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Title: Why Embracing Failure Is Good for Business

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Rejection is a bitter pill to swallow. And most of us have had a good dose of it. Whether we didn't get a job we applied for, weren't admitted to our top choice college, didn't make it to the team we tried out for, or didn't score a second date with the person we were sure was going to become our soulmate, many of us have experienced rejection firsthand. Hearing "no, not interested" doesn't feel good. Regardless of how hard you want to look at the bright side of it, rejection doesn't build character. It breaks hearts, it brings tears, and it raises fears. And that fear can stick and become a hard-to-remove stain.

All fears are evoked when after we appraise a stimulus, we find it dangerous and potentially harmful. Fear is the internal alarm system that we are equipped with and which exists to warn us against threats to our survival. In the past, survival meant staying alive. It meant not getting killed by a predator, a disease, a rival, or a natural disaster. And threats included anything that could literally cause death or serious harm.

But in a relatively safe, socially complex, and intellectually demanding world, the meaning of both survival and threat has changed significantly. For most people in the developed world, it is no longer our biological survival that we are preoccupied with on a daily basis. Our worries extend to beyond just staying alive. We still care about our physical health, but we also care about our mental, emotional, financial, relationship, or spiritual health and we want to protect them from any threats. And when any of these are threatened, fear arises.

I feel that same fear of rejection when I talk to my clients about putting together a comprehensive risk analysis. These emotions rise to the surface because of the fear that a potential investor will say no if they see all of the complex risks and risk mitigation plans. They fear they won't have enough, be enough, or can't last. There is also a lot of denial thrown into the mix - if I don't confess my problems then they don't exist.

However, the opposite is true. If you don't do a good risk analysis, you won't avoid failure, you will guarantee failure. You will fail because you didn't understand the risk of failing to imagine there is a risk and developing a plan to mitigate it.

What makes good companies great? Accepting that they will fail.

When dealing with a project, risks are always on the agenda. Even the most carefully planned project can encounter problems and unexpected events. This is where planning and risk response strategies come into play. We need to identify potential problems that could negatively affect the project, analyze the likelihood of them occurring, take action in order to prevent the risks that can be eliminated and minimize those that are impossible to avoid.

If you're never failing, you're probably never really winning either.

This might sound counterintuitive to some but, to me, it's the most important criterion to guarantee success. It should also be one of the building blocks in your foundation for how you approach everything you do. Think about it: if everything you do is working, you probably aren't taking enough risks, which means that even if you're achieving small wins every day, you aren't challenging yourself to achieve big wins that will set you apart in a meaningful way.

Occasional failures are a guaranteed outcome of trying something new and a good signal that you're rightly pushing some boundaries. It's better to practice resilience and be good at problem-solving than to be bad at failing.

How do successful companies deteriorate from greatness to mediocrity?

Jim Collins, in his book "How the Mighty Fall: And Why Some Companies Never Give In" describes the five steps in the trajectory that companies follow on their way to mediocrity and failure:

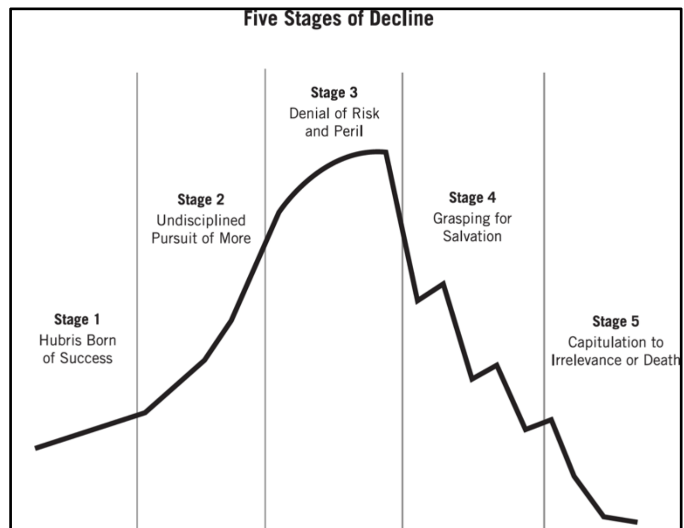
Stage 1: Hubris from Success. "Hubris" refers to excessive pride or arrogance. Stage 1 starts when people become over-confident, and forget the true foundations of their success (read Collins' book "Good to Great" for the 6 ingredients of greatness). People start to take success for granted, lose the hunger for learning, get distracted by non-core areas, and don't focus on their core purpose as a company.

Stage 2: Undisciplined Pursuit of More. The arrogance from Stage 1 leads the company to overstretch, jumping into areas where it can't be great, or pursuing growth without the right people or resources. They become obsessed with growth (to the point of losing focus and discipline) and make the fatal error of growing faster than they can get the right people. In my experience, they also don't have or can't get the financing for the kind of growth they are pursuing, and push their cash reserves to the limit.

Stage 3: Denial of Risk and Peril. At this stage, the company is still delivering results, but there are growing signs of danger. At this stage leaders are also viewing the data through colored lenses and unfortunately neglecting or in denial about the threats. Leaders also play up the positives, play down the negatives, read ambiguous data favorably, and attribute problems to

external factors. Fanatical reorganization, and deterioration of team dynamics & culture are common.

Stage 4: Grasping for Salvation. At this phase, the decline becomes undeniable. But, the organization's death is not yet imminent. Leaders' responses at this point determine if the organization sinks or swims. Those who panic and seek quick salvation (e.g. bringing in an external "Savior", or jumping into drastic, untested changes) will accelerate their fall to Stage 5. Revival is only possible with a return to fundamentals. In my experience, this is where fundraising for debt and equity is pursued aggressively, usually to no avail.



Stage 5: Resignation to Downfall. The longer an institution stays at Stage 4, and the more its people try to find magic solutions, the faster its downward decline. Eventually, the financial resources dry up and people run out of steam. Collins calls this stage "Capitulation to Irrelevance or Death". At this point, there are usually 2 paths a company can take: (a) give up and sell the company, or (b) keep going until it exhausts its options.

Finding the Level of Allowable Risk

Bill Gore was the founder of W.L. Gore & Associates, the maker of such innovative products as Gore-Tex fabrics, Elixir guitar strings, and a variety of medical products. Gore's open and creative workplace emphasized autonomy, fairness, commitment, and experimentation. He instituted a mental model for risk-tolerance called the "Waterline Principle."

Gore compared the level of allowable risk to the waterline on a boat. Think of being on a ship, and imagine that any decision gone bad will blow a hole in the side of the ship. If you blow a hole above the waterline (where the ship won't take on water and possibly sink), you can patch the hole, learn from the experience, and sail on. But if you blow a hole below the waterline, you can find yourself facing gushers of water pouring in, pulling you toward the ocean floor. And if it's a big enough hole, you might go down really fast.

Great enterprises do make big bets, but they avoid big bets that could blow holes below the waterline.

Commenting about Bill Gore and his Waterline Principle, business consultant Jim Collins noted in his book "How the Mighty Fall" that when making risky bets and decisions in the face of ambiguous or conflicting data, ask three questions:

1. What's the upside, if events turn out well?
2. What's the downside, if events go very badly?
3. Can you live with the downside? Truly?

Using the example above, you can see that analyzing risk doesn't bring on failure, it brings success as you take on the task of asking these hard questions as a part of good business planning. The good news is that as you develop a strong, detailed risk and risk mitigation plan you will have all the right answers and you will think differently, and it will also make your company stronger and more financeable, thus more attractive to investors.

What investors are looking for is a management team that has answers for these hard risk questions, because the company has developed a comprehensive risk mitigation plan where the majority of risks are above the waterline and you have a plan to repair it if it blows.

To Speak Their Language, Learn to Doubt

To get financing, you have to empathize and see the world through an investment banker's eyes and learn to think and talk like them. To think like they do, you have to become one of them by learning to doubt. By not doubting, you fall into Stage 3 above.

Many business owners feel that if they talk about doubt it is bad, while bringing up hard questions that you may not be able to answer in a positive way, and also something you just don't talk about. It's like that "one cousin in every family" kind of story and it feels like a weakness to talk about it. However, by not facing doubt and not talking about it in the language of risk, that is what actually makes you weak. Managing doubt and confronting it head-on can actually make you strong and successful, as well as accomplishing your goal of obtaining financing and building out your company.

Doubt also makes is safer. Would you fly in a one-winged plane? "If you fly with me for 150 miles, we can get a second wing, it's the easiest way to save money." The truth of this illustration is that the investors haven't suspended doubt on your project, you have. You haven't acknowledged your weaknesses and made a plan to buy the other wing of the plane.

Be a Good Steward and Be Able to Prove It

Learning to speak the language of risk can also show that you will be a good steward of someone else's money. Money managers are not looking for great technologies, they are looking for people that they can trust with managing the money they will give them.

If you lack the language of risk, then you can't have a meaningful conversation where the end result is building trust with each other. In this new sea change of Impact Investing, the rules of language have changed, but it's a challenge you can learn and master if you are willing to

pursue it and face it head-on with a well prepared ESG risk mitigation plan and educating and

encouraging your team to participate in the process.

***Cynthia Thyfault, Founder & CEO** has provided over 30 years of successful business management and risk evaluation consulting which has resulted in over $3 billion in financing for biofuels, bio-chemicals, and bio-power, both domestically and internationally, as well as value-added agriculture manufacturing and rural commercial businesses. She recently had the honor to be named in the peer-selected competition for the "Top 100 People in the Bioeconomy" Awards by the Biofuels Digest in 2016 and 2017. She has served on many civic organizations and is an accomplished and sought-after worldwide speaker and author.*

Global Biofuture Solutions is on a mission to accelerate the growth in the Global Bioeconomy. We have developed a suite of high-quality tools and services that can accelerate project development and financing both domestically and internationally. We combine our expertise in clean technologies and risk mitigation to assist clients in completing ESG Risk Analysis and Sustainability Reports for Impact capital markets, both public and private.