

## TERRA INCOGNITA?

**Terra Incognita** is the Latin term for “unknown land.” The term was used by ancient mapmakers for labeling undiscovered territories, or regions that had not been mapped or documented, or were merely inaccessible to ordinary men. Might that description be apt for the external landscape that Owner-Managers face today?

In this world filled with uncertainty, Owner-Managers of entrepreneurial businesses persist in allocating the vast majority of their waking hours as managers, not as owners. As managers, one cares most about the frequency of correctness of current decisions. Managers seek the positive feedback they get from making decisions correctly, regardless of magnitude. Most management decisions have simple linear outcomes.

As owners, what matters most is the magnitude of infrequent decisions and less the frequency of being correct. Owners are more affected by the magnitude of the outcomes of decisions as they regard values like legacy, future of stakeholders, need for accumulation of capital, and ultimately: Enterprise Value. Most ownership decisions will result in complex non linear outcomes. For owners it is the magnitude of the outcomes that will impact Legacy or Enterprise Value, or both.

Kahneman & Tversky argued persuasively in 1979 that humans are generally a lot happier when we are right ‘frequently,’ without regard to the magnitude of the outcome. It is notable that being right frequently does not correlate with an investment outperforming a benchmark in the Owner-Manager world. The number of times that you are correct does not determine your performance as an owner; it is the magnitude of the change that translates into value. Just a few decisions will have a disproportionate affect on value, vastly more than “batting average.” Don’t get us wrong, we appreciate managements; and good management is better than bad management. It’s just that the many decisions in the management domain have generally smaller consequences than the few in the owners’ domain.

Is this truly Terra Incognita? It might feel that way. Sure this market downturn is steep and rapid. And we acknowledge the national mood disorder hanging over us, even after the recent election. Yet in every economic correction that we have experienced, inevitably the doomsayers create some extreme theory about how this time it is different, this really is the end of the world as we know it. These theories and dire predictions always pop up with greater frequency near the end of the declines.

In our roles as Owner-Managers, we must force ourselves to look beyond our comfort zones as managers; past the comforting frequency of good day-to-day decisions. We live in a world of asymmetric outcomes. No one is a good predictor of anything. But we can focus on the consequences of our decisions (which we can know), rather than the probabilities (which we can’t know). As Owner-Managers we can infuse our decisions with positive emotion knowing we are implementing actions that have the greatest magnitude of outcome to sustaining Legacy and Enterprise Value.