Bass Clusker Consulting

Rationally Fearless™

A Leader's Guide to Bad Fear, Good Fear and No Fear

By Andrew Bass PhD

Fools jump in where angels fear to tread, but Fortune favours the bold!

If you want to release the potential inherent in your business and your people, you need to create a rational relationship to fear. You certainly need to be able to look risks in the face and to be appropriately fearful of real dangers. But you need to be able to do it without being paralyzed or getting lost in denial. Then, armed with justified belief in your capabilities, you can offer leadership that is* Rationally Fearless*.

In this article

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Executive Summary: Rationally Fearless

The Idea in a Nutshell

Fearless leaders are much discussed and admired. Fear itself, though, is an often-overlooked factor in business success or failure.

Not talking about fear is understandable. But it's a mistake. Fear affects major areas such as strategy-setting, execution, innovation and organizational change.

Fear is so important that it's better to acknowledge it and manage it.

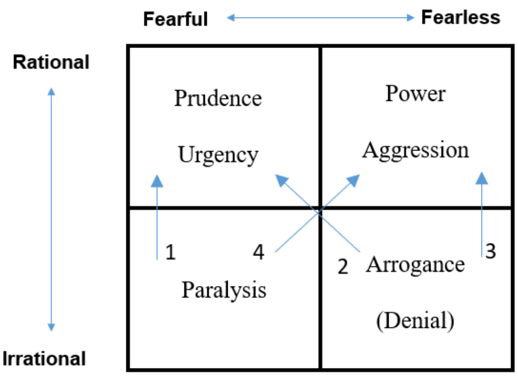
Kodak were so scared of cannibalising their own film business that, despite inventing the digital camera, they failed to commercialise it, and went out of business. Fujifilm avoided the trap and made the leap.

Volkswagen were more frightened of the threat to their US diesel strategy than of breaking the law. The cost? $30 Bn and a former CEO who can't go anywhere he might get extradited to the US.

Elon Musk has blazed trails apparently fearlessly, but is he going to overdo it?

Leaders should ask, "What fear is appropriate and what fear is not? When should we be fearless? When is fearlessness actually dangerous, even stupid? "

And, "How do we transform inappropriate fear into prudence and power?"



The Idea in Practice

1. **Strategists, know thy fears.** Most people are more motivated by a fear of loss than the promise of a gain. This can seriously distort your team's strategic decisions unless you bring these factors to awareness.

2. **Take Fearlessness to the Red-line, But Not Beyond.** The great wealth creators make bold moves, but they know where the limit is. Branson does, Musk might, Kalanick didn't.

3. **Understand Real Fears and Real Incentives.** If your people are not following through on strategic decisions, assume that inaction makes good sense from where they're sitting.

4. **Mind Your Language: Stop Talking About 'Failing Fast'.** They'll hear the word 'fail' and run a mile. Instead, like GE and Intuit, make it clear that the idea is to succeed without wasting too much time on dead ends.

5. **Distinguish Urgency from Panic.** If you build a Burning Platform, don't expect coordinated action in response. But do expect your best talent to jump first.

6. **Bring Denial into the Light of Day.** People who get disrupted often disregard or dismiss new threats. Think of Microsoft's Balmer when he saw the iPhone, or the UK and US car industries when the Japanese started to compete with them. They should have been a lot more frightened than they were!

7. **Get the Messenger a Bulletproof Vest!** Or don't shoot them in the first place (Google the phrase 'whisteblower Oxfam' or 'Whistleblower bank' for graphic accounts of the risks).

8. **Fearlessly Uphold Your Values.** Some people will beat their numbers but ruin your organization in the process. Don't let them.

9. **Reduce Moral Hazard: ensure People Have Skin in The Game.** Moral Hazard invites a deadly form of arrogance. Learn from the Russian Colonel who made an engineer test the spaceship.

10. **Make Sure People Fear the Right Things.** People often prioritise competing fears badly. For example, are your sales people more worried about making their quota than saddling you will unprofitable business?

Rationally Fearless

A Leader’s Guide to Bad Fear, Good Fear and No Fear

By Andrew Bass, PhD

I’ve found in my work advising organizations that regardless of industry or country, fear is a major determinant of success or failure. In fact, an irrational relationship to fear is the single biggest block to releasing individual and organizational potential.

People don’t talk about fear openly – they don’t want to admit to being fearful.

That’s understandable, but it’s unwise to leave fears unexamined. Unacknowledged fear affects strategic choices, implementation, innovation, reputation and the outcomes of organizational transformations.

Fear is not always bad. And fearlessness is not always good. The questions leaders and their teams should be debating are, “What fear is appropriate and what fear is not?” When should we be fearless, or at least project fearlessness, and when is fearlessness actually dangerous, even stupid?

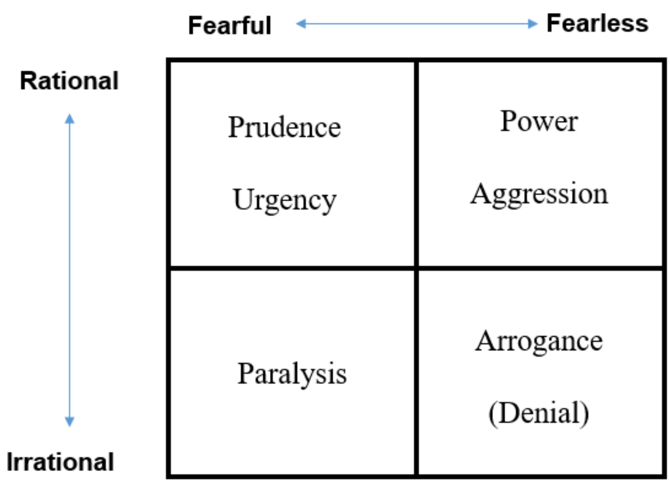


Figure 1. Rational and Irrational Fear

Irrational Fearfulness

Inappropriate fearfulness can lead to paralysis. Kodak invented the digital camera. But it didn't commercialise the technology because people were fearful about cannibalising the film business. Instead those people should have worried more about survival. To be clear, they weren't ignorant of the risks. An internal report in the late 90s predicted the company's demise within 12 years if they didn't get their act together. The timing was remarkably accurate. But Kodak was paralysed through the 2000s.

Rational Fearfulness

In contrast, appropriate fearfulness creates the urgency needed to innovate and make changes before they are forced upon you. Andy Grove, co-founder of Intel, wrote a book entitled, "Only the Paranoid Survive" about the need to make your products obsolete before the competition does. Paranoia sounds too uncomfortable for most people, so let's call the required quality Prudence. Prudence provides the impetus to start getting ahead of disruptive changes. While Kodak was stuck, its competitor Fujifilm saw the threat of the digital age, and made the leap to embrace it, with huge success.

Irrational Fearlessness

Some businesses have been dominant for so long that they just can't imagine a world in which they don't exist any longer. You can call the resulting state hubris, or arrogance. Whatever you call it, it's extremely dangerous. Think about how US and UK automotive businesses underestimated the threat of Japanese entrants in the 1960s and 70s. They looked at the low-quality products they were initially faced with and laughed.

Rational Fearlessness

Fearlessness is extremely powerful leadership quality in two main situations:

- When inspiring an organization to pursue something truly ambitious
- In a turnaround or crisis

Fearless-seeming leaders – especially entrepreneurs –certainly win admiration. Steve Jobs and Richard Branson come to most people's minds immediately. The trick is to inspire great confidence without being reckless.

In a turnaround or a crisis, projecting fearlessness makes sense. You don't want people running around in a panic. Winston Churchill remains the classic example. He knew he couldn't let any private doubts appear in public. But that doesn't mean being deluded or in denial – that's what causes the crises in the first place.

Create a rational relationship to fear

In the following pages, I'll cover a range of specifics for ensuring a rational relationship to fear. First, let's get clear on the big picture.

When you suspect that fear is restricting your ability to release your organization's full potential, use the chart to get a handle on the issue.

Ask yourself where you, your team, and your organization fall on the map, and then if you need to, debate how to make the transitions. Here are some general principles:

Transition 1: Paralysis to Prudent Urgency. Key themes:

- Reassurance, to reduce anxiety and restart effective thinking
- Appropriate prioritisation of risks
- Structure: breaking over-facing situations into manageable chunks.

Transition 2: Arrogance to Prudence. Key themes:

- Increased "Skin in the game"
- Reduced denial
- Face-saving
- Realistic acknowledgement of dangers.

Transition 3: Arrogance to Power. Key themes:

- Increased capabilities (competence, tools, support) to match confidence.

Transition 4: Paralysis to Power. Key themes:

- Justifiable belief that challenges are addressable
- Insurance – literal and metaphorical
- Increased capabilities (competence, tools, support), or if capabilities are sufficient, increased confidence.

Ten Factors for Rational Fearlessness

1. Strategist, know thy fears

All growth has limits. That's true in biology, and it's true of careers, products and whole businesses. Most people are familiar with the s-curve diagram. I first met it in a book by Alan Weiss. It says that you need to be alert to slowing growth, and be looking ahead to the next up-curve while you still have momentum. If you leave it too long, you find yourself on a plateau (and plateaus tend to erode quickly – think about Kodak, and Blockbuster, Blackberry and many others).

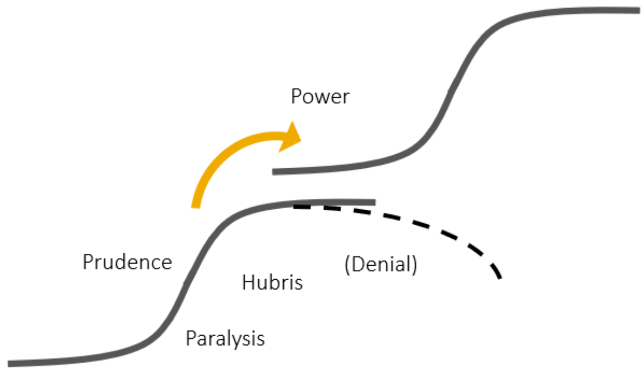


Figure 2. Fear and the S-curve

How does fear apply to the decisions and commitments demanded by the s-curve?

- Appropriate Fear gives rise to Prudence (or Andy Grove's more extreme paranoia) – it's the impetus that tells you that you must jump.
- Appropriate Fearlessness gives you the power and aggression to make the leap when the time comes, like FujiFilm (or IBM in its historical jump from manufacturing to services).
- Inappropriate Fear – or sometimes misdirected fear – leads to Paralysis such as that experienced by Kodak.
- Inappropriate Fearlessness leads to Hubris or arrogance that kept the UK motorcycle industry from taking the Japanese threat seriously, and perhaps stopped many retailers from getting online fast enough (Sometimes, Hubris is a mask – deep down people are so terrified that they deny the truth even to themselves – they act confidently but lead their people into unwinnable battles. We'll consider this Denial factor in more detail in Point 6).

How to use this in your company – Andy's Advice: Look at where your business is on the s-curve. Identify limits to your growth, potential plateaus, and potential new up-curves. Now consider where you as a management team are emotionally. Are you prudently aware of a need to jump? Do you have appropriate level of urgency? Can you project the power and fearlessness necessary to inspire and convince your organization? Or are you paralysed, or even worse, dealing with key stakeholders in denial?

2. Take fearlessness to the red-line, but not beyond

While we admire fearless leaders, you can take fearlessness too far. I use the Fearlessness Barometer below to help clients visualise the limit. You want to be just a shade below the redline.

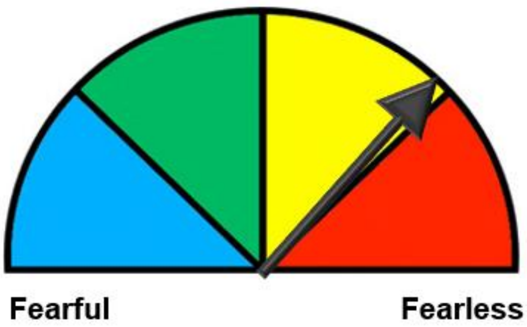


Figure 2. The Fearlessness Barometer

The most fearless contemporary leader in business is Elon Musk. He's brilliant and he might pull off all or some of the things he's doing, but he has a history of going all-in, even with his own personal assets. On the Fearlessness Barometer, he's on the redline, over it even. He's loved by individual investors, but there is also an army of speculators who have shorted Tesla's stock, encouraged by his bold, some say wild, statements.

People close to him say he works hard to suppress fear – the question is, "How do you know how far to go?" Even Musk seems to recognise the need to dial down the boldness a bit. As he put it at his June 2018 AGM, "I'm a naturally optimistic person, I wouldn't have done cars or rockets if not. I'm trying to recalibrate as much as possible."

People compare Musk with Steve Jobs, but I see big differences. Jobs was brave, but also prudent. When he came back to Apple, he didn't start building iRockets. He stabilised the business, then said, "We're going to wait for the next big thing." Then, when he saw the opportunity (seamless, legal music downloads from a comprehensive online store to a streamlined personal device) he had the boldness to go for it.

Richard Branson projects fearlessness – and he is certainly personally brave – but actually a lot of his businesses are rather conventional. The extreme ones like Virgin Galactic are mostly about maintaining the Virgin brand. Otherwise he tends to pick industries where incumbent competitors are apathetic, that is, not frightened enough (somewhere in the blue zone on the Fearlessness Barometer).

How to use this in your company – Andy's Advice: At your next team meeting, ask, "Where are we on the Fearlessness Barometer?" Are you too comfy, in the blue zone? Are you too gung-ho, in the red? Most likely you'll be somewhere in the middle and could benefit from dialling things up. What would that look and feel like?

3. Understand real fears and real incentives

Leaders are often frustrated by the slowness, asking, "Why won't people just do what we agreed?" It usually has to do with the way those people are looking at their incentives.

Case Study: When it's safer to ignore the boss

I was working with a pharmaceutical distribution business that needed to innovate, and fast. Drugs were coming off-patent, and industry forces were going to change who made money and how. The MD was worried.

He was also frustrated that his senior managers, who he described as excellent operations people, were failing to come up with innovative responses to the new needs of their customers.

As we discussed his objectives, he painted a clear picture of how he wanted these managers to innovate.

Then he said, "But they damn well better still hit their monthly KPIs."

This was just not going to work.

Why?

Well put yourself in the shoes of the managers. The incentives are clearly to keep operating well and not to worry about the innovation.

Here's what goes on in their heads: "If I try to innovate, I'll have to find the extra time by working longer hours, and I may well end up failing, which, whatever people say, will probably be held against me later. But if I just keep on operating, all that will happen is I will get whinged at by the MD. Big deal. It's not a sacking offense is it? Anyway, I know the system really well. They need me to make sure the drugs get delivered. On the other hand, if I MISS my KPIs, then I'll have real trouble."

Only by changing the incentives could the MD hope to get these managers to give innovation some serious attention.

These sorts of calculations are done instantaneously, often unconsciously. If you are finding that people agree to for example cross-sell, report problems or support strategic changes, but then don't, ask yourself how they are weighing up the various incentives and start testing changes to them.

	If I DO?	**If I DON'T?**
What WILL happen…	Better? or Riskier?	Better? or Riskier?
What WON'T happen…	Better? or Riskier?	Better? or Riskier?

Figure 3. The Incentive Audit

You are raising the four questions in relation to any behaviour your organization would like to see more of:

- What will happen if I do?
- What will happen if I don't
- What won't happen if I do?
- What won't happen if I don't?

On balance, is it safer to do it, or not to do it? Would YOU do it?

Make sure your Exemplars are supporting your required incentives. How do people decide what they think will happen to them? They do it by watching exemplars. That's why it's no use banging on about values if prominent managers are getting away with violating them. My bank's website tells me that one of their values is Integrity, which it describes in part as the willingness to "Challenge things I believe to be wrong and be open to challenge from others." Yet their CEO just tried to uncover the identity of a confidential whistleblower, only to be let off with a fine and a slapped wrist. What message do employees believe? The values on the website, or the story about their boss in the newspaper? By the same token, if you tell people to fail fast, look after them when they do.

How to use this in your company – Andy's Advice: If people are not following through, develop your empathy for the way those people weight up incentives by putting yourself in your employees' shoes. Use the Incentive Audit to make sure your review is comprehensive. What needs to change? Are you asking the impossible? Are you saying one thing while your exemplars are demonstrating another?

4. Watch your language. Stop talking about ‘failing fast’

Talk of innovation often engenders fear. Leaders will say things like "We need to fail fast", and "If you want to increase your success rate, you need to increase your failure rate".

Why is this counter-productive? Well, think of it in terms of the Incentive Audit above. Hearing the boss say, “Fail fast! Increase your failure rate!” many employees will do a quick mental calculation and decide, "Interesting, but better to concentrate on safe bets". These are people who are answering 'Yes' when asked to innovate, but are then rationalising their lack of progress by saying, "I was busy with the day job."

The point is not to fail fast. The point is to succeed fast! But recognising that there are many potential dead ends on the way to a successful innovation, you have to identify when you are going down a cul-de-sac as quickly and cheaply as possible. This is an essential part of the Lean Startup approach which originated in Silicon Valley start-ups but is now being applied in major corporations such as GE and Intuit.

In outline it goes like this:

1. Identify the key assumptions underpinning the business idea.
2. Find the riskiest assumption – treat it as a hypothesis.
3. Design the cheapest and quickest experiment you can to test the hypothesis
4. Use what you learn to accelerate, modify or, if necessary, drop the idea.
5. Rinse and repeat.

Point 3 is the one that reframes failure. If you exclude a dead end quickly and cheaply, you haven’t failed. You just saved the company time and money it could have wasted barking up the wrong tree.

How to use this in your company – Andy’s Advice: Give up on trying to persuade people that failure is somehow good, necessary or educational. Instead, figure out how to run quick, low risk experiments that enable the business to learn without individuals losing face or reputation.

5. Distinguish Urgency from Panic

Leaders must be able to create a sense of urgency. But using fear to engender urgency can flip over into panic.

Many leaders talk about putting people on a 'Burning Platform'. The image is one of a burning oil rig, and the idea is that if you were unlucky enough to find yourself on one, you would get over any complacency, and would energetically hurl yourself off into the inky black ocean below, trusting somehow that you would be rescued.

This might be an okay metaphor in the context of a pre-existing crisis or a turnaround. But that's not what the people I hear seem to mean. They want to create a burning platform, in an attempt to create Urgency.

Here are three reasons why – outside of genuine crises and turnaround situations – efforts to evoke a burning platform risk going up in smoke.

- **Denial.** I've often heard CEOs complain about how hard it can be to convince people that things are as serious as you are trying to make out. The Burning Platform metaphor ignores the almost infinite human capacity for ignoring or reframing or otherwise rationalising threats – particularly real and genuinely dangerous ones. You say, 'the platform is burning' and they respond by putting their fingers in their ears and yelling, "La, la, la, la, la! Can't hear you!"

- **Lack of direction:** if you scare people, they might move. But they likely won't move in the direction you think they ought to. Instead they scatter. They try desperately to escape. They certainly stop focusing on customers. And you often lose your best people first, since they are the most mobile, and a vicious spiral is the result.

- **Initiative fatigue.** Even if you can get the result you want with a burning platform approach, you can only do it once, and the cost is high. You can't keep creating crises every six months.

How to use this in your company – Andy's Advice: Loss aversion is a powerful motivator, but if it goes too far, you just get panic or denial. Talk to people frankly about threats to the business, but, like Churchill, reassure them that you can lead the way through.

6. Deal with Your Own Denial

Leaders (not to mention investors) should be alert to Denial. It's extremely dangerous. Sometimes, apparent fearlessness is just for show. It's masking a deeper fear – the fear of seeming afraid, or of being exposed as being wrong.

In 2014, Toyota agreed to pay a $1.2 billion to avoid prosecution for covering up severe safety problems with "unintended acceleration," and continuing to make cars with parts the FBI said Toyota "knew were deadly."

How do we square this with Toyota's reputation for quality, arising from the famed Toyota Production System? In the previous few years, Toyota had been trying to become the world's largest carmaker, and the pressure was leading to shortcuts. The Wall Street Journal started documenting issues in 2006.

Rather than reflecting on this and similar feedback, Toyota executives reacted defensively, saying criticism was blown out of proportion. Their state of denial led them to take incredible risks with both the finances and reputation of the company, not to mention with their customers' lives.

How to use this in your company – Andy's Advice: We are all susceptible to denial. True denial is impossible to spot in oneself. A wise leader has trusted advisors who can point to blind-spots, and who do so in a way the leader finds they are able to listen to.

7. Get the messenger a bulletproof vest!

Have you noticed that the people who are the most reliable and conscientious sources of information are often not the most diplomatic? They upset managers who then block the information from reaching you. In the worst cases, they raise 'extremely inconvenient truths' that it feels more comfortable to ignore.

Time and again, we see high profile cases – Oxfam is a recent example – where whistleblowers were ignored with expensive, even tragic, consequences. And each time the same questions come up: "How could it happen? Why didn't people listen?"

Research reported in the FT found that, on average, employers need to hear news of problems three times before they are prepared to act. The trouble is that employees are typically only prepared to blow the whistle once or twice before they give up.

Think of the incentives once again: both patterns are understandable. From an employer's point of view, even if they are not blinded by "can't happen here" denial, or incentives to turn a blind eye, dealing with an alarm is going to be a big hassle. You can always argue that the prudent course is to wait for more evidence.

From an employee's point of view, sticking your head above the parapet is a huge risk to your livelihood – would you push it if you didn't think you were being listened to?

How to use this in your company – Andy's Advice: Leaders must make sure they hear bad news and take it seriously. Some issues just sort themselves out, and wise managers are alert to the danger of wading in prematurely. But when it comes to allegations of bullying, sharp practice, negligence or illegality, I've never heard a client say: "I wish I'd left that issue to fester a bit longer before dealing with it."

8. Fearlessly Uphold Your Values

As much as employees watch your behaviour, they also watch those who they think of as your representatives. I have often interviewed clients' employees to be told that a draconian or sociopathic manager is causing poor morale, the departure of good but under-appreciated people, or is even upsetting customers, but that "the boss must want them to be like that, or else they would have got rid of them ages ago."

I show clients this chart, which I first saw discussed by Jack Welch:

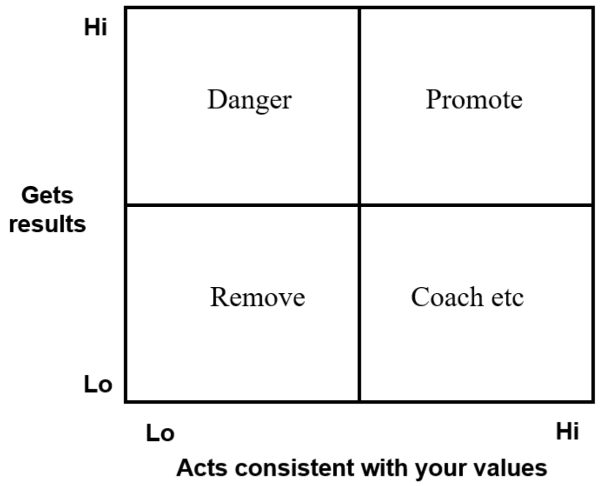


Figure 4. Upholding performance and values

The top left quadrant is where the action is. If you allow people with good results but poor respect for your values to continue with their act, you undermine your leadership credibility and erode the culture. It's no good to have nice posters around the place proclaiming their values if someone who habitually violates them is tolerated because their numbers are good.

This is a test of leadership fearlessness. It may be tempting to keep 'high performers' for the apparently attractive results they bring but, you incur all sorts of hidden costs: managerial time dealing with the friction, lower morale among other staff, loss of talent, and knock-on effects on customers. And weakened managerial credibility for you.

How to use this in your company – Andy's Advice: If you are serious about your organizations, you must fearlessly uphold them. No exceptions.

9. Reduce Moral Hazard by Ensuring People Have Skin in The Game.

As Nassim Taleb points out in his book, "Skin in The Game", there's a dangerous form of arrogance which occurs when one person can decide how much risk to take, while someone else bears the cost if things go badly. The moral hazard this creates is usually heard about in the context of bank bailouts, but it occurs inside organizations all the time.

It can happen when, for example:

- a manager has a secure position and is hard to remove.
- there is no clear means of determining who is accountable for a given project.
- managers can get large bonuses for hitting short-term targets regardless of longer-term damage (they can often just explain it away, or even if they are fired, they get a pay-off or at least keep previous earnings).

Here's a fiendish example of encouraging appropriate prudence by making sure the decision-maker has skin in the game: The Russian spacecraft Voskhod-1 was so cramped that the cosmonauts couldn't wear spacesuits. The story goes that one of the engineers warned the chief designer, Sergei Korolev, that the slightest leak of air would kill those on board. Korolev's solution was to appoint the engineer as one of the cosmonauts, figuring that this would help encourage him to make the capsule as safe as possible.

Less dramatically, Yves Moriex gives a great example from the car industry of making sure a manager had skin in the game. The manager responsible for ensuring that the car was designed to be easy to repair was informed that once the car went into production he would take charge of the warranty budget.

How to use this in your company – Andy's Advice: You may not always be able to come up with something as ingenious as Korelev's gambit or Moriex's example, but you can always apply the Incentive Audit (Figure. 3) to make sure you are not creating Moral Hazard and find ways to ensure people have skin in the game.

10. Make Sure People Fear the Right Things

People often prioritise fears wrongly. VW were more frightened about losing revenues than breaking the law. So they're $30 billion down with all the claims they're having to settle, and their ex-CEO might just go for jail. He certainly can't go anywhere he might be extradited to the US!

Here are some fear-prioritisation considerations, by function:

- **Sales** – Are they more afraid of not making quota than about saddling the business with unprofitable work from impossible customers, making promises operations can't keep, or even indulging in unethical conduct?

- **Finance** – Are they more afraid of budget variances than of failing to exploit unbudgeted opportunities mid-year?

- **Legal** – Are they more afraid of being blamed for something/anything than of company losing a good, acceptable-risk, opportunity?

- **Customer facing staff** – Are they more afraid of penalties for underperforming on metrics than customer dissatisfaction or ethical violations?

- **Procurement** – Are they more afraid of 'losing' a price negotiation than making false economies which hurt quality?

- **HR** – Are they more afraid of confronting bad management than losing talented people/damaging company's reputation as an employer?

- **Top team** – like Kodak, more afraid of deviating from the herd or cannibalising existing business than succumbing to an existential threat?

- **Middle managers** – are they more afraid that Change may make them look as if they haven't been doing their job than on getting onboard with the new programme?

How to use this in your company – Andy's Advice: Seemingly crazy, perverse or frustrating behaviour in organizations usually comes down to skewed or narrow perspectives on the personal interests of the players. Perceived personal interests better be aligned with the organizations interests, because personal interests will win out. Again, use the Incentive Audit (Figure 3) to understand where you need to intervene.

In summary

If you want to release the potential inherent in your business and your people, you need to create a rational relationship to fear. You certainly need to be able to look risks in the face and to be appropriately fearful of real dangers. But you need to be able to do it without being paralyzed or getting lost in denial. Then, armed with justified belief in your capabilities, you can offer leadership that is Rationally Fearless.

More from Andy

Andy Bass helps leaders to use what they already have to build the kind of culture that leads to dramatic growth and improved productivity. He has consulted in 22 industries on three continents. For more articles, eBooks, podcasts and video from Andy, visit: bassclusker.com.

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"IAC people are benefitting hugely […] from Andy's expert guidance in aligning our people with our objectives and turning strategy into action"
- Jens R. Höhnel, Global Co-CEO & President Europe, International Automotive Components Group (IAC)

"With Andy, you can discuss any business matter, and you know you'll get a smart, knowledgeable view. Plus, he'll call you on gaps in your thinking and when required, steer you towards something better."
- David J. Pritchett, President, Rieke Packaging Systems (A TriMas Company)

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- John Handley, Senior Director, Lloyds Development Capital

"Andrew displays this rare mix of confidence, humanity, subject knowledge and wonderful dexterity in his coaching. His insightful approach and focus on achieving results are impressive. Highly recommendable consultant if you are looking for a true professional."
- Paul Heldens, Managing Director at Dornbracht International GmbH/ Chief Sales Officer at Dornbracht Group