The Proper Role of Fear in Business Decision Making

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You might not think of it this way, but there is a certain degree of risk in everything you do. You don't even have to leave the house in the morning to assume risk. For example, when you get out of bed, you run the risk that you could slip and fall in the shower and break your neck. Of course, getting in your car and driving to work in the morning entails a degree of risk that only Southern Californians can appreciate!

However, these risks probably don't keep you from getting out of bed, taking a shower and driving to work. Yes, you are taking a calculated risk by doing these things, but the potential rewards you can realize by not staying at home in bed all day make the risk well worth it.

The Risk vs. Reward Equation

This might seem like an obvious point to make, but it illustrates a greater principle: Many Los Angeles and Southern California business owners and entrepreneurs let the fear of negative consequences keep them from making important decisions they need to make for their businesses. In other words, they are unwilling to assume risk in order to take their businesses to the next level.

For example, an entrepreneur has an opportunity to land a major new client that would double the size of his business, but doing so will require taking on debt in order to buy additional equipment and inventory. He and his executive team have conducted a risk vs. reward analysis of making this move and decided that the potential rewards far outweigh the risks of assuming the debt. However, the owner is afraid of what the debt could do to the business financially if things don't work out so he decides to pass on the deal.

The owner could very well be justified in passing up the opportunity, especially if he has an aversion to debt and borrowing a substantial amount of money would cause him sleepless nights. The fact remains, however, that after an exhaustive risk/reward analysis, he and his team determined that from a business perspective, it was a risk worth taking. It was the owner's fear of the unknown that kept him from taking a calculated risk that could have resulted in tremendous rewards for his business, his employees and himself personally.

Removing fear from the decision-making equation is one of the most difficult things business owners and entrepreneurs must do as they lead their companies into the future. We all have a certain degree of fear — any entrepreneur who says he doesn't is either lying or foolish. And the responsibilities involved in running a business can bring these fears to the surface in ways that can cloud the judgment of even the most experienced executives, resulting in decisions that are based more on fear of the unknown than on sound data and analysis.

A Structured Decision-Making Process

The key to making intelligent, data-based business decisions based on careful risk analysis — and not letting fear get in the way — is to create a structured process for business decision making. Here are five guidelines to keep in mind as you create such a process for your company:

1. **Realize that risk and uncertainty are not the same thing.** Uncertainty involves potential outcomes of a decision that are unknown, while risk is a specific uncertainty that could result in a loss or a gain. It is easier to gauge the degree of risk involved in a decision than it is to determine the potential impact that uncertainty could have on the same decision.

2. **View risk in the proper context.** All risk is not the same — far from it, as we illustrated at the beginning of this article. Therefore, it's important to view risk within the context of potential reward. For example, if a decision yields a 90 percent chance of high reward while entailing a 10 percent risk of loss, most owners and entrepreneurs would consider it to be an intelligent risk worth taking.

3. **Gather input from other stakeholders in the decision.** As an owner or entrepreneur, the risk-based decisions you make are not made in a vacuum. Other people — namely, your partners, employees, investors and family members — will be impacted by them, so it makes sense to get their input. Ultimately, however, you have to make the final decision.

4. **Understand your own personal level of risk tolerance.** We all have different degrees of risk tolerance — it's part of our individual personalities and makeup. Don't pretend that this doesn't exist, but instead let your level of risk tolerance play a role in the risk-based decisions you make. After all, you are the one who will ultimately answer for the success or failure of your decisions.

5. **Let the data, not your emotions, drive the final decision.** That said, your final decision should be based more on hard, quantifiable data than on emotional factors. Yes, there is a place for "gut feelings" and instincts in business decision making. But generally speaking, the most important business decisions should be more fact- and logic-based than emotional. You owe it to yourself and your business to perform thorough due diligence and research before making a final decision.

It can be helpful to bring in outside expertise as you make important decisions that could shape the future of your business. For example, an outsourced CFO services provider can offer data-based analysis regarding critical financial and operational decisions you must make. An outsourced CFO will bring an objective perspective to decision making that's unclouded by fears and emotions.

Concluding Thoughts

Many business owners let the fear of negative consequences keep them from making important decisions. They are unwilling to assume risk in order to take their business to the next level. Removing fear from the decision-making equation is one of the most difficult things owners must do. The key to making intelligent decisions based on data instead of fear is to create a structured process for decision making. An outsourced CFO services provider can offer data-based analysis to help you make critical financial and operational decisions for your business.

About CFO Edge

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