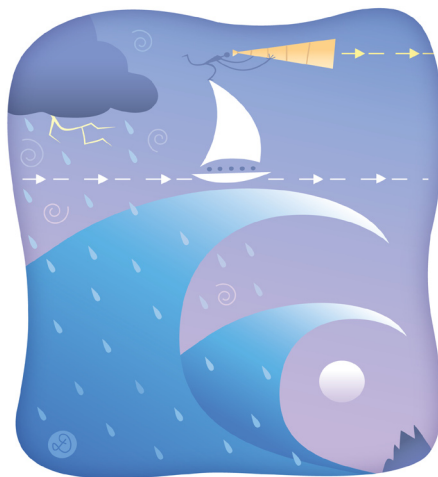


The Captain's Challenge

At sea or in business, a smart leader copes with turbulence by building risk tolerance of the crew.

By Eric Best

As we tacked Coeur de Lion out of San Francisco Bay into thick fog and a stiff wind, with 3,200 miles to go to the Panama Canal, I was as happy as I have ever been on a boat. The passage would cap my years of sailing: a childhood cruising around New England, two solo roundtrips between San Francisco and Hawaii, and a recent race from Newport, RI to Bermuda. I had just bought and reconditioned this 65-foot Swan ketch – a fabled Sparkman and Stephens design whose sister ship had won the first round-the-world race. Everything was moving according to plan. We were leaving the Golden Gate just after noon on November 1, 2005, technically the end of the pacific hurricane season: right on schedule.



I came to this passage not just as a sailor, but also as a corporate consultant with a specialty in scenarios – the use of alternative futures to inform strategy. In both roles, I have learned to take many calculated risks, and to operate in uncertainty. People almost never get where they think they're going on the timetable they imagine when they set out, and it's almost always for reasons they don't expect. But this trip would challenge my leadership in ways beyond the ordinary. There would be a test of wills with one of my crewmates – a disagreement about the dangers, real and perceived, of our voyage. Ultimately, we would land at an unexpected destination, very different from the one that I had in mind as we exited San Francisco Bay. And this trip would have a permanent impact on my understanding of leadership under risk-taking conditions.

Financial professionals generally aim for a theoretical zone called the efficient risk frontier, a zone where the chances taken appropriately match the potential returns. But in today's economy, who can say in advance where the efficient risk frontier will lie? The global economy in 2006 is in a sweet spot of sorts, with low interest rates and low inflation, high levels of growth and liquidity, and a momentous application of technologies as markets open around the world. Great opportunities abound. We would say in sailing that the wind is up and the barometer is holding steady. But the dangers are also immense. The liquidity, the global

courage: the willingness to go forward into uncertainty and operate there at length. When decisions are made collectively, the risk tolerance of the group is a measure of mutual trust. It shows what the members believe they can accomplish as a group as conditions become turbulent during, say, a difficult merger or acquisition. But it's also a test of leaders and what they elicit from their colleagues – whose tolerance and capabilities may be sharply different from the leader's own. Can the members of a team be motivated past their own resistance and fears, to results they might not be able to achieve otherwise?

When decisions are made collectively, the risk tolerance of the group is a measure of mutual trust

competition, and the speed at which information is arbitrated in the market all make returns harder to achieve. Others' investments can blow up in ways that will affect your own. The enterprise can press on with all sails flying and risk being more vulnerable in a sudden storm, or it can shorten canvas at night (where information is uncertain or just plain scary) in case something unexpected happens. How does a leader decide?

In investing circles, the capacity to make good decisions under that type of pressure is called risk tolerance. Risk tolerance is a kind of index of confidence and

In assembling my crew, I had looked carefully for four people with enough offshore ability for the voyage ahead. Pete had extensive offshore sailing and yacht-delivery experience, and now worked as the commercial captain/engineer on a 100-foot power yacht. Diane, his girlfriend, had helped him prepare Coeur de Lion for this trip under the eye of a professional shipwright, and she knew the boat well. Frank, my first paying client in a nascent adventure-charter business aimed at corporate executives, was a moderately experienced sailor, quietly enthusiastic and generally competent at anything he tried, so he promised to be a good

presence on the boat. Joe, a sailing instructor in his 60's came along with Pete's recommendation as an able deckhand.

I was guilty of at least one fundamental sin that affected my own risk tolerance from the start. I was committed to my own "official future." In scenario planning, the official future is the outcome that people find the most desirable or believe to be the most likely, or both. In business, an official future frequently includes some assumptions

sumed an average boat speed that would be difficult to sustain over 3,200 miles.

A business analogy is found in the sales pitch of investment advisors or the expectations of investors themselves. If you must earn a certain return over a given time period, then you are tempted to assume either that your investment strategy will work or that the market's direction will favor your outcome, or both. This might be called "hope as a strategy"; it is quite popular

It would be largely up to me to either build up our risk tolerance or decide, in the end, that we shouldn't make an all-out try

that haven't been fully considered (business-people often conduct scenario planning exercises just to unearth the risks hidden in those assumptions, and to see opportunities not previously considered).

My own official future was, "Panama in three weeks, with 10 days to spare." And then an easy week or so to Miami, our intended destination. I thought we should have little problem averaging seven knots a day, but my distance-speed-time calculation was influenced by the need to convince others (and myself) that we would be there on schedule. Pete and Diane had to get back to work on December 1; my wife, left alone to tend our two small children, was impatient for my return. So I had as-

among some top executives. And yet, as any skipper who makes a living by delivering other people's boats will testify, having too great a sense of urgency about your timetable can put you in harm's way. (As one old adage puts it, "The sea lies in wait for the unwary, but she stalks the reckless.")

We thus left San Francisco committed to a goal that we didn't fully realize would require some luck to achieve. On a boat or in business, that's the kind of pressure that shows how much risk tolerance really exists within a team. And though I didn't know it yet, it would be largely up to me to either build up our risk tolerance so we could meet our goal – or decide, in the end, that we shouldn't make an all-out try.

Intermittent Storm Warnings

We sailed southwest for more than a week to find only mild wind offshore. Falling further behind schedule day by day, we sailed closer to land in hopes of better breeze, then encountered an extreme squall off San Clemente, in which gale-force winds hit 45 knots (51.75 mph). Pete and I could both steer under such conditions, but although the boat performed beautifully, six hours of steering downwind in seas reaching 12 to 14 feet in height seemed to take Pete to the limit of his nerve. I know this from the way we both kept adjusting our wind indicator. I kept setting the device to “true,” to get an accurate reading of the winds that the boat was being asked to handle. But when Pete took the wheel, he switched the indicator to “apparent,” a lower number when you sail downwind because it subtracts boat speed from wind speed. (At 45 knots, with the boat hitting 13+ knots, the “apparent” wind is 32). “I don’t want to know how hard it’s blowing,” Pete said, with a look that was half grin and half grimace. Weeks later, I would find out that he’d never sailed in seas that big before our trip, and he said he didn’t want to repeat the experience anytime soon.



By the time we approached the infamous Gulf of Tehuantepec – where gusts funneling through the Mexican land mass can build sea highs to 20 feet – I had learned more about everyone, including myself. Pete, the one professional sailor, did not like to share in decisions or cede to anyone else’s weather analysis. He was prone to moodiness if questioned about a decision he had made on his own. He was also physically impetuous and had damaged the fuel manifold in a moment of anxiety when one of the tanks for the auxiliary engine ran dry. So now we were running the engine with a heightened sense of possible failure. Diane knew far less about sailing than she or Pete had let on, and I was afraid she might get hurt if things got rough and she had to trim sails suddenly at night. (We stood watch in pairs, rotating so that each person had four hours on and six off, and others could be called upon to help at any time.) Joe had a journeyman’s knowledge about the workings of the boat, but he was not at all spry, which limited his ability to work safely on deck. Frank, my paying client, was an able enough sailor, but the complexities of this boat, where loads were huge and injuries could be serious, were far from second nature to him. The predomi-

nantly calm weather to date had not tested him, so I did not know how far his abilities might take him.

And there was another factor. The vaunted satellite phone service for up-to-the-minute local weather reports had refused to deliver. It was the apparent victim of computer glitches, mast interference, or operator error. I spent many hours trying to fix it. For all that, I was confident

dictions that Tehuantepec gales would start three days hence, and one blurred fax hinted at a tropical depression further southeast, but nothing followed to confirm it.

I was quite confident that we should be able to round the area of predicted gales before they set in, but what lay beyond that? Looking at the fax, Pete was afraid that a tropical depression could be forming to the southeast. In a season when a record num-

If the crew couldn't face a storm that might not really be there,
which was more important – reality or their perception?

that Pete and I could handle the boat if we prepared well in advance for harsh weather. We could reduce sail to a minimum if the winds piped up too high. I believed that with everyone in safety harnesses, Coeur de Lion, managed conservatively, would safely endure the roughest seas we were likely to find.

As we neared Tehuantepec from the northwest, we still had only intermittent communications on which to rely. Our satellite-link fax machine still wasn't receiving anything from the weather stations in New Orleans, probably because of Hurricane Katrina's destruction. In business, the most valuable information is often not at hand when it is most needed, and this was the case now. We had reasonable radio pre-

ber of hurricanes had developed late in the year, he said, who could be sure such a depression was not forming? This argument relied as much on unknown information as on anything the fax had shown us. I tried to reason that Coeur de Lion was especially well built for high seas and we had come to sail, not to hide from high winds. She has been professionally surveyed in every detail, had been refitted in every place we found any weakness, and was therefore ready for just about anything. Unmoved, Pete said that in his professional opinion it would be imprudent to take a 30-year old boat with this crew into 50-knot gales or risk a tropical depression of unknown ferocity.

Convinced that we could go for it safely, I laid out a series of alternative paths on

the chart that could get us far enough south before any gales were due. Even at our slowest speed of six knots, we were almost sure to pass Tehuantepec before the winds were predicted to rise. We would do even better as winds rose behind us to help us along.

But as my logic and argument advanced, so did Pete's resistance. We could not be sure, he said. We might be blown offshore and then get becalmed too far out to get back to land on our dwindling fuel

Panama had collapsed, which seemed inappropriate for the one professional crewman aboard. I sensed he had other reasons. Was he simply afraid? Was Diane privately urging him to turn back? Was he hiding from information from me?

I asked myself: Should I exercise the captain's prerogative to insist that we press on? Would that be wise leadership, or authority for its own sake? Then came an "Aha!" that released me from further doubt.

If I had applied my own scenario practice better to the sailing challenge, I would have focused sooner on the critical factors of competence and preparation

supply. The seas might be even bigger than expected. The engine could fail. Of course there was no guarantee of success, but his scenarios were unconvincing to me. I had complete faith in the boat in anything short of a hurricane (65 knots of wind or more), and a strong belief that we could sail around the area of gales before they became a problem. If the crew couldn't face a storm that might not really be there, which was more important – reality or their perception?

Any further delay now guaranteed that we would have to back-track 150 miles to Acapulco to drop off Pete and Diane and bring aboard a substitute crew. It felt to me as though Pete's commitment to reaching

Without Pete confident and committed at heart and willing to help the others, we did not have the critical mass to proceed. I had been raised on the sailing maxim, "If you wonder if it's time to reef [reduce sail in advance of storm winds], it's time to reef." That moment had arrived. We had no choice but to turn back.

Lion-Hearted Prudence

Arriving several days later in Acapulco – now more than a week behind schedule – we discovered deep in the hold a leak in the engine exhaust system that might have caused it to fail at any time and left us without power. So maybe this vindicated

Pete in insisting we turn back. On the other hand, the tropical depression that had worried him never developed. And although the 50-knot winds in the Gulf of Tehuantepec occurred on schedule, had we kept to the original plan we would have rounded them in time.

In the end, the time we lost in failing to press forward was somewhere between a week and 10 days. With a new crew aboard and the exhaust and fuel manifolds repaired, we continued the passage east, dogged by calms that now put us fully two weeks behind schedule. We would ultimately make it only to Jamaica by December 14, forced to

when I reflected more thoughtfully on the experience for its lessons and business applications, I realized that if I had applied my own scenario practice better to the sailing challenge, I would have focused sooner on the critical factors of competence and preparation.

I have worked with business leaders who take the trouble to talk through alternative scenarios with their teams, to discover what others imagine could happen, and to think through ways of addressing the issues that might arise. That is one reason that these leaders are more effective than those who don't think ahead in rigorous ways. In

In business, as on a boat, one can never know fully who is aboard and what they will be capable of as challenges mount

leave the boat there to fly home for the holidays. My “official future” – to reach Florida by early December – had given way to a far less preferable timetable. Our assumed easy downwind sail had turned into a struggle to manage risks that we faced differently and could not tolerate together.

Later, when friends and colleagues asked me, “How was your trip?” I was tempted to complain: There was no wind to speak of, I didn't get to test the boat the way I wanted to, and I brought crew who maybe should not have been there. But

business, as on a boat, one can never know fully who is aboard and what they will be capable of as challenges mount. As conditions become difficult, people will hit limits within themselves, which will limit the entire team if the leadership does nothing to address them. Therefore, leaders who engage others to think through the extremes in advance, to help clarify their intentions and capabilities, will allow people under duress to accomplish what otherwise seems beyond them. This is particularly important for enterprises in early 2006, a propitious time for venturing, when capital is

cheap and unprecedented technologies and networks are available to be leveraged. The potential scope and impact of individuals, as well as the enterprise, are limited largely by imagination, courage, and the capacity to execute.

Looking back at my role aboard *Coeur de Lion* off Mexico, I realize that rather than struggling for hours with the computer, I could have been a more attentive and engaged captain, talking openly about my own background and risk tolerance, making it clear that I wanted to test the ship, and preparing the crew for whatever conditions we might encounter. When I take crews into dangerous territory in the future, in business or on a boat, I will avoid behaving like a solo sailor, who willingly takes on risks himself but does not need to take others into account.

Maybe this trip only proved the Rolling Stones right: You can't always get what you want. But I came to something more profound in the end – that the capacity to execute is limited by the risk tolerance not of any individual, but of the full group together. And if we do not find ways to take the greater risks together, we can never expect to achieve the rewards we hope for.



Eric Best is founder and CEO of Best Partners, a consultancy helping leaders clarify strategic intention. Mr. Best also recently founded The Captain's Challenge, an on-board strategic engagement aimed at exploring leadership, risk tolerance, and organizational learning through the rich metaphors of sailing.

www.bestpartners.cc

www.thecaptainschallenge.com