The lovable mouse went on to appear in more than 130 films - both shorts and feature-length - that garnered nine Best Animated Short Film Oscar nominations and one win. Mickey’s stories also spawned a passel of spinoff characters including Minnie Mouse, Donald Duck, Goofy, and Pluto. Within a few years, his popularity had spread around the world, with Disney saying, “Laughter is America’s most important export.”

Today, Mickey remains the heart and soul of the Disney empire, the little mouse who symbolizes good-natured fun and has given rise to countless stuffed toys, costumes, hats, figurines, ad infinitum. In 1978, Mickey became the first cartoon character to have a star on the Hollywood Walk of Fame. As Walt Disney was fond of saying over the years, “I only hope we don’t lose sight of one thing - that it was all started by a mouse.”

Disney’s Folly

Disney’s next significant project began in 1929 when he inaugurated the *Silly Symphonies*, a series that began as musical novelty cartoons; over the years the role of narrative increased in the films. This evolution foreshadowed Disney’s greatest cinematic successes. As he put it, “We keep moving forward, opening new doors, and doing new things because we’re curious, and curiosity keeps leading us down new paths.”

The first *Silly Symphony* was the delightfully macabre *Skeleton Dance*. In the summer of 1932, Disney released the first Technicolor cartoon, *Flowers and Trees*. While he had been anthropomorphizing animals for years, this cartoon gave human characteristics to flowers and trees. It is a sheer wonder of early animation, all in splashy Technicolor. It’s hard to imagine the awe of its first audiences, who had never seen color film before.

Then, ten months later, came the cartoon that changed everything. *Three Little Pigs*, while musically based, was a true narrative film, with a plot, suspense, and differentiated characters. Just eight minutes long, it was a box-office sensation, playing for months all over the country and then the world. Its song - *Who’s Afraid of the Big Bad Wolf* - became America’s de facto national anthem as the nation struggled through the lingering Depression.

Always pushing boundaries, Disney used the *Silly Symphonies* to experiment with new techniques, special effects, character development, and narrative. As he said, “I take great pride in the artistic development of cartoons. Our characters are made to go through emotions which a few short years ago would have seemed impossible.” While these advances improved the *Silly Symphonies*, Disney had his eyes on a larger goal - he was determined to make the first full-length animated feature. In the meantime, Disney’s innovations were widely praised within the film industry, and the *Silly Symphonies* - there were seventy-five in all - won seven Academy Awards.

For his first animated feature, Disney chose the fairy tale *Snow White*. There were many naysayers in the industry who predicted that audiences wouldn’t embrace a feature-length cartoon, and the project became known as “Disney’s Folly.” Even Roy Disney and Walt’s wife, Lillian, were skeptical, in no small part because of the time and money it would take to get the film made, one elaborate frame at a time. But Disney was undeterred, and *Snow White* went into production in 1934. Disney had planned to direct, but after a *Silly Symphony* he directed was viewed as sluggish, he wisely bowed out; instead, he produced the film and acted as creative overseer. *Snow White and the Seven Dwarfs* proved to be a monumental undertaking, requiring 2 million hand-drawn frames and costing nearly $1.5 million, a colossal sum in those days. Three years into production, with the film still unfinished, the studio ran out of cash. Loan officers at Bank of America, after seeing a rough cut, put up the money Disney needed to complete it.

Snow White and the Seven Dwarfs premiered on December 21, 1937, and at the end of the screening, the audience rose and cheered. It went on to become the highest-grossing picture of 1938, earning the equivalent of over $125 million in today's dollars. The film won an Honorary Oscar "as a significant screen innovation which has charmed millions and pioneered a great new entertainment field." Ten-year-old screen idol Shirley Temple presented Disney with one full-size Oscar statuette and seven miniature ones. The film's signature tune, "Some Day My Prince Will Come," has become a standard, and the American Film Institute named Snow White the greatest American animated film of all time and the thirty-fourth greatest American film overall. In 1989, the movie was added to the United States National Film Registry, being deemed "culturally, historically, or aesthetically significant."

Roy Disney showed his leadership and creativity by making pioneering licensing deals that had *Snow White* merchandise in stores on the day the film opened. Americans scooped up figurines, lunchboxes, costumes, and other ephemera. Within five years, Disney was selling more than $100 million a year in merchandise as one of the world's greatest and most enduring brands took hold.

Doubling Down

Building on his success, Walt Disney moved Disney Studios to a new campus in Burbank and ushered in what has been called the Golden Age of Animation. While the studio continued to roll out its ever-popular cartoon shorts, three features were also put into production: *Pinocchio*, *Fantasia*, and *Bambi*.

Pinocchio was based on a popular nineteenth-century Italian children's book about a wooden puppet brought to life by a fairy who tells him he can become a real boy if he proves himself "brave, truthful, and unselfish." Pinocchio sets off on a series of misadventures that end, of course, happily. Released in February 1940, *Pinocchio* proved to be a box-office disappointment; the sadness and terrors of the puppet's predicaments made too many children weep. Although it won Oscars for Best Score and Best Song ("When You Wish Upon a Star"), Disney was disheartened by the initial response. Pinocchio, however, had staying power - in re-release, it went on to become a perennial favorite.

In November 1940, just nine months after *Pinocchio*, Disney released *Fantasia*, a movie so groundbreaking that it can almost be called experimental. *Fantasia* is made up of eight animated segments set to pieces of classical music performed by the Philadelphia Orchestra and conducted by the great Leopold Stokowski. Each piece is introduced by the composer and music critic Deems Taylor in a live-action segment.

Fantasia grew out of a *Silly Symphony* short entitled *Sorcerer's Apprentice*, which starred Mickey Mouse. As Disney recounted, "I was doing *Sorcerer's Apprentice* with Mickey Mouse, and I happened to have dinner with Leopold Stokowski. And Stokowski said, 'Oh, I'd love to conduct that for you.' . . . Well, that led to not only doing this one little short subject but . . . all of *Fantasia*, and before I knew it I ended up spending four hundred and some thousand dollars getting music from Stokowski. But we were in it then, and it was the point of no return. We went ahead and made it."

In his endless quest for technological innovation and a better audience experience, Disney had his engineers develop Fantasound, a breakthrough stereophonic sound system, the precursor of today's surround sound. Fantasound marked the first use of concurrent multi-track recording and overdubbing of orchestral parts. The result: The viewers felt as if they were sitting in the middle of the orchestra. In 1942, Disney was awarded an Honorary Oscar for "outstanding contribution to the advancement of the use of sound in motion pictures through the production of *Fantasia*."

When it opened, *Fantasia* dazzled most critics: *The New York Times* raved that motion-picture "history was made last night . . . Fantasia dumps conventional formulas overboard and reveals the scope of films for imaginative excursion." *Time* magazine described Fantasound this way: "As the music sweeps to a climax, it froths over the proscenium arch, boils into the rear of the theatre, all but prances up and down the aisles." As for audiences, this highbrow departure from what they expected of the Disney brand was perhaps a bridge too far, and the box-office was disappointing if not disastrous. Adding to the bottom-line problem, the cost of installing Fantasound was high, and the lucrative European market was cut off by World War II.

Strike One

After the disappointments of *Pinocchio* and *Fantasia*, Disney needed an infusion of cash. Walt put his fourth animated feature, *Dumbo*, into production. It told the relatively simple story of a circus elephant who can fly and was intended to be a low-budget way for the studio to regain its financial footing. Instead, it came in the midst of a conflict that forever changed both Disney and his studio.

During the 1930s, the American labor movement had grown enormously, and the film industry, like all industries, was a target for organizers. In 1938, the Screen Cartoonists' Guild was formed, and most animation studios quickly signed agreements with the union. Disney was a holdout; he believed he treated his animators well and paid them fairly. Not everyone concurred.

Though his public persona was the warm, beaming Uncle Walt, Disney was a perfectionist with a temper who was known to reduce people to cinders. His demeanor could veer suddenly from camaraderie to disdain, he insisted that everything the studio did must conform to his vision, and he had the last word on almost everything. As one artist complained, "By the time you got your ideas back from Walt, you wouldn't recognize them as your own. He absorbed and digested everything. In the end, the production was all his." Animator Ward Kimball painted a softer portrait of Disney, saying, "In all honesty, I think he was so wrapped up in his work he didn't realize he was pissing people off and embarrassing them."

Salaries and bonuses were decided at Disney's whim, and there were wide disparities in pay among people with similar jobs. In addition, animators got little or no public recognition for their work. Even Ub Iwerks was so frustrated by the lack of credit and Disney's autocratic management style that he quit to start his own studio (He later returned to the Disney fold.).

Against all this evidence, Disney continued to present himself as a paternalistic, benevolent leader who ran his business as a haven for creativity and innovation. "It's my nature to be democratic," he told his employees just before his labor problems ignited. "I want to be just a guy working in this plant - which I am. When I meet people in the hall, I want to be able to speak to them and have them speak to me and say 'hello' with a smile. I can't work under any other conditions . . . And, fellows, I take my hat off to results only."

Many of Disney's most talented animators joined the Screen Cartoonists' Guild, including Art Babbitt, who became its in-house leader. Disney accused Babbitt of rallying his staff against him, called him "a troublemaker and a Bolshevik," and fired him.

The next day - May 29, 1941 – Disney's animators went on strike. Production on *Dumbo* came to a near halt as both sides clung to their positions. Disney refused to negotiate and, in a fit of pique, ordered the remaining *Dumbo* animators to caricature the strikers in the movie as circus clowns who try to "hit the big boss for a raise." Disney was infuriated by the strike, and his already conservative political views took a sharp turn to the right.

It was around this time that he became a spy for the FBI, uncovering the communists supposedly determined to turn Hollywood into a propaganda machine for the Soviet agenda of world domination. In 1944, he would go on to be a founding member of the Motion Picture Alliance for the Preservation of American Ideals, a high-profile group of right-leaning stars that included John Wayne, Ginger Rogers, Gary Cooper, and Ronald Reagan. The group, which many accused of being anti-Semitic, provided the vast majority of the "friendly witnesses" at the House Un-American Activities Committee inquiry into communists in the film industry. To liberals, it was hardly coincidental that the vast majority of artists who ended up blackballed - and therefore unable to support their families - were Jewish.

We'll leave the last word on Disney's anti-Semitism to his biographer Neal Gabler, who had unrestricted access to the Disney archives. In a 2006 CBS News interview, he was asked his opinion and said: "That's one of the questions everybody asks me. . . . My answer to that is, not in the conventional sense that we think of someone as being an anti-Semite. But he got the reputation because, in the 1940s, he got himself allied with a group called the Motion Picture Alliance for the Preservation of American Ideals, which was an anti-Communist and anti-Semitic organization. And though Walt himself, in my estimation, was not anti-Semitic, nevertheless, he willingly allied himself with people who were anti-Semitic, and that reputation stuck. He was never really able to expunge it throughout his life."

The strike dragged on for five weeks, and it was the involvement of an unlikely character that broke the logjam. Nelson Rockefeller, then head of the Latin

American Affairs office in the U.S. State Department (and the future governor of New York and vice president of the United States), asked Disney to lead a goodwill tour of Latin America. With Disney out of town, passions cooled, and the strike was settled with the help of a federal mediator, who found in the Guild's favor on every issue. The Disney studio signed a contract and has been a union operation ever since. Stung by the outcome, Disney slashed the number of Disney employees from around 1,200 to 694. In his book on Disney, Richard Schickel quotes a letter in which Disney wrote that the strike "cleaned house at our studio" and got rid of "the chip-on-the-shoulder boys and the world-owes-me-a-living lads."

The cost of the strike was high. An us-versus-them mentality took hold of Disney, and he turned into a distrustful, tight-fisted, and secretive leader. The company became known for driving hard deals with talent at all levels.

Despite all the discord, *Dumbo* fulfilled its mission. At sixty-four minutes, the movie was relatively short, and it cost only $950,000 to make – half the cost of *Snow White* and a third the expense of *Pinocchio*. But it grossed $1.6 million in its first release and far more in later re-releases – not counting continuing revenues from merchandise, home videos, DVDs, and theme park rides. The critics liked it, too.

War Changes Everything

In December 1941, the United States entered World War II, and Hollywood quickly rallied behind the war effort. Disney was no exception - the U.S. Army commissioned the studio to churn out training films for the troops and morale-boosting cartoons for audiences at home. Soon, more than 90 percent of Disney employees were dedicated to the effort. The shorts included *Der Fuehrer's Face*, starring Donald Duck as a disillusioned Nazi, which won the Academy Award for Best Animated Short Film.

One day in 1942, Walt received a letter from the Naval Operations Office in Washington asking him to design an emblem appropriate for its new fleet of "mosquito boats." He got his artists right on it, and a few days later the Navy had an emblem: a little mosquito wearing a sailor's cap streaking through the water atop a torpedo. The insignia was such a hit that every torpedo boat in the fleet was soon adorned with Disney's mosquito.

Word got out to the other services, and soon Disney-designed insignia appeared on planes, trucks, tanks, minesweepers, bombers, fighter planes, flight jackets, and other military equipment. This phenomenon is a remarkable testimony to the esteem and affection that Americans felt for Disney characters - in this case, they literally represented the United States. Disney was considered so important to the war effort, in fact, that the Army deployed troops to protect its studios.

Disney did manage to release two non-war-related features - 1942's *Bambi* and 1945's *The Three Caballeros*. Bambi, of course, is the story of a brave fawn whose mother is killed by hunters (whose organizations criticized the film). The animation and use of color marked a new high in sophistication, and Bambi and his forest friends were portrayed warmly and sympathetically. But the movie was another box-office disappointment, especially with the profitable European market closed. Like *Pinocchio* and *Fantasia*, however, the film has been reissued numerous times; it has become a perpetual profit machine for Disney and a classic beloved by generations.

Disney's savvy strategy of re-releasing its movies every seven years was grounded in the perception that it took only that long for a new generation of child viewers to be born. The reissues started with *Snow White* in 1944 and, until the advent of videocassettes and then DVDs, were exceptionally profitable. The years of waiting between releases not only allowed a new audience to come of movie-going age but also created pent-up demand among fans who had already seen the film and wanted another look.

The war years were tough on the studio, both creatively and financially. Roy Disney put it this way: “After the war was over, we were like a bear coming out of hibernation, we were skinny and gaunt, and we had no fat on our bones. Those were the lost years for us.”

Disney was determined to make up for that lost time.

The Golden Years

As the United States entered the post-war boom, Walt Disney was right there, ready to provide sparkling, optimistic entertainment to suit the country's mood. In 1950, right out of the gate, he delivered the animated feature *Cinderella*. The movie was a box-office smash, and the profits the company reaped - including merchandise and music sales - left it flush with cash. Walt followed up with an aggressive slate of animated features, including *Peter Pan, Alice in Wonderland*, and *Lady and the Tramp*. But he also leaped into live-action movies for the first time, producing wholesome adventure hits such as *Treasure Island*, *20,000 Leagues Under the Sea*, and *Old Yeller*.

The relative flops of *Pinocchio, Fantasia*, and *Bambi* had taught Disney a lesson: Whatever the highbrow critics might say, he shouldn't get too far ahead of the vast majority of moviegoers who had resonated to Mickey Mouse and his pals. These Americans wanted simple stories, heroes and heroines with pluck and charm, villains without redeeming features, and happy endings. Disney audiences applauded magic and adventure, but they were put off by complex characters, frightening scenes like the shooting of Bambi's mother, or anything the least bit risqué or off-color. While being entertained, the world they wanted to see must be idealized, sanitized, and full of nostalgia for a past that had never really existed.

At the same time, the entertainment industry was being hit by the most significant innovation since the advent of motion pictures: television. In Hollywood, this was at least as ominous as another war. No longer did Americans have to go to theaters to get their fix of stories, stars, cartoons, and singing and dancing - it was all available in the comfort of their living rooms. The basic reaction of the film industry could be summed up in one word: fear. Many studios were caught flatfooted, at least temporarily. Not Disney. He had always embraced technological advances, and television was no exception.

In October 1954, the Disney anthology television series began. The series was to last for more than five decades, with several different titles - including *Disneyland*, *Walt Disney Presents*, and *Walt Disney's Wonderful World of Color* - before it ended its run on Christmas Eve 2008. The show was originally hosted by Disney himself, who by now was one of the most famous and revered men in the country. In the friendly, warm persona of Uncle Walt, he would introduce the material. Some of it was animated, some live action; some was original, and some came from the studio vaults.

Disney and the show were soon having a profound impact on American popular culture. In 1955, a three-episode series on the life of American frontiersman Davy Crockett spawned a craze that swept the United States. The theme song, “The Ballad of Davy Crockett,” was everywhere on the airwaves, and just about every child in the country wanted one of Davy’s coonskin caps.

Also in 1955, Disney premiered the after-school *Mickey Mouse Club* for children, an instant hit. This quasi-educational variety show featured a cast of children, the Mouseketeers, playing themselves.

Roy and Walt Disney were relentless in expanding the Disney brand with music, books, comic books, clothing, and more. In addition, they formed partnerships with companies like Coca-Cola and Sears. “Integration is the key word around here,” Roy Disney explained. “We don’t do anything in one line without giving a thought to its likely profitability in our other lines.”

Walt continued to cultivate his image, shunning Hollywood parties for dinner at home with his wife and daughters. In interviews and appearances, he became a spokesman for a certain vision of American life - the idealized world of picket fences and wholesome fun, of pat answers, patriotism, and happy endings. Studio publicists portrayed him as “a quiet, pleasant man you might not look twice at on the street.” Disney himself said, “I don’t have depressed moods. I’m happy, just very, very happy.” For those who had seen his dark side, these words no doubt prompted some eye-rolling. But perception is reality - especially in show business – and for most Americans, Uncle Walt was the Disney they knew and accepted. A *Newsweek* cover story began, “He is the world’s rich uncle,” conveying Disney’s image as the kindly, chuckling visitor showing up from time to time with a bag of miraculous new toys for the family.

Disney had reached an almost unprecedented level of success, both commercial and personal. He occupied a unique niche in America’s and even the world’s consciousness. Both money and power allowed him to move inexorably toward his latest ambition.

Guess Where We Are Going?

Inspired by memories of his childhood visits to Kansas City's Electric Park, Disney had a dream, a dream of a magical place. When you entered, all your cares melted away, and you were transported into a place of imagination and wonder, joy and delight, a literal fantasyland. He put it this way: "I don't want the public to see the world they live in while they're in Disneyland. I want them to feel that they're in another world."

In the early 1950s, he set it all in motion, visiting Tivoli Gardens in Copenhagen and other notable amusement parks and scouting out possible sites for his own Shangri-La in Orange County, south of Los Angeles. He remembered, "I first saw the site for Disneyland back in 1953. In those days, it was all flat land, no rivers, no mountains, no castles or rocket ships - just orange groves and a few acres of walnut trees."

There were the usual naysayers, of course, people who said amusement parks were grubby and seedy and that their time had passed. Then there was the issue of financing; the costs would be enormous. Disney ignored these obstacles, quietly bought up 160 acres in Anaheim, and entered into a partnership with ABC television to secure financing. In 1954, he began construction on the project that was to change the entertainment industry forever and cement his legacy.

In a brilliant cross-marketing move, during the park's construction, Disney used his television show *Disneyland* to build anticipation. By the time the park opened, just about every American knew about it and millions wanted to visit.

The big moment finally arrived - Disneyland was unveiled in a television special on Sunday, July 17, 1955; one of the hosts was Ronald Reagan. Disney spoke, saying: "To all who come to this happy place: Welcome. Disneyland is your land. Here age relives fond memories of the past, and here youth may savor the challenge and promise of the future. Disneyland is dedicated to the ideals, the dreams, and the hard facts that have created America with the hope that it will be a source of joy and inspiration to all the world."

The day was a catastrophe. Thousands of counterfeit tickets turned up, and the crowd was three times bigger than anticipated. The celebrities who were supposed to appear at staggered times showed up en masse. The temperature was 101 degrees, and most of the park's water fountains weren't working. Since Pepsi was a sponsor of the day, many guests grumbled that this was a deliberate move to sell more soda. Much of the park's asphalt had been poured that morning and was so soft (the heat didn't help) that women's high-heels sank into it. Vendors ran out of food. A gas leak in Fantasyland forced the closing of that whole section of the park, along with Adventureland and Frontierland. And the lines were daunting. Some parents were seen throwing their children over the crowds to get them onto rides. For years, the day was referred to as Black Sunday by Disney executives.

But the setback was brief. The problems were quickly solved, and the park went on to become a landmark success, drawing over a million visitors in its first year (total attendance since its opening exceeds 600 million). And in spite of Black Sunday, the park was a marvel, a testimony to Disney's vision, leadership, and attention to detail. He wanted to create an experience unlike any other, with the nostalgia of the idealized Main Street and Frontierland balanced by the unfettered optimism of a futuristic Tomorrowland. Employees were trained to pick up any trash within thirty seconds after it hit the ground and to be consistently cheerful and helpful. At least in those early years, cost was secondary; as Disney put it to his team: "You and I do not worry whether anything is cheap or expensive. We only worry whether it's good. I have a theory that if it's good enough, the public will pay you back for it."

The Final Years

From 1955 to 1966 - the last decade of Disney's life – his studio released more than fifty family-friendly movies, many of them live action. Among the more notable were the animated *101 Dalmatians* in 1961 and *Mary Poppins* in 1964. And, of course, Disney was busy planning Disney World in central Florida and overseeing the company's myriad other projects and partnerships. But Disney had reached that point where he wanted to give back, and he did so on a scale and in a manner befitting his life and career: He founded and funded the California Institute of the Arts (CalArts).

At Disney's initiative, CalArts began in 1961 when the Los Angeles Conservatory of Music merged with the Chouinard Art Institute, which had trained many of Disney's early animators. As a seasoned (if at times difficult) collaborator himself, Disney was especially excited by the idea of bringing artistic disciplines together, creating an environment of cross-pollination and mutual inspiration. He wrote in an early CalArts document: "There already have been geniuses combining the arts in the mass-communications media, and they have already given us powerful new art forms. The future holds bright promise for those whose imaginations are trained to play on the vast orchestra of art-in-combination. Such supermen will appear most certainly in those environments which provide contact with all the arts, but even those who devote themselves to a single phase of art will benefit from broadened horizons."

In the fall of 1966, Walt was scheduled to undergo surgery on an old neck injury he had sustained playing polo at his country club. On November 2, during pre-operative X-rays, doctors at St. Joseph Medical Center, across the street from the Disney Studio, discovered a large tumor on his left lung; a biopsy showed it to be malignant. The lung was removed, and Disney, a lifelong smoker of unfiltered cigarettes, was told that his life expectancy was six months to two years. He underwent several rounds of chemotherapy, and then he and Lillian took a trip alone to Palm Springs. On November 30, back home in Los Angeles, Disney collapsed. He was revived by a fire department medic and rushed to the hospital, but he died on December 15, 1966, ten days after his sixty-fifth birthday.

Walt Disney never liked funerals and attended few of them. "When I'm dead," he told his daughters, "I don't want a funeral. I want people to remember me alive.”

So the service was small and private. Only close relatives were invited, and news of the funeral was released after it was over. His body was cremated, and his ashes interred at Forest Lawn Cemetery in Glendale, California.

Today, of course, The Walt Disney Company has grown to be a vast entertainment and media conglomerate, with studios, cruise lines, resorts, children’s books and magazines, the ABC network, and ventures on cable television and the Internet. And his legacy is enshrined at the Walt Disney Family Museum, which opened in San Francisco in 2009. Thousands of artifacts from Disney’s life and career are on display, including the 248 awards he received.

Let’s close with Disney’s own words: “It’s kind of fun to do the impossible.”

Lessons

Unique as he was, we can still profit from Walt Disney's example and learn from his mistakes.

Know thyself.

From an early age, Disney knew that he wanted to draw and that he was good at it. He wanted to be his own boss and make an impact on the world. But he also recognized his limitations and found partners who could make up for them. It was Disney's friend Ub Iwerks, the more talented artist of the two, who refined Mickey Mouse's image and handled most of the early studio's animation, and it was Walt's brother Roy who ran the business, pioneering cross-marketing techniques and finding the deals that financed Walt's big dreams.

But Disney's self-assessment also had limitations. He believed that he was an easy-going, democratic boss who had earned the love and loyalty of his people – an illusion that ignored the damage done by his fierce perfectionism, explosions of temper, and insistence on hogging the credit. If he had been more clear-eyed, he might have changed his autocratic ways, avoided the strike that threatened his business, and perhaps even become the lovable character he played in his public life.

However, that behavior might not have made him more successful. His true genius wasn't in drawing, being a good boss, or running a business, but in providing illusions for a nation and a world hungry for entertainment – and happy to accept the image of kindly "Uncle Walt" as its dispenser.

Take an honest inventory of your strengths and weaknesses. Find people who can provide the skills and talents you lack. But it's doubtful that you can or should try to change your basic character. If you managed to do that, you might put out the spark that could ignite your success.

Follow your joy.

Just ten years old, Walt was captivated by the magic of silent films – and not too young to notice the grip movies had on all his fellow viewers. He had already sold his first drawing, a portrait of a neighbor's horse, and he was about to be fascinated by Electric Park, an early and still pristine amusement park in Kansas City. He never forgot any of those early pleasures, and they set the course for his remarkable life.

As an artist, he found work making movie commercials and soon fell in love with the then-crude process of animation – another calling he never deserted and one he would eventually transform.

Following your happy childhood experiences – or even joys that come to you later – is no guarantee of success. But when times get hard, as they almost surely will, it's easier to keep believing in the pursuit of a career you truly enjoy than in a calling you chose because it promised money or power. Doing something you love might even provide a crucial edge. Go for it.

Take failure as a challenge.

"You might not realize it when it happens, but a kick in the teeth might be the best thing for you," Disney once said, and time and again his own career proved that. It was the lingering failure of the first studio he founded with Iwerks that introduced him to animation. When his second venture also went bankrupt, the undaunted Disney set out for the new movie mecca, Hollywood, and had his first real success with the cartoon character Oswald the Rabbit.

But Oswald provided another kick in the teeth when Disney's business partner double-crossed him, controlling the copyright to the rabbit and hiring many of Walt's animators to shut him out of the business. It was on the train ride home from that disaster when Disney made his first sketches of Mickey Mouse, which the loyal Iwerks tweaked into the character who soon, as *Steamboat Willie,* took America by charm and became the Depression-era symbol of plucky, cheerful resilience.

Like his own mouse, Disney never accepted defeat. If you don't follow his example, it's almost inevitable where you'll wind up – defeated.

Technology is your friend.

Disney loved technology, and he knew how to make the most of it. Early in his career, he discovered that celluloid was far superior to cutouts as the basis for animation, and he never stopped exploring new techniques. He used his Silly Symphonies to introduce sound and Technicolor, explore the use of music, and develop sophisticated narrative and the development of character in animated figures. These cartoons won him fame, fortune, and seven Academy Awards, and led to the stunning success of his feature-length *Snow White*. Later, when the industry was threatened by the onslaught of television, Disney embraced it and went on to new successes in creating shows, cross-branding, and merchandising licensed goods. Stay on top of the latest technology, and look for ways to exploit it.

Bet on your dreams.

Hollywood scoffed at Disney's determination to make a full-length animated feature, to develop Fantasound and produce *Fantasia*, and again when he proposed to reinvent the amusement park. In each instance, he moved forward, betting all his profits and going deep into debt to make his dream a reality. He took big risks, and the results speak for themselves.

Obviously, this lesson isn't for every ambitious striver. It's the antithesis of Warren Buffett's advice to move cautiously and keep a margin of safety. But Disney probably couldn't have produced *Snow White* or developed Disneyland if he hadn't gone flat-out and risked everything to do so, and he was clearly willing to lose the bet. The failure would have been just another challenge. Here again, when the time comes to risk everything on one opportunity, assess your own character: Is the dream worth it to you? Are you up to losing?

Take the big view.

Walt Disney never accepted what most people saw as the limits of his business. He was never just making movies. Largely guided by his brother Roy, he pioneered the licensing of his images and characters, the reissuing of his movies for new generations of children, and cross-branding through television and the development of shows that persisted for five decades. When animation couldn't produce enough films for the growing market, he didn't hesitate to branch into live-action movies and nature films.

At bottom, Disney knew that his business was not just movies but entertainment, and he geared it to an audience that he understood deeply and, in fact, helped to invent. He knew his countrymen were sentimental, good-hearted, and nostalgic; they wanted wholesome, fairy-tale childhoods, pure, adventurous heroes and heroines, mean villains and happy endings, a sanitized past and a glorious future. He stood ready to fulfill their wishes by every means at his disposal. By doing so, he reinforced the tastes he perceived, strengthened the demand for his kind of entertainment, and helped form the character of America.

Walt Disney and other great businesspeople have always taken a sweeping view of their mission. Henry Ford wasn’t just selling horseless carriages; he knew his cars would change American life, even if he couldn’t foresee suburbs, superhighways, and shopping malls. Bill Gates and Steve Jobs knew that their strange devices would transform business and all of our lives. What’s the broad view of your field? How can you advance it?

3
THOMAS EDISON

On July 4, 1876, Americans celebrated their first century of independence with a giant exposition in Philadelphia's Fairmount Park. Under iron and glass exhibit halls covering thirteen acres, the exposition paid little attention to the past and focused on the present and future. There was a Japanese teahouse to celebrate new trade ties with Asian countries, and a women's building where female artists displayed their paintings and sculptures and operated long rows of textile machines.

Exposition-goers saw the first public demonstrations of the typewriter, the Otis elevator, the Westinghouse railroad brake, the high-wheeled bicycle, and even the "floor covering of the future" - linoleum. After gazing up at the four-story-high Corliss steam engine that powered the other 8,000 machines on exhibit and dwarfed everything else in Machinery Hall, the expo's most popular building, people could stroll along West River Drive and sip a new drink, root beer, served by a young druggist, Charles Hires, or munch for the first time on an exotic banana.

Americans appeared most impressed by the giant Corliss engine, which seemed symbolic of their young and sprawling world power. But foreigners were awed by smaller, more revolutionary devices. While long lines waited, the emperor of Brazil tested Alexander Graham Bell's new telephone, exclaiming, "My God, it talks!" As he listened to the voice of a nearby demonstrator, he held in his hand the black carbon receiver devised by the man who had more inventions under the great glass roof than anyone else, twenty-nine-year-old Thomas Alva Edison.

That centennial year, Edison had just opened the nation's first research laboratory at Menlo Park, New Jersey, promising to produce "a minor invention every ten days and a big thing every six months or so." He kept his extravagant promise. In the next decade alone, he invented the phonograph, the incandescent light, the Dictaphone, the mimeograph machine, the electric power-plant dynamo, motion pictures, and electric transmitters. Half a dozen years later, he formed the first electric company, its Pearl Street generating station supplying electrical power to illuminate downtown New York City in 1882. In the following six years, he founded the Edison General Electric Company to mass-produce light bulbs that eventually lit up 70 percent of all American homes and virtually all the nation's businesses. By century's end, 3,000 Edison power plants provided electricity to illuminate the nation's cities and towns.

The man who did as much as anyone to invent modern America was also the first to popularize science in the United States. Turning from industrial manufacturing to producing innovations for the home, Edison originated the mass production of consumer products. His labor-saving devices changed the way people worked, traveled, communicated, studied, and entertained themselves. No wonder that by the time of the World's Columbian Exposition of 1893 in Chicago, the majority of visitors filling out questionnaires asking which American would be best remembered a century later, answered, "Thomas Edison."

At that 1893 fair celebrating the four centuries of change since Christopher Columbus's first landing in the New World, the Corliss engine was as obsolete as the steam power it generated. So, too, the innovations of 1876 had become commonplace in American urban life. Everything on the vast fairgrounds was powered by Edison's electrical inventions, including 5,000 arc street lamps and 100,000 incandescent bulbs. Edison, more than anyone else, had prompted the U.S. Commissioner of Patents to proclaim that "America has become known the world around as the home of invention."

Paul Israel, who edited Edison's papers, said: "We think of the act of invention as this eureka moment: Aha! The light bulb goes off, we have this great idea. That's invention. But for Edison that was the starting point. Cause he didn't just have ideas and build devices that worked in the laboratory, he actually took them into the marketplace. And he did it over and over again. He came up with a modern process of innovation."

Thomas Alva Edison was born on February 11, 1847, in Milan, Ohio, the seventh and youngest child of Samuel and Nancy Elliott Edison. A powerful myth fabricated by an admiring press depicted Edison as a poor boy like Abraham Lincoln, who lived in a log cabin. In fact, Edison's father was a successful entrepreneur.

The Edisons came from old colonial stock, but for generations, they had been dissenters, outsiders, and mavericks. Thomas Edison's great-grandfather, John, was a so-called Loyalist, taking the British side in the American Revolution. He left his substantial farm in Caldwell, New Jersey, in 1776, to cross the British lines and act as a guide when British commander Sir William Howe invaded New Jersey. Captured by the revolutionaries and condemned to death for treason, he was held in chains in the Morristown jail for a year before being exchanged for a British prisoner. His property was confiscated, and he had to migrate to Nova Scotia at war's end.

His son, Samuel Sr., the inventor's grandfather, grew up in Ontario. The family had migrated there in 1811 after John Edison received a land grant for his services to the British Crown during the American Revolution. John's grandson, Samuel Jr., became a Canadian militia captain who fought against the Americans in the War of 1812. By 1837, however, young Sam was eager to join a revolt against the British, secretly forming a revolutionary militia for the Mackenzie uprising against the crown.

The plot was discovered, and Edison had to flee, pursued for three days by British redcoats, Indians, and dogs. He eventually found refuge in Huron, Ohio. His wife, Nancy, later escaped from Canada with their children, and the family moved to the new canal town of Milan. There Samuel Edison established a successful business manufacturing wood shingles and selling lumber and grain. But the family's fortunes were shattered when the Grand Trunk Railroad bypassed Milan and 80 percent of the population left.

A Child Apart

Two of the Edison children had died by the time Nancy gave birth to their seventh child, a small boy with a large head. Thomas Alva, they called him, or Al, and he was frequently in trouble for his curiosity. When he was six, his father whipped him in the town square for setting a little fire inside his father's barn "just to see what it would do." The flames spread rapidly, burning the barn to the ground. With a high wind blowing, the whole town had been endangered, so none of the neighbors invited to watch the public flogging tried to stop it.

Edison could still remember that incident vividly sixty years later when writing his memoirs. If he resented his father for humiliating him in public, he never said so. But he never said anything flattering about his father, either, and he only rarely mentioned the man. "My father thought I was stupid," he said years later, "and I almost decided I must be a dunce."

His was a lonely childhood, his Edison siblings being much older, and Alva often played by himself. Even more than most children, he asked a lot of what his father called "foolish questions," usually directing his inquiries to his mother. When he asked her why their goose squatted on its eggs, his mother patiently explained the hatching process, after which Alva disappeared. "We missed him and called for him everywhere," his brother Marion attested. His father found him in a neighbor's barn "curled up in a nest he had made filled with goose and chicken eggs." He was trying to hatch them.

Alva also liked to draw, and at age five, he sketched pictures of some of the signs in Milan. In later years, he would sketch all of his inventions. By the time he was seven, the town had begun its swift, steady decline. The Edisons had to move again, this time to Port Huron, Michigan, at the head of the St. Clair River, where Samuel Edison used what he had made from selling his house and granary to set up another lumber, grain, and feed store. There was rarely any money beyond the rent needed for a house.

As for Alva's schooling, the record is murky. At about this time, he apparently came down with a serious case of scarlet fever, which damaged his hearing. Recurring ear problems would increasingly leave Edison in a silent world.

When his parents finally sent him to school at age eight, his teacher, a Puritan clergyman who reinforced his lessons with a leather belt, decided that young Edison was “addled.” Little was known about hearing loss or physical handicaps at the time, and Edison’s memory of his brief, formal education was painful: “I used never to be able to get along at school. I was always at the foot of the class. I used to feel that the teachers did not sympathize with me.”

When Edison overheard the schoolmaster describing him as “addled,” he ran home and refused to return. His mother, who had taught school in Canada, decided to teach him at home. The boy’s problems aside, what seems clear is that the Edisons could no longer afford to pay Alva’s tuition.

Edison's True Loves Emerge

Nancy Edison taught her son not only reading, writing, and arithmetic but "the love and purpose of learning." A fast reader, he devoured world history, William Shakespeare, and Charles Dickens, along with an elementary science book, R. G. Parker's *School of Natural Philosophy.* The latter was a chance discovery of his mother's that described scientific experiments Alva could perform at home. This was "the first book in science I read," he recalled, "the first I could understand."

Learning now became a lifelong "game" for Alva. At nine, he read and tested every one of Parker's experiments, and when his mother found an old *Dictionary of Science*, he discovered a passion for chemistry. Not yet ten when the science of matter, its reactions and interactions, caught his attention, Alva gathered jars and bottles in the basement and mixed his own chemicals, marking all of them as "poison," which concerned the neighbors. Though his father's disapproval was unabated, Edison affirmed that "My mother was the making of me. She understood me, she let me follow my bent." She also overlooked the mess made by chemicals in her son's bedroom and the spills of sulfuric acid on furniture and floors that didn't stop until he secluded himself in the cellar with his batteries and bottles.

To his father, though, it was a shame Edison never read any serious literature or learned to spell or play with other boys and girls: "Thomas Alva never had any boy-hood days; his early amusements were steam engines and mechanical forces." Samuel could not comprehend his son's excitement when he was able to verify experiments made by earlier scientists, in particular when he tried to prove the existence of static electricity after reading Benjamin Franklin's autobiography. He rubbed together the fur of two big tomcats, whose tails he connected to wires. No sparks flew, but the boy was badly clawed for his efforts.

Samuel was savvy enough to exploit the arrival of the telegraph line in Port Huron, making sure his son had a telegraph set and was learning Morse code. Here was a trade that even a hard-of-hearing boy could learn. Able to hear and feel the clicking of the telegraph key, pretty soon he was stringing his own homemade telegraph line to a neighbor's house.

By the time the Grand Trunk line was being completed from Detroit to Port Huron in 1859, the elder Edison was ready to put his twelve-year-old son to work on it. He learned that a full-time newsboy would be needed on the train, a job with no wages but one that could be profitable if the boy sold newspapers and food. What passed for the formal education of Thomas Edison had come to an end. He began to ride the rails, sleeping in the baggage car and hawking newspapers, apples, sandwiches, molasses, and peanuts. His earnings went to help his family. “Being poor,” Edison later recalled, “I already knew that money is a valuable thing.”

Edison used a corner of the seldom-filled baggage car to conduct his chemical experiments, a pursuit that upset the conductor when passengers complained of the frequent odors that wafted through the cars. One day, the jolting of the train dislodged the cork from a bottle of phosphorus, which then dropped to the floor and smashed. The phosphorus burst into flames, and the conductor arrived on the scene to find Edison frantically stamping out the fire. The conductor threw first the chemist and then his laboratory off the train.

Edison loved to explore Detroit. “The happiest time of my life was when I was twelve,” he wrote. “I was just old enough to have a good time in the world but not old enough to understand any of its problems.”

Too young to fight when the Civil War broke out in 1861, he nevertheless observed that his newspaper sales jumped when there was a battle. One day in April 1862, the first accounts of a great battle at Shiloh reached the office of the *Detroit Free Press* by telegraph. Having made it his practice to go to the composing room to see the day’s headlines so as to estimate his need for papers, he learned of the fighting. Here was “a chance for enormous sales,” Edison realized, “if only the people along the line could know what happened.”

Suddenly, he had an idea. Rushing off to the telegraph operator, he offered the man newspaper and magazine subscriptions in exchange for a short bulletin to be wired to train stations and chalked up on bulletin boards along the route, telling of the great battle. Then he talked the *Free Press* managing editor into letting him have 1,000 copies of the paper. Edison and an assistant lugged the papers to the station. Gradually, he raised the price of his papers from ten to fifteen cents at early stops, and at Port Huron, where a large crowd had gathered, Edison yelled, “twenty-five cents, gentlemen - I haven’t enough to go around. . . .” It was then it struck him, he said, “that the telegraph was just about the best thing going. I determined at once to be a telegrapher.”

With a clear profit of $150 (several thousand dollars in today’s money) from the “extra,” Edison also decided to start his own newspaper. He purchased a small secondhand printing press and 300 pounds of old type. He learned to set type and print a small paper, the Port Huron *Weekly Herald*. It may have been the world’s first newspaper printed on a train. The print shop replaced his laboratory in the corner of the baggage car, and Edison switched to recording the births of station agents’ children and the names of Union Army recruits, sandwiched between lofty philosophical editorials. In search of livelier material, Edison soon turned the paper into a gossip rag called *Paul Pry*. Problems sprang up almost immediately. Edison was a terrible speller, and some of his society tidbits were a bit too revealing. One irate subject tracked the publisher down and threw him into the St. Clair River.

Serendipity to the Rescue

That was the end of Edison's newspaper career, but a new opportunity presented itself when he saw the three-year-old son of the stationmaster in Mount Clemens, Michigan, playing on the main track in the path of an oncoming locomotive. Edison dashed toward the child and snatched him up. The grateful father rewarded the fifteen-year-old boy by offering to teach him how to operate a telegraph. He also invited Edison to board free and take meals at his house for three months while he studied under the night telegrapher.

Showing up for his first lesson with a set of telegraph instruments he had fashioned at a gunsmith's shop, Edison learned a new and respectable craft. For the next two years, he wandered all over the eastern United States as a tramp telegrapher, a member of a dapper, carefree brotherhood.

He was acutely conscious of his hearing loss. But Edison found that his growing deafness gave him an edge: "When in a telegraph office," he later recalled, "I could hear only the instrument directly on the table at which I sat, and unlike the other operators I was not bothered by . . . other instruments." This ability to find the bright spot in adversity would be a hallmark throughout his career.

Neil Baldwin, one of Edison's biographers, said, "This condition made him feel like he could think more and he could concentrate more. He became very introspective. He often felt like he was alone even when there were other people around."

He worked the night shift, a lifelong preference that left his days free for reading scientific and technical books. Edison once compared sleep to a drug, saying that taking "too much at a time . . . makes you dopey. You lose time and opportunities." He slept and ate little. He spent most of his pay on books, chemicals, and metal for the experiments he conducted in a succession of rented upstairs back rooms in rundown boardinghouses from Memphis to Boston.

To gain more time to read, he invented labor-saving processes and telegraphic devices. He was often fired for ignoring office discipline and letting messages pile up while he worked on his experiments. Many of his inventions over the following twenty years could be traced to his attempts to develop equipment that worked faster and saved money. After another inventor, Joseph Stearns, came up with a duplex machine that could send two messages in opposite directions at once, Edison invented a major improvement on the technique, and then he saw a way to double the efficiency by sending two simultaneous messages in each direction over the same wire. He began a long quest that ultimately produced the quadruplex transmitter.

He also learned to take down newspaper stories over the wire at great speed, which landed him a job at Boston's main Western Union office in 1868 at age twenty-one – this despite his long hair, baggy pants, plug of chewing tobacco, and hearing difficulties. The last problem he overcame by mastering a skill common among hearing-impaired people called "filling the gaps," or guessing. This was a natural progression: Telegraph operators routinely used guesswork to fill out interrupted or incomplete messages.

Edison was assigned to the top priority New York wire to receive stories for a Boston newspaper. With his wages, he bought more books, including Michael Faraday's two-volume *Experimental Researches in Electricity.* Like Edison, Faraday was born poor and was self-taught. Edison admired Faraday's "selflessness" in devoting himself to science without concern for money or titles. Here was a role model to emulate. To his roommate, he announced his intentions: "I am now twenty-one. I may live to be fifty. Can I get as much done as he did? I have got so much to do, and life is so short. I am going to hustle."

Edison nearly electrocuted himself with a large induction coil intended to be part of his planned multiple-message telegraph. But after his improvement on the duplex transmitter, the June 1868 *Journal of the Telegraph* carried the announcement of it – a "mode of transmission both ways on a single wire, which is interesting, simple, and ingenious." A firm believer in self-promotion, the twenty-one-year-old inventor had written the piece himself, signing his roommate's name. Edison then sent copies to telegraphers around the country who had mocked his boardinghouse experiments.

Attracting capital with which to continue his experiments, he quit his job in January 1869 to become a full-time inventor. With a $500 advance, he set to work to improve his "double transmitter," offering the devices for sale at $400 each. He lacked the money needed to patent the duplex, but he found an investor to back his next new device, the telegraphic vote-recording machine, making it his first patented invention. Edison demonstrated this forerunner of the modern voting machine before the Massachusetts Legislature and a committee of the U.S. Congress. It was met with yawns from the politicians, who didn't want to speed up voting and thereby lose an opportunity to make speeches. Chagrined, Edison returned from Washington vowing henceforth to invent only products that had a sure "commercial demand."

Developing a forerunner of the stock ticker – a gold-price indicator that transmitted numbers as electronic impulses – he took the machine to New York City, only to find that Samuel S. Laws had invented something similar and had grown wealthy using it for several years on the New York Gold Exchange. But Laws, sensing a kindred spirit, allowed Edison to sleep on a cot in the basement of the exchange so he could spend his days studying the technology in the main telegraph room. Edison was there when the central telegraph device broke down completely. Under the anxious scrutiny of Laws, his men, and 300 messengers sent by angry dealers all over Wall Street, Edison fixed the complicated machine. Laws hired him the next day, putting him in charge of maintenance. Edison was soon promoted to general manager at the then-handsome salary of $300 a month.

That same year, 1869, Edison launched a partnership with F.L. Pope and J.A. Ashley. The principals of Pope, Edison & Company described themselves as "electrical engineers," thus coining a new professional term and offering to design instruments and fire alarms, test materials, build telegraph lines, and make experimental apparatus. Edison had devoted the early 1870s to improving telegraphy, and by 1874, he had accomplished his longtime goal of perfecting the quadruplex, making telegraphy far more efficient and profitable. Instead of two messages passing on a single wire now, four could be transmitted. Western Union and its competitors didn't have to string as many wires and could lease excess capacity for private lines. The quadruplex would be used well into the twentieth century, and Edison's reputation as an inventor skyrocketed.

Eventually, Edison made so many improvements to the stock-ticker equipment that he and his partners were bought out by the Gold & Stock Telegraph Company.

As Edison's reputation began to soar, his personal life was undergoing great change. In 1871, his mother died – the woman who, in his words, was always "so true, so sure of me," who made him feel that he "had someone to live for, someone I must not disappoint.” Then, on Christmas Day, he married Mary Stilwell, a former employee with little experience of the world and a limited understanding of her husband’s work and its importance. Though Edison loved Mary, whom he called “Popsy-Wopsy,” his intense involvement with his work weighed on their relationship. Edison often slept in his lab and spent a good deal of his waking moments with his male associates.

Nevertheless, the Edisons celebrated the birth of their first son, Marion, in February 1873. Less than three years later, Thomas Jr., made his appearance, allowing the boys’ father to nickname his sons “Dot” and “Dash.” A third boy, William Leslie, was born in October 1878.

With his share of the $40,000 paid for the stock ticker business, Edison set up the world’s first commercial research laboratory. He called it an “invention factory,” and staffed it with fifty skilled technicians under his constant supervision. In the spring of 1876, he hired his father to oversee construction of a laboratory complex at Menlo Park, New Jersey, in the hills twenty-five miles south of Newark. With financial backing from Western Union, Edison pioneered systematic research on the eve of the Centennial Exposition in nearby Philadelphia.

Today, Edison’s approach is seen as obvious, but it was a sea change and a break with the past.

Harvard Historian Nancy Koehn said: “This was astoundingly revolutionary, you know, ‘I want to invent. I’m going to be about invention.’ And, ‘I don’t really want to be bothered lots of times with very much else.’”

No Such Thing as Failures

Shortly after Alexander Graham Bell patented the telephone in 1876, Edison perfected a superior transmitter that made a speaker's voice louder and clearer over the telephone. It would be used for 100 years. That same year, he experimented with recording and playing back messages sent over the telegraph and the telephone, an effort that ended in the invention of the phonograph, his most original scientific breakthrough thus far and an invention that dazzled the world. Here was an ordinary-looking, fellow-next-door-type who had somehow captured speech and bottled it. Indeed, part of Edison's charm was his aw-shucks approach to invention.

Historian John Staudenmaier said: "He had immense self-confidence, he had a sense of humor, and he would pull things out of the air that people weren't thinking about when he asked a question, and he'd answer it in a way that, "Wow, I never thought of that!'"

To record messages, Edison needed a way to trap sound waves – invisible and seemingly intangible vibrations passing through the air. So he attached a needle to a diaphragm, a metal disc that vibrated in response to the sound waves. The needle rested against a rotating cylinder wrapped in tinfoil. When the disc vibrated, the needle made an impression in the foil. To reproduce the sound, a second needle was connected to a diaphragm mounted at the base of a funnel-like horn. This second needle followed the grooves in the foil, repeating the vibrations of the recording needle.

In December 1877, Edison demonstrated his phonograph to the editors of the prestigious *Scientific American* magazine. He showed it to President Rutherford B. Hayes the following spring. So magical did the device seem that Edison was hailed by the press as "the Wizard of Menlo Park."

In 1878, Edison began research on electric lighting to replace gaslights. Gas was a hugely profitable, worldwide industry in the nineteenth century, lighting city streets as well as factories, businesses, and houses. But it was also dangerous – the lethal fuel could poison people who breathed its fumes and was a source of deadly fires. Edison saw a chance to make a fortune while making cities safer.

Experiments in electrical lighting had been done over the preceding four decades in England and the United States, but Edison's improvements, especially his use of a filament derived from slightly burned carbon, made the incandescent light bulb cheap and practical for production. (He experimented with 6,000 different fibers before settling on the carbon filament. When an assistant mentioned all the failures, Edison replied, "No, they're not failures. They taught something that I didn't know. They taught me what direction to move in.") The great inventor then turned to the complex problem of finding a central power source for his lights and other electrified apparatus.

In many respects, this was as significant as his invention of the light bulb. It wasn't just coming up with an idea; he knew that even after the light bulb existed, it would be useless without the demand to support it. It would be his vote-recorder all over again. From the beginning, Edison knew that inventions that didn't make money were their own kind of failure.

"We remember famously the light bulb," Historian Lisa Gitelman noted. "But, of course, you've got to screw the light bulb into a socket, the socket has to be wired, the system has to be metered, there has to be a generator. It's really a massively complex system to put in place to get that light bulb to go off. I mean I don't think he, going in, realized how complicated it was."

By 1882, with the financial backing of J.P. Morgan, Edison's generating and distribution system was put to work in New York City, capping an immense engineering achievement. Edison built the Pearl Street Power Station, a steam-driven electric power plant near Wall Street. Initially, it had just eighty-two customers, with 400 lamps burning. Two years later, there were 508 customers and more than 10,000 bulbs. The station also sold steam to nearby factories and heated neighborhood buildings. Over the next decade, Edison expanded his operations and moved to a new research complex in West Orange, New Jersey, that was ten times the size of Menlo Park. It would be his home for the rest of his long life.

Ahead of His Time

Often working all night and sequestered in his laboratory for months on end, Edison developed the equipment needed to generate electricity on a large scale: generators, power cables, junction boxes, electric lamps, switches, relays, and more. Spawning a series of companies to make his products, he gradually combined them into the General Electric Company, with manufacturing centered at Schenectady, New York. Not until then was Edison, at forty-five, free of financial worry.

The public, though fascinated, was at first somewhat fearful of Edison's electric lighting. While working out the kinks in the system, people and animals had been electrocuted. So to ease people's fears and spur demand for his system, Edison created a publicity campaign worthy of P. T. Barnum – or of any modern-day advertising agency. He hired a tap dancer to dance across an electrified floor, the fellow's helmet lighting up in sync with his feet. And he had hundreds of men wearing light bulbs on their heads march through city streets, the bulbs powered by a steam generator rolling nearby. Silly though it may seem to twenty-first-century observers, wearing a bulb on one's head was taken to prove the safety of the electric light.

Despite Edison's triumph in creating the earliest electrical grids, he also wound up on the wrong side of technology – a rarity for him – during the famous "War of the Currents." That battle was waged in the late 1880s, as an ever-growing number of American communities were becoming electrified. Edison's system, built on direct current, was being threatened by a rival system using alternating current that was being sold by George Westinghouse, the Pittsburgh entrepreneur who had invented the railway air brake.

At the time, the AC system was superior because it was more efficient and allowed power to be distributed over longer distances, so the generator could be farther away from a town center and serve a wider array of customers. Westinghouse sales rose, and General Electric stumbled, but Edison refused to concede or to adopt the rival system. One theory is that the math needed to make an AC system work was beyond Edison's grasp. Given all his accomplishments, that claim may seem unlikely. But after all, he was self-educated, and he may well not have gotten that far on his own.

Unable to win the war of facts, of science, Edison turned to a smear campaign, maligning his rivals with claims of horrific dangers of electrocution and trying to make Westinghouse the poster child for the adoption of the electric chair. It didn't work. Eventually, Edison's investors would push him out and merge with a separate AC generator. Edison was furious, stubborn in his refusal to accept that in the long run, he had backed the wrong technology. "If you make the coalition, my usefulness as an inventor is gone," Edison warned. "I can only invent under powerful incentive. No competition means no invention."

The fight cost Edison his relationship with General Electric, but he downplayed the loss, proclaiming that his work in electricity had run its natural course. "I'm going to do something now so different and so much bigger than anything I've ever done before," he said, "that people will forget that my name was ever connected with anything electrical."

His workshop – such as it was – moved to a remote community, Ogdensburg, in northwest New Jersey, as Edison and a team of engineers worked to develop a system to extract iron from low-grade ore. The need was dire. The United States was quickly becoming a nation that ran on iron and steel, and decades of mining had plundered the richest veins.

The idea was pure Edison in its sheer scale. First, the mountains would be dynamited, and then the rock would be pulverized and ground up to a fine powder. It would be passed through a powerful magnet, which would draw the iron out.

Edison would spend nearly a decade in Ogdensburg, using close to $2 million on research and design as he and his team wrestled with the various technologies needed to make the production system work. As with the light bulb, it wasn't just one part or product, but a series of interlinked parts that worked as a whole. It was a grimy, dusty workshop, and by all accounts, Edison loved it.

The idea was a serendipitous failure. As Edison was perfecting his technology, a huge reserve of rich iron ore was discovered in northern Minnesota. In an instant, the commercial viability of the Ogdensburg project vanished. Told that he had wasted years and millions with little to show but some holes in the ground, Edison's response revealed his optimism and his love of invention: "Yeah, but we sure had fun doing it." And then, true to form, he plucked success from the jaws of failure, adapting his iron-ore technology to the manufacture of cement and salvaging much of his investment. Once again, he accepted that the marketplace was ultimately the decider of which inventions were good – and then made the marketplace work to his advantage.

As Nancy Koehn noted, “There’s something very interesting about how he literally lets go of what most of the people around him would call failure. And then moves forward without a huge amount of reflection, soul searching. He’s thinking, he’s seeing, he’s observing, he’s filing, but he’s moving. This was a man who really didn’t spend a lot of time looking backward.”

In a change of direction for American manufacturing, the goods and services Edison produced were aimed at the consumer, not at other businesses. He was so far ahead of his time that his ideas often outstripped available technology and practical applications. For example, he discovered radiotelegraph sound waves twenty years before the radio receiver was invented.

The phonograph was Edison’s favorite invention, and when others learned how to make practical phonograph records in place of his tinfoil cylinders, he bought them out, making another fortune in the record business.

A wager by California railway tycoon Leland Stanford ultimately launched the motion picture, and Edison’s involvement in it. Stanford bet $25,000 that a horse in full gallop would have all four feet off the ground at a certain moment. In 1878, British photographer Eadweard Muybridge set up twenty-four still cameras with wires that were tripped by the horse as it passed, proving Stanford right. Ten years later, Muybridge had the bright idea of interesting Edison in motion photography, proposing that it could boost sales of his phonograph. Edison turned down Muybridge’s invention, the Zoopraxiscope, but he instructed his assistants to pursue the concept of moving pictures.

Later in 1888, Edison announced that he was “experimenting upon an instrument which does for the eye what the phonograph does for the ear, which is the recording and reproduction of things in motion.” His assistants at the West Orange lab, most notably William K. Dickson, had produced the Kinetograph, a peephole motion-picture viewer. When George Eastman began to manufacture his transparent and flexible celluloid film in 1889, Edison could buy a fifty-foot strip of film for $2.50. “That’s it!” said an excited Edison when he was shown the long film strip. “We’ve got it! Now work like hell!”

Having already patented a rapid-fire shutter, Edison assigned Dickson to figure out how to move film through the camera. His solution was to punch holes along the film’s edges so a sprocket could synchronize each frame with the movement of the lens shutter. The first films ran horizontally through the movie camera like the modern still camera. On October 6, 1889, Dickson gave a dramatic demonstration to Edison after he returned from a trip to Paris. Dickson, appearing on a screen, bowed and said: “Good morning, Mr. Edison. Glad to see you back. I hope you are satisfied with the Kinetophonograph” (Dickson’s name for the camera).

Talking motion pictures made their debut that day, but the first public demonstration was not until April 1894 in a penny arcade at 1155 Broadway in New York City. Crowds poured pennies into Edison’s arcade peep shows, one person watching at a time. Yet he did not immediately take the next step of projecting the image onto a screen for a mass audience. Only after Thomas Armat created the enabling mechanism for the modern movie projector did Edison buy it and begin cornering the patents and producing the machines that gave his company a virtual monopoly on filmmaking in America for many years.

By the mid-1890s, Edison had invested $637.67 to build a tiny studio on the back lot at West Orange. Known as the Black Maria for its resemblance to a police wagon, it was an ugly, oblong building that revolved on tracks to follow the sun. Inside, Annie Oakley shot clay pigeons, Buffalo Bill fired his rifle, and Sioux Indians did their Ghost Dance before a one-ton camera that looked like an upright piano.

Wrongheaded and Miserly

For all his genius and talent for innovation, Edison could be incredibly wrongheaded and miserly. He had cornered the patents on the technology of moviemaking, but he was too frugal to spend an additional $150 to file international patents for it. “It isn’t worth it,” he said.

He was often a tyrannical boss, who drove his employees hard. He was brutally competitive, dismissing the inventions of others as unimportant, unwilling to recognize their improvements to the whole. Biographer *Neil Baldwin pointed out that* Thomas Edison “had a highly cultivated sense of betrayal and either you were with him or you weren’t. It was quite black and white in that regard.”

Thomas Edison made science popular and the scientist virtually a cult hero in early twentieth-century America, but his personal life was less successful. Days, months, and years spent inventing continued to spell neglect for his family. His most productive work years coincided with his first marriage to Mary Stilwell, who died in 1884, possibly of a brain tumor, leaving three children their father hardly knew.

After Mary’s death, he chose to court the eighteen-year-old socialite, Mina Miller. Edison tapped out his marriage proposal to her in the palm of her hand using Morse code. The couple married in 1886. Three more children – Madeleine, Charles, and Theodore – followed. Mina was a great beauty who, fortunately, had her own charitable and social activities, especially since her husband and two of his closest friends, Henry Ford and Harvey Firestone, liked nothing better than to drive into the woods, live under canvas tents, tell tall stories, and dress up like cowboys.

Although Edison achieved fame and grew wealthy, he was not especially impressed with his own genius. “Genius,” he was fond of saying, “is 1 percent inspiration and 99 percent perspiration.” He died at the age of eighty-four after a life of hard work that led him to amass an astounding 1,093 patents. On the night of his funeral, President Hoover requested that the lights at the White House and in homes and businesses all across the United States be dimmed in honor of the man who had almost single-handedly invented modern life. At his funeral service, his life was summed up in a tribute written by an old associate, Arthur J. Palmer:

He has led no armies into battle. He has conquered no countries, and he enslaved no peoples. Yet he wields a power the magnitude of which no warrior ever dreamed.

He commands a devotion more sweeping in scope, more world-wide than any other living man – a devotion rooted in deep human gratitude, and untinged by bias or race, color, religion or politics.

This democratic, kindly, modest being has bestowed upon the human race blessings instead of bondage, service instead of serfdom, construction instead of conquest.

Possessed of an immeasurable breadth of vision, his world aspect comprehends peoples rather than people, masses rather than men, that great, restless surging tide of creatures – that mighty human glacier, pressing irresistibly toward an ever-widening horizon of civilization.

“In the passionate pursuit of material truths and their conversion into practical, usable beneficent forms, civilization has never seen his equal.

And of this great man, this super-being, who defies classification, what more can be said: What greater tribute than this – He is humanity’s friend.

Thomas Alva Edison was laid to rest in a simple grave under a great oak tree at Rosedale Cemetery in West Orange, on the fifty-second anniversary of his perfection of the incandescent bulb.

Lessons

Edison was surely history's most prolific inventor, a mind so far unequaled in making fundamental breakthroughs. But even if we can't hope to match his achievements, we can learn from his example.

March to your own drum.

Berated for asking "foolish questions" and openly derided by his father and teachers as stupid, a dunce, or "addled," this lonely boy was further isolated by his deafness. But he was undiscouraged, a lifelong optimist whose lively curiosity helped him find the answers to questions no one else even asked.

A man who walked by himself, Edison slept as little as possible, dressed indifferently, wasn't interested in what he ate, and saw work as his recreation. But the downside of his genius was that he could be a tyrannical boss, neglect his family, and hold his own course to the point of obstinacy: In the "current wars" with George Westinghouse, Edison stubbornly refused to concede the superiority of alternating current over his own preferred direct current and had to drop out of the flourishing new industry he had founded.

Chart your course and stick to it. But try to relate to others, and resist hubris. You won't always be right, and it won't hurt you to admit it.

Learn to love learning.

Once Edison's mother began homeschooling him, his unusual intelligence became apparent: He devoured reading, writing, and arithmetic as well as an elementary science textbook. Most important, Nancy Edison worked to instill in her son "the love and purpose of learning," and her success was stunning. Edison was a learner all his life; when he had jobs, he preferred to work the night shift to free up his days for reading – as well as to make time for more reading in the hours when work slowed to a trickle. Most of his wages went to buy books and chemicals for his experiments. Even in his later years, long after he was hailed as the "wizard of Menlo Park," Edison was launching into new fields and soaking up new learning.

Never lose your curiosity, and never stop learning. You can never know too much.

Recognize opportunity, and grab it.

Selling newspapers and snacks to passengers on a train in Michigan, Edison made his first big profit by seizing the chance to sell many more papers with news of the Battle of Shiloh. When his chemical experiments in the baggage car caused a fire that got his laboratory thrown off the train, he began publishing his own newspaper for passengers and railroad employees.

It isn't enough just to be in the right place at the right time; you have to be able to do the right thing. Edison got his training in telegraphy as a reward for rescuing a small boy from an oncoming locomotive. He won a key job in Samuel Laws's Gold Exchange because, when the complex central telegraph machine broke down and stymied trading, Edison was the only one who knew how to fix it.

Edison also made his own new opportunities. His full-time, fully staffed research center, aimed specifically at invention, was a concept new to the world, and he made it a quick success. We can't all be geniuses, but don't hesitate to think outside the box. The fact that no one has ever had this idea may be the very thing that makes it a winner.

Turn failure to your advantage.

Edison's research on electric lighting involved years of experimentation. He tried 6,000 different fibers before settling on the carbon filament. When one of his assistants mentioned the failures, Edison corrected him: "No, they're not failures. They taught something that I didn't know. They taught me what direction to move in."

It was a failure – the fact that his stock ticker had already been invented – that led Edison to his job with Samuel Laws. When his loss in the "current wars" froze him out of the electricity industry, he turned to developing new methods of mining iron ore. And when vast new iron deposits made those techniques irrelevant just as he was perfecting them, he adapted them to the cement business.

Great leaders are not infallible. What makes them great is their willingness to accept and rebound from failure. They see it as just part of the process that eventually leads to success.

Shine the spotlight on your creations.

Edison never shied from calling attention to his inventions. When he achieved his first major invention, improving the duplex telegraph transmitter, he wrote the news article about it himself, signing it with his roommate's name – and sending it off to the friends who had previously laughed at his ideas.

Edison knew that to succeed, any invention had to fill a demand and make a profit. He stood ready to do whatever was necessary to achieve those two ends. Most conspicuously, the light bulb would have been useless without big generators, transmission systems, and utilities to distribute electricity – and Edison not only worked tirelessly to develop the equipment, he found backing for such a complex system from no less than J. P. Morgan, the era's leading financier.

Before the generating system was perfected, electrocutions had occurred. To ease public fear and create demand, Edison dreamed up a publicity campaign worthy of a modern-day advertising agency. He hired a tap dancer to dance across an electrified floor, his helmet lighting up with every tap of heel or toe – an entertaining novelty that was seen as proving the system's safety.

Remember, self-promotion isn't a sin. Sometimes it's even necessary to get an idea accepted by a fearful or incredulous public. Great leaders don't hesitate to call attention to their creations.

4
KATHARINE GRAHAM

Katharine Graham had to make the call. Should her newspaper, *The Washington Post*, publish the story of the Nixon administration's secret history of the Vietnam War? A federal court had already forbidden *The New York Times* from printing any more articles on the subject. Now the *Post* also had access to the Pentagon Papers, and its writers and editors were hard at work summarizing their contents. But printing them might be illegal. It would surely infuriate the White House. Even if it didn't kill the paper, the *Post*'s reputation would be ruined if the writers got anything wrong.

Ben Bradlee and Phil Geyelin, Graham's trusted editors, were telling her she had to publish. Fritz Beebe, her lawyer and business mentor, was saying no. Graham knew the risks. But when she said just that, Geyelin replied, "There's more than one way to destroy a newspaper." That stuck in her mind.

Graham was only a fledgling publisher, still learning the business she had inherited after her husband's death. But she had printer's ink in her blood, and she was inspired by the loftiest credo of journalism - to find and tell the truth, come what may. "I took a big gulp," she wrote years later, "and said, 'Go ahead, go ahead, go ahead. Let's go. Let's publish.'"

In the end, the Supreme Court supported that decision, and the story changed history. It also established the *Post* as one of the nation's most important newspapers, one that would later play an even more crucial role in the Watergate scandal that ended Richard Nixon's presidency. Graham's courage was justly praised, but that's only one of the many lessons her life holds for leaders everywhere.

Kay (as nearly everyone called her) Graham won worldwide acclaim for her backing of Bradlee and his two young investigative reporters, Bob Woodward and Carl Bernstein, in their dogged pursuit of the Watergate story. After the scandal forced Nixon to resign in 1974, the *Post* won a Pulitzer Prize for its coverage. Only a year later, Graham's courage and determination were tested again in a grueling, violent pressmen's strike that went on for four interminable months and could have put the paper out of business. And throughout her career, she struggled to overcome her timidity, assert herself in what was still a man's world, and master the techniques of management and leadership that she had never been taught. She was her own fiercest critic. But her story is a classic of triumph over adversity - and her own account of it, her autobiography, *Personal*

History, was honest, unsparing, and a bestseller.

“That Was What Saved Me”

She was born Katharine Meyer in New York City on June 16, 1917. Her father, Eugene Meyer, came from a prosperous Jewish family in San Francisco. He moved east as a young man and became one of New York’s most successful investment bankers. Meyer cultivated the image of a gambler, but in reality, he never invested in a company without exhaustive research that convinced him he was making a surefire bet. J. Pierpont Morgan said of him, “Watch out for this fellow Meyer, because if you don’t, he’ll end up having all the money on Wall Street.” By 1915, Meyer’s fortune matched his age times a million: $40 million, the equivalent of $900 million today.

Meyer might have come close to fulfilling Morgan’s prophecy, but he saw money as a means to even more satisfying ends. He dissolved his Wall Street firm, moved to Washington, D.C., and got involved in national politics and finance. In 1930, Herbert Hoover appointed him chairman of the Federal Reserve Board. Meyer bought up the near-defunct *Washington Post* in 1933 and set about making it a respected and profitable paper. In 1946, when he was seventy, Harry Truman made him the first president of the World Bank.

Smart, powerful, and public-spirited, Meyer was a man of many virtues, but fatherhood was not high among them. In his galaxy, his five children were distant planets, rarely visited, much less explored. And to them, he was the distant sun, a source of warmth, but a long way off.

Kay Graham’s mother, Agnes Ernst Meyer, came from an affluent New York family with Methodist roots. She was attractive, clever, driven - a fiercely independent woman whose real interests were the arts and people in the arts. Agnes Meyer regarded childbearing as her duty, but once her five children were born, she left them in the nest while flying off by herself. She spent months at a time in Europe, cultivating friendships with prominent artists and writers, including the sculptors Constantin Brancusi and Auguste Rodin, the photographer Edward Steichen, and the novelist Thomas Mann.

Wealth and position allowed Agnes Graham to live by her own rules. In *Personal History*, Graham writes that her mother “came on so strong you wilted.” She recounts her shame and embarrassment when Agnes would march to the front of a line, announce “I am Mrs. Eugene Meyer of *The Washington*

Post," and demand to be taken first.

Soon after Katharine was born, Graham's parents moved to Washington, leaving all five children behind in a vast Fifth Avenue apartment. For the first four years of her life, Graham and her siblings saw their parents only sporadically, but they were in good hands. Their full-time nanny, Margaret Ellen Powell, was a trained nurse and a much-loved surrogate mother. Powelly, as the children called her, took care of them all until they were handed over to a governess, Anna Otth, known as "Mademoiselle."

When Graham was four, the children joined their parents in Washington, where she eventually attended Madeira, the exclusive girls' boarding school in McLean, Virginia. Summers were spent at the family's estate in Mount Kisco, New York, with sojourns at their ranch in Wyoming, as well as numerous trips to Europe. It was a life of ease and luxury, but Graham said money was a taboo subject of conversation, along with sex and religion - "I didn't know we were rich any more than I knew we were Jewish." She saw herself all through her childhood as ugly, unloved by her mother and distant from her father. But somehow, she said, she sensed that he believed in her and "that was the single most sustaining thing in my life. That was what saved me."

Graham said her father was "very shy and remote on one level, witty but very distant and unable to be intimate." But Eugene Meyer did understand the potential of his daughter, once telling the Washington socialite Alice Roosevelt Longworth, "You watch my little Kate. She'll surprise you."

Stars on the Rise

When Katharine Graham's father bought *The Washington Post*, it was bankrupt and so unpromising that he snapped it up at auction for just $825,000. Among the beneficiaries was young Katharine, who got her first taste of journalism with a summer job as a copygirl. Both her parents were passionately involved with the paper, and from then on, the *Post* was always near the center of her life.

In the fall of 1934, she went to Vassar College and soon discovered that her world views needed editing. That happened: Graham entered Vassar as a Republican, like her parents, and left two years later as a New Deal Democrat. She transferred to the University of Chicago, where she joined the liberal wing of the American Student Union. After graduating in 1938, she got a job as a cub reporter at the *San Francisco News* for $24 a week. After a rough start - it took her three hours, she recounted, to write her first, two-sentence story - she was assigned to cover labor news, which she did with curiosity, empathy for the workers, and passion.

More than a bit of passion: By her own account, Graham's waterfront beat led her into an affair with Pat Patton, a bright, streetwise charmer who headed the warehousemen's union. For Graham, this fusion of cultural opposites was good fun if bad journalism, until it dawned on her that Patton had a wife and a serious drinking problem. She saw in hindsight that her behavior was unprofessional. But her apprenticeship in San Francisco had also confirmed her love of journalism itself.

Less than a year later, in the spring of 1939, Graham's father lured her back to the *Post* to edit letters to the editor. Her new job was announced in *Time* magazine: "To Washington, D.C., went comely, twenty-one-year-old Katherine [sic] Meyer, daughter of publisher Eugene Meyer, to handle for $25 a week the 'Letters to the Editor' department of her father's *Post*. Said Father Meyer: 'If it doesn't work, we'll get rid of her.'" One of her San Francisco cronies mailed her the clip with a note: "There are no ifs in California. Come back to us."

The *Post*, launched in 1877, had been the least of Washington's five papers when Meyer acquired it, by both financial and journalistic yardsticks. It was still ailing six years later, but his credo was that, in the long run, quality will be rewarded. He had slowly improved both the paper's bottom line and its reputation, turning the editorial page into a must-read forum for policy discussions and opinions. Still, it was a costly hobby. Not until after World War II did the *Post* turn a profit; by then, Meyer had sunk $20 million into it.

Soon after her arrival, Graham fell in with a group of bright, wealthy young men who had rented an estate in Arlington, Virginia, called Hockley Hall. Among these rising stars was a recent Harvard Law School graduate (and *Law Review* editor), Philip Graham. Handsome, smart, and charismatic, he grew up in Florida, where his father made a fortune in farming and real estate (Graham's half-brother, Bob Graham, was later both governor of Florida and a U.S. senator). In Washington, Phil Graham had landed one of the capital's most prestigious entry-level jobs: law clerk for a Supreme Court justice. He had already served two justices – first Stanley Forman Reed, then Felix Frankfurter, a court appointee who had previously been one of Phil Graham's law professors at Harvard.

Hockley Hall became the center of Graham's social life and a magnet for other gifted young intellectuals, including Frankfurter, Dean Acheson, Archibald MacLeish, and Francis Biddle. Graham recalled the parties and the laughter, but mostly the wide-ranging debates that could go on for days on subjects that ranged from Franklin Delano Roosevelt and the New Deal to communism, Nazism, and civil rights. Soon Graham proposed, and she accepted. They were married on June 5, 1940, and moved into a small row house in Georgetown.

He continued clerking at the Supreme Court; she kept working at the *Post*. But this interlude was brief: Six months later, the Japanese attack on Pearl Harbor disrupted the Grahams' lives, along with millions of others.

Phil Graham enlisted in the Army Air Corps in 1942. Kay followed him to postings in South Dakota and Pennsylvania before he was sent to the Pacific as an intelligence officer.

Katharine Graham became a mother in 1943 with the birth of Elizabeth Morris Graham (now the writer Lally Weymouth). Kay was the first to acknowledge her uneasiness around small babies - no surprise, given her mother's example. She had three more children: Donald was born in 1945, William in 1948, and Stephen in 1952.

No Job for a Woman

In June 1946, Meyer was named to head the World Bank, and Phil Graham became publisher of the *Post*. The family moved into a large house in Georgetown that became Katharine Graham's principal home for the rest of her life. Two years later, Meyer sold 5,000 shares of stock to the couple, giving them control of the *Post*. But it was unequal control: Meyer assigned 3,500 shares to his son-in-law and 1,500 shares to his daughter. As Meyer saw it, "No man should be in the position of working for his wife."

In her memoir, Graham recalled that "curiously I not only concurred but was in complete accord with the idea."

She elaborated, "I really felt I was put on earth to take care of Phil Graham. He was so glamorous that I was perfectly happy just to clean up after him. I did all the scut work: paid the bills, ran the house, drove the children. I was always the butt of family jokes. You know, good old Mom, plodding along. And I accepted it. That's the way I viewed myself."

Others viewed her much the same way, especially her own mother. Agnes Meyer had taken little interest in Kay as she grew up and had never appreciated the keen intelligence and range of interests that won her acceptance by the Hockley Hall intellectuals. She treated Kay with dismissive near-contempt. Once, with the family gathered by the swimming pool, Kay walked up to the chairs where her mother and husband were chatting. "Run along, dear," said Agnes. "We're having an intellectual discussion." Kay did as she was told.

Phil Graham turned out to be a gifted newspaperman, and he shared Meyer's conviction that profit would come from stellar journalism. In 1954, he and his father-in-law bought the competing morning paper, the *Times-Herald*, shut it down, and moved its popular features and columnists to the *Post*. Circulation jumped. Phil Graham also purchased the company's first two television stations. Increasingly, he was becoming involved as a backstage player in Washington politics. He was committed to racial equality and closely allied to Lyndon Baines Johnson, then Senate majority leader, as Johnson fought to pass civil-rights legislation. When his friend John F. Kennedy ran for president in 1960, Phil Graham helped persuade him to make Johnson his running mate.

But the brilliant publisher had a dark side, well known to his wife. More and more, he became two people - one the active public figure, working impossible hours, accomplishing miracles; the other a tormented man who drank too much, behaved erratically, and suffered bouts of severe depression. In 1957, these mood swings triggered a nervous breakdown. One October night, he collapsed in a fit of despair, pain, and weeping. Katharine Graham, terrified, spent hours trying to console him; neither slept all night. In the morning, she sought medical help and eventually got him to a psychiatrist. The diagnosis was manic depression, known now as bipolar disorder.

The shock of her husband's collapse was hard on Kay Graham; the aftermath was worse. The couple could not bring themselves to admit his illness. Apart from his doctor, they told no one and relied largely on hope. She spent the next year ministering to him almost full time. They often took refuge at their farm in Virginia, where she was his sole caretaker.

Phil Graham battled the disease for more than six years. But his condition steadily worsened, and he was twice committed to a psychiatric hospital in Maryland. His drinking grew worse, and he began having affairs, which he made little effort to hide.

Nevertheless, the public man was still racking up successes. In 1961, *Newsweek* magazine - then a lame competitor of Henry Luce's *Time* - came up for sale. Phil Graham had little interest in it until Ben Bradlee, then *Newsweek*'s assistant Washington bureau chief, spent most of a night persuading him of the magazine's potential to become a real national voice. Phil Graham met with Osborn Elliott, *Newsweek*'s thirty-six-year-old managing editor, and their views meshed well. He bought the magazine, somewhat to his wife's dismay; she feared he was already overextended. But Phil Graham saw the magazine as a chance to establish a national presence and prove he wasn't just a son-in-law. And in the next two years, with Elliott installed as editor and bringing in a new generation of reporters and writers, *Newsweek* steadily improved.

With Phil Graham's enthusiastic consent, Elliott signaled a new era at *Newsweek* with a cover story, "Thunder on the Right," exposing the John Birch Society and similar extreme right-wing organizations. The magazine's conservative readers canceled thousands of subscriptions, and many advertisers pulled out. But Graham and Elliott "rejoiced at the ruckus," Elliott wrote later, since *Newsweek* had made itself “a magazine to watch.”

Early in 1963, however, Phil Graham began a romance with a *Newsweek* researcher. Kay soon found out about the affair, and after that Phil made no attempt to hide it, taking the researcher with him on business trips and asking his friends to accept the situation. Some did; others, loyal to Kay, refused to meet the woman. Finally, Phil took her to a publishing convention, where he had a breakdown so severe that he was brought home in a straitjacket. Furious at having all this played out in public, the publisher announced he was leaving his wife for the researcher. Soon afterward, however, he ended the affair, returned home, and, in June 1963, began his second stay in a mental hospital.

On August 3, he was released for the weekend and went to the farm, where his wife found him “quite noticeably much better.” After lunch on the back porch, they went to their bedroom for a nap. Then, Katharine Graham recalled, “Phil got up, saying he wanted to lie down in a separate bedroom he sometimes used. Only a few minutes later, there was the ear-splitting noise of a gun going off indoors.”

Another Kind of Apprenticeship

Stunned and heartsick, Katharine Graham could easily have retreated into wealthy obscurity. Instead, she willed herself to take charge of the business and her life.

She would write, “When my husband died, I had three choices. I could sell [the company]. I could find somebody else to run it. Or I could go to work. And that was no choice at all.”

Within days of her husband’s death, she told the board of directors that The Washington Post Company would stay in the family; on September 20, 1963, she became its president.

“What I essentially did,” she said, “was to put one foot in front of the other, shut my eyes and step off the ledge. The surprise was that I landed on my feet.”

It was not an easy transition. “What most got in the way of my doing the kind of job I wanted to do was my insecurity,” she wrote. “Partly this arose from my particular experience, but to the extent that it stemmed from the narrow way women’s roles were defined, it was a trait shared by most women in my generation. We had been brought up to believe that our roles were to be wives and mothers, educated to think that we were put on earth to make men happy and comfortable and to do the same for our children.”

Graham was nervous and tense, aware of how much she didn’t know about running a business. At *Newsweek*, which she saw as somewhat hostile to her, she felt awkward and uncertain.

“I’ll never forget her first day in the office,” recalled a former *Newsweek* editor, a young writer at the time. “She wanted to meet everyone on the staff, and Oz brought her around, one office at a time, explaining who we were and what we did. He did all the talking. When he got to me, I was tongue-tied. But Kay looked terrified – glazed and almost visibly quaking. I don’t think she heard anything either of us said.” In hindsight, he said, what stood out was her bravery in undertaking the ordeal and going through with it.

Fortunately, she could rely on Fritz Beebe, the kind of old-fashioned, Wall-Street lawyer who bonded with clients, served them loyally, and made himself part of their businesses and their lives. He had helped with the magazine's acquisition and now became Graham's regent as the company's CEO and business mentor at *Newsweek* and the *Post*. She also trusted Elliott and the magazine's publisher, Gib McCabe. It was McCabe who had had to pacify the advertisers outraged by "Thunder on the Right." He managed to regain most of them with a blend of diplomacy and hauteur, telling his staff, "Whether it's true or not, let's act like they need us more than we need them."

Elliott did his best to make that statement true, establishing *Newsweek's* reputation as the liberal counterpart to Henry Luce's conservative *Time*. The magazine was especially aggressive in covering the civil-rights movement, and in 1967, broke new ground for a newsmagazine by taking its first outright editorial stand with a special issue, "The Negro in America: What Must Be Done." The ten-point program it advocated won *Newsweek* the National Magazine Award and a new set of readers and advertisers. Along Madison Avenue, admen (there were few women) were calling it the "hot" magazine.

But Katharine Graham saw the *Post* as home, and, soon after taking the helm, she made a key move. Ben Bradlee, who had become *Newsweek*'s Washington bureau chief, had refused promotions that would have moved him to New York. When Graham asked him what he wanted, he told her, in his usual salty language, "I'd give my left one to be managing editor of the *Post*." She brought him in as an assistant managing editor, soon promoting him to managing editor and then executive editor.

A masterful editor and manager, Bradlee recruited talented reporters and writers, enlarged key departments, and presided over a threefold expansion of the editorial budget in just three years. More important, he functioned as a friend and partner for Graham. With shared ambitions, they turned the *Post* into a journalistic powerhouse in pursuit of stories that made a difference. In 1971, a story came their way that rocked the nation.

The New York Times got there first, having been leaked the Pentagon Papers by a whistle-blowing insider, Daniel Ellsberg. The massive file was the Pentagon's top-secret history of U.S.-Vietnamese relations between 1945 and 1967. The papers documented how four successive administrations - under Harry Truman, Dwight Eisenhower, Jack Kennedy, and Lyndon Johnson - had lied to Americans about U.S. actions in Southeast Asia.

The Nixon Administration went to court and won a temporary injunction against the *Times*, forcing it to cease publication pending a final court decision. The injunction applied only to the *Times*, so when Ellsberg handed over another copy of the papers to the *Post*, Bradlee believed he could legally publish excerpts. *Post* lawyers urged him to wait and let the *Times* carry the burden of invoking the First Amendment. But Bradlee was determined to print the story the next day, June 17.

The stakes were enormous - not just for the *Post*'s reputation, but for its financial life if advertisers and readers abandoned it. The company was getting ready to have a public stock offering, which could crash and burn if investors were frightened off. And the company was vulnerable to retaliation from the Nixon Administration: The licenses for its two Florida television stations, then worth about $100 million, were coming up for renewal.

As always, Graham stayed informed about what was going on. It was her style not to interfere with the decisions of the people she trusted. This time, however, she clearly had to make the call. And when Graham ruled for printing the story, her gamble paid off. After a heated, two-week legal battle, the Supreme Court ruled in favor of both newspapers. The *Post* was firmly established in the front ranks of American journalism, and Graham's reputation as a tough, courageous publisher was secure.

The Floodgates of Watergate

Just a year later, an even greater drama overtook Katharine Graham and the *Post*. On June 16, 1972, five men were arrested after breaking into Democratic National Committee headquarters at the Watergate hotel-and-office complex. The burglars were soon linked to President Nixon's reelection campaign. With Graham's support, Bradlee assigned to the story two young reporters, Bob Woodward and Carl Bernstein. Relying heavily on anonymous sources - most famously one dubbed Deep Throat, who was unveiled years later as a top official at the Federal Bureau of Investigation - Woodward and Bernstein connected the breakin and subsequent cover-up attempts to Nixon operatives throughout the administration.

As the *Post* chipped away at the Watergate scandal over the next seven months, many other major media shied away from the story - leading Graham to demand of Bradlee, "If this is such a hell of a story, then where is everybody else?" In retaliation, the White House and its allies orchestrated a campaign against the Post Company. Suddenly, four challenges were filed against its Florida TV-station license renewals, triggering a 50-percent plunge in the price of Washington Post stock. The White House tapes later revealed that Nixon had told his top aides, "The main thing is the *Post* is going to have damnable, damnable problems out of this one."

Graham was subpoenaed, along with Bradlee, Woodward, Bernstein, and several other reporters and editors, to disclose the *Post's* sources. She faced the real possibility of being jailed if the *Post* refused, and she was ready to submit if need be to protect the paper's First-Amendment rights. She even took possession of some of the reporters' most sensitive documents to ensure that she would be targeted. In a note, Bradlee exulted: "Can't you see the pictures of her limousine pulling up to the Women's Detention Center and out gets our gal, going to jail to uphold the First Amendment? That's a picture that would run in every newspaper in the world. There might be a revolution."

Graham herself was up for the fight, but the strain was intense. "I'd lived with White House anger before," she wrote, "but I had never seen anything remotely like the kind of fury and heat I was feeling targeted at us now." A Wall Street friend with contacts in the Administration at one point warned her "not to be alone." She dismissed that as melodramatic, but couldn't help worrying that some of the *Post's* sources might be deliberately setting up the paper with misinformation.

At one point, Nixon's campaign manager, John Mitchell, warned Bernstein that if the *Post* printed a story about his involvement in an intelligence-gathering scheme, "Katie Graham's gonna get her tit caught in a big fat wringer."

But she took some comfort in the rule Bradlee had set for the story: No new revelation could be printed unless it was confirmed by at least two sources.

Graham only gradually understood the stakes and the necessary action to end what turned out to be a Constitutional crisis. "By the time the story had grown to the point where the size of it dawned on us," she said, "we had already waded deeply into the stream. Once I found myself in the deepest water in the middle of the current, there was no going back."

As Graham herself pointed out, there was one consolation: The *Post* was no longer alone in seeking out the truth. After one of the Watergate burglars, James McCord, wrote a letter to trial judge John Sirica exposing the White House involvement in the conspiracy, the rest of the media jumped on the story as the scandal metastasized. Sirica was tenacious in pursuing McCord's charges. The Senate's Watergate hearings riveted the nation and disclosed, among many other details, the existence of the White House tapes. When special prosecutor Alexander Cox got too close to the truth, courageous Justice Department officials resigned when ordered to fire him.

Nixon escaped impeachment by resigning the presidency on August 9, 1974. But the *Post's* early role in pursuing the truth had been crucial, and, for their work, Graham and the *Post* won worldwide praise and a Pulitzer Prize for public service. The paper's reputation was further boosted by the movie, *All the President's Men*, based on Woodward and Bernstein's book with the same title. When it was all over, Woodward gave Graham a special gift, an antique washing machine wringer, signed by editors and reporters, which she kept in her office. (Another friend gave Graham a tiny gold brooch: a wringer with a woman's breast sticking out. She wore it for years.)

Shrugging Off Stereotypes

At fifty-seven, Katharine Graham had come into her own as a public figure, publisher, and Washington luminary. Often described (to her horror) as the most powerful woman in America, she gave elegant dinner parties at her fashionable, art-filled house. Her guest list was a rich mix of journalists, artists, foreign dignitaries, and assorted insiders representing both political parties. At her own house and dining out, she single-handedly ended the Washington custom that had women leaving the table after dinner so the men could enjoy their brandy and cigars and discuss truly important issues.

But success eluded Graham in business. She had trouble building the management team she wanted, both at the *Post* and *Newsweek.* Executives and editors arrived and departed often. She was criticized for being arbitrary and erratic. Her supporters countered that she set high standards and was right to demand high performance. She herself acknowledged some missteps. But she also sensed that much of the criticism was sexist, depicting her as a “difficult woman” to work with.

Graham rejected such stereotypes, pointing out that male CEOs “fired executive after executive, but no one attributed their actions to their gender.” During her marriage, she had accepted her subordinate status. “Perversely,” she wrote in *Personal History*, “I had seemed to enjoy the role of doormat wife.” But now she dismissed the notion that “women were intellectually inferior to men, that we were not capable of governing, leading, managing anything but our homes and our children.”

Fritz Beebe had died of cancer in the midst of the Watergate battle, but Graham found a new mentor in Warren Buffett. On his way to becoming the nation’s wealthiest financial sage, Buffett invested in the Post Company and soon became the *Post*’s largest non-family stockholder and a director. He tutored Graham on the mechanics of running a large corporation and the intricacies of balance sheets and financial practices. He wanted the company to grow, but he advised her against acquiring what he considered overpriced media properties.

Their relationship evolved past the professional. Though Graham herself didn’t explicitly acknowledge it, in *The Snowball*, author Alice Schroeder describes a romance that probably took root in their mutual experience of emotionally abusive mothers. It began in 1973 when Buffett was in his forties and married, and Graham was in her mid-fifties. Buffett began keeping a set of clothes at her Washington home, visited her on Martha's Vineyard, and "on a lark," they took a trip to Niagara Falls. "She called him constantly about the smallest details of her life," Schroeder writes. Graham made no attempt to conceal the relationship. Buffett's relations with his wife, Susie, had always been complex, and Susie wrote Graham that she didn't object to the affair. But when Graham was seen at a charity benefit tossing Buffett her house keys, Susie ended their marriage. The affair cooled in time, but Buffett remained Graham's friend and trusted counselor.

In 1975, Graham faced what may have been the greatest challenge of her business career. She was determined to modernize the *Post*'s outdated production facilities, but the well-entrenched pressmen's union resisted, knowing jobs would be cut. The pressmen had the advantage: The newspaper had repeatedly backed down in previous confrontations, and if push came to shove, the union could stop printing and shut down the paper. As the September 30 deadline for a new contract approached, the union pressured the company with work slowdowns that caused missed deadlines, angering the paper's advertisers and subscribers.

Midnight passed on September 30 with no contract in sight. Five hours later, Graham's phone jolted her awake: The pressmen had come to work, pretending to be ready to print the paper, but then had run amuck. They wrecked most of the presses, set a fire, and beat up the night foreman. War had begun – a 139-day strike that Graham later called her "business-side Watergate."

Graham had always been sympathetic to labor; now she was a besieged CEO trying to handle a tough union accustomed to getting its way. When she arrived at the paper that morning, reason had vanished, replaced by a jumble of police cars, barricades, fire trucks, and shouting pickets. From then on, both sides only stiffened. Determined to keep publishing, she had taken the precaution of training supervisors to run the presses themselves. But since the presses were inoperable, she now hired helicopters to land on the *Post's* roof and fly copy to the production plants of six suburban papers that agreed to print an abbreviated edition of the paper. Strikers attacked employees who crossed the picket line. They yelled insults at Graham and brandished merciless signs, including "Phil shot the wrong Graham."

Katharine Graham saw it as vital to show up at the paper every day, not just making decisions but taking an active part in the struggle for survival. She was a cheerful, resolute presence, doing whatever needed to be done. She took classified ads over the phone, bundled papers for mailing, fielded complaints, even cleaned up trash. Despite her outward smiles, she feared the worst - more violence against employees who kept working. She also knew the strike had given the rival *Washington Star* an opportunity to capture ruinous chunks of the *Post*'s advertising and circulation.

“The uncertainties, the difficulties, the violence against the people who were working, the fear that the *Star* would use the opportunity to turn the tables, were all overwhelming,” she wrote. “I felt desperate and secretly wondered if I might have blown the whole thing and lost the paper.”

But she never backed down. She offered the pressmen the fattest contract in the industry and said they could come back to work. But she insisted that management control the pressroom, and she refused to take back any men involved in the violence. So the strike dragged on. But as the weeks turned into months, Graham and her loyal staffers were able to repair the presses, print the paper themselves, and put out ever larger editions.

In December - after the pressmen overwhelmingly rejected a final contract offer - the *Post* began hiring and training replacement workers. The paper’s other unions, which she had feared might walk out in sympathy, voted to accept new contracts. The pressmen maintained a picket line for many more weeks, but the strike was over, as was their union’s existence at the *Post*.

Graham had cemented her credentials as a tough business leader, and she moved with increasing confidence. After a series of Post Company presidents who were only partly successful and compatible, she finally found her man in Richard Simmons, who came to the company from Dun & Bradstreet. And having fired five editors of *Newsweek*, she settled happily on Richard Smith, later promoting him to president of the division. Around her empire, she was a familiar presence at meetings, story conferences, celebrations, and whenever a crisis loomed. Editors and executives got scrawled notes on her robin’s-egg-blue stationery praising a notable story or hailing a promotion.

In Graham's early years at the helm, the company had made a series of ill-considered acquisitions, including *The Trenton Times* in New Jersey, *The Everett Herald* in Washington state, and *Inside Sports*, a monthly magazine laboring in the vast shadow of Time Inc.'s *Sports Illustrated*. Now the Post Company sold off most of those publications and began acquiring other ventures, adding a cable television network and the Kaplan educational chain. In 1963, when Graham took over the paper, the company grossed $84 million. When she stepped down as CEO in 1991, leaving her son Donald in charge, annual revenue had reached $1.4 billion. At the time, she was the first woman to head a *Fortune* 500 company and the first to serve as a director of the Associated Press, the news service owned by member newspapers, as well as a director of the American Newspaper Publishers Association. She also served as chairman of the newspaper publishers' group.

Graham liked to attribute her success to luck and other people, but the driving force was a strong woman's passion. In a word, she loved the *Post* and loved running it; the paper, the company, and the people who worked there became her life. She hardly disappeared after her retirement. She wrote her autobiography on her own, with only editing help from her close friend and chief editorial writer, Meg Greenfield, and saw it become both a critical success and a bestseller. At a newsroom celebration of the Pulitzer Prize the book had won, Greenfield quipped, "Now do you believe you wrote a good book?"

With her intelligence, curiosity, and energy, Graham became even more of a world figure, best known for bringing interesting people together at idea-sharing forums, to say nothing of her parties, including those she hosted for two newly elected presidents, Bill Clinton and George W. Bush.

Graham remained deeply involved in the Post Company as well. She led delegations of editors and reporters to visit foreign heads of state, most of whom she knew on a first-name basis. She suggested stories and arranged access for reporters. She made frequent speeches, particularly on media issues. She increased her personal philanthropy, focusing on health and education.

On July 14, 2001, while in Sun Valley, Idaho, for an annual conference of media business leaders, she fell on the sidewalk and suffered a grave head injury. She died three days later. She was eighty-four.

Graham’s funeral at Washington’s National Cathedral was packed with mourners - presidents, senators and diplomats; hundreds of Post Company employees; journalists Tina Brown, Tom Brokaw, and Barbara Walters; business titans Bill Gates, Warren Buffett, and Steve Case; movie director Mike Nichols and fashion designer Oscar de la Renta. Eulogies came from Henry Kissinger on the right and Arthur Schlesinger Jr. on the left. They were celebrating a remarkable woman, one who invented her own life and helped change history.

True to form, Graham always downplayed her power and influence. When speaking about her role at the *Post*, she said it was a group effort, the result of many decisions by many people. “You inherit something, and you do what you can,” she said. “And so the person who succeeds you inherits something different, and you add to it or you subtract from it or you do whatever you do. But you never totally control it.”

As the head of the company, Graham wrote in her autobiography, she was guided by the principle that “journalistic excellence and profitability go hand in hand. I had to try to assure Wall Street that I wasn’t some madwoman, interested only in risks and editorial issues, but that I was concerned with how we ran our business.”

Lessons

Katharine Graham had the advantages of wealth and privilege and plenty of handicaps to balance those gifts. We can all learn from the ways she overcame obstacles and built her own success. Among the lessons to be drawn from her story:

Cultivate curiosity, and learn other viewpoints.

With her refined, wealthy background, Graham could easily have slipped into the privileged world of pampered socialites. But she caught her parents' passion for journalism, and her first summer job, as a copygirl at her father's paper, lit a spark that fueled her interest in ideas and experiences far from her elite sphere. At Vassar, she took up New-Deal liberalism, transferred to the more egalitarian University of Chicago, and learned the blue-collar viewpoint covering labor news as a cub reporter in San Francisco. Back in Washington and working for the *Post*, she became part of the lively group of intellectuals that included her future husband and took part in their wide-ranging marathon debates. And later, her elegant house in Georgetown was a magnet for artists, journalists, thinkers, and the most powerful and influential people in Washington.

A leader must understand the world as it appears from many viewpoints. Keep exploring ideas and seeking out perspectives foreign to you.

March to your own drum.

Rejecting her parents' political conservatism and the elite snobbery of the Madeira School and Vassar, Graham adopted New-Deal liberalism. She could surely have pursued her interest in journalism by asking her father for a job at the *Post*. Instead, she became a cub reporter a continent away, in San Francisco, reveling in her independence. She fell into the traditional role of housewife and helpmate but broke out after her husband's suicide to learn the difficult art of leadership – and succeeded in times of crisis and unimaginable stress. In an era when few women were managers, she came to personify success in that role.

In the elite world of Washington, she was also unique: a gracious hostess and society leader who wielded power through her newspaper and could change politics and policies with her strong views, smart arguments, and wide sphere of influence. *Newsweek* made her a world figure, greeted with respect and deference in capitals around the globe. But Katharine Graham never fully conquered her shyness or lost sight of the fact that her success was the work of others as well. And she followed no conventions, either in her public or her personal life. She tossed her house keys to Warren Buffett, and she threw welcome-to-Washington receptions for incoming presidents of both parties.

A leader must be true to him-or herself. When you follow your convictions, you may be pilloried or misunderstood, but in the end, what comes through is your integrity. In Graham's case, this was never truer than in her first great crisis, when she had to decide whether to publish the Pentagon Papers. With little experience to go by and with conflicting advice from her trusted people, she went with journalism's most basic principle. As the great city editor Stanley Walker framed it: "Better to know the truth than not."

This is not a lesson to be frequently applied; it's for those rare occasions when conventional wisdom or the practical thing to do conflicts with the inner voice that tells you what's right and wrong for you. In such cases, remember the words of Eleanor Roosevelt: "Do what you feel in your heart to be right – for you'll be criticized anyway."

Hire the best, trust them, and back their play.

Graham could and did make personnel mistakes. She went through several Post company presidents and *Newsweek* editors in the first years of her active control of the business. But she never hesitated to correct her mistakes, and when she found the people she wanted, they settled in for the long term.

When Graham made Ben Bradlee the *Post*'s managing editor, she knew she had the man she needed - a sharp, aggressive journalist who would recruit new talent and make the paper great. She let him triple the editorial budget; beyond that, she backed his judgment in hiring his own people and chasing important stories. That strategy passed its ultimate test in the Watergate saga, which the *Post* was at first alone in pursuing and the reporters finding the truth were two young men with no experience of Congress, the White House, or politics. Bradlee trusted them, and Graham trusted Bradlee. Her strategy paid off in the resignation of Richard Nixon, in numerous editorial awards and prizes, in the luminous reputation of both Graham and her paper - and on the bottom line.

It's natural for a leader to doubt the wisdom of subordinates, especially young people who lack experience and don't see the full picture as the leader does. But if you trust your own judgment in hiring them and if you follow their work closely and probe their reasoning and tactics, the only logical option is to trust them. Then you cross your fingers and hope they're right.

Find mentors, but make your own decisions.

Fritz Beebe was Graham's trusted mentor after her husband's death. Only after he died, she wrote, did she realize how much he had supported and protected her. But when he came down against publishing the Pentagon Papers, she overruled him. When Beebe died, she still needed help, and she found it in Warren Buffett, a kindred spirit and probably the best financial adviser in the country. When their love affair waned, she was smart enough to keep him as a friend and counselor – a role he retained after Graham turned over the company to her son, Donald. It wasn't Buffett, however, but Graham who stood up to the pressmen's union in its long, ugly strike.

Everyone needs good mentors. At the same time, however wise they may be, it's your judgment of yourself that counts. Take counsel and consider all the consequences, but never hesitate to set your own course.

Correct your mistakes, but ignore witless critics.

No one does everything right, and Katharine Graham was certainly no exception. Her early fling with a union leader in San Francisco was a mistake for three reasons: He was married, he drank too much, and the affair endangered her journalistic integrity. So she broke it off. Similarly, when a flock of Post Company acquisitions early in her tenure as CEO proved ill-judged, Graham sold them off and learned to apply stricter tests to later ventures. But when she came under sexist fire for being a "difficult woman" to work for, she shrugged it off. Male CEOs are just as demanding, she pointed out, but their perfectionism doesn't get blamed on their gender.

Leaders must know how to correct mistakes but also how to deal with unfounded criticism. Do you know when to change course and when to stand firm?

Take risks, but also take precautions.

When Graham took on the White House in the Watergate scandal, she knew that her newspaper and her company were at risk. To reduce the danger of printing disinformation, she and Bradlee enforced a rule that no new revelation would be published unless there were at least two sources for it. Similarly, when she went head-to-head with the pressmen’s union in a strike that could have killed the paper, she had executives and supervisors trained to run the presses if the operators walked out. When the strikers sabotaged the presses, she arranged for outlying plants to print the paper until repairs could be made.

What risks have you taken in your own career, and how have you hedged those bets? How would you do it differently now?

Be tough.

Katharine Graham’s key traits were her stubborn resilience and amazing courage. Despite her father’s distance and her mother’s emotional abuse, she developed a lively intelligence and wide-ranging curiosity. She survived her husband’s manias, depressions, infidelities, and even his shattering suicide.

Refusing to accept the conventional role of a wealthy widow, Graham insisted on becoming the active head of the Washington Post Company. With her mentor Fritz Beebe at the helm, she forced herself to learn the role; then she took over and made history.

Defending the principles of journalism, she twice fought lonely battles against the president of the United States, a man known for his vindictive fury at being crossed. In the Watergate fight, Graham was prepared to go to jail rather than disclose the *Post*’s sources. In fact, she took possession of her reporters’ most sensitive notes to make sure that if anyone were jailed, she would be the one. And to keep control of her company, she fought another war against a powerful union of pressmen who used violence and sabotage to shut down her newspaper.

Each of those battles threatened her fortune, her reputation, her stockholders, and the livelihoods of the people who worked for her. Each of them could also have been avoided and surely would have been ducked by a less tenacious and courageous leader. But Katharine Graham stood up, fought to the end, and finally won all of them.

Toughness and courage are essential in any leader. To some extent, they can be learned; surviving her childhood and strained marriage may have helped Graham develop the resilience she showed in the battles over the Pentagon Papers and Watergate and the bitter pressmen’s strike. But the lonely decision to take on such struggles, risking everything against the odds, is something that comes to very few of us.

Until that moment arrives, there’s no way to know what you’d do. But ask yourself: How have you shown toughness and courage in the past? If you have failed, could you do better now?

Before Katharine Graham, few women had ever played such a role in our national drama. She was a unique leader in unprecedented circumstances, and she had to overcome a host of difficulties to bring her newspaper to prominence and win her deserved fame. All of us can profit from her example.

5
STEVE JOBS

Steve Jobs exploded to the front of the room, yelling “Stop! This is crazy!” He was tired of the whole meeting, tired of mumbling over useless products, tired of trying to force his aimless company to find some sort of focus. He grabbed a piece of chalk and stalked to the whiteboard, slashing two lines across it to make four squares. “Here’s what we need,” he said. He wrote two words across the top, “Consumer” and “Pro,” and two words down the side, “Desktop” and “Portable.” That’s it, he said. Just make four great computers and don’t worry about anything else.

The room was frozen into silence. But everyone there knew that, no matter how many afterthoughts might be grafted onto those marching orders, this was the way to go - and anyone who didn’t acknowledge that fact had better get out of the way. Even the board of directors would go along without so much as taking a vote. And from that moment on, Steve Jobs was back at Apple Computer. He had been thrown out and exiled for more than ten years from the company he had founded, but now, in 1997, he was once again in control. And Apple was going to survive.

It would take a while to save the patient. First Jobs had to finish rooting out the half-baked products cluttering up the place. Then he had to fire or lay off dozens of engineers, technicians, and production people, wiping out, in his word, Apple’s infestation of “bozos.” But in a little over a year, Apple was producing a trickle of profits. About then, Jobs trotted out his latest wonder, the revolutionary iMac computer, a sensuous Technicolor wonder in a ruthlessly beige-box world.

That was Apple’s ticket to ride into an entirely new world of high-tech living. No one except Steve Jobs understood it then. Most of us still thought that computers were just computers, number-crunchers with incidental communications skills. But a few people got glimpses of the possibilities, and a lot more got a taste of the excitement Apple generated - the sheer pleasure of having a sexy computer and the ease of navigating it. Then, of course, Apple introduced the iPod, and music was everywhere consumers wanted it. Then came the iPhone, and there was more at everyone’s fingertips than anyone could handle. There was the iPad, which everyone wanted even though no one could describe it. And finally, all the devices were stitched together, somewhere in the iCloud.

Back in 1985, when John Sculley fired Jobs from Apple, it was on the grounds that he was a radical whose vision for his company could never be realized. “Apple was supposed to become a wonderful consumer-products company,” Sculley wrote later. “This was a lunatic plan. High tech could not be designed and sold as a consumer product.”

So much for the conventional wisdom of 1985. Eleven years later, with Apple about to crash and burn in pursuit of Sculley’s vision, its directors bought up Jobs’s latest computer venture and brought him back to take over his old one - and he set about proving just how wrong Sculley was.

In the process, Jobs changed life in the United States and the world with the introduction of high-tech devices that no consumer could have imagined. He shook up entire industries - from music and motion pictures to telecommunications. He made Apple the most admired company in the United States and raised its market valuation to a stunning $278 billion by the time he died in 2011. And he stood another piece of conventional wisdom on its head, defying the heralded openness of the Internet age to put Apple at the center of a sealed, secretive empire, shaped and controlled by none other than Steve Jobs.

Jobs’s turnaround of the ailing Apple holds lessons for leaders everywhere.

Change the World

Apple’s beginnings are the stuff of legend: In 1976, Jobs, a twenty-one-year-old college dropout, and his high-school friend Steve Wozniak set out to raise working capital by selling Jobs’s Volkswagen minibus and Wozniak’s programmable calculator. With that money, they launched Apple, producing and peddling personal computers from the Jobs family garage in Los Altos, California.

By any measure, Steve Jobs was out of the ordinary: the exceptionally smart adopted son of loving parents, he resisted authority from the start. He was a boy with a taste for drugs and mystic religions and a lifelong devotee of bizarre diets. In adolescence, for instance, he had the pungent delusion that abstaining from eating meat would make him sweet-smelling without the inconvenience of showering.

As a boy, Jobs was fascinated by electronics. At twelve, in need of parts, he boldly called up Bill Hewlett, founder of Hewlett-Packard, to discuss a problem with him, and he wound up with a summer job. And he had a direct hand in developing Apple computers. But while he was knowledgeable, he was always Wozniak’s second fiddle in the lab - just as Wozniak was happy to have Jobs take the lead in business decisions. Still, Jobs was both a creator and a perfectionist. He had learned from his craftsman father that everything must look good, including the parts that don’t show, and he couldn’t tolerate sloppy work.

Even at twenty-one, Jobs also had a kind of perfect pitch as an entrepreneur. For instance, he knew - somehow - that to succeed in business, he would need marketing help. He also recognized his man immediately from a few ads produced for high-tech giant Intel, using illustrations of cars and poker chips instead of charts. So Jobs kept calling Intel until he found out that the ad man was Regis McKenna. Then he kept calling McKenna, never reaching him until he persuaded one of McKenna’s account executives to come to the computer shop.

Taking one look at the garage, the man decided to spend as little time as possible on this errand. Then the young Jobs came out, barefoot, unkempt, and a bit smelly, and dazzled the executive with how smart he was and how much he knew. A meeting was arranged for the partners with McKenna, at which

Wozniak insulted him by saying no advertising person would ever be allowed to touch his copy. But after the young men were thrown out, Jobs called again. McKenna went to work for them, and he was still helping out more than thirty years later.

That was no accident. And for all their callowness, the partners clambered up the ladder. Their first computer, the Apple I, was the highlight of the Homebrew Computer Club, where Wozniak would have been perfectly happy to continue sharing his secrets if Jobs hadn't objected. Then Jobs found a computer shop owner who was willing to take fifty machines for $500 apiece, provided the hobby kits could be turned into complete computers with keyboards, circuit boards, software, and a power supply. (The partners didn't quite reach that goal, but the owner paid anyway.) Soon Jobs sold fifty more to friends and another 100 to retailers.

They were finally out of the garage. The Apple II soon followed, with its full complement of parts and its sleek molded case. That called for a $1,500 design from a sophisticated engineer and then for $200,000 in production costs. Raising the money was a struggle, but Jobs recruited Mike Markkula, a tech executive who wrote a business plan and then guaranteed to put up $250,000 for one-third of Apple's stock. The Apple II would be the company's primary product for sixteen years, with over 6 million sold. And Markkula was on board for the next twenty years, teaching Jobs about marketing and sales – and most of all that the goal of business should never be to get rich but to turn out good products and create a company that would endure.

Just four years later, with 1,000 employees, Apple went public with the largest initial stock offering since the Ford Motor Company in 1956. After one day of trading, Apple was worth $1.8 billion. Four years after that, the first Macintosh computer introduced consumers to a whole new concept of windows, icons, and the mouse, and Apple had found its niche.

Rough Edges

By this time, Wozniak had become an adviser to the company and branched out on his own. Jobs was still the beating heart of the business. His burning passion for developing new products created what his colleagues called “Steve’s reality-distortion field,” in which he simply ignored the utter impossibility of doing something with the effect that it somehow got done. His charisma in introducing new products created what was described as “pandemonium” among the techies and journalists in his audiences. Still, he was young, inexperienced at business, and unpredictable in his personal relationships. As Apple grew, those around him complained that Jobs would be cursing at them one minute and fawning over them the next, and that they were always on a roller coaster between being heroes and bozos. Jobs was board chairman, but his directors never made him chief executive.

Even so, Jobs was an inspiration, a showman, and a leader who demanded and often got the best from his people. Even engineers who bore the brunt of his furies acknowledged that they did their best work because of him. He enticed an engineer from Xerox by telling him, “I hear you’re great, but everything you’ve done so far is crap. Come work for me.” But as one of his board members at the time was to recall, “Back then, he was uncontrollable. He got ideas in his head, and the hell with what anybody else wanted to do. Being a founder of the company, he went off and did them regardless of whether it ended up being good for the company.”

Making matters worse, the Apple III proved a drag in 1980. By then, however, Jobs and his top engineers had been granted a peek inside Xerox Parc, the Silicon Valley research outpost that wasn’t much appreciated by its conservative corporate parent back east. Xerox Parc had developed a trove of computer technology, including an early version of the mouse and the bitmapped screen that made graphic interfaces possible. Jobs and his team had already been working on their own versions of these revolutionary features, and they now they rushed to be first to bring them to market – changing computers forever.

Apple’s next entry was the much-touted Lisa. It was a far more sophisticated machine, and it was aimed at the upper end of the market. By now, however, Jobs was so revved up about the forthcoming Macintosh with its Xerox Parc features that he couldn’t resist touting it at Lisa’s launch party, effectively dooming Lisa. And the Macintosh, with its mouse, its Windows, and its bitmapped screen, in one jump made Apple a major player.

It was Jobs himself who recruited Sculley, then Pepsi-Cola’s president, to become Apple’s CEO. The memorable Jobs challenge: “Do you want to spend the rest of your life selling sugared water, or do you want a chance to change the world?” Sculley came to work as a near-worshiper of Jobs, but then decided that he was “a zealot, his vision so pure that he couldn’t accommodate that vision to the imperfections of the world.”

Jobs and Sculley first fought over the pricing of the Macintosh, which Sculley insisted should be high enough (at $2,495) to cover the massive marketing costs of launching the device. That included the famous “1984” television commercial, played during the 1984 Super Bowl game and hailed by *Advertising Age* as the greatest commercial of all time. (It featured robotic drones marching to spooky music, a parody of the Microsoft computer world, until a brave young woman threw a sledgehammer to shatter a picture of Big Brother.) The Macintosh was a critical success, but then its sales slumped in 1985 - because it was too pricy, Jobs insisted. Sculley persuaded the board that Jobs had to go. He was just thirty years old.

In what became known as his wilderness years, Steve Jobs was anything but idle. He launched another computer company, NeXT, making technologically advanced but formidably priced machines and software, aimed at promoting academic research. His 6.5 million shares of Apple stock were worth more than $100 million, and he soon sold almost all of them to finance his new venture. But his eccentricities, his insistence on fancy offices, and the perfectionism of his designs all conspired to doom NeXT. Despite financing from the entrepreneur Ross Perot and a brief association with giant IBM, the NeXT computer was seen as an overpriced flop. When it finally launched in mid-1989, Jobs’s factory had the capacity to turn out 10,000 computers a month. Sales added up to about 400 a month.

Almost by accident, however, Jobs stumbled into the opportunity to purchase a majority stake in the computer operations of George Lucas’s *Star Wars* movie business. Jobs grabbed it because he was fascinated by computerized animation. Its most important hardware was the Pixar Image Composer, which provided a name for the new company. Jobs’s plans to develop new software for the machine and create a mass market for it came to nothing. But when Walt Disney’s nephew Roy led a rebellion of directors at the Disney studios, the new CEO Michael Eisner asked him what he wanted. Roy Disney said he hoped to revive the company’s venerable animation department. Pixar won the contract to computerize the animation process.

The presiding genius of Pixar’s animation was John Lasseter, a former Disney executive whose perfectionism nearly matched that of Steve Jobs. The two bonded over their sense of design, and Lasseter put together a group of “A” players that Jobs came to trust intuitively. With Jobs making the deals, Lasseter produced a series of megahits under contract with Disney: the *Toy Story* movies, *A Bug’s Life*, and most spectacularly, *Finding Nemo* - for its time, the most successful animated film in history, with a world gross of $868 million. Many years later, in 2006, when Disney bought Pixar for $7.4 billion, Jobs became a billionaire, a Disney director, and the company’s largest single shareholder.

Long before that, however, Apple was floundering. Sculley was gone by the mid-1990s after several misguided personnel decisions, a disastrous corporate reorganization, and a slump in Apple’s earnings and stock price. His legacy was inflated costs and a product line swollen with mediocre devices. A faction on the board yearned to bring Jobs back and maneuvered to acquire him along with the flailing NeXT for $429 million. Soon after Jobs arrived, early in 1997, CEO Gil Amelio was dumped, and Jobs was handed the reins.

Back From the Wilderness

In the wilderness, Jobs had learned to be a CEO. If he had once been Apple's creative genius who rode roughshod over inconvenient business details, now he devoured them. He was still an idealist who wanted to make beautiful computers, but now he would produce them only if they would make money. "Real artists ship," he liked to say. He also had a family now. After a long and colorful love life (involving, among others, Joan Baez), he had settled down with the lovely, self-contained Laurene Powell, perhaps the only woman in the world who could put up with him. They were to have three children, Reed, Erin, and Eve, and while Jobs was never an ideal father, his family would serve to stabilize his life.

Jobs proceeded to shrink the company to profitability, slashing costs, setting priorities, reducing the product line by almost 70 percent, and terminating major projects in development. He killed off the Newton, the personal digital assistant whose stylus-equipped handwriting recognition system he had never liked, and he started work on a revolutionary new computer.

Jobs had become a leader. As before, he still wanted Apple to "control the whole widget," both hardware and software, to provide its customers with a seamless experience. But now he was happy to outsource manufacturing. He assembled an inner circle of top executives dominated by his team from NeXT. He was as imperious as ever with his people, berating or praising them as his whim dictated. But he made sure that they collaborated, taking pains to guarantee that job candidates met all the top executives in the company before their hiring was approved. And he guarded against "bozo explosions" by ruthlessly hounding out anyone who fell short of an "A" player.

Somehow, Jobs combined visionary enthusiasm with perfectionist micromanagement, scrutinizing every aspect of every project and insisting on redoing anything that wasn't right. He commissioned a bold new ad campaign, "Think Different," dreamed up for him by Lee Clow, the Chiat/Day creative director who had produced the "1984" commercial. What he needed was a breakthrough product, an electrifying new personal computer that would show the world Apple was back. And he got it. A little more than a year after Jobs returned, Apple introduced the iMac.

In giving engineers their marching orders for the iMac's design, Jobs told them it should be a complete machine, with screen and works in one case, ready to plug in coming out of the box. Even the case mattered: It should present the computer, becoming part of the customer's experience. The machine should be unique, make a statement, and sell for about $1,200. When his engineers insisted, he agreed that it should also have a hard drive and function as a self-contained desktop computer.

An exceptionally talented Englishman, Jonathan (Jony) Ive had been about to resign as Apple's chief designer when Jobs came back. He had been frustrated by Apple's emphasis on moneymaking rather than design. But the two bonded, and it was Ive who came up with the sensuous, playful design of the iMac. He told Jobs's biographer Walter Isaacson that he wanted the computer to be friendly and lively with "a sense that it's just arrived on your desktop, and it's about to hop off and go somewhere."

Ive and Jobs gave the iMac a panel of sea-green, clear plastic wrapped around its curved back so that all the neatly packed rows of electronic parts could be seen and admired. They gave it a recessed handle tucked inside the case - more to invite touching and communicate friendliness than to lug it around with. Engineers and cost-controllers almost rebelled at that, but Jobs insisted. In the end, each iMac box would cost $60, three times the amount of a standard computer case. The computer's name was a contraction of Macintosh combined with in-house Apple jargon - an "i" used to designate a seamless connection with the Internet, which was just starting to transition from a novelty to an essential aspect of life.

Jobs drove his troops relentlessly to make sure production stayed on schedule, and he labored endlessly over the launch of the machine. Lighting crews toiled to perfect the timing and the intensity of the spots that would highlight the iMac's first appearance on stage, in May 1998. The script was worked and reworked, and old friends including Steve Wozniak and Mike Markkula were invited. It was a triumph. The iMac gleamed, Jobs ran it through its paces, and the crowd gasped. "It looks like it's from another planet," Jobs said. "A good planet. A planet with better designers."

As Steven Levy wrote in *Newsweek*, the iMac was "not only the coolest-looking computer introduced in years, but a chest-thumping statement that Silicon

Valley's original dream company is no longer somnolent." And sure enough, the iMac - affordable at $1,299 - sold 278,000 in its first six weeks and 800,000 by the end of the year. It raised Apple's market share from 2.6 percent to 13.5 percent - not a huge number, but proof that the iMac was a high-margin product in a growingly commoditized world of computers. The iMac produced the company's first year in the black since 1995, and the profits kept flowing. And over the years, that high-margin formula would be Apple's secret sauce.

The stock price soared, and Jobs, who had been working for $1 a year, decided to drop the title of interim CEO and take over the whole job. He turned down the offer of a huge chunk of stock, but he said he would like a private jet. The ecstatic board voted him his own Gulfstream V. "With what he's done," said director Larry Ellison, CEO of Oracle, "we ought to give him five airplanes."

But that gift triggered one of Jobs's characteristically prickly turnarounds. When he had first returned to Apple, he had declined the stock grant; he said that he didn't want to seem to be in it for the money. Since the stock had zoomed from $14 a share to $102 in early 2000, that decision had cost him $400 million. So, when the board gave him his Gulfstream and offered him 14 million stock options, Jobs revoked his earlier refusal and said he wanted 20 million options. It took several attempts to smooth out the differences. In the end, the gains all vanished as the tech-stock bubble popped.

“It’d Better Be Damn Good”

The iMac was just the beginning of Apple’s comeback. Again, Jobs was patient. He had resolved to make nothing that was not exceptional. “Life is brief, and then you die, you know?” he told *Fortune* writer Betsy Morris. “And we’ve all chosen to do this with our lives. So it’d better be damn good.” He did no market research on the grounds that “you can’t ask people what they want if it’s around the next corner,” and he vowed to reject 100 good ideas to find one great one.

And he was beginning to have a monumental idea, an insight that would change the world. As usual, he didn’t keep it a secret: In 2001, at his annual MacWorld conference, he spelled it out for friend and foe alike. Was he to blame if people didn’t understand him?

The idea was rooted in the perception that the computer itself, once the vital center of the electronic world, had “matured into something boring,” as *The Wall Street Journal* said. Okay, said Jobs, but the computer could still be the centerpiece coordinating a full range of electronic devices, freeing them up to be lightweight and convenient. You could record movies or TV with a hand-held camera, for instance, and edit them on the computer, adding music, titles, and visual tricks. You could organize your music into albums or compose your own collections of poetry. To manage your increasingly electronic life, your computer would be your digital hub.

What’s more, reinforcing his earlier view that he wanted to own “the whole widget,” he saw the opportunity to consolidate all these devices on a proprietary Apple platform. By owning the hardware, the software, and the operating system, he explained to *Time*, “We can take full responsibility for the user system. We can do things that the other guys can’t do.”

Apple’s first step toward the digital hub had been in the early nineties with FireWire, a technology that could move large digital files from one device to another. Jobs now used it to program music from computers into the iPod, a stylish new entry in the established field of MP3 music players. Thanks to Jony Ive, it stood out for its tiny case, its irresistible ease of use, and its ability to play 1,000 songs.

But the iPod would have been useless without iTunes, “jukebox software” for organizing and playing digital music. The iTunes program lets people choose songs and assemble them in files on the computer, then transfer them to the iPod.

That would have been enough to guarantee the iPod's success. Piracy of music was widespread in those days and growing worse. Dozens of pirate services (Grokster, Napster, Kazaa) offered free music to all comers. But Jobs genuinely liked music and those who made it, and he wanted his customers to have a safe, reliable, and legal source of entertainment. So he set out on a long, intricate negotiation to convince the leading music labels to let him sell digital versions of their songs. For lack of alternatives - and because Apple was then only 5 percent of the music market - they agreed, one by one. Then, to make sure iTunes could offer the most acclaimed artists, Jobs used all his formidable charm to sign up some of the world's greatest performers, including Bono, Bob Dylan, and Yo-Yo Ma.

By 2003, iTunes had become an online music store, selling individual songs for just 99 cents each - and playable only on an iPod. When the store opened, Apple predicted it would sell a million songs in six months. Instead, it sold a million in six days. The iPod's distinctive white earbuds soon became ubiquitous, overwhelming rival music players with a market share of 70 percent.

Jobs followed up with the even sleeker iPod Mini, the iPod Nano, and then the iPod Touch, which offered music, movies, games, and as much as 160 gigabytes of memory. He was untroubled by the fact that each of these devices was better than the last, threatening to cannibalize a prospering market. "If you don't cannibalize yourself, someone else will," he said. By the end of 2009, Apple had sold nearly a quarter of a billion iPods.

With iTunes and the iPod, Apple had also turned the music and entertainment industries on their heads. Apple became the world's biggest music retailer as compact discs turned into relics. iTunes began selling videos, too - again, playable only on Apple devices. The digital hub strategy was plainly paying off.

Also, Jobs had taken a significant step toward another visionary goal: to reverse the open-source, everything-is-free ethos of the early days of the Internet. "One of our biggest insights was that we didn't want to get into any business where we didn't own or control the primary technology," he said, "because you'll get your head handed to you." He did open up the iPod to outside developers of what was to become more than a million software applications, including everything from serious business tools to video games. The iPod had become a continuing source of revenues for Apple, and anyone who wanted to play with it had to do so on terms set by Steve Jobs.

Hitting the Reset Button

Any other executive might have eased off a bit and just enjoyed 2005. The iPod was a runaway success, with sales quadrupling that year to 20 million; it made up 45 percent of Apple's total sales. But that was exactly what bothered Steve Jobs: Something could come along and eat his lunch, and it probably would be a cell phone. After all, he worried, it would be easy enough to add a music player to a phone, and then the iPod would become as redundant as a separate camera already was for anyone but a professional photographer.

In any case, Jobs told *Fortune*, he and all his friends hated the cell phones they had. What's more, the phone market was extraordinarily promising: "I mean, a billion phones get shipped every year, and that's almost an order of magnitude greater than the number of music players. It's four times the number of PCs that ship every year."

The problem, as Jobs saw it, was that existing phones were far too complex and difficult to use. The breakthrough for Apple came when Jony Ive, working on a design for a tablet computer, came across the prototype of a multi-touch screen - a sensitive display that could respond to touches at different locations or even act as an on-screen keyboard. The engineering complications were scary, but Jobs bet big on using the display for the iPhone, which led to the creation of a stylish, simple, and intuitive device.

Jobs was particularly obsessed with the materials to be used for the iPhone. By now, his gadgets had come in translucent plastic, titanium, and anodized aluminum, all specially produced for him. For the iPhone, he wanted glass that was especially strong and resistant to scratches. He consulted the glassmakers at Corning, and found they had developed a "gorilla glass" that was just what he wanted - but it would take the company months to get it into production. Jobs activated his reality-distortion field. "You can do it," he told Corning CEO Wendell Weeks. "Get your mind around it. You can do it." To his own amazement, Weeks did, and the iPhone was introduced in 2007.

The iPhone's glass touch screen, user-friendly features, and inviting feel had rivals scrambling to catch up. It is, of course, a telephone. But its owners can also use it to play music, check the weather, book dinner reservations, read a newspaper, get map directions, or play a video game.

One key to the iPhone's success was its many apps - a controlled opportunity for outsiders to develop software and content for it. At first, Jobs resisted anything that could taint his product's integrity or infect it with viruses. But as he had with the iPod, and under heavy pressure from some employees and directors, he agreed to let outsiders make apps if they were tested and approved by Apple and sold only on iTunes. To date, there have been billions of downloads, and it's safe to say that if Apple hadn't accepted these apps, its phone would be an also-ran.

The iPhone was designed to run on Apple's proprietary OS X operating system. It would run all of the iPod's apps and more, and it would be another source of continuous revenues. Though priced well above the market average, in the end, the amount was one that Apple's fans were delighted to pay. "Just as Jobs has done in the music business," observed *Business Week*, "he's given customers and producers everything they wanted - yet he has somehow managed to keep all the power for Apple."

Late in the development of the iPhone, Jobs decided one day that it wasn't good enough. The date was "way too close to the introduction to ever change it," he told *Fortune*, but "I came in one Monday morning, and I said, 'I just don't love this. I can't convince myself to fall in love with this. And this is the most important product we've ever done.'" So he told his design team to start over. They complied - eagerly, he said - and this time he was pleased. So were his customers: Launched in mid-2007, the phone reached sales of 1.4 million by year-end. Rival producers have battled hard, but successive new incarnations of the iPhone have only underscored Apple's dominance.

The Real Apple Experience

Jobs has also made an impact on the entire retailing industry with his Apple Stores - airy, inviting spaces filled with touch-me gadgets and knowledgeable, low-pressure staffers who make visiting the stores a truly enjoyable experience. Each offers Apple hardware, software, and accessories, with a “genius bar” that provides prompt and reassuring technical support.

The stores began as an offshoot of Jobs’s control-freak instinct: He resented not being in complete charge of the experience of buying an Apple product. Undertrained clerks in computer stores were selling his products alongside commoditized PCs, with no clue as to what made them distinctive. “Unless we could find ways to get our message to customers at the store, we were screwed,” he told Walter Isaacson. As far back as 1999, he started interviewing retailers who might help him develop a vision for Apple stores.

His board wasn’t taken with the idea, but one director – Millard (Mickey) Drexler, the brains behind The Gap - advised Jobs to make a secret prototype and play with it. So for almost a year, Jobs and Ron Johnson, a former Target executive, worked at an old warehouse near the Apple campus in Cupertino to develop the kind of bright, airy, uncluttered space that Jobs had in mind, displaying the entire Apple line to its best possible advantage.

They had planned to launch the first store in January 2001. But just three months ahead of time, Johnson had a sudden epiphany: They were showing the products as separate lines, but Jobs’s new notion of a digital hub meant that they should be organizing the stores by the activities people enjoyed and that Apple products could facilitate. This time, it was Jobs who was shocked and dismayed. But he agreed, and they started over. And Jobs kept his hand in the project, hashing over every detail, personally selecting materials, even designing the floating glass staircases between store levels.

In May 2001, the first Apple store opened in Tyson Corners, Virginia. Retailers around the country sneered; *Business Week* headlined its story, “Sorry, Steve, Here’s Why Apple Stores Won’t Work.” But they reached $1 billion in sales faster than any retail business in history. Manhattan’s Fifth Avenue store, which opened in 2006, has the highest annual gross in absolute dollars of any store in New York. By early 2013, while other big retailers were closing branches by the hundreds as online shopping took off, there were nearly 400 Apple stores thriving around the world.

The iPad and the Cloud

The latest Apple gadget, the iPad, was introduced early in 2010 as Steve Jobs's personal pet project. It was a strange hybrid, short of a computer but a good deal more than an iPod or iPhone. At the first showing before it went on sale, critics couldn't figure out what to make of it. You could read a book on it. You could surf the Internet, play music, or edit photos. You could hold it in one hand and make the screen do tricks with the other. But you couldn't even make a phone call or take photos with it. After the hype of the launch, the new device was put down by competitors and ruthlessly mocked by critics.

Three months later, when the iPad finally went on sale, the critics did an about-face. Both *Time* and *Newsweek* put it on their covers, with adulatory headlines ("Sometimes the hype is true," wrote Lev Grossman in *Time*.) It turned out that the iPad looks and feels lovely, is marvelously user-friendly, and can play movies for ten hours on a single battery charge. Its sales reached 300,000 on its first day alone.

In the interval between the launch and the actual marketing, Jobs had made another crucial intervention to stifle the critics of his new toy. Part of the problem, he decided, was the advertising for the iPad, a gently relaxed vignette of a guy in jeans playing with his iPad, skipping from books to videos to a newspaper and back to e-mail and his photo album. Jobs, of course, had approved the commercial, but now he decided that it looked like a Pottery Barn ad, and he hated it. After several screaming matches with his advertising team, he ordered up a straightforward, dramatic statement of all the things the iPad could do - a "manifesto" that would leave no doubt that it was new and revolutionary.

"We went down that lifestyle path," Lee Clow told Walter Isaacson, "and suddenly he said, 'I hate that stuff. It's not Apple.' He told us to get back to the Apple voice. It's a very simple, honest voice."

Did that make the difference? Who knows? As the old chestnut has it, you know that half of your advertising is wasted; what you don't know is which half. In any case, people kept buying iPads. Apple predicted that 10 million would be sold in its first year. The actual figure: 25 million.

And on beyond the iPad, Steve Jobs had another bigger vision: Your digital hub would move from computer to the cloud - literally, to a remote cluster of servers managed by a company you trusted, available to you via any device you cared to use, anywhere. He launched the cloud modestly in 2008 with a subscription service called MobileMe, making a user’s digital life available on any computer or iPhone. But MobileMe was trashed as unreliable and prone to lose data. Furious, Jobs sacked the leader of the effort and went back to the drawing board. Two years later, under rising competitive pressure from Amazon, Google, and Microsoft, he launched it again as iCloud. This time, he said, “It all just works.”

The Anti-Jobs

By then, Steve Jobs was increasingly ill with the cancer that would kill him. It had begun seven years earlier, with a tumor on his pancreas. At that point, Jobs refused to undergo surgery. For nine months, he insisted on fighting the cancer with a vegan diet, acupuncture, herbal remedies, bowel cleansings, and the like. His wife and friends argued long and hard, but he remained immovable until a CT scan in July 2004 showed conclusively that the cancer had spread. In removing part of his pancreas, his doctors found three metastases in his liver. Jobs returned to work after six weeks of convalescence and announced that he was cured. But while he would turn out some of his most brilliant innovations in the next few years, the end of his life was now in sight. In 2009, he took another medical leave for a liver transplant, returning to work even gaunter than before. And on October 5, 2011, he died, triggering a massive wave of public tributes.

As Apple's public face, Jobs was all-pervasive. His showmanship in introducing new Apple devices was legendary, and his eye for talent equally remarkable. And yet Jobs was never easy to work with. "He oozes smug superiority," *Fortune's* Peter Elkind observed in 2008. He went on to describe Jobs as willful, brazen, secretive, controlling, and capable of firing people in heated tantrums. His obsession with secrecy made the Apple campus a place of cautious paranoia, where people were careful never to speak of anything that might be sensitive. "Yet many of his top deputies have worked with him for years," Elkind wrote, "and even some of those who have departed say that although it's often brutal and Jobs hogs the credit, they've never done better work."

In large part, Jobs offset his personal liabilities by recruiting an anti-Jobs to be his number two. Tim Cook, lured from Compaq in 1998, is no less obsessive and no less a workaholic than Jobs himself was. But as Apple's chief operating officer, Cook was Jobs's opposite: quiet, contained, intensely private, and unemotional. During Jobs's two medical leaves, Cook ran the company seamlessly in his absence. Since Jobs's death, the company has continued to roar with Cook at the helm.

While Jobs got credit for the ingenious design and marketing savvy that made people pay premium prices for his gadgets, it was Cook who made Apple a paragon of efficiency. He quickly redesigned Apple's supply, manufacturing, and distribution chains. He closed factories and warehouses around the world, ending the company's own manufacturing and outsourcing production to contract suppliers. Costly inventory dwindled. And at last count, the combination of high prices and low costs gave Apple a gross profit margin of 36.3 percent - twice that of most rivals.

To this day, Cook spurns the principle of product diversification - "That's not us" - and says Apple aims instead to mobilize all its resources around just a few offerings. It culls its products ruthlessly. On the day Apple introduced the iPod Nano, it stopped making the Mini, which had been the best-selling iPod model. The reasoning: The Nano was a better product and sold for a higher price; why dilute the market?

After Jobs's death, the question was whether anyone who wasn't Steve Jobs could maintain Apple's sheen. Some speculated that Cook should emulate Jobs and seek out someone who could complement his own talents, just as he did for Jobs - except, of course, that would mean finding another Steve Jobs. And Cook would be unlikely to find one. So far, he's doing fine on his own, but the skeptics won't be convinced until he comes up with an iMac, iPod, or iPhone of his own.

Lessons

Steve Jobs's record at Apple is by no means without demerits. Some of his projects bombed or underperformed: The early Apple III, for instance, was a drag on the market; later the Apple TV, a box that could wirelessly display a computer's contents on a big-screen television, turned out to offer a service that relatively few wanted. His secretiveness about his own ailments triggered criticism from corporate governance experts, who argued that since his health could move markets, investors had a right to know about it. Though his eccentricities waned with time, to the end, he was a demanding, explosive boss who was hard to live with.

For all his flaws, Steve Jobs was certifiably a business genius. He was an icon who met his own measure of success: He changed the world. And even if we don't all share his unique qualities, we can still learn from his record. The main precepts:

Insist on excellence.

Excellence was Steve Jobs's bottom line. He refused to make products he couldn't fall in love with, and he wouldn't launch a device until he was convinced he had it right. "This is our life," he said. "We don't get a chance to do that many things, and every one should be really excellent." Jobs learned early on that the purpose of business wasn't to make money but to turn out good products and create a company that endured. But when he delivered excellence, his customers were willing to pay prices that gave Apple a big margin of profit. Both he and the company benefited handsomely.

Does this principle apply to your business? Clearly, it's no formula for a commodity product or a business driven primarily by price competition. But if you're aiming at a high-end market of customers willing to pay a premium, excellence is exactly what you must deliver, every day. Never settle for less.

"Real artists ship."

Jobs learned in his wilderness years that making beautiful devices pays off only if people want to buy them – a fact that governed the rest of his business life. Before taking on development of the iPhone, for example, he figured out that the potential market was enormous, with four times as many cell phones as personal computers shipped in a year. He still aimed to be an artist, but with a key caveat:

“Real artists ship.” This is one lesson that no businessperson can ignore.

To be sure, Jobs had a way of dismissing impossibilities in order to push the people around him to perform miracles. It often worked, but only because he had somehow learned to tell the difference between true impossibility and what people merely believed was hopeless. Few people should try this at home – or in the office. If you do, be prepared for a crash.

Challenge people. Back their play.

“My job is not to be easy on people,” Jobs said. “My job is to take these great people we have and to push them and make them even better.” He hired talented individuals, showed them how good they could be, and gave them responsibility: “When you hire really good people, you have to give them a piece of the business and let them run with it.” By giving Jonathan Ive a relatively free hand, Jobs got the iMac, the iPod, and the iPhone. By letting John Lasseter manage the creative side of Pixar, Jobs turned out some of Hollywood’s best animated films.

But Jobs also knew how to spot and get rid of the conventional thinkers he called bozos. After his return to an Apple that had withered in his absence, Jobs had to purge Sculley’s bozo hires and scrap the dreary products they turned out, and from then on, he was always on the lookout for bozos who somehow made it into Apple’s offices.

For all his faith in his own judgment and the quality of his people, he knew the risks of his last-minute decision to redesign the iPhone. “Sometimes when you’re in the middle of one of these crises, you’re not sure you’re going to make it to the other end. But we’ve always made it,” he told *Fortune*.

Hire nothing but the best people, reward them generously, and purge all bozos. Challenge your people to the limit of your own risk tolerance. It’s living dangerously - but living the full life.

Offset your weaknesses.

Jobs knew he could be harsh, hot-tempered, and erratic, and he hired Tim Cook to counteract these traits with his steady, even-handed coolness. But Cook also reinforced Jobs’s perfectionism and workaholic ways. Ask yourself: What are your strengths and weaknesses? Can you find leaders who will provide what you lack?

Never follow the crowd.

Apple rejects the conventional wisdom that companies should diversify, instead putting all its energy into a few exceptional products that have transformed modern life. Jobs broke the beige mold of the PC industry with the boldly colorful iMac. He did no market research on the indisputable grounds that people can't want something that doesn't yet exist, which was what he meant to give them. He trusted his own intuition and judgment, and he was willing to bet on what no one else had tried.

Not everyone can have such vision, and there's no use pretending if you haven't got it. But if bold nonconformity fits your style, trust yourself and go for it. The worst that can happen is failure, and that's final only if you accept it.

It's okay to be a control freak.

Steve Jobs's perfectionism, obsession with detail, and penchant for micromanaging made him a control freak, a trait that would disqualify most people as good leaders. But he somehow managed to use what could have been a handicap in the service of his overriding vision in a way that his people accepted and even came to admire.

Jobs's goal was that Apple should "control the whole widget," hardware and software alike, not just establish an effective monopoly but make sure the customer got the right experience. With his grand concept of the new role of personal devices, and with the cloud linking them all and the computer as the digital hub, Jobs soon had people living their lives on an Apple platform.

All the devices were linked, and none of them would work with gadgets from other producers. But Jobs made one crucial exception to total control: Beginning with the iPod, he permitted outsiders to create and sell "apps" – programs allowing Apple devices to perform specialized tasks. Apps had to be vetted by Apple, and they could be distributed only through the iTunes online store. But soon there were thousands available, and three years after the iPhone went on sale, its owners had piled up billions of downloads of apps.

With iTunes and the iPod, Jobs upended the whole music business. Then, with his app store, the iPhone, iPad, and iCloud, he created a closed business model, controlled by Apple, on the hitherto open Internet. The true business genius of Steve Jobs was not his creativity, his showmanship, his flair for design, his quest for excellence, or his eye for talent. It was that his vision could change whole markets by introducing undreamed-of products that everyone immediately wanted, and those devices have transformed modern life.

6

RAY KROC

You may not want to share this information with your teenagers: Ray Kroc - the visionary behind McDonald’s and one of the most successful entrepreneurs in American history - was a high-school dropout. And the man who changed the way the world eats didn’t open his first restaurant until he was in his fifties.

Clearly, Kroc didn’t follow the book - he wrote a new one. The saga of his ascent from paper cup salesman to one of *Time* magazine’s 100 most important people of the twentieth century is a vivid lesson in leadership, drive, and common sense.

Sundae School

Ray Kroc, it may be surprising to learn, began his career with music. In his teens, he and two friends opened a small music store. It didn't last long, but his entrepreneurial spirit kept growing. He also had a job at an uncle's drugstore soda fountain. According to *Grinding It Out*, Kroc's entertaining autobiography, "That was where I learned that you could influence people with a smile and enthusiasm and sell them a sundae when what they'd come for was a cup of coffee."

Kroc saw life as a learning process; he soaked up business and sales lore like a sponge. School was another matter. The only thing he enjoyed was debating; he loved getting attention as he smoothly won arguments and influenced people. In one memorable debate, he was called upon to defend smoking before an audience clearly against him. After his opponent attacked the habit, Kroc asked his audience to picture his grandfather, a Bohemian immigrant near the end of his hardworking life. One of his few remaining pleasures was sitting in an easy chair puffing on his pipe. "Who among you," Kroc asked, "would deprive him of one of his last comforts on earth, his beloved pipe?" Point made. Another sales lesson for young Kroc: When it comes to persuasion, emotions usually trump intellect.

When the United States entered World War I in 1917, Kroc was a fifteen-year-old dropout selling coffee beans door-to-door. He lied about his age and signed up with the Red Cross to be an ambulance driver. While training in Connecticut, he was puzzled by another trainee who never joined the off-duty sport of chasing local girls. He always stayed in camp, drawing pictures. Years later, Kroc got it. The solitary doodler was young Walt Disney.

The war ended before Kroc shipped out, so he returned to the Midwest and hit the road selling ribbons and notions. He set up shop in hotel rooms, invited store owners in, and learned to size up their needs and personalities in a flash. "No self-respecting pitcher throws the same way to every batter," he wrote in his autobiography, "and no self-respecting salesman makes the same pitch to every client." Though still a teenager, Ray Kroc was on the way to earning the equivalent of a master's degree in marketing - and it had all started with the sundae school.

Kroc also paid a lot of attention to his appearance. Lean and compact, he wore his hair slicked back and parted in the middle, just like Rudolph Valentino, the 1920s heartthrob of silent film fame. Early photos show Kroc as a natty dresser, with a wry smile that seems to say, “Stick with me, we’ll make money and have fun doing it.”

His own path to money and fun included gigs as a piano player. His musical career took a life-changing turn when he played at a lakeside summer resort in Michigan. There he met Ethel Fleming, his first wife. When they married in 1922, Kroc was twenty, practically a child groom, but he was old enough to land a job selling Lily brand paper cups. He was the proverbial young man in a hurry.

A Streamlined Speakeasy

Ray Kroc continued juggling two careers - selling paper cups during the day and playing piano on a local radio station at night. His daughter, Marilyn, was born in 1924. Paper cup sales slowed drastically in the winter, and Kroc caught Florida fever. In the early 1920s, Florida exploded with a real-estate boom, complete with overbuilt beach houses and a mortgage bubble straining to burst. Kroc took a six-month leave from Lily, packed up his family, and headed to Miami in a Model T - a rough trip nearly a quarter century before interstate highways.

It was the era of Prohibition and Kroc got a job playing piano with a big dance band at a fancy speakeasy on an island off Miami.

The club was surrounded by a high hedge with a gate; if federal agents showed up, the doorman pressed a button alerting everyone inside to banish the booze while he stalled the feds. One night, he couldn't stall them long enough. Kroc was arrested and spent three hours in jail. He wasn't bothered; every business had its hazards. What he took away from the job (in addition to a police record) was the speakeasy's streamlined way of doing business. All drinks were a dollar, and the menu offered only three items: lobster, steak, and duck. The simplicity impressed Kroc, and years later, influenced his first motto for McDonald's managers: KISS ("Keep It Simple, Stupid").

Kroc went back to Chicago and Lily, which soon merged with Tulip cups. Over the next decade, he honed his skills as a top salesman supervising fifteen others - and this was during the Great Depression. His trademarks were straight-arrow honesty and the ability to turn a customer into a partner. If he knew the price of cups was about to rise, he alerted customers ahead of time so they could put in a big order before it happened. His bosses weren't happy with this practice, but Kroc was too valuable to let go. For one, he kept his sales force in top shape - clean, sharp, well-dressed. He insisted, as he later recounted, "The first thing you have to sell is yourself."

Multimixer’s Multitasker

Ray Kroc’s paper cup customers included many soda fountains and ice cream shops; his interest in this emerging fast-food market grew. Milkshakes were especially popular, but the mixers then in use only made one shake at a time and often couldn’t keep up with demand. Help was on the way. One of Kroc’s customers, an ice cream shop owner, invented a machine called the Multimixer that could mix five shakes at once. It changed Ray Kroc’s life. He became Multimixer’s sole national distributor in 1938. Ethel Kroc was furious that her husband would trade the security of Lily Tulip for this gamble. But Ray Kroc trusted his instincts - although the marriage suffered a breach from which it never recovered.

Kroc became a one-man band, traveling all over the country, lugging his heavy sample case, pitching this amazing new contraption at trade fairs, conventions, big stores, small stores, any place he could find a potential buyer. The hours and travel were brutal, and certainly not much fun – but nothing less than his future was at stake.

In his autobiography, Kroc describes his technique for clearing his mind and getting a crucial good night’s sleep: “I would think of my mind as a blackboard full of messages, most of them urgent, and I practiced imagining a hand with an eraser wiping that blackboard clean. I made my mind completely blank. . . . Then I would relax my body, beginning at the back of my neck and continuing on down, shoulders, arms, torso, legs, to the tips of my toes. By this time, I would be asleep.” He would then wake up in the morning fresh and rested.

Kroc sold Multimixers right and left, to Dairy Queen, Tastee-Freeze and all the rest. One customer was a man named Willard Marriott, who had started as a franchisee for an A & W Root Beer stand in Washington D.C. “His method of operation fascinated me,” Kroc wrote. “I considered myself a connoisseur of kitchens; after all, selling Multimixers took me into thousands of them. I prided myself on being able to tell which operations would appeal to the public and which would fail. Willard Marriott looked like a winner to me from the start. I had no more idea than he did back then, though, of what a giant his Marriott Corporation would become in hotels and restaurants.”

By the early 1950s, Kroc was making a good living selling Multimixers, but he was hardly wealthy. He was always on the lookout for the next big thing. He invested in a product called Fold-a-Nook, a folding kitchen table with benches. As he recalled, “I had some reservations about it, but my anxiety to get a new product for my salesmen to market overcame my doubts. I . . . had the sample shipped to the Beverly Hills Hotel in California, where I intended to introduce it with a big splash. All the top developers and builders I’d invited for the occasion came and sipped cocktails in the elegant room I’d rented. They admired the fresh flowers and praised the hors d’oeuvres. The party was a terrific success, but ‘Fold-a-Nook’ was an enormous flop. I got not a single order.”

Then he heard about a drive-in restaurant in San Bernardino, California, with such a demand for shakes that it kept eight Multimixers whirring all day long. The place was owned by two brothers named McDonald. Kroc decided to fly out and take a look.

After World War II, the United States finally shook off the Great Depression and rediscovered prosperity. Postwar jobs were plentiful, suburbs blossomed, people bought cars for commuting to work, and soon we were a nation on wheels, paving the continent and creating a highway culture. From coast to coast, families loved to pile into their new Chevys and Fords to find bargain appliances at new shopping centers and quick meals at new drive-in restaurants.

The epicenter of this new culture was California. The state’s population surged, releasing enormous societal and economic energy. Drive-in restaurants sprouted up and down the state’s ever-growing highways. Most drive-ins offered full menus, plus carhops to bring food and a tip-worthy personality to your car. Who would ever change a thing?

Answer: Maurice and Richard McDonald. At their own restaurant in San Bernardino, the brothers got rid of carhops. They (shades of the Miami speakeasy) pared the menu to the basics: burgers, fries, and shakes - all prepared in an efficient assembly-line fashion. The food arrived quickly, and the simple set-up emphasized quality and cleanliness. The burgers were delicious, the fries crisp, the shakes thick, the whole place immaculate. And the enormous volume of customers allowed rock-bottom prices, attracting even more customers. When Kroc first visited the McDonalds’ operation in 1954, he felt “like some latter-day Newton who’d just had an Idaho potato caromed off his skull.” He quickly met with the brothers to pick their brain.

“I was fascinated by the simplicity and effectiveness of the system they described that night,” he wrote. “Each step in producing the limited menu was stripped down to its essence and accomplished with a minimum of effort.”

And there was the french fry. “They lavished attention on it. I didn’t know it then, but one day I would, too. The french fry would become almost sacrosanct for me, its preparation a ritual to be followed religiously.”

Kroc did the math - tens of millions of increasingly mobile Americans loved fast, delicious, well-priced food. He quickly put his sales skills to work and convinced the brothers to give him nationwide franchise rights to McDonald’s and ownership of the name. In return, they received a small percentage of all his profits.

Cooking Up McDonald’s

Ray Kroc immediately got to work and, on April 15, 1955, opened his first McDonald’s in Des Plaines, Illinois, not far from his hometown. The restaurant did well, even though it began without indoor seating.

His entrepreneurial enthusiasm pushed Kroc to persevere, and he slowly added new restaurants, building an extraordinary management team in the process that stuck with him for decades.

Hiring people based on his instincts, Kroc cared far more about an applicant’s energy and passion than any resume. June Martino, for example, interviewed for a bookkeeping job wearing a faded coat and looking as if she’d missed a few meals. But she “had a presence that conveyed integrity and a restless native ability. . . . The fact that she had no bookkeeping experience bothered me not at all.” Twenty years later, Martino was one of the highest-ranking female executives in the country - and thanks to McDonald’s stock, a very wealthy woman. This is Kroc leadership writ large - time and again during his career, he hired people not for their credentials but for what he sensed were their innate capabilities. His instincts nearly always paid off: Fred Turner, for instance, hired in 1956 to run the grill at Kroc’s first restaurant, rose in two years to vice president and manager of operations; as CEO after Kroc retired, he won credit for much of the chain’s massive expansion. As Kroc well knew, if given a chance, driven people will work far harder to prove themselves than will those with a sense of entitlement.

Another important decision Kroc made early on was to avoid selling his franchisees their supplies, whether meat, buns or potatoes. “My belief was that I had to help the individual operator succeed in every way I could. His success would insure my success,” he would write. “But I couldn’t do that and, at the same time, treat him as a customer. There is a basic conflict in trying to treat a man as a partner on the one hand while selling him something at a profit on the other. Once you get into the supply business, you become more concerned about what you are making on sales to your franchisee than with how his sales are doing.”

Since most individual McDonald’s restaurants were franchises granted by Kroc and his team, recruitment, financing, and real-estate issues were complex and time-consuming, requiring obsessive attention to the fine print. In addition, when one of the restaurants did open, the royalties paid to headquarters were often small, at least at the start. So until McDonald's went public in 1965, cash was tight. But Kroc and everyone working with him sensed they were on to something big. The key was building volume and keeping costs low.

It was also about consistency. "Our aim, of course, was to insure repeat business based on the system's reputation rather than on the quality of a single store or operator. This would require a continuing program of educating and assisting operators and a constant review of their performance," he wrote. "I knew in my bones that the key to uniformity would be in our ability to provide techniques of preparation that operators would accept because they were superior to methods they could dream up for themselves."

Everything from the fat content of the hamburger patties, to the frying time and temperature of the French fries, to how much ketchup went on each burger, was methodically analyzed and standardized. Equipment was designed so that anyone could operate it with little training.

The famous golden arches had been there from the beginning, part of the McDonald brothers' design for their original restaurant. Kroc kept them as they were, at first as two separated paraboloid arches on each side of every restaurant. It wasn't until the early 1960s that his design chief, Jim Schindler, merged the arches into a stylized M, which evolved over the years into a logo that, according to legend, is recognized by more people around the world than can identify the Christian cross.

To keep costs low, Kroc forged lasting alliances with his suppliers - bakeries, meat packers, potato farmers, and packaging manufacturers - promising them enormous and steady orders in return for low prices. Indeed, many of McDonald's largest suppliers have become enormous billion-dollar businesses. Harking back to his days as a paper cup salesman, he had no interest in adversarial relationships, was not litigious, and always stressed the positive. His mantra was Quality, Service, Cleanliness, and Value - to say he was obsessive about these would be an understatement. "If I had a brick for every time I've repeated the phrase QSC and V," he once quipped, "I think I'd probably be able to bridge the Atlantic Ocean with them." He was often observed hosing down a parking lot or greeting customers. He often said, "I believe in God, family, and

McDonald's - and, in the office, that order is reversed."

No detail was too small for examination or improvement.

Here's Kroc talking about the prosaic hamburger bun, and its intersection with the McDonald's way.

"It requires a certain kind of mind to see beauty in a hamburger bun. Yet, is it any more unusual to find grace in the texture and softly curved silhouette of a bun than to reflect lovingly on the hackles of a favorite fishing fly? Or the arrangement of textures and colors in a butterfly's wing? Not if you are a McDonald's man. . . . We were buying our buns in the Midwest from Louis Kuchuris's Mary Ann Bakery. At first, they were cluster buns, meaning that the buns were attached to each other in clusters of four to six, and they were only partially sliced. Fred [Turner] pointed out that it would be much easier and faster for a griddle man if we had individual buns instead of clusters and if they were sliced all the way through. The baker could afford to do it our way because of the large quantities of buns we were ordering."

By 1959, just four years after the first restaurant opened, the McDonald's chain included 100 outlets across the country, a testament to Kroc's brutal workload. His passion for success had a price: His marriage was dying. Around this time, he visited St. Paul, Minnesota, and dined at a restaurant that featured an attractive blonde pianist named Joan Smith. Kroc was immediately smitten. He began the process of obtaining a divorce from Ethel. But since Joan was both married and a practicing Catholic, and Kroc's own divorce wasn't final, they didn't get any further than flirting. In fact, it would be almost ten years - and another failed marriage for Kroc - before Ray and Joan finally wed on March 8, 1969, at Kroc's ranch in Southern California.

During all those years, Kroc carried a torch for Joan; his second marriage was little more than an attempt to assuage his loneliness. In his book, he describes his feelings after calling Joan and finding out she wasn't ready to leave her husband. "So her answer was no. . . . A giant fissure cracked the concrete of LaSalle Street, and our office building crumbled into it as thunder rolled and lightning cracked over the smoking ruins! I was the only one who felt it, of course, but that made the agony a hundred times worse." In the singular case of Joan Smith, Kroc had found perhaps the one woman capable of evoking the same passion his work did. As usual, his instincts were right: After their marriage, she became his steadfast partner and soul mate for the rest of his life.

In 1961, Kroc bought out the McDonald brothers for $2.7 million. His relationship with the brothers (the subject of the film *The Founder*) had become increasingly strained. Simply put, the partners had different visions for the company. The McDonald brothers were content with what they had and were averse to risk and the larger demands of growth. Kroc wanted to be the biggest and the best. Geography was a limiting factor. He was in Chicago; they were in California. In addition, they refused to adhere to Kroc's rules on quality control or product offerings. Something had to give.

Kroc dispatched one of his executives on a search for money to buy out the brothers. Many of the companies that had helped finance McDonald's growth declined to take part. But eventually, a lending consortium was assembled from a dozen educational and charitable institutions. It was a complicated deal, requiring McDonald's to pay the borrowers a percentage of sales. Kroc and others thought it would take thirty years to pay off the loan. But it was done in only eleven years, as the company boomed with its new freedom.

After the buyout, the chain started advertising aggressively. Kroc was a great believer in promotion and public relations, and over the decades, McDonald's has spent billions on television and print ads, radio campaigns, billboards, even parade floats, high-school bands, games, and promotions. The company started a co-op advertising fund, where franchisees pay for much of the programming costs. Kroc was methodically integrating McDonald's into America's cultural, psychic, and culinary DNA. As he saw it, taking the kids to eat at McDonald's provided an epicure's entrée plus a cultural dessert. It connected families to something big, warm, tasty, and fun.

"Ours was the kind of story the American public was longing to hear," Kroc wrote. "They'd had enough of doom and gloom and cold war politics. . . . In the fall of 1959, Soviet Premier Nikita Khrushchev told the United Nations General Assembly, and the world, banging his shoe on his desk for emphasis, that his nation's system would bury capitalism. Shortly after that Irv Kupcinet wrote in his *Chicago Sun-Times* column: 'Nine sailors, soon to be discharged from Great Lakes, called on Ray Kroc, head of McDonald's Drive-ins, at his LaSalle Street offices the other day. They related that they had entered the service together, were leaving together, and wanted to go into business together. Kroc obliged them. The nine sailors will be partners in a McDonald's franchise in Portland, Oregon. This is what Ray Kroc means by fulfillment of the American capitalist dream. See, Khrushchev?'"

During this period, Kroc founded that esteemed institution of higher learning, Hamburger University. Hamburger U. awarded its graduates a Bachelor of Hamburgerology degree with a minor in French fries. It's easily the stuff of satire and parody, of course, but Kroc was deadly serious. Attendance at Hamburger University was mandatory for anyone who wanted to open a franchise or have a management career at McDonald's. Students learned every aspect of running a McDonald's, from cleaning the restrooms to preparing every item on the menu. It was also a great place to build relationships and foment and share ideas and innovations. Today, Hamburger U. has a sylvan campus on the grounds of McDonald's Oak Brook, Illinois, headquarters - and it remains a serious learning institution.

Also in the early 1960s, Kroc moved to Los Angeles, although he spent one week a month back at Chicago headquarters and at least as much time on the road.

Success followed success, with hundreds of new restaurants opening. The menu was expanded.

"Some of my detractors, and I've acquired a few over the years, say that my penchant for experimenting with new menu items is a foolish indulgence," Kroc wrote. "They contend that it stems from my never having outgrown my drummer's desire to have something new to sell. 'McDonald's is in the hamburger business,' they say. 'How can Kroc even consider serving chicken?' Or, 'Why change a winning combination?'"

But while Kroc might plead guilty to being a serial experimenter, he noted that many – if not most - of the best ideas came from franchisees, who were on the ground and closer to the tastes of consumers. Take the Filet-O-Fish sandwich, introduced in the 1960s. It was the brainchild of an operator in Cincinnati who was losing business to other chains on Fridays when many Catholics didn't eat meat. The Big Mac was suggested by an operator in Pittsburgh as Burger King began to pull consumers away from McDonald's. The Egg McMuffin came from a franchisee in southern California. Introduced in 1975, after three years of development, it quickly became a classic and opened a whole new business sector for the chain.

Not everything was a winner. As he readily admitted, Kroc had his share of setbacks and bad ideas, among them a burger of his own concoction - the Hulaburger, a piece of pineapple surrounded by two slices of cheese on a bun. But there was no doubt that Ray Kroc was having a real impact on American life. And he inspired and forged that crucial emotional connection that all great leaders do - he turned humble hamburgers and fries into something akin to a religion for just about everyone who worked for or with McDonald’s.

Kroc could be obsessive about product improvements that were designed to cut costs, simplify preparation, or increase consistency across his growing empire. Early in the 1960s, for example, he began experimenting with frozen french fries. As Kroc saw it, the switch had numerous upsides. There would be less spoilage, lower shipping costs, and an elimination of the messy and time-consuming tasks of peeling and blanching potatoes.

That said, the idea was heretical. “There were diehards in our organization who thought that the only good french fry was made from a fresh potato. For them, there was something mysterious, almost sacred, in the rites of peeling, washing the starch out, and blanching. I was to blame for this attitude, I suppose, because I had put so much emphasis on it, and I insisted that our classes at Hamburger U. make it a ritual.”

Before the new fry was released, it underwent substantial testing to ensure customers would love it. And they did.

McDonald’s went public in 1965 at a price of $22.50 a share. It hit $30 before the day was out, and $50 within a month. Kroc was now a wealthy man. In the next decade, outlets sprang up across the United States, then Canada, and then the world. Ray Kroc was a famous tycoon, much in demand for speeches and appearances.

In 1966, McDonald’s broke $200 million in annual sales, and the scoreboards on the golden arches flipped to “OVER 2 BILLION SOLD.” The company promoted its growth through several key initiatives. It began sponsoring a band in the Macy’s Thanksgiving Day Parade - not just any band, but a band made up of the two best musicians from each state and the District of Columbia. That effort underscored McDonald’s footprint. The corporation also introduced a new spokesperson of sorts: the clown Ronald McDonald. And finally, it came out with a new store prototype. From here on out, McDonald’s would have inside seating.

Kroc was a stickler on real estate and finding the best site for a new restaurant. He liked nothing better than doing his own research. “After we find a promising location, I drive around it in a car, go into the corner saloon and into the neighborhood supermarket. I mingle with the people and observe their comings and goings. That tells me what I need to know about how a McDonald’s store would do there. Hell, if I listened to the computers and did what they proposed with McDonald’s, I’d have a store with a row of vending machines in it. You’d push some buttons and out would come your Big Mac, shake, and fries, all prepared automatically. We could do that . . . But we never will. McDonald’s is a people business, and the smile on that counter girl’s face when she takes your order is a vital part of our image.”

McDonald’s reached the epitome of fast service when it opened its first drive-thru restaurant in Sierra Vista, Arizona, in 1975. Thanks to even more streamlining of the cooking process, a driver could place his order at one window and pick up the food at a second window just fifty seconds later. But Kroc always favored in-house seating, insisting that McDonald’s should be a social experience enhanced by cheerful staffers.

Initially, Kroc had little appetite for international expansion. When two brothers from New Zealand approached him about opening a franchise there, he turned them down, saying he had visited the country and “never met a more dead-than-alive hole in my life.” But they persisted, and when their restaurant opened in 1976, it was far more successful than anyone expected. That was the start of a phenomenal boom; today, McDonald’s restaurants can be found in more than 120 countries and territories around the world, generating $13 billion in sales abroad vs. $8.5 billion in the United States.

The Management Food Chain

Ray Kroc had firm ideas about management. He wanted power to reside far down the food chain, so to speak - as close as possible to the restaurants themselves. He believed that a company's challenges and opportunities were best understood by front-line managers who interacted with customers every day and knew what was really happening.

"It has always been my belief that authority should be placed at the lowest possible level," he said. "I wanted the man closest to the stores to be able to make decisions without seeking directives from headquarters."

Kroc also believed that if he valued someone enough to hire him or her, the person must be entrusted with real authority. Even if that employee made a few mistakes, Kroc assumed the individual would learn and grow, driven by a need to justify Kroc's faith. As usual, his shrewd grasp of motives and incentives was a catalyst in his company's growth.

Unafraid of dissent, Kroc said, "If a corporation has two executives who think alike, one is unnecessary." He also started to actively recruit black and female franchise owners. Although his politics tilted to the right, he was a populist at heart. He loathed snobs, understood what it meant to have to work hard to feed a family, and believed in equal opportunity. Many volumes have been written on Ray Kroc, none of which remotely accuse him of dishonesty, hypocrisy, or condescension. As for being tough, fierce, and unrelenting - well, that's another matter.

In the United States, McDonald's moved from rural areas and suburbs into cities - downtowns, middle-class neighborhoods, and the inner cities. These inner-city branches were minority-owned and prided themselves on community outreach; they sponsored scholarships and rewarded young employees who stayed in school. In fact, during the 1992 Los Angeles riots following the acquittal of police officers who had beaten Rodney King, McDonald's restaurants were spared while stores and buildings around them were torched. This was a powerful testament to the respect and affection the company had earned in the African-American community.

"McDonald's doesn't confer success on anyone," Kroc wrote. "It takes guts and staying power to make it with one of our restaurants. At the same time, it doesn't require any unusual aptitude or intellect. Any man with common sense, dedication to principles, and a love of hard work can do it. And I have stood flat-footed before big crowds of our operators and asserted that any man who gets a McDonald's store today and works at it relentlessly will become a success, and many will become millionaires - no question."

Not every neighborhood welcomed a McDonald's, and the company often fought fierce battles with its critics. "We are a convenient symbol of establishment business," wrote Kroc. "Our development in New York City, for example, was characterized by snobbish writers as some sort of sinister plot. Here was Daddy Warbucks dressed up like Ronald McDonald setting out to milk money from an unsuspecting populace. What these fanatics actually opposed was the capitalist system. Their political cant held that to be successful in the context of free enterprise, a business must be morally corrupt and guilty of all kinds of shabby business practices. I feel sorry for people who have such a small and wretched view of the system that made this country great."

As McDonald's grew, it invariably became a larger and more complex organization, despite Kroc's best efforts to run a streamlined ship. That caused problems, as many longtime franchisees yearned for the good old days.

"As we became more decentralized, those old-time operators found themselves responsible to district, regional, and zone executives who in many cases were a lot newer to the organization than they were and who had not lived through store openings with them as Fred Turner had or helped them clean up their parking lots as I had," Kroc would write. "But there was another element in the situation, and that was the fact that some of these franchisees were approaching the end of their twenty-year licenses. Among them was a handful of bad apples who knew that their chances of being granted new franchises were slim. These characters tried to gain company for their misery by forming what they called the McDonald's Operators Association (MOA). They organized in about 1973 and put out a newsletter full of vicious gossip. Their theme quickly became trite - the company has changed. If you don't fight back you will be kicked out when your franchise expires, and the company will take over the store. That's patent nonsense, because we don't want company-owned stores to ever exceed more than about 30 percent of total units. Moreover, we need good operators."

It reminded Kroc of his first licensing deal, with the McDonald brothers. His attorney was trying to insert all these clauses giving Kroc control of the licensees. Finally, he erupted. Enough was enough. “You can hogtie these guys with all the ifs, buts, and whereases you like, but it’s not going to help the business one goddam bit. There’ll be just one great motivator in developing loyalty in this operation. That is if I’ve got a fair, square deal, and the guy makes money. If he doesn’t make money, I’m in a peck of trouble. I’m gonna lose my shirt. But I’ll be right out there helping him and doing all I can to make sure he makes money. As long as I do that, I’ll do just fine.”

In 1972, Kroc made the news for reasons having little to do with fast food. He had given $250,000 to the campaign of Richard Nixon, and he called the donation a mistake.

“My motive was not so much pro-Nixon as it was anti–George McGovern. I should have known at the time that this went against my rule of not trying to make a positive out of a negative action. The worst thing about the donation was the subsequent implication by some sons of bitches that I made it in order to get favorable treatment from the federal price commission in regard to the price of our Quarter Pounder.” The alleged quid pro quo was investigated and found to be unsubstantiated.

Other Franchises and Philanthropies

In his seventies, revered and enormously wealthy, the ever-restless Ray Kroc turned his sights to a long-held dream - to own a major-league baseball franchise. In 1974, he bought the San Diego Padres, and, at the very first home game that season, he did something that was quintessentially Kroc - and ignited a storm of controversy. After elaborate opening ceremonies in which he was hailed a local hero, his team took to the field and played miserable, error-ridden baseball. Incensed, Kroc stomped down to the public-address booth, grabbed the microphone, and spoke to the fans, first introducing himself, thanking them for coming, and then bellowing, “The bad news is that we are putting on a lousy show for you. I apologize for it. I’m disgusted with it. This is the most stupid baseball playing I have ever seen!” Well, the sports world went into an uproar, and Kroc was roundly criticized. Did he have any regrets? “The answer is hell no! I only regret that I didn’t lay it on them a lot harder . . . I also introduced a novel concern to baseball. It was my insistence that customers receive a quality product for their money.”

Kroc’s other passion during the last decade of his life was philanthropy. As he put it, “I’ve never seen a Brinks truck following a hearse. Have you?” Both he and Joan loved to give money away. They established the Kroc Foundation, which financed research into diabetes (the disease that had claimed his only child, daughter Marilyn in 1973), arthritis, and multiple sclerosis. The foundation expanded its mission to alcoholism treatment, and then to support numerous institutions in Chicago, including hospitals, the planetarium, the zoo, educational programs for inmates at the Cook County jail, and museums. Then there were Ronald McDonald Houses, which provide low-cost lodging for families of children undergoing treatment for life-threatening diseases in cities around the country.

But one cause Kroc steadfastly refused to support was any college. “I’ve been wooed by some of the finest universities in the land, but I tell them they will not get a cent from me unless they put in a trade school. . . . There are too many baccalaureates and too few butchers.” But his sentiments didn’t stop him from accepting an honorary degree from Dartmouth College in 1977. By any measure, even one he disdained, the man had arrived. The citation he received noted with approval the centrality of McDonald’s in American life. It read in part: “You have always been a dreamer, but the reality of 4,000 McDonald’s dispensing billions of hamburgers and french fries all over the world has exceeded even your wildest dreams. You have created a uniquely American institution. Today a student choosing a college will look for three essential ingredients: An outstanding faculty, a good library, and a McDonald’s nearby.”

“People have marveled at the fact that I didn’t start McDonald’s until I was fifty-two years old, and then I became a success overnight,” Kroc wrote in his autobiography. “But I was just like a lot of show business personalities who work away quietly at their craft for years, and then, suddenly, they get the right break and make it big. I was an overnight success all right, but thirty years is a long, long night.”

Kroc’s health went into decline in the late 1970s, and he died of heart failure on January 14, 1984, in San Diego. Joan lived until 2003, and although she remained a private woman, she earned deep respect and affection as one of the nation’s most generous philanthropists. When she passed away, she left the Salvation Army a staggering $1.5 billion, National Public Radio $200 million, and numerous other gifts to establish institutes to promote non-violent conflict resolution and peace. Kroc’s billions will benefit the world for years to come.

Unlike some other great business leaders, Ray Kroc was not a complex man. If he ever harbored turbulent fears or regrets, no one noticed. What you saw was what you got. That was plenty - a self-made giant who changed a key chunk of American culture. There was no magic to his success. It all came down to tasty food delivered quickly at a good price. But getting to that point of sale and satisfaction entailed a rare blend of intelligence, optimism, drive, and common sense.

Lessons

Here is Ray Kroc's own recipe for success: "Press On: Nothing in the world can take the place of persistence. Talent will not; nothing is more common than unsuccessful men with talent. Genius will not; unrewarded genius is almost a proverb. Education will not; the world is full of educated derelicts. Persistence and determination alone are omnipotent."

Instead of ending with his death, Ray Kroc's persistence is self-renewing. By now, McDonald's symbolizes the world of fast food. The chain has grown to more than 34,000 restaurants serving more than 69 million people in 119 countries. And Ray Kroc's career offers some basic rules for business success, not only in our time but probably any other.

Sell yourself.

As a teenager manning a soda fountain, Kroc learned that a smiling, positive, enthusiastic person could sell a sundae to a customer who only came in for a cup of coffee. As he told his sales crews later, "The first thing you have to sell is yourself," and he taught them to be well-dressed and groomed, thoroughly knowledgeable about their wares, and always tuned to their customers' needs.

Kroc learned each customer's specific wants and tastes, whether he was selling them ribbons and notions, paper cups, or milkshake mixers. And he tailored his sales talk to the specific customer, knowing how each would respond to all the possible arguments – and that at bottom, emotional appeals are almost always more powerful than logic. Of all the memorable McDonald's commercials, perhaps the most effective was his pitch to the harried homemaker: "You deserve a break today."

To keep lasting relationships, he acted in his customers' interests – sometimes at the expense of his employer. Selling paper cups, he would give his customers a heads-up when prices were about to rise, so they could put in an order ahead of the increase. The company didn't like that, but he was too valuable to be fired.

Always look for opportunities – and take them.

People who called him an overnight success, Kroc complained, didn't get the fact that, like an actor learning his craft, he had been grasping at chances for thirty years before the right one came along.

He was still in his teens when he tried his first enterprise, a music store that failed. He quit a secure job supervising the Lily-Tulip sales force to become the national distributor of a gadget that could mix five milkshakes at once – a venture that strained his marriage and brought only modest success. His attempt to add a folding kitchen table to his line was a flop. But he was intrigued when he learned that a hamburger joint in California was doing enough business to keep eight of his mixers busy all day long. That led him to the McDonald brothers and their golden arches, and the rest is history.

What Kroc teaches us is that we have to try, fail, learn from our failures, and keep trying – as many times as it takes. Then, when the right chance finally comes around, we have to be ready to take it.

Keep it simple.

While playing piano in a speakeasy, Kroc was impressed by the simplicity of its business plan: just three entrees on the menu and all drinks at $1 apiece. And when he first saw the restaurant that the McDonald brothers had built, he was impressed by the way they had streamlined the menu and the process of ordering, cooking, and serving to sell tasty, basic meals at highly competitive prices to as many customers as possible. Kroc built on that principle to make McDonald's the world's largest restaurant chain, with 36,899 outlets serving 68 million customers every day.

Kroc recognized that tastes change, and he was open to expanding his menu; the Big Mac, Filet-O-Fish sandwich, and Egg McMuffin were all hugely successful innovations. But any new item had to prove itself – and when his own idea, the pineapple Hulaburger, flopped, he was quick to drop it.

We live in a wired world flooded with extraneous information. Know what your business needs to thrive, and ignore the rest. Kroc never took his eye off the key strengths that made McDonald's work. Follow his lead.

Hire for character.

Ray Kroc was less interested in a job applicant's resume than in his or her native wit, energy, and determination. He wanted people with drive and no sense of entitlement, who would make his goals their own and work hard to achieve them. When he found such individuals, he gave them as much responsibility as possible, spreading decision-making power far down the chain of command.

He knew that his frontline managers, those actually running the restaurants, had the most reliable information and were closest to the actual customers. He sought their opinions and responded to their ideas.

A word of caution: This lesson isn't for everyone. Ray Kroc had a rare intuitive sense of the people he met and their innate strengths and weaknesses, and it worked for him. Looking back on your own hires, assess your own sense of character. Trust it in hiring only if you're sure you can. But in any case, spreading responsibility is a good tactic for building a strong organization. Find the people who are closest to your customers and have the best information; bring them into the decision-making loop, and trust them. You'll be repaid with hard work and loyalty.

Get out of the office.

Kroc was famous for paying unannounced visits to his restaurants, where he would inspect everything, chat with the staffers and customers, and take a hand wherever needed. Sometimes he even swept the parking lot. He also insisted on scouting out all the proposed locations for new branches, making his own judgments about the neighborhood, traffic patterns, nearby stores, and the kinds of customers a new McDonald's might attract. Even when the chain was a national icon, Kroc was spending two weeks of every month away from home, keeping up with the business.

There is simply no substitute for seeing things for yourself - and for being seen by your people. The view from the top may be cushy, but it's distorted and often unreliable.

Treat your partners well.

Kroc was brilliant when it came to forging mutually beneficial alliances with the bakers, butchers, and other companies that supplied his restaurants. He was an open book with them, honest and forthright, and many of his suppliers became millionaires in the process.

But he did even better in the crucial relationship with his franchisees, whom he saw as partners. Their hard work would make money for them as well as for him - but only if he helped them apply his knowledge and principles to make all the restaurants consistently appealing to the customers.

He exploded once at a lawyer who was trying to make the franchise contracts overly niggling and controlling. The only thing that mattered, Kroc said, “is if I’ve got a fair, square deal, and the guy makes money. If he doesn’t make money, I’m in a peck of trouble. I’m gonna lose my shirt. But I’ll be right out there helping him and doing all I can to make sure he makes money. As long as I do that, I’ll do just fine.”

And Kroc decided early on not to emulate other franchisers by selling supplies to his franchisees. “There is a basic conflict in trying to treat a man as a partner on the one hand while selling him something at a profit on the other,” he said. “Once you get into the supply business, you become more concerned about what you are making on sales to your franchisee than with how his sales are doing.”

As the operation mushroomed and the relationship grew more complex, some of the original franchisees tried to organize an uprising against Kroc. He dismissed them as “a few bad apples” who misread his intentions, insisting that “we still need good operators” and pledging that he and his partners would still make money together. It’s impossible to keep any set of franchisees uniformly happy. But the company said its average franchise returned between $500,000 and $1 million in profit.

Serve your community.

Ray Kroc wanted his restaurants to be exemplars of good citizenship to the communities they served. His politics tended to be conservative, but he encouraged diversity in hiring and urged his franchisees to take part in civic betterment. McDonald’s inner-city branches were minority-owned and focused on community outreach; they sponsored scholarships and rewarded young employees who stayed in school. This was so effective that during the 1992 Los Angeles riots, while surrounding businesses were torched, McDonald’s restaurants were spared.

Kroc himself truly enjoyed giving away his money. His only child, a daughter, died of diabetes, and he and Joan set up the Kroc Foundation to fight diabetes, arthritis, multiple sclerosis, and alcoholism. The foundation also supported Chicago museums, hospitals, the planetarium, the zoo, and educational programs for inmates at the Cook County jail. Kroc also established Ronald McDonald Houses in cities around the country to provide low-cost lodging for families of children hospitalized for life-threatening diseases.

After Kroc’s death, his widow continued their philanthropies, and in her will, she left billions to many worthy causes – $1.5 billion to the Salvation Army alone.

The Krocs stand as an example for all of us. Whatever your stage of life or the state of your fortunes, there is something you can do to serve your community. It’s never too early to think about what that might be – and never too late to begin.

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