

THE COST OF AVOIDING LOSS AT ALL COST

- ▲ **Fixed Mindset thinking holds leaders, organizations back**
- ▲ **Often dominated by the Amygdala, this approach prevents clarity, opportunity**



Eastman Kodak owned the photography business. Is there anyone today who uses a Kodak camera? The spectacular meltdown is a cautionary tale of avoiding loss. Kodak used to be a household name worldwide. **In its heyday, Kodak cameras and film were as universal as today's smartphone. What happened?**

The easy answer? Digital cameras ruined film-driven photography just as the printer attached to personal computers devastated the printing industry. **But that didn't cause Kodak's collapse. In fact, they had developed the first digital camera in the 1970's**

Kodak's business model was highly dependent on selling film. Preserving that business model was foremost in the strategies that the organization employed. Leadership didn't want to lose that considerable revenue stream to venture into the unknown field of digital photography.

Loss aversion stymies progress in organizations. It acts as a drag on innovation, growth, retention, talent attraction and profitability. It stems from the notion that avoiding loss is more important than any of these qualities. Therefore, it suggests that the existing available outcomes can only be reduced by loss and no gain is possible. In this framework, the gains obtained from an innovative breakthrough are not worthy of consideration.

Loss aversion is a hallmark of a “fixed mindset,” popularized by Stanford Psychologist Carol S. Dweck in her book *Mindset: The Psychology of Success*. In it, she describes a mindset that is anchored in the belief that what already exists is all that is available. Consequently, a loss of any kind would diminish the whole in a zero-sum fashion.

This fear of loss dominates the way people are expected to think, act and behave. Preserving the status quo, conventional behavior, following the rules without deviation, and fear of failure define the thinking of the members of an organization that is loss averse. **Perfectionism runs rampant within this type of culture. That means that ideas that are sound in substance can be rejected for the most minor of procedural or protocol errors. Ideas grind to a halt; only “safe” ones get aired.**

This culture of “playing not to lose” hinders individuals as well as organizations. Careers risk being stunted in the same fashion that organizations see diminished outcomes. The failure to foster innovation and growth reflects itself immediately in career growth or lack thereof.

It appears that, physiologically, loss aversion has consequences as well. A study was done by social psychologists Adam Alter and Elliot Aronson with Princeton undergrads. The researchers presented the students with a test of GRE questions. For half the students, the questions were presented in a threat context – they were a test of the students’ ability, a judgment on whether they truly belonged at the university. Although the other students got the same questions, they were posed as a challenge. That test was titled “Intellectual Challenge Questionnaire,” and the questions were construed as brainteasers. Nobody was expected to solve them all. In the threat context, the Princeton undergrads got 72% correct. In the challenge context, they got 90% correct.

As discussed in a previous blog, *Uncertainty Can Leverage Innovation*, a threat context activates our Amygdala, a part of our limbic brain that constantly scans for threats and, when cued, triggers the “fight or flight” syndrome. This visceral response incorporates neither logic nor language, only self-protection. It reduces the ability to see opportunities that would enable leaders and their organization to break through and grow.

The antidote is to shift from a fixed mindset to a growth mindset. This mindset is anchored in the premise that growth is possible and that errors, rather than detracting from the “fixed whole,” present opportunities to learn and improve as a result of the learning. This, in turn, presents the individual and the organization with the potential for growth in outcomes.

A growth mindset shifts the paradigm for risk management. Instead of avoiding all potential for loss as a primary approach, risk mitigation is calibrated to appreciate the nature of the prospective loss when balanced against the potential gain of a proposed action or strategy. **Even losses are viewed as ways to perform better in the future. This eliminates perfectionist approaches that stifle creative thinking and appropriate risk-taking.**

This means that there will be losses. Mistakes will happen. Strategies sometimes fail. What is vital is the recovery from those mistakes and losses. Effective after-action review that focuses on what can be learned helps develop resilience.

It can be difficult to move away from a closed mindset. Our society focuses on errors and loss to generate blame and shame. It can be easy to become hypersensitive. **Advocating that “mistakes give me a chance to learn, and thus are ok,” is decidedly a learned behavior. However, it can be very rewarding and certainly worth the risk.**

