

HELPING MANAGEMENT TAKE RISK AND PROFIT

Jim Lawless - 19-May-2008

Deciding when to take a risk is something all senior managers face. We often also need our teams to take risks, but we can't expect them to if we do nothing to encourage them. Using examples taken from leading brands who have embraced risk-taking successfully, training expert Jim Lawless shows what individuals can do to overcome key barriers to risk-taking for themselves and their teams.



Of the original Fortune 500 companies listed in 1955, only 71 remained 50 years later. This small number was because of an inability to evolve. Staying static in a changing market indicates a low tolerance to risk which is also likely to reflect a failure to empower individuals. So what can be done to deal positively with risk when making key decisions?

For businesses, taking a risk is taking a course of action that could result in loss. Primarily, that loss will be either of money or of reputation.

I would identify two main types of business risk; the risk of the leap into the unknown and the risk of burning your boats.

According to legend, when the 16th Century Spanish explorer Cortez landed in Mexico, he burned his boats so there would be no opportunity to retreat.

In business, often more time is spent thinking about the leap in the dark, but boat-burning also has its place. For example, when is it the right time to get out of physically retailing a product that's increasingly available electronically? That was a big boat for Virgin Group to burn, but 2007 saw an MBO (Management Buy Out) and the birth of Zavvi, as Virgin took a massive risk and walked away from the Megastore.

"What is the thing in the cycle that frustrates you the most? What is the most outside-the-box thing you could do to break it? Commit to doing that thing – now!" cried Jorma Ollila – then CEO of Nokia, now chairman. Historically, this attitude has always been part of the Nokia psyche. While we know it as a mobile phone company, it started as a paper mill in 1865 and by 1967 it had interests in rubber, cable, forestry, electronics and power. It only sold the

majority shareholding in Nokia Tyres and its power operation in 1994.

Big boats to burn, but in 2005 it sold its billionth handset.

But these were just men and women taking decisions in a room – something we all do. So will we commit to breaking the thing in the cycle that frustrates us most? Will we empower our team to do the same?

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If we are to help our people take more risks, we must first understand our own attitude to risk and how it affects our people. Our reaction to risk is a reaction to our own personal perception of what we have to lose and how likely we are to lose it. It is our assumptions about the situation that create our perception which impacts on that all-important reaction to risk.

The point so often overlooked is that an individual must understand their own assumptions in order to understand their perception and their consequential level of fear about the risk.

There are only 'I's in Team

Furthermore, they need to understand how this will, in turn, have a significant bearing on the decision-making of the team. The old adage that there is no 'I' in team is quite wrong; there are in fact only 'I's in teams. And people bring their different perceptions of (and reactions to) risk – on a personal and a corporate level. Which means we are all working from subtly different assumptions.

When a speaker is hired to embolden and challenge a group before a breakout session, the suggested solutions are dramatically different than normal brainstorms, because the group's normal assumptions about risk have been challenged.

The finance function has a great strength to bring to the risk conversation

The finance function has a great strength to bring to the risk conversation, especially when it comes to understanding the individual's impact on the risks your people are willing to take. In the past 10 years alone, financial leaders



boats and leap into the unknown again and again
their team, and the business as a whole, to come
with them.

When I held an international legal role with ICL just
10 years ago, the role of finance was one of chief
global detective. That could not work now. Brian

Tear, CFO of E.ON UK, puts it like this: "When I look back over the past 10 years, the leap of faith that finance functions in all sectors have had to make from 'policeman' to business advisor and trusted facilitator has been a huge step and one that was counter-intuitive for many to begin with."

The cost to a business of a finance function unable to examine personal perceptions of risk and unable to take courageous advice both into the boardroom and to the team as a whole is potentially calamitous.

"Businesses must find ways to change and develop in new areas and that is easier done with a strong finance function that partners and drives the business," says Tear. "It's also imperative that a finance function understands and communicates to everyone the concept that reward only comes with risk and that the key to success is not always to minimise the risk, but to understand the risk and work with it."

Dangers to suggesting risk policies

Let me give you an example. You have a brilliant idea you want to test on a group during a meeting. But the meeting has been turbulent. People have been put down unpleasantly and the atmosphere is tense. The risk seems to be mounting, and when your turn comes, your idea is delivered with unconvincing timidity in order to reduce risk.

Let's change your perception of the situation. What if you were to be sacked by somebody external to the room if you failed to convince? How are you planning to play the room now?

We have the ability to choose our reactions. How would a more senior person choose to react? What reaction will make you proud of yourself and what reaction ashamed? What kind of message will you be sending to your team?



Once we understand the impact of leading by example, we still need to learn to trust. As leaders, a key challenge is how to delegate and trust our team to take risks, which throws up naturally worrying questions. How far can I trust my people to make decisions on my behalf? Will they do it as well as I would have? What if they get it wrong?

All valid questions, but just as we give our children ever-increasing parameters in which to fail, so we must with the team. In what ways does your behaviour shape their perception of the risk and inform their reaction? Let your team know you trust them and that you want them to embrace the unknown.

It's vital that you consider the role of the assumptions you make about yourself, and members of your team, in how you – and they – approach risk. Cortez's strategy is not one to take lightly. But if you could burn one corporate boat today, what would it be? - what's holding you back? - is it an assumption? - are you ready to challenge it? – are you going to?

Jim Lawless is one of Europe's foremost inspirational speakers. To prove his ideas on risk he went from being an overweight non-riding consultant to a jockey in 12 months. His new business [ZooBites.com](http://www.zoobites.com) aims to revolutionise training by tackling fear of the risk of making a change in personal behaviour and delivering the skills necessary to make that change.