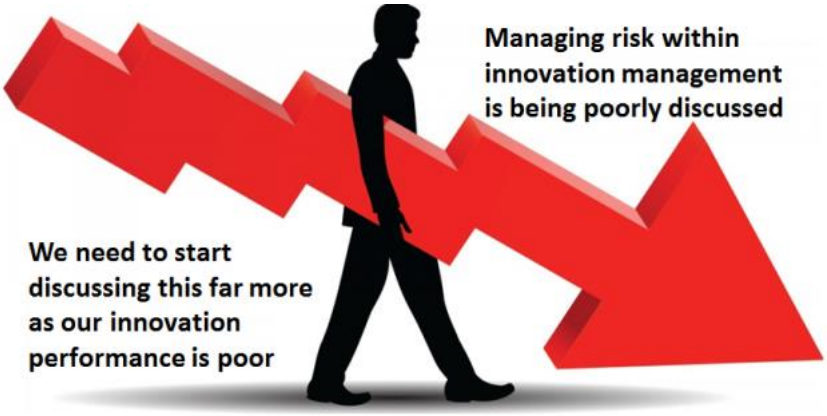
Managing Risk & Innovation



Fear & Risk Are Holding Innovation Back

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Fear & Risk is Holding Innovation Back

A short series discussing Risk & Innovation

Building a new Framework for Risk Management & Innovation

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Risk and Innovation frustrate me

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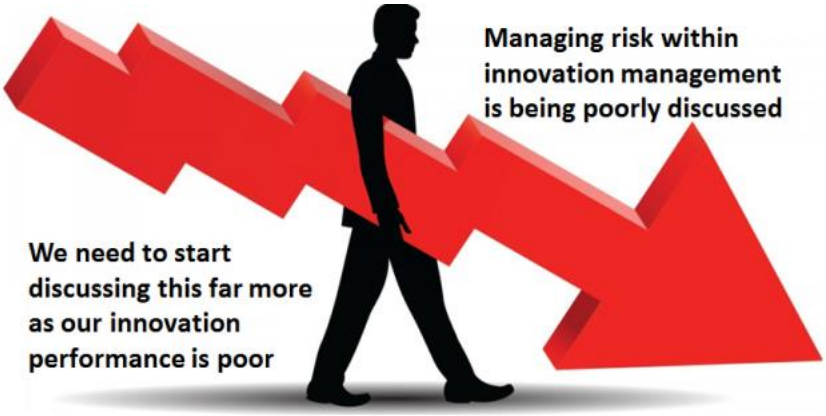

I have been really struggling in the past few weeks. Partly a niggling health issue finally got resolved with a 'delightful' week in hospital, a couple of operations later, with a reasonably speedy recovery now thankfully under way.

The plan of course was for me to really use this confinement period as one of those opportunities to catch up on an awful lot of reading around innovation, planning out some areas to focus upon in the coming months and year ahead.

My logic was at the time, well this is similar to a long train journey or flight, you use this time and climb into a number of areas that have been quietly 'festering' away in the back of my mind, sitting on on my desk or tucked away in my computer.

Of course it never works out as planned, those 'pesky' interruptions checking your vital signs, wanting to know "are you in pain" or in this case for me, that firstly a rapid realization the effect of two operations leaves you fairly sore, popping in pain killers and making sure you can quickly walk off the effects of the surgery and the need for two full anaesthetics. Then all the wriggling and reworking the hospital bed at all its angles to get myself even comfortable for the job on hand to read and catch up. Lets not even talk about all the bruising giving me a rainbow effect!

That time was not as well spent equally on trying to keep to my optimistic plan, as I was only armed only with a tablet taken in to the hospital realizing that this *never- ever* makes up for my ever faithful laptop, driving me mad in its slowness and lack of robustness in the normal programs I use. Blood pressure pills came in handy here also.

Still I came away with a 50% achievement mark which was not so bad on the overall innovation intent I had set myself but one area was very frustrating to move forward upon- the subject of risk and how it is treated in innovation management.

Risk and innovation has frustrated me in this recent period.

One area that has been really bugging me is risk and innovation management. I just can't seem to have achieved a decent 'lock down' on this. I've collected different articles, have browsed through different books and have a few of my own views but in all honesty this was only a 30% achievement on my framing this in the way I wanted to take forward. It is going to be tougher than I initially imagined.

Most of the specific innovation books I have laid my hands upon have a notional one page or one paragraph on risk – taking, leaving it as simply 'ticked off' but certainly (really) badly covered.

The only notable exception I have found so far to this is Bob Cooper, who does explore different aspects of risk within his books. The one on my desk "Winning at New Products" has some decent references and approaches to begin to think risk within our innovation management

Why are we not discussing risk management and innovation in deeper ways? We should be.

In my searches I was expecting more, does anyone have something that they can point me too, to kick-start my thinking into a deeper dive I need to do?

I would have equally expected the auditing firms that have internal innovation practices to have given this a more 'decent' airing of their expertise. All the 'biggies' have risk advisory services yet I struggle to find anything specific about managing risk in innovation.

I did get one comment back when I started to ask in my own network which perhaps pointed to a dearth of risk and innovation and that was: "the organization will not treat innovation risk as being greater or different as the unknowns are not seen as higher risk but as the norm, and the teams within that organization will have the capability and flexibility to adapt to change and continually incorporate learnings".

I'm not sure the teams involved in innovation do have this capability to adapt and change to continue to incorporate learning if managing risk within innovation is not clarified. It will be highly dependent on each organizes accepted norms for risk but I valued the point. It does seem risk and innovation are bundled up into general risk management or are they?

One glimmer of research yielded some decent insights

Accenture provided the best view I have gleaned to date in a paper "The art of managing innovation risk". They nicely sum up the risk dilemma as:

"Few decision makers want to take responsibility for a failed experiment, so extreme caution usually prevails when new ideas are assessed. Opportunities tend to be defined narrowly.

Moreover, the tools commonly used to support the process exacerbate the problem. Based on retrospective analytics—Net Present Value (NPV) models, for instance, are built on market projections that are calculated using past trends—they tend to skew innovation decisions toward optimizing existing product lines rather than pursuing new ones.

As a result, promising ideas are often smothered. And while many of the innovation initiatives that do gain approval are low risk, they offer only low returns—incremental improvements that usually do little more than maintain market share".

The view within this report helps me, in that it points to changes in some companies. "*Leading players recognize that far from stymieing innovation, sophisticated, state-of-the-art risk management tools, techniques and models, including small-scale experimentation and portfolio management, can actually help encourage it. They know that by fusing such a risk management approach with innovation, they can create a powerful, value-driving partnership.*

In this Accenture report they go on and argue "*risk management groups could work as standard setters, providing a common language the business could use to translate strategic challenges into specific, measurable risks, and providing such risk governance expertise as oversight committees and assessment procedures*".

So I turned to someone I greatly value around Governance, Professor Jean-Philippe Deschamps book "Innovation Governance" but I was sadly very disappointed that such a small space was set aside for risk within innovation governance. I find this hard to understand. I will need to approach him on this to delve into his thinking a little more on this.

Then Accenture within this one 'decent' report went on in suggesting: "*by continually assessing value against multiple variables and scenarios, predictive analytics can help guide these complex decisions. Risk scenario (or simulation) analysis, for example, is a structured, forward-looking process designed, unlike traditional SWOT analysis to discover how multiple factors combine to create both vulnerability and opportunity"* Yeah, I liked these but it left them as dangling out there, needing more work from my perspective and need.

Then Accenture went further and into this *"with product lifecycles across industries shortening, successful innovation often hinges on speed. And that, in turn, requires a risk management process that can shorten learning cycles, recognize failures early and make timely course corrections—a process that facilitates a company wide dialogue around which risks are acceptable and how much risk is appropriate, based on potential returns"*

They are quiet rightly suggesting "*with risks well-managed, companies can then use rapid experimentation and the techniques of agile development—an iterative process closely linked to customers and markets—to boost their chances of coming up with a truly profitable innovation portfolio"*

The conclusion within this Accenture report I liked but it left me really wanting more.

The conclusions with this Accenture Outlook report were "*Most companies today have come to recognize that sophisticated risk management is a key enabler of long-term growth and profitability. What's more, some companies have put in place advanced capabilities to manage their innovation risks successfully. Few, however, have developed the agile, iterative approach that can drive breakthrough innovation rather than drowning it—or have created*

the risk-tolerant, organization-wide governance structures that allow such capabilities to flourish"

Stepping over the risk marker drawn in the sand

Accenture has drawn a mark in the sand with their article but that is already two years old and we really should step over this and advance this set of 'generalizations' where innovation risk is not so much bundled up, as broken out.

Opening up on managing risk in innovation needs to happen

We need to open up our collective thinking about risk and innovation management. We should aim for a really healthy construct that does help all involved or associated with innovation and managing risk, a better chance of pushing beyond the incremental innovation that avoids most risk and disappoints those seeking real growth.

We need to encourage a shift and seek out the dimensions, criteria and thinking that can be applied to encourage more risk-taking, more radical and breakthrough innovation. Something the vast majority of our organizations are not encouraging when the short-term mind set dominating.

There does seem this poor recognition of how to manage risk within our innovation management, often it seems in just piecemeal ways to slip under the risk radar, or avoiding addressing it specifically under the corporate umbrella that would most likely kill off most 'speculative' innovation, simply as the established corporate risk criteria can't be determined for innovation unknown until 'decent' investment is made.

So I'm not advancing in the rapid pace that I wanted too on risk and innovation.

Do we treat this specifically, differently or allow it to evolve on an ad hoc basis or define how it is differentiated from 'normal' risk assessments or criteria to encourage a greater innovation top management focus, something we certainly need? .

I think if innovation is not seen or treated any differently, perhaps then it will be treated badly, getting often the low-level of top management focus. While there is no established innovation risk management practice then this must be a prime reason innovation is being held back in what it can deliver upon.

We need to that prompt more on risk and innovation, reflecting why and how it should be treated in different ways and this might encourage a greater top management engagement.

I need to keep working on this, now it is time for me to pop another pain-killer to keep going. Managing my pain takes precedence over managing innovation risk at the moment but I must come back to this poorly represented side of risk and managing innovation.

The Pressing Need to Link Risk into an Innovation Strategy- part one

Posted on May 17, 2016 by paul4innovating

I want to bring together some thoughts on risk and innovation. This is the opening part and sets the scene. I feel we spend less time on the management of risk within our innovation initiatives. We so often simply measure risk on established risk / return lines of known existing business criteria, treating it as part of our existing ongoing business and that is plainly wrong.

Risk assessment within our innovation activities need a different, far more distinct framing that reflects the nature of the unknowns we are working with, in my opinion.

Our organizations need to relate to the differences far more, to allow this 'innovation risk assessment' to play an increasing role in 'advancing' innovation and its understanding, at boardroom level to relate too and take a different risk-related profile position that many take today.

Putting Risk in a better innovating framework, a short three part mini-series

So I want to set risk in a better strategic and operational framework but to begin with, until we address the alignment issue between a firm's strategy and the linkage of the innovation activities, innovation fails to make the essential boardroom connections and risks always surface, as they have no referencing framework to revert too.

To start this series I decided to quote Gary Pisano, someone who I have admired in his work and thinking over many years. The part I have extracted here sets the frame for having an innovation strategy aligned to the strategic objectives, it is then through this we can focus more specifically on where risk needs to be, the focus of this series of posts. I just didn't feel the need to add more here, I absolutely identify with his thoughts, so let him deliver the right words.

You Need an Innovation Strategy for it to really be seen as a critical resource of an organization

Gary Pisano had an excellent article "You Need an Innovation Strategy" on HBR. He comments:

"*I have found that firms rarely articulate strategies to align their innovation efforts with their business strategies".*

He goes on to say: "Without an innovation strategy, innovation improvement efforts can easily become a grab bag of much-touted best practices: dividing R&D into decentralized autonomous teams, spawning internal entrepreneurial ventures, setting up corporate venture-capital arms, pursuing external alliances, embracing open innovation and crowdsourcing, collaborating with customers, and implementing rapid prototyping, to name just a few. There is nothing wrong with any of those practices per se.

"The problem is that an organization's capacity for innovation stems from an *innovation system:* a coherent set of interdependent processes and structures that dictates how the company searches for novel problems and solutions, synthesizes ideas into a business concept and product designs, and selects which projects get funded. Individual best practices involve trade-offs. And adopting a specific practice generally requires a host of complementary changes to the rest of the organization's innovation system. A company without an innovation strategy won't be able to make trade-off decisions and choose all the elements of the innovation system"

"Diverse perspectives are critical to successful innovation. But without a strategy to integrate and align those perspectives around common priorities, the power of diversity is blunted or, worse, becomes self-defeating"

He provides this view:

"The root of the problem (will be) that business units and functions had continued to make resource allocation decisions, and each favored the projects it saw as the most pressing. Only after senior management created explicit targets for different types of innovations—and allocated a specific percentage of resources to radical innovation projects—does the firm begin to make progress in developing new offerings that supported its long-term strategy. Innovation strategy matters most when an organization needs to change its prevailing patterns"

Gary Pisano suggests there are four essential tasks in creating and implementing an innovation strategy.

"The first is to answer the question "How are we expecting innovation to create value for customers and for our company?" and then explain that to the organization. The second is to create a high-level plan for allocating resources to the different kinds of innovation. Ultimately, where you spend your money, time, and effort *is* your strategy, regardless of what you say. The third is to manage trade-offs. Because every function will naturally want to serve its own interests, only senior leaders can make the choices that are best for the whole company"

"The final challenge facing senior leadership is recognizing that innovation strategies must evolve. Any strategy represents a hypothesis that is tested against the unfolding realities of markets, technologies, regulations, and competitors. Just as product designs must evolve to

stay competitive, so too must innovation strategies. Like the process of innovation itself, an innovation strategy involves continual experimentation, learning, and adaptation."

Leading on from this need to have in place an innovation strategy we will look more specifically at risk in the next couple of posts

For me this excellent article from Gary leads into what I want to write about, the relating and linking risk and opportunity, so we can manage innovation on an increasingly level of risk. If innovation involves continual experimentation, learning and adaptation then we need a clear well – defined and explicit risk management process.

What should a risk management process contain, what does it need to address? So up next in this three-part series, this being part one to get the context right, will be some of my thinking and hopefully a contribution into establishing a far more 'robust' risk management framework.

The successful management of risk will enable great innovation opportunity that can lead to the chances of greater growth in our organizations future, ones to be more value-building, beyond the current reliance mostly dependent on incremental innovations

Treating Innovation Risk Differently, Dealing with Uncertainty

Posted on May 18, 2016 by paul4innovating

We need to open up our thinking about risk and innovation management. We should aim for a really healthy construct that does help all involved or associated with innovation and managing risk, that gives a better chance of pushing beyond the incremental innovation that avoids most risk and disappoints those seeking real growth.

In this post two, within a three part series, I build the argument on why we need to treat innovation differently within any risk assessment. **Part one** focused on linking risk into an innovation strategy that needed to align to the corporate one.

Each organization finds its own level of risk appetite. Regretfully innovation, often by default, gets swept up in this generalization of "risk management" that is corporately driven and the serious message of "risk" dampens exploration. There is a real need to make a clear argument that innovation should be treated differently. It can still come under the broad risk umbrella but judging innovation risk is utterly different from organizational strategic risk.

Innovation is a learning process not to be confused with a safety procedure, both can be effectively managed and different in their treatment. No new business model or innovation new to the market, or even service enhancement, is perfect from its inception, it improves with learning on what is valuable and needed, what can be 'dampened' down, switched off or reduced through market exposure.

Equally we have learnt innovation evolves due to this learning process and how 'it' interacts with customer needs. We make the effort to get it as right as possible, as close to the launch but there are often so many unknowns that only exposure to the market and the customers do we learn to adapt, adjust, modify and improve the offering. This 'adaptive' process scares the board as it has implications on reputation, on the brand and on its abilities to get innovation right.This iterative process is felt should be left only inside the organization as some feel it conveys vulnerability and failing. How wrong this is.

So we tend to go to default. Risk mitigation kicks in. We strive to minimize the risks, reduce the learning and opt for a more incremental approach

As Accenture in one of the few reports discussing risk and innovation "The art of managing innovation risk" state:

"Few decision makers want to take responsibility for a failed experiment, so extreme caution usually prevails when new ideas are assessed. Opportunities tend to be defined narrowly.

Moreover, the tools commonly used to support the process exacerbate the problem. Based on retrospective analytics—Net Present Value (NPV) models, for instance, are built on market projections that are calculated using past trends—they tend to skew innovation decisions toward optimizing existing product lines rather than pursuing new ones.

As a result, promising ideas are often smothered. And while many of the innovation initiatives that do gain approval are low risk, they offer only low returns—incremental improvements that usually do little more than maintain market share".

They go on to suggest *with product lifecycles across industries shortening, successful innovation often hinges on speed. And that, in turn, requires a risk management process that can shorten learning cycles, recognize failures early and make timely course corrections—a process that facilitates a company wide dialogue around which risks are acceptable and how much risk is appropriate, based on potential returns"*

They are quite rightly suggesting "*with risks well-managed, companies can then use rapid experimentation and the techniques of agile development—an iterative process closely linked to customers and markets—to boost their chances of coming up with a truly profitable innovation portfolio"*

Yet tell me how many our organizations have a clear, robust risk management framework for innovation? Is innovation even fully aligned into the corporate strategy?

Our obsession begins and ends with the search for numbers.

Clayton Christensen has been arguing that the agenda of organizations begins and ends with the "search for numbers". Organizations have been focused for far too long around the importance of financial capital. It determines and drives organizations destinies. We are caught in a constant focus upon our achieving a return on our (financial) capital as our measuring criteria and innovation gets totally caught up in this mistaken measurement, it stifles 'great' innovation to emerge and provide truly differentiating advantage. Organizations stay locked into far too much "me too" innovation- why?

At a time when capital is not scarce, it is abundant and cheap, we still see a lack of bolder investment in game-changing innovation. Organizations are hoarding capital or passing it back to the shareholder. Both admirable but they don't build the future, they only keep you in the present. When financial capital is the final arbitrator it totally fails to tell us in numbers alone where and what creates the value, it simply reports the end result, it is always backward looking, never conveying the future unless capital investment is being made.

Today our balance sheets *hides or can't report* the loss of opportunity value, if only innovation had been treated differently. We are caught in a time that most of our business organizations are in a period of risk-aversion where the innovation 'bets' are more incremental, more short-term pushing for greater utilization of existing assets. The longer-

term health of organizations seems to be kicked down the road for later generations to tackle, if they are still in existence!

We need to that prompt more on risk and innovation, reflecting why and how it should be treated in different ways and this might encourage a greater top management engagement. We need to encourage a shift and seek out the dimensions, criteria and thinking that can be applied to encourage more risk-taking, more radical and breakthrough innovation.

Can we walk a different innovation risk path?

The understanding of risk will always have associated with some fear, discomfort and resistance and for many can be an uncomfortable place to go. The whole 'act' of letting go is never easy. It is the ability to manage risk that reduces the fear. It is through experimentation we gain our best learning, we actually are forward learning as we are accelerating our knowledge.

Surely the more we attempt something different, proving or disproving it, does make for exciting work? We move towards a leading edge perspective, we evolve more towards a pioneer, an experimenter and this can be contained and managed within a radically different risk management framework. We all can be encouraged to raise our risk appetite with establishing clear guidelines and parameters, so we all become more motivated and engaged, excited about a different future, curious to explore, wanting and encouraging an environment to experiment but this 'signal' and risk appetite guidelines must come from the top. If it is left unsaid, radical innovation will never naturally happen, what a pity.

We need to recognize allowing greater risk and investigation encourages us to see change differently, to offset the growing disruptive aspects swirling all around us. Recognizing we are mostly operating in markets with slower growth, higher volatility and potential for disruption needs pushing risk in innovation. Risk needs to be proactive not reactive.

Equally the sentiment reinforced by this demand for clear, demonstrative ROI measurements from innovation tends to send the clear message that we cannot disrupt our core, yet others are working purposefully at doing this, knowing your weakness is not taking risk and wanting to disturb the present equilibrium. Risk comes from not knowing and experimenting outside the core. When you are not restless, someone else certainly will be, seeing opportunity.

Achieving a growing certainty of return needs to be paramount in our minds as innovators.

We need to manage the 'certainty of return' by making the knowledge that comes from many incremental steps, of experiment to validate an idea, that eventually builds into a new innovation, that needs managing differently. That can come from steady 'readiness-based decisions' that prototypes or pilots that are put into the hands of the consumer or customer to explore around, will advance our knowledge, each time clarify the potential value and 'seen' worth of this concept over the existing ones in the market place or require us to re-evaluate our assumptions.

We need to develop those risk-mitigation steps to constantly increase confidence. We need to find a real space for uncertainty, for a risk-tolerance so as to allow the shaping ideas, exploring and learning in taking *controlled* risks, encouraging experimentation, providing tolerance (of failure or expecting stronger debate), exploring the unknowns, all should be an integral part of innovation in any new risk management framework.

Stage-gates is also not the innovation panacea to manage innovation.

I would argue we should stop regarding the Stage-Gate as the panacea for managing all of the innovation needs. Stage-Gate handles the incremental product cycle fairly well, but when you are on a more open innovation platform collaboration or more radical design, it struggles to be flexible, agile and fit the different challenges presented by the collaborating parties. We need something significantly different to handle the other types of innovation, those more radical, distinctive and breakthrough.

True innovation goes through much of an iterative process

We need to adopt a more flexible and adaptive process, one where learning, looping back, iterating constantly, that promotes and encourages an experimenting environment for innovation that is more new to the world. As we iterate, we learn, as we learn we can improve our understanding of its growing value.

This needs to be in a more dynamic 'management of the portfolio' concept, from concept to commercialization process.

A place where risk-mitigation needs to be built-in all the way, to search for and then build new knowledge as it 'reveals' itself. In innovation, it is never apparent, you have to 'tease ' it out on its value and contribution, in providing concepts, pilots and prototypes. Everything simply cannot be available when you often just don't know, you take small steps often to feel your way and build that knowledge up. This comes from engaging with your customers, in the market place not your own premises.

How about approving some pilot projects and providing resources to have unfettered six-month periods with no rules and no reviews? At the end of this agreed period 'something' that shows promising value and clear advancement on the past position that has been seen and tested with customers gives confidence, reduces the risk fear. Then you embed the learning and further scale it, if it shows the promise and shows a 'interesting business case' for more investment.

It encourages increasing the risk of spending funds, dedicating resources that lock up assets but by setting these in clear time frames and with a definitive result that the outcomes not just advances knowledge but it can show that the concept does takes you closer to its future value.

Progressive in building risk management for innovation

Over time progressively learning increases our risk-tolerances, we become progressively more creative in this risk-taking orientation to seek out and push for more innovation.

Equally allow those who are willing to take risk, as their more natural position that head room to explore, to push boundaries that often reveals different innovation. By sitting down and outlining the risk acceptable within evolving guidelines, those that are not 'well-set in stone' but will evolve and loosen as we learn. We should expect them to be broken on a few occasions but work with this if it was an informed risk, learn on why, talk with those that overstepped the limits, to see what was right and what everyone can learn from this.

Equally, leaders need to stay totally engaged and constantly talking about what innovators are doing where-ever you can, through face-to-face discussions, dedicated meetings where risk assessments being clearly known to be up there on the agenda, to be evaluated and determined for the next steps. Also being prepared to step back to bring the risks that seem uncomfortable back into alignment with the risk tolerance levels, allowing the engaging in the 'healthy debate on why this innovation might be different and needs different criteria. Innovation needs to be a dialogue and risk management can become its friend not its inhibitor.

Through this more enlightened approach to risk and innovation we do allow-in that greater desire for the capacity to be innovating and how we *all* want things we are working on to improve, to give us a greater meaning within our lives. More purpose, more satisfaction, greater identification. More value, greater growth and impact.

Fostering risk tolerance designed specifically for innovation does need treating differently, to grow and thrive. You can push innovation beyond the ordinary, back into the extraordinary and that enables innovation to deliver far more on its true purpose. There is a strong case to be explicit on the risk profile for innovation to be different.

Developing a new framework for risk and innovation.

Posted on May 19, 2016 by paul4innovating

I believe we need a new way to manage risk within our innovation activities. It needs to be treated differently from the general 'risk management' criteria applied within our business organizations.

In a three-part series, **part one** outlined the implicit need to align innovation to the corporate strategy and through this we can determine 'acceptable risk'. In **part two** I offered up numerous reasons why we should recognize and treat innovation risk differently, so as to allow it to perform closer to its promise of driving growth and achieving real advantage.

This post here is *the third and last part*, part three, where I lay out different mechanisms and framing of risk and innovation. These need to be evolved to fit your own risk appetite, not one size fits all. I hope it helps.

Risks are certainly shifting. In a recent piece of work by Deliottes called **"Risk sensing: the (evolving) state of the art,** the risks of most concern are changing each year. Interestingly, the pace of innovation stands among the top three risks in 2015 and tops along with regulatory risk, the list foreseen in 2018. With technology disruption, business model disruption and growing competition, social and customer engagement challenges the ability to manage innovation is growing as a concern and in risk management. We need to formulate a more robust risk innovation framework. Risk management for innovation needs to evolve to keep pace with the changing demands and pace of change we are undergoing in business challenges. Risk is becoming an evolving capability.

Mark Johnson of Innosight wrote a great article some time back that still holds true today, in its observations, on how poorly the relationship between risk management and innovation is understood. To quote the specific parts

1. **Risk management isn't the antithesis of innovation; it's the essence.**

How an organization conceives of risk management will in large part decide how effectively innovation is pursued

2. **Risk management isn't the brake on innovation; it's the accelerator.**

Risk management, treated as a learning process, not only propels innovation forward but can also speed it up.

3. **Real discipline in innovation risk management means a more relaxed approach to the financials.**

In genuinely new-business innovation projects, it is critical to release the leaders of the effort from the norms and metrics of the core business.

Mark made some clear observations and statements on viewing risk management as a core competency.

As Clark G.Gilbert and Mark's colleague Matthew J.Eyring argued in *Harvard Business Review*, the core competency of the most effective and successful innovators is risk management. *To repeat*: *Risk management is their core competency*. For these innovators, whether in new ventures or in a corporate setting, the ability to identify, prioritize, and systematically eliminate risks is what drives innovation forward.

They approach risk management not as a safety procedure but as a learning process. They know that no new-business model is perfect from its inception. So they test its various components and their combinations—its customer value proposition, profit formula, key resources, and key processes—in controlled experiments in tightly circumscribed markets, learning as they go and making adjustments.

It is (clearly) more prudent and ultimately more productive to first get the value proposition right and to judge it in terms of how fast it converts assumptions to certain knowledge. While experimentation speeds the time to a viable business innovation, it does not necessarily lead immediately to the kind of large-scale growth or increased market share that are usually the barometers of performance in the core business.

The relevant financial measure during this stage is whether the new business can be made profitable in its foothold market. Profitability confirms the strength of your fundamentals, allowing you the patience to scale up in a measured way. That is the real financial discipline in innovation risk management: the unswerving ability to resist applying the wrong kind of financial metrics at the wrong time and so unwittingly choke off growth potential before it can reach full fruition.

He concludes: “one of the biggest risks in innovation is to see risk management as a framework to be superimposed on new-business creation rather than as an inseparable part of the process itself”.

Let’s look at the mechanics of risk management for innovation.

There is no reason it cannot relate to existing risk frameworks. We can adapt to the accepted practices of risk management but innovation risk needs to have its own risk management framework

For this I went in search of a broad discussion in understanding risk and its management. I found a series of articles written by Peadar Duiffy, as founder and chairman of **Risk Management International** (RMI) on risks in relationship to insurance and this series can be found through http://insurancethoughtleadership.com/risk-and-strategy-how-to-find-the-links. These I found to be especially useful to ‘translate’ into the make up of a risk management framework.

I’ve adapted these on how they might work or be used as a guiding group to build risk management and innovation in some depth. I think it works but you might advance these from your own perspectives.

Firstly lets establish some observations:

1. Directors and senior managers need a globally accepted guide on the attributes of an effective risk appetite framework to manage innovation, independent of their corporate risk guidelines but they dovetail into them..
2. Emphasis is shifting globally from risk management to building resilience and as we learn and explore about managing risk in innovation and each innovation can have different variances we need to ensure the risk optimization is achieved when risk and strategy are aligned with corporate objectives. Achieving this comes through the use of **the three horizons** framework for aligning where innovation fits and its (risk) horizon and place, pushing to encourage a greater scope of innovation, of building a validation, proofing and testing mentality.
3. “Strategic risks” are those that are most consequential within the innovation activities that have a potential impact to the organization’s ability to execute its strategies and achieve its business objectives. Having a clarity of strategic risk, those must be material to have impact on the organization. These are the risk exposures that can ultimately affect shareholder value or the viability of the organization growth. Strategic risk management is focused on those most consequential and significant risks to shareholder value, an area that requires the time and attention of

executive management and the board of directors. More radical innovations, disrupting positions or new business models would form part of this risk assessment.

Then we need to be strengthening the strategic planning process

1. Increasing rigor, formality and consistency in the strategic planning office which derives its authority from the board and the CEO's office, needs engagement within the risk management of innovation. It at least needs ongoing awareness of the direction and impact any more radical innovation might have, to evaluate its impact.
2. Aligning strategy, risk and audit board subcommittees (through cross-representation) in a manner that largely feeds into the board risk oversight, reporting and monitoring on innovation that might have material impact.

Embedding risk management and innovation competence within the structures developed.

1. Explicitly articulating corporate and organizational objectives in relationship to innovations contribution and need.
2. Testing the alignment of group, corporate and organizational objectives through development and review of risk appetite statements that bring the innovation efforts together. Who is responsible for what.
3. Establishing an effective risk appetite framework**,** which includes:
4. Statement of purpose and values of the organization towards innovation's position of value and growth contribution
5. Explicitly stated board risk assurance requirements; factors to consider and these would include:

- Mapping objectives to a risk appetite continuum, articulated and discussed
- Qualitatively expressed risk appetite statements to help in reassurance (reputation etc),
- Quantitatively expressed risk criteria related to both risk tolerance and risk limits
- Acknowledging these evolve but in a measured process that is dynamic and evolving from learning.

Understanding and improve progressively the organizational level of risk maturity

RMI had developed a five-level **Risk Maturity Index**, which provides a road map to risk optimization, it has merit for innovation to also follow. The index scores risk maturity capability requirements, etc. In summary, it describes:

- Level 5: "**Value-Driven**" — Optimizing value through aligning risk and strategy with corporate objectives,
- Level 4: "**Clearly Managed**" — Gaining value through aligning risk and strategy in pursuit of corporate objectives,
- Level 3: "**Providing Insight**" — Gaining insights into how to better align risk and strategy in pursuit of corporate objectives that evolve as innovators and the board gain growing confidence they are on a similar track,

- Level 2: "**Gaining Awareness**" — Developing awareness into how to align risk and strategy in pursuit of corporate objectives relating to innovation and its development
- Level 1: "**Basic Learning**" — seeking awareness of the links of risk and strategy in pursuit of corporate objectives relating to innovation.

Establishing clear governance, setting policy and monitoring performance: In the context of the relationship between risk and strategy, good governance means accounting for the type of risk culture that encourages and manages innovation.

- "**Risk culture**" is a term describing the values, belief, knowledge and understanding about risk shared by a group of people within a common innovation purpose, in particular the employees of an organization or of teams or groups within an organization to relate too
- Risk culture, as an aspect of culture, can be practically described thus:
    - Culture: The way we do things around here!
    - Risk culture: The freedom we have to challenge around here!
    - Risk culture is capable of being demonstrably and credibly evidenced and discussed.

First we need to explore: do boards express clearly and comprehensively the extent of their willingness to take risk to meet their strategic and business objectives in encouraging the innovation activities? Second, do they explicitly articulate risks that have the potential to threaten their operations, business model and reputation?

How are risk appetite, risk tolerance and risk limits related to one another?

The RMI **Risk Maturity Index** correlates and again, serves well for innovation and risk:

1. Level of alignment of risks to strategy, objectives and execution of the innovation portfolio,
2. Risk role affirmations at each maturity level (shown above),
3. Risk culture affirmations (practices confirmed by internal and external attesters'), who periodically check
4. Risk defence affirmations (practices confirmed by internal and external attester's), in discussions
5. Board and organizational processes that bring innovation continuously into the boardroom, in clear line of sight.
6. Value realized at three levels: a) the customer, b) the organization and c) stakeholders.

As a particular **Risk Assessment Strategy** (RAS) is devolved down through an organization, its content will change based on the intended recipients as well as their relationship to innovation For example, a RAS at:

- **Group executive level** will be high level and inclined toward expressing appetite for risks to objectives that deliver value and increase performance, that show potential

and promise. The RAS will clarify the innovation objectives, risks tolerance levels, escalation procedures, expected returns across a broader range of measures and how the control(s) to manage risk and innovation apply, looking for:

- **Middle management level** will articulate levels of tolerance that, if breached, will require escalation and "circuit breaking" reports, with priority given to immediate interventions and a review of internal controls but having a dynamic process of knowledge, learning, risks and opportunities to convey these to the board, if necessary or in a regular reporting format
- **Business unit level and the team** within these responsible for innovation, will have a more detailed and expanded RAS explanation, inclined toward expressing risk limits and internal controls that enable greater innovation understanding, spelling out risk tolerance, appetite and linking this into the articulated innovation strategy

The various components among the numerous **risk maturity models** tend to overlap considerably. Here's one generic set of attributes of maturity:

- Risk is managed to specifically defined appetite and tolerances that relate to innovation need and strategy.
- There is management support for the defined risk culture and direct ties to the corporate culture
- A disciplined risk process is aligned with other functional areas to integrate innovation
- There is a process for uncovering the unknown or poorly understood risks of innovation and an evolving path to clarify, test, explore so a continued learning process is in place to build innovation capabilities & capacity.
- Risk is effectively analyzed and measured both quantitatively and qualitatively, both in hard terms and the softer potential seen at that point of time, to be determined and validated for improving quantification.
- There is collaboration on a resilient and sustainable enterprise, building on the knowledge and learning gained, shared and 'factored into' the risk management framework to keep it dynamic and evolving.

In summary

Innovation has many unknowns, but it is the learning and evolving that can give growing confidence. Constructing a risk innovation framework that grows as confidence is 'found' and a process to alert and inform gives the ability to constantly quantify these unknowns, constantly searching to find ways to measure and provide returns.

We need to relate risk and innovation in clearer ways, to give a greater confidence and encouragement to pushing for the new.

***Again, I certainly have to acknowledge, that I found the series of articles written by Peadar Duiffy, as founder and chairman of Risk Management International **(RMI)** on risks in relationship to insurance. as really valuable in framing innovation and risk as outlined here.

About Paul Hobcraft

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I simply enjoy innovation. I got 'hooked' fifteen years ago and since then have increasingly focused on innovation until it is 100% of my business thinking and activities today.

I research across innovation, looking to develop novel innovation solutions and frameworks where appropriate. I provide possible answers to many issues associated with innovation with a range of solutions that underpin my advisory, coaching and consulting work at www.agilityinnovation.com .

The aim is to support individuals, teams and organisations, in their innovation activity, applying what I have learnt to further develop core innovation understanding, so clients can achieve positive and sustaining results from their innovating activities.

For me, ***innovation needs to enter the DNA of our organisations*** and our own individual make-up. In my writing, I try to offer a range of thoughts on different aspects of innovation to help each of us to understand this subject better.

Innovation as a source for our growth fascinates me.

As for my personal journey

How I got to this point I can only say it has been varied, challenging but full of fun and learning. This has taken me to live and work in Saudi Arabia, Kenya, Malaysia, Switzerland, the Netherlands, USA, Hong Kong, Australia, and recently twelve years in Singapore. Today, I live in Switzerland, my adopted home.

I've worked in a number of senior positions within global corporations, in global, regional, country and functional levels tackling different challenges that have included start-ups. turn-rounds and significant re-engineering and operational design or automation across a global network.

The work has been varied, the challenges diverse coming from starting up different businesses in emerging markets, turning difficult ones around in challenging economic and market conditions more than once, re-engineering a global organization over a three year period choosing to live permanently out of a suitcase (or two) for months at a time in each

of the major global locations as the best way to deliver the changes, and finally simply accelerating companies, getting them through to critical mass points, for achieving their positive contributing footprint, within the world.

In 2000 I went into my own business of consulting and advisory work, firstly based in Asia and then in recent years, based in Switzerland

After I moved to Ticino in Switzerland, from Singapore I am spending different times between the two regions, although Europe holds an increasingly more central role. All the time my focus is on innovation and many of the related topics that move it increasingly towards a core within organisations. Innovation understanding does 'simply span' globally and I have been fortunate on building on the foundations initially laid down in Asia and advanced while in Europe through an ever-expanding network of collaborators, knowledge and insights.

My present focus is spent building this innovation practice, providing advice on building the right capabilities and capacities, into organisations or individuals wanting to advance on what they have already in place; to improve, accelerate and develop their innovation competencies and understandings of the 'fit' of innovation.

Paul Hobcraft has been voted into the top innovation bloggers over a consistent period from 2012 on a leading Global Innovation Community- Innovation Excellence- ,

"These accolades are highly appreciated and valued- they inspire me to keep innovating in my own unique way and style. These recognitions help me believe I can contribute to the wider innovation community we are all part of"

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