

HOW DO YOU DEFINE RISK?

As an Owner-Manager, have you noticed that as the value of your enterprise increases through your hard work, strategy, execution, passion, and good luck, that your tolerance for risk to the value of the business has decreased?

Over twenty-five years ago, early theorists in behavioral economics empirically proved that owners (investors) become risk averse when facing gains, and are risk seeking when facing the possibility of a loss. Don't think this applies to you? Ever "double down" on a stock when the price fell below your cost?

How much risk does your industry suggest that your company take right now? In the next five years?

For most people, the near automatic reaction to industry changes is to see too many of them as bad, and not enough as good. It makes sense when our brain has this tendency doesn't it. Back when man was a lizard would he respond as strongly to opportunities as to threats? No. The cost of missing opportunities is low. The cost of missing a threat is high – could be life threatening. So through Darwinian natural selection, "bad" is meant to feel stronger than "good" (about 2.6 times stronger in fact, but more on that in a later message).

The obverse of the corollary is worse. That as Owner-Managers face the possibility of losing stockholder value, they actually become risk seeking, employing tactics and behaviors that they would never consider in other circumstances.

If you are in an industry that is undergoing a lot of change right now (and many are), it makes sense to disconnect your personal aversion for risk from what the industry is telling you that you need to do. What are the drivers of value in your industry? Have you identified and studied them? Have you put together a dashboard of metrics based upon industry value drivers? Can you step back, take a deep breath and ask yourself this: "Is my increasing aversion to stockholder value risk actually holding the company back? What are some strategies that I could employ that would allow me to consider locking in some gains now, and then allow the business to take on more risk to capitalize on market opportunities?"

This is the Age of the Entrepreneur. Will your enterprise become the one you always dreamed of: seeing the world as full of possibilities, not merely threats?

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