Praise for *Black Belt*

‘Enjoy the ride and the read, through euphoria and despair, joy and heartbreak. There’s no more important task for the world’s future than to groom more entrepreneurs. If you’re going to be one of them, consider *Black Belt* your go-to guide.’
John Mullins | Associate Professor of Management Practice, London Business School; author, *Break the Rules! The six counter-conventional mindsets that can help anyone change the world*

‘A must-read for all aspiring entrepreneurs seeking to develop start-ups or restructure their existing businesses.’
Paul Constantinou AM | Founder, Quest Apartment Hotels

‘The founders of Judo Bank have over 70 years of combined international banking experience, but they had to completely rethink their approach to banking to turn an idea into a remarkable story. While banking is the backdrop, the problems they faced will resonate with all entrepreneurs and the lessons in the way they wrestled with the challenges of creating, launching and spectacularly growing a start-up make this an absolute gem of a book for any aspiring entrepreneur.’
Colin McLeod | Professor, Faculty of Business and Economics, the University of Melbourne; Executive Director, Melbourne Entrepreneurial Centre

‘It’s not often you get founders and entrepreneurs who actually talk about their success with equal focus on their near misses and their abundance of challenges. The best way to know what’s ahead of you, if you are in a start-up or a business facing challenges, is to read about someone else’s challenges and study how they reacted, responded, pivoted and never gave up. That’s what *Black Belt* is all about. This is a great read.’
Mark Bouris AM | Founder and Chairman, Wizard Home Loans

‘*Black Belt* contains a wealth of sage advice and keen insights, distilled from the authors’ inspiring firsthand account of the creation of Judo Bank. This book can serve as a valuable and practical guide for aspirant change-makers. For me, what sets this excellent book apart from similar ones is its strong focus on fundamentals of business strategy and ensuring their integration into the entrepreneurial journey.’
Steven Maguire | Professor of Strategy, Innovation and Entrepreneurship, the University of Sydney Business School

‘Joseph and David lavishly open their own vaults of knowledge, experience and wisdom and share priceless, hands-on and pragmatic insights, advice and guidance. *Black Belt* is a must-read material for every business student, entrepreneur, industry professional and corporate leader aspiring to create a better, just, ethical and moral world. This book sincerely deserves a place in every business school’s library.’
Dr Dimitrios Salampasis (MAICD) | Director, Master of Financial Technologies, Swinburne University of Technology; fintech capability leader

Joseph Healy and David Hornery
co-founders of Judo Bank

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A masterclass for start-ups and entrepreneurs

Black Belt

MAJOR STREET

Joseph: To my son George, who tragically died in 2021. I miss him so much.

David: For Bron, my soulmate, and Georgie, Sash and Ellie, the lights of my life.

Your authors

Joseph Healy, co-founder, Judo Bank

Joseph is a 35-plus-year career banker with a broad background across most aspects of banking. He started his career at Lloyds Bank in London, followed by a long stint at Citibank (mainly in London) and then Canadian bank CIBC World Markets. He joined ANZ Bank in 1998 and National Australia Bank (NAB) in late 2006, leaving in late 2014. He then took a year sabbatical at a university in Ningbo, China, during which time he started working with David on what today is Judo Bank. He is the author of three books: *Corporate Governance and Shareholder Wealth Creation* (2003), *Chinese Firms Going Global: Can They Succeed?* (2018) and *Breaking the Banks* (2019).

David Hornery, co-founder, Judo Bank

David is also a 35-year veteran of the banking sector, beginning in the financial markets and investment banking before moving into commercial banking. He started out in 1986 at two broking houses – GB Nathan and Potter Partners – before moving to Macquarie Bank and spending 11 years in their Financial Markets division. Then he moved across to ANZ, spending seven years as Global Head of Capital Markets and four years in Singapore as CEO of ANZ Asia. He moved to NAB in 2008, stepping out in 2015 to work with Joseph on Judo Bank. Outside banking, David is Non Executive Chair of Studio THI (formerly The Hornery Institute), a not-for-profit that contributes to the global dialogue on community formation and place making and urban change preparedness within communities.

MAJOR
STREET

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Introduction
Setting the scene

Many years ago, one of your authors was reading a guide on doing a PhD. The guide succinctly summarised the task ahead: doing a bachelor's degree was a general education, a master's degree was a licence to practice, and a PhD was a licence to teach. In many ways, after seven years of hard work building Judo Bank (along with others), this book is our PhD on how to build a new business in a complex industry in a way that is scalable and potentially industry-transformative. It is also a book about maintaining a start-up's biggest cultural asset as it grows: a founder or owner mindset.

Our motivation in writing this book is largely to pass on insights and advice that might assist others, as our journey was, in turn, greatly assisted by the advice and insights that others provided to us. We do not pretend to be the font of all knowledge here – as you will see, we have made our share of missteps along the way – but we do hope that you will benefit or gain insight from our experience and real-world learnings, successes and mistakes alike. Vicariously learning from other people's mistakes can be just as powerful (and a lot less painful) than learning from one's own experience, if you know how to learn!

WeWork is a wonderful example of this, as is the demise of Greensill Capital, both of which we explore later in the book.

We were also motivated by what we see as a potentially transformational decade ahead. Having come late in our careers to the entrepreneurial economy, we are now big believers that the most valuable and interesting businesses in the coming years will be those built by entrepreneurs. The global pools of private and venture capital have never been deeper or more broadly available, and the technological tools available are more powerful, flexible and affordable. We also believe that there are many latent entrepreneurs of all ages who, with a little bit of encouragement, could take the leap to begin a new and more exciting phase of their careers. This book is largely motivated by, and dedicated to, those who have that same flickering of entrepreneurial ambition that we and our fellow co-founders – Chris Bayliss, Tim Alexander, Kate Keenan and Alex Twigg – had back in late 2015.

Unlike numerous books written about start-ups, this book has been written by practitioners. This is a real-world story written by those who have been squarely at the coalface, and who have learnt that, without a clear vision, sense of purpose, self-belief, capacity for hard work, limitless resilience and appetite for risk-taking, dreams of business success will likely be nothing more than just that: dreams.

Many would-be entrepreneurs struggle to move past the dream stage, because they do not know how to turn those dreams into viable and scalable businesses. Even when they are successful in building a business, burning questions can often remain: *Could this have been an even bigger and better business? Why didn't we lay the foundations for scale? Why weren't we more visionary, more ambitious?*

This book is firmly based on making dreams (or visions) happen by laying down some basic principles as a foundation for entrepreneurs to build on. 'Measure twice, cut once' is a theme or mantra that will reoccur throughout this book; we are not advocating the 'just do it' school of entrepreneurship. Such an approach, while appealing to the entrepreneurial animal spirit, can bring chaos and is a major reason why so many start-ups fail. To quote HL Mencken: 'There is always a well-known solution to every human problem – neat, plausible, and wrong'. A more disciplined and focused management approach, such as that detailed in this book, will not necessarily guarantee success; however, it will significantly reduce the number of risks that result in failure by highlighting many of the trapdoors and trip-wires that can exist. This book will also hopefully help you understand and balance the two emotions that are a feature of the roller-coaster nature of start-ups: euphoria and despair.

How this book is organised

We have structured the book into ten chapters:

- In **Chapter 1**, we set the scene for this book.
- In **Chapter 2**, we describe some of our early thinking and experiences.
- In **Chapter 3**, we describe our process of turning a vision into a business case capable of withstanding investor, regulator and prospective-employee scrutiny. This is arguably the most important part of the journey, and is where our philosophy of 'measure twice, cut once' was brought to life. This was a tortuous process, but we hope it makes for a highly informative read!
- In **Chapter 4**, we emphasise the importance of having a competitive advantage underpinning the business. There is little point coming to market with a proposition that fails to differentiate itself in a sustainable way.
- In **Chapter 5**, we highlight some of the common pitfalls that entrepreneurs face when thinking about competitive advantage and culture.

- **Chapter 6** is where the rubber hits the road, or where the PowerPoint becomes something much more. We describe the journey of raising the all-important seed capital, regulatory engagement, assembling the founder team, the many people we met along the way and the good advice that we received, so much of which became powerfully evident to us in the years after receiving it.
- In **Chapter 7**, we describe the approach to building the broader team and shaping the culture within the business. This process is pivotal to the future of the business, going into the breadth, depth and strength of the 'concrete' that provides the foundation of the company. It is where some big mistakes can be made (and were, in our case). We also touch on the importance of mental and physical health, given the huge demands that are placed on the leadership team when the risk of failure remains a possibility.
- In **Chapter 8**, we consolidate the lessons we learnt and the mistakes that we made, including the occasion when we put most of our eggs in the one basket hoping that a particular investor would come through. We highlight the importance of listening to your people – and not through annual employee surveys, which are about as reflective of people's genuine views as elections in places like Zimbabwe. And, while it may feel off-topic at first, we also talk about ageism and how it creates a psychological barrier to many would-be entrepreneurs when it should not.
- In **Chapter 9,** we highlight a major trap that growth businesses can sleepwalk into when the twin evils of bureaucracy and complexity creep into the business and how (and why) the concept of a 'founder-centric' culture is so important for combating them.
- Finally, in **Chapter 10**, we talk through the journey of listing Judo Bank on the public equity market and the pros and cons

of doing so. It is not a decision to be taken lightly, even though many young companies rush into it (and often regret doing so). We link this journey back to the concept of founder centrism and how it is so important when navigating the inevitable transitions that entering the public market causes in on a company. As a company becomes public and the business continues to grow, some of the original founders may leave and new executives join, which makes maintaining a founder mindset challenging.

Defining a start-up

Two definitions will be helpful in reading this book: those of 'start-up' and 'entrepreneur'.

Start-up

There are many definitions of 'start-up', but we like the simple one that says that a start-up is a new business initiative undertaken by one or more entrepreneurs with the intention of developing and validating a scalable business model. We think it is helpful to adopt the distinction that Peter Thiel suggests in his book *Zero to One: Notes on Startups, or How to Build the Future* between a start-up in an already established product market, where the new entrant is bringing more of what is familiar (Thiel calls this a '1 to n start-up'), and a start-up that creates something brand new (which Thiel calls a '0 to 1 start-up'). Regardless, though, all start-ups face a high level of risk and uncertainty – hence, the failure rate is high.

Entrepreneur

Again, there are many definitions of 'entrepreneur'. The classic one is that an entrepreneur is an individual who creates a new business, bearing most of the early risk and enjoying material rewards if the business is successful. What all entrepreneurs have in common is a set of personal traits: they are always abundant thinkers, driven by passion and purpose, courageous when it comes to their personal risk appetite, and excited by the idea of being a founder of a new business that could shape an industry.

We include in our definition 'intrapreneurs', who are entrepreneurially minded but operate within established businesses as employees. They are often responsible for creating new lines of business, but in any material or practical sense don't really bear much risk or, therefore, reward relative to their talents. As we discuss in Chapter 7, particularly in large organisations, these individuals often succumb to the organisational 'immune system' response to change and innovation: search and destroy. Therefore, it is not unusual for them to seek management buyouts (MBOs) of the businesses they have played a lead role in creating, or to go on and launch their own businesses.

Sobering facts

The market for a book like this is based on two sets of facts.

First, new businesses or start-ups are critical to future economic vibrancy. The success of economies in the future will largely be determined by the entrepreneurial drive and skills of thousands of individuals with a vision and with real drive to make things happen. As Chris Zook and James Allen put it in their book *The Founder's Mentality,* we are facing 'a future that more than ever rewards speed, open-mindedness, human motivation, and adaptability'.

Second, and soberingly, most start-ups fail or cease to exist in their own right, including three of the four new Australian banks licensed in 2019. Conversely, however, a few can become unicorns (businesses valued at over $1 billion) – there are several start-ups in Australia that have achieved this status, including Judo Bank. Some achieve this quickly and some over time, but globally there are more and more every year.

Regarding start-up failure rates, here are some statistics to reflect on (from a 2022 *Moneyzine* article):

- 42% of start-up businesses failed because there is no market need for their services or products.
- 29% failed because they ran out of cash.
- 23% failed because they didn't have the right team running the business.
- 19% were outcompeted.
- 18% failed because of pricing and cost issues.
- 17% failed because of a poor product offering.
- 17% failed because they lacked a business model.
- 14% failed because of poor marketing.
- 14% failed because they ignored their customers.

The truth is that there are hundreds of statistics on start-up failures, some showing that as many as nine out of ten start-ups will fail. The point is that, when you start a new business, there is a much higher chance of failure than there is of success. Despite what the statistics might say, however, failure is rarely the product of one thing going wrong: it is usually the product of multiple things going wrong. Failure is also more of a slow-motion affair than a sudden car crash: it rarely happens quickly.

One of the difficulties in getting a clear understanding of why start-ups fail is what psychologists call 'fundamental attribution error'. Entrepreneurs often have a cognitive bias to assume their own failure was down to reasons outside their control, such as changing market conditions or sheer bad luck, while attributing failure in others to their lack of preparation, inexperienced management, weak funding plan or aggressive risk-taking – in other words, their character or personality.

Harvard Business School Professor Thomas Eisenmann spent 24 years studying why start-ups fail and wrote an excellent book on the subject. He found that most start-ups don't succeed, and more than two-thirds never deliver a return above their cost of capital.

This is sobering indeed, but the odds can be changed: there are tried, tested and practical ways to increase the prospect of success at both the outset and through the various build phases. We felt that there was an important contribution to be made in telling our story and providing our perspective on how to shift the odds, how we navigated the many icebergs – some visible, many not – that litter the stormy waters of building a new business.

While this book is very much framed by the story of the creation of Judo Bank, it is peppered with insights and advice relevant to any new business. In using our story as the case study, our goal is to bring these insights to life in a real and meaningful way, and to highlight how good management and entrepreneurship can go hand in hand. We believe the stories that captivate people and enrich understanding are those that are true to the teller, the audience and, importantly, the moment or situation. So, in our story, we have stayed true to the events and experiences, with no exaggeration or avoidance of mentioning rookie mistakes. In fact, in many ways those errors – and the learnings derived from them – are every bit as important as the successes. This is an accurate account of our experiences and insights, warts and all.

We would add that, as veteran bankers, we have seen literally thousands upon thousands of businesses succeed, drift and fail over the years. We have come to a belief that, assuming a given business opportunity is viable, it is the business' *management* that fails far more frequently than the business itself: management failure causes business failure. This is a subtle but important distinction. During the COVID-19 crisis, some businesses languished, while others in the same sector did not. Why? We saw clearly during COVID-19 that many well-managed businesses used the crisis as an opportunity to rethink their business models and accelerate thinking on aspects such as digitalisation and new channels. This was particularly aided in Australia during the first phase of the pandemic by the substantial nature of the federal government support package. As *The Economist* noted in a very thoughtful article, 'The pandemic could give way to an era of rapid productivity growth'. Equally there were many organisations that did not respond and take the opportunity.

Of course, COVID-19 impacted some businesses – particularly the young and small – in a way that they could do little about; but, to be clear, we see these as the minority. The difference between those that didn't waste the crisis and those that did is management.

What to expect from this book

In the book, we cover multiple challenges and learnings of business-building.

One key theme is the challenge of raising capital. Through building Judo Bank, we came to know how the international private capital investor market works. As we discuss in Chapter 6, we wore out a lot of shoe leather travelling around the world meeting with potential investors – close to 100, in fact – before we got our first investment. Our experience is very consistent with what Paul Gompers et al. wrote in an excellent *Harvard Business Review* article called 'How Venture Capitalists Make Decisions'. In that article, which was based on research involving almost 900 investors, the authors made several observations that are consistent with our experience:

- Access to an investor network is critical to getting funding.
- Investors will look at over 100 deals for every one they invest in.
- The strength of the founding team, more than the business model, is a key determinant of the decision to invest.

- The favoured financial metric is the annualised internal rate of return (IRR), which was often based on an IPO or other exit event expectation rather than a more traditional discounted cash flow (DCF) analysis.

The research highlighted that of 100 opportunities shown to investors, 28 result in a meeting and fewer than five result in due diligence, with one resulting in an actual investment. The research also revealed that a typical deal takes 83 days to close.

A particularly interesting insight from the research, and one that we dive into further in the book, is the third point above: many investors place far greater emphasis on the jockey (the founders of the business) than the horse (the actual business model). While the nature of the business opportunity clearly matters (naturally every jockey needs a good horse, because even the best jockey couldn't do much with an old nag), this is clear confirmation that the people behind the business model – their breadth and depth of experience, their assessed credibility and passion – carry more weight than the business model itself.

A second key theme, and one integral to the point above, is the absolute necessity of a strong sense of vision, passion and purpose. This book will appeal to those 'jockeys' interested in how to take an idea and build a viable and scalable business underpinned by the strong sense of purpose – a clear understanding of the 'why'.

We are also interested in providing insight and encouragement to those in the later stages of their careers who may feel that the runway ahead is limited, including that broad community of intrapreneurs that have real entrepreneurial ambition but are uncertain about how and if they should pursue that. In our view, these realities are amplified in an Australian and New Zealand context by a high degree of embedded ageism in the workforce. We believe with a changed mental model, the depth of experience, networks and judgement of those with long careers presents a great foundation from which to write a new career chapter, and even a whole new career book!

This book is also relevant to investors and policymakers who think about competition and economic growth. We have endeavoured to also embed an educational theme in the book, which may appeal to students in graduate and executive development programs at tertiary institutions – there has been a huge growth in entrepreneurial management and start-up electives at many business schools around the world.

You will also note that we highlight the fundamental role played by physical and mental health. At the very least, starting a new business can be a highly stressful undertaking. Mental health – including, and in particular, resilience – is a hugely underappreciated cornerstone of individual and organisational performance and one of significant interest to both your authors, with one having completed a master's degree in the psychology and neuroscience of mental health at the Institute of Psychiatry, Psychology and Neuroscience, King's College London. We wish we had known more on this topic earlier in our careers. Understanding how the brain works (and sometimes doesn't), how people are shaped by their earlier experiences and environments, and how entrepreneurs should think about coping mechanisms as they manage the stress of uncertainty, complexity and potential failure are fundamental to management and leadership – yet they rarely receive any emphasis in management education.

We apologise at the outset for some of the jargon we use (which we have tried to keep to a minimum). Our story is shaped in the banking industry, so some reference to its inner workings is necessary. Where we have had to use jargon or talk generally about the banking industry, we hope that readers from outside the industry will benefit from the context and insights we provide. Everything we have to say about the banking industry carries encoded principles that are relevant to many other industries.

Also, we wish to make it clear that this is not a book about Judo Bank per se, as it is still a very young company with a big future in front of it.

Finally, before launching into the book, an important disclaimer: the views in this book are solely those of the authors and should not necessarily be interpreted as the views of Judo Bank or of any Judo Bank colleagues past or present.