THE BOARD MINDSET™

The vital attribute of exceptional boards

MASTERY DOESN'T MEAN RISK FREE

We live near the Canadian Rockies, so we have several friends who are very good alpine skiers. Recently I was talking with one of them who has skied since he was a toddler. He recanted two funny stories in which he lost a ski.

In one instance, he thought it had landed behind him, on the edge of a large rock he had jumped, when in fact, it was well down the hill. The only reason he found it is that the people who stopped to check on him after he fell, located his lost ski well down the hill – when they skied over it.

He also showed me a photo from the day before. His wife, also a very good skier, had navigated too close to some trees and was stuck in waist deep snow. He snapped the photo, no doubt to share with friends like me and with their children, before helping her dig out.

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It had not occurred to me that either of them still fell at times. I know that good skiers sometimes have serious accidents and that risk-taking snowboarders wipe out. But I had apparently concluded some time ago that my friends had achieved a level of mastery that enabled them to flawlessly execute each time.

What struck me was how often I see this in business.

CEOs of start-ups, and their investors, expect a bumpy ride; high risk and high returns is the model. But often, mid-sized and large companies, and equally or more importantly, their boards, expect quarter-over-quarter positive returns. The North American stock market has delivered largely positive returns across most sectors for several years. This is not guaranteed over the long term. We all know that. But at times, even the smartest people are forgetting this.

Growth requires investment

Growth requires investment – the investment of capital, investment in innovation, R&D and experimentation. Experimentation and innovation do not always generate a positive ROI, nor does capital investment. But the best companies make investments and take risks. They allow for experimentation, sometimes in a small and low-risk way.

In the analogy of skiing, if you – as a director, or business owner, or CEO – are seeking to keep the company traversing the green and occasional blue runs, while you are congratulating yourself on your flawless or at least consistent performance, your competitors will be increasing the value of the firm even as they fall and collect themselves, learning along the way, on the black and double-black diamond runs.