It's not news that good business decisions demand that prospective reward be proportionate to risk. In turn, risk is a function of uncertainty and skin in the game-- the extent to which you have something to lose if things go sideways. I'd like to touch upon some aspects of entrepreneurial risk that are too often neglected by theorists, largely ignored by the media, and sometimes, wittingly or not, exploited by lenders and investors.

The main points are obvious, at least in retrospect. Even so, they aren't always reflected in our actions. First, let's acknowledge that risk is dynamic. Old uncertainties are resolved over time, and new uncertainties emerge. In addition, the degree to which different stakeholders have skin in the game is constantly shifting.

In effect, management, employees, investors, customers, and vendors underwrite the risk of a venture to varying degrees over time. Crucially, skin in the game is relative. A loss in the normal course of business to a well-diversified and capitalized investor can be ruinous to an entrepreneur. It's the difference between playing roulette and Russian roulette.

As author and gadfly Nassim Taleb observes, "In a strategy that entails risk, benefits never offset the risk of ruin." Consequently, the primary purpose of strategy is to help us avoid ruin. I know, the popular perception of strategy is embodied by the visionary CEO, who charts a bold path into the future.

Like Admiral Farragut during the Battle of Mobile Bay, the visionary CEO's call to arms is, "Damn the torpedoes, full speed ahead." But unlike Farragut, most CEOs don't have meaningful skin in the game. If their grand visions don't pan out, they just pop their golden parachutes. The sting of failure is assuaged when you have enough left in the bank to spend the rest of your days on the beach.

The consequences of a failed business strategy can be somewhat more severe for the rest of us. So when you are evaluating strategies, acknowledge uncertainty, and keep a keen eye on who has-- and who doesn't have-- skin in the game.

Sure, society needs its business heroes. But what's good for society isn't always good for its heroes.

So be wary of entrepreneurial cheerleaders-- those who champion risk taking, but don't have any skin in the game themselves. What's rational for them may not be rational for you. So be sure to listen with a critical filter. When you run your models, resist the temptation to focus on the so-called "base case," which always represents a successful outcome.

Be sure to explore the conditions under which your strategy fails. After all, when you are navigating challenging terrain, it's good to know where the cliffs are. Choose a route that doesn't expose you to too many. In short, to paraphrase billionaire investor Warren Buffett, the first rule of strategy is to avoid ruin.