

Jim's Profit Accelerator 100: The Risk Crisis

"Risk isn't a negative, it's a reality," says Marsh CEO Peter Zaffino.* He would hope so, since his company exists because of risk. (At \$13,000,000, Marsh is one of the world's largest insurance brokerages.) Strangely, the sweet spot between risky and safe seems vague, but it's the object of decisions in many successful companies. Even stranger, the cost of insufficient risk is seldom measured or even considered in the daily management walk.

How does your company rate as a risk-taker? Try these true-false questions:

1. We consistently avoid risks larger than 25 percent of annual EBITDA.
2. When we discuss the risk of major decisions, the discussion is usually difficult.
3. Most of the time our operating decisions exclude the question of risk, because we know what we're doing.
4. We know there is risk in any business, but we've figured out how to minimize it in ours.
5. Our banker is our risk advisor, and he seldom calls.
6. When an appealing option turns out to be risky, we change it to avoid risk.
7. In the past two years we haven't asked, "What's the riskiest thing we could try?"

Your score: If you answered true to any of the above, you've left money on the table and put your business in jeopardy.

SPEED BUMP: Prudent decisions yield sub-optimal results.

Okay, as you're arguing that this doesn't include you, consider these questions:

1. What high-risk path have you taken in the past 12 months, knowing the risk and doing it anyway?
2. Do you pride yourself on mitigating risk?
3. Have you shifted your risk-mitigation strategy to discovering what will raise the odds of success for a major decision?

SPEED BUMP: Winning firms drive for success instead of mitigating risk.

Here's the tough part: A culture of success, of excellence, risks the entire enterprise! It's not how you recognize success, it's how you review and talk about every major activity, regardless of outcome.

Here's Ed Catmull, president and co-founder of Pixar: "As a company, our determination to avoid disappointments was also causing us to shy away from risk."** This came from a 2013 leadership work session trying to reverse a culture change that threatened Pixar's success. In the 23 years since its first feature-length animated film, Pixar grew from 45 to 1,200 employees. At the same time, the

expectation of excellence produced a culture that inhibited frank criticism and “do-what-it-takes” creative risk-taking that built Pixar’s success.

An old-line manufacturing firm has decided to grow after many years of declining sales in shrinking markets. Its initial growth has come from new products that now make up about 25 percent of its revenue—encouraging. Troubling, however, is the CEO’s drive for a smooth-running, well-planned machine. In the face of daunting new-product demands, his need for a bump-free existence will, I predict, doom the growth he seeks, because it will erode the willingness of key people to take the failure risks required to succeed in new markets. There is no risk-o-meter to track employees’ willingness to drive into the darkness, other than the number of real trials and related failures. Preparation is necessary but not sufficient, because the winning product comes out of a daydream in the shower, not a product development meeting.

ACCELERANT: When will you ask, “What’s the riskiest thing we could try?”

For more information on how you can accelerate revenues and profits in your business, please call or email me.

**Wall Street Journal*, 5/31/16, p. R1

***Creativity, Inc.* by Ed Catmull, Random House, 2014, p. 279.

For more information, visit www.grewco.com.

Jim Grew is an expert in CEO-level strategy and executive leadership whose clients refer to him as the Business Defogger and Accelerator. Jim helps leaders swiftly discover the hidden opportunities within their businesses and exploit them for dramatic results. Nearly three decades of success as a COO and CEO coupled with his experience running nine thriving businesses provide the foundation for his consulting work as president of the Grew Company. He presents regularly to industry groups, mentors business leaders, and shares insights on his blog, BizBursts.com: <http://bizbursts.com/>. He holds BA and MBA degrees from Stanford University.

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