Stimulating Innovation with Risk Management
White Paper

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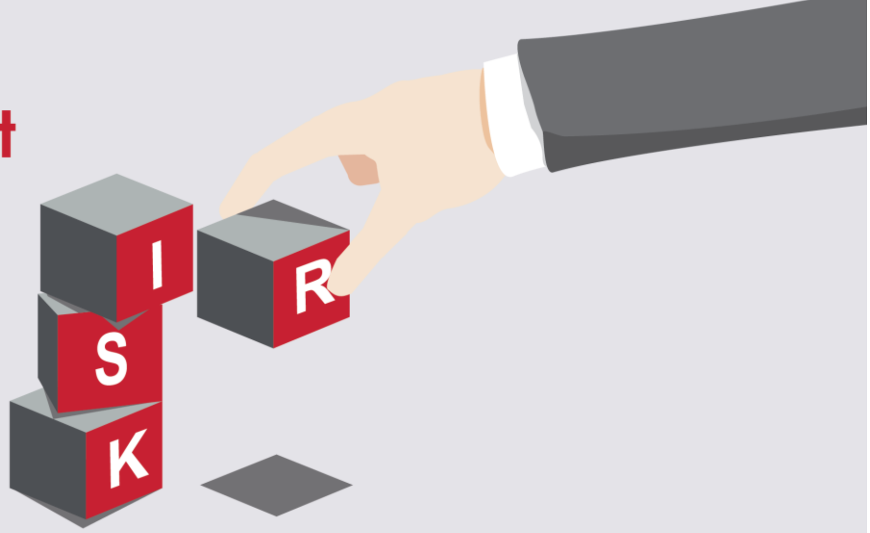

Stimulating Innovation with Risk Management
by Melvin Millard

Executive Summary
In a highly competitive global market, size and reputation alone are not enough to succeed. Organisations need to recognise that however good they are, however desirable their products or services, a competitor will challenge their position with a more desirable product or service. Lack of innovation is not an option; it is a risk as great as any risk in the organisation's risk register. It is time for the risk manager to show his/her true colours, manage the innovation risk and become the champion of change.

Introduction

In *The Age of Unreason* (1989), Professor Charles Handy challenged assumptions and advocated "upside-down thinking". He predicted a 21st century where changes would be so intense and occur at such a fast rate that organisations which didn't innovate quickly enough would fail. He argued that change is a synonym for growth and learning. Organisations would need to ensure their people were fully equipped with the knowledge, skills and motivation to adapt and innovate.

The profession of project management has thrived in this fast-changing world. It has used well defined techniques to extract maximum return on investment from every engagement. Project management has not been without its own challenges but has evolved as ever faster development cycles are demanded by business. The resulting Agile methods have been so successful that many organisations are now embedding these techniques in business as usual operations.

Project managers by instinct are conservative. They have been trained to be jealous guardians of scope, rigorous in managing schedules and budgets, selling benefits and controlling risk. Some project managers are so fearful of issues they will do anything to prevent them occurring, even by reducing scope and thereby not delivering the full benefit expected. Risk managers also tend to favour a very controlled and diligent approach to change. They are often seen as opponents to innovation and business process improvement.

This short paper argues the case that: the skills and diligence of risk managers can be channelled to stimulate innovation; project managers should take more risk to encourage innovation; business users need to be more involved and more accepting of incremental change.

The Problem

When *The Age of Unreason* was published, the world was undergoing rapid transformation. The fall of the Berlin Wall and the democratisation of Eastern Europe, the expansion of the European Union and the recognition of China and India as well as other Asian countries as valuable trading partners, were a wake-up call for the western world.

In the UK, troubled by many high-profile failures of government and privately funded projects, in the face of lack of competitiveness in international markets, the Office of Government Communications developed the PRINCE2 methodology. PRINCE2 rapidly became the de facto standard for project management across the western world. PRINCE2's strength was implicit in its name: **PR**ojects **IN** **C**ontrolled **E**nvironments. Its seven principles are all about control:

1. Continued business justification
2. Learn from experience
3. Defined roles and responsibilities
4. Manage by stages
5. Manage by exception
6. Focus on products
7. Tailor to suite the project environment

PRINCE2's success is unquestionable; it achieved what is was supposed to do: deliver large, complex projects on time and within budget tolerances. There is no doubt that PRINCE2 methodology enabled organisations to deliver value for money on large projects, justifying the administrative overhead. However, smaller projects were in danger of becoming mired in paperwork, resulting in excessive overhead. Many organisations tried to counteract overheads by using a sizing algorithm to optimise the required project management artefacts. This approach only partially dealt with the problem of administration as principle 7 is difficult to implement once an organisation has become used to a certain way of working and specific controls are expected.

> *Whilst working on a European Union funded education project in the early 2000s, I was invited to bid for mini-project grants via the UK Education Department for GBP1,000 ($1,600). The bidding process required a Business Case, Project Brief and Project Quality Management Plan in addition to completing the bid documentation. Given that the opportunity costs for preparing the bid supporting materials alone would exceed the value of the grant I declined the invitation.*

PRINCE2 and other formal methods such as PMBoK do tend to favour larger projects delivering long term benefit over longer project terms. This works well for infrastructure, construction and other large projects such as ship building when the benefit will only become apparent after the whole project is delivered (half a nuclear power station or two thirds of a bridge are of no use at all). Added to that, as the costs build-up, management - and the public, for government projects - requires more and more scrutiny, hence the demand for regular and detailed reporting which rallies against principle 5: managing by exception.

Major projects with longer timeframes are challenging. During the project lifetime, technologies can evolve rapidly leading to additional pressure to widen the scope mid-flight, all adding to the complexity and risk. Conversely, anticipated technologies can be delayed, impacting the project outcomes. Project managers find themselves in the firing line: When is it going to be delivered? Where's the money going? Why can't we have this additional feature? Why is the delivery delayed? Why are the costs going-up? etc. The resultant pressures tend to lead to a retrenchment: manage the scope, manage the cost, manage the risk/dependencies and deliver what is expected.

Risk managers have a wider responsibility for managing the risk exposure of the whole organisation. The purpose of their role is to satisfy the need for business continuity with no surprises, thereby reducing the organisation's exposure to litigation and reputational risk. Risk reduction allows management to focus on the management of the business rather than firefighting when things go wrong.

A common quality assurance measure employed by risk managers is the use of stage gates through which no initiative or project may pass without providing the evidence of controls, thus mitigating risk. The more risk averse an organisation is the more stage gates are present, with these tending to be weighted towards the early stages of the project. This approach requires any idea to be tested several times before the project is given the final go-ahead. It also has the potential for stifling innovation through over-protecting the status quo: the paperwork is too onerous even to allow the idea to be seriously considered. This approach favours large corporate sponsored initiatives (generally compliance or risk motivated) but discourages ideas and initiatives arising from individuals or teams at the coal face.

> *In the Association for Information and Image Management's report 'Information Management: State of the Industry 2016' 44% of large business implemented changes to their Information Management Systems out of fear of risk and compliance alone.*

Handy's prediction that changes will be so intense and at such a fast rate is now with us. We need to prepare ourselves for these changes and we need to turn our project and risk thinking upside down.

Hypothesis

Adapting to a rapidly changing world has its paradoxes:

- Smaller organisations are better equipped to be swift of foot and recognise the need to change but significant change may be too expensive in terms of resources and capital.

- Larger organisations may have the resources to cope with changes but magnitude and complexity are barriers to a speedy response.

> Using Handy's prompt and turning things upside down suggests the change of emphasis from "what is the risk of changing" to "what is the risk of NOT changing". The treatment of the risk of not changing immediately puts the risk manager in the pro-innovation camp.

The risk of not doing something alone is insufficient to spark innovation. We need to look at reward for success culture as well. In Australia, we love our sport - we reward our sports stars. When our national cricket team wins the Ashes or the Rugby XV beats New Zealand, we have the predictable headlines on the front pages of our national press. When the whole team doesn't do so well - such as in the 2016 Olympics - we still pick the success stories and celebrate. We are resolute that next time we will support our team to excel and win more medals; we back our sports peak bodies to invest more in developing our upcoming sports stars.

Learning is working out what went wrong and improving; it is not instant success. In Agile the concept of failing fast is as much about acceptance that not all ideas are winners as well as learning and improving. We need to rethink the concept of only recognising success in our projects and accept that some things are risky. If we have the courage to proceed and succeed in these risky ideas, the rewards are immense. Our risk management must empower us to take risks but not to suffer the consequences if the idea doesn't work as intended. Organisations need to accept some failure is inevitable to excel in a forward thinking, edgy world.

Solutions

To many, Agile is the solution: take an idea, take a development team, set ambitious targets, set quality expectations, set the budget, prioritise, plan the sprints and go for it! The cyclic nature of Agile does have the potential to deliver benefit early, or on the flip-side recognise failure early, thereby reducing cost of failure. Agile can be risky but the high levels of energy during sprints help free up people's creativity. The risk is that it may not deliver expected outcomes in a timely manner and sometimes not at all. Advocates will argue the prioritisation process is an opportunity to resolve such conflicts and cynics will say no project is a success if it fails to deliver what people want and need.

Whatever the benefits or otherwise of the Agile approach, Agile is not able to deliver on every project but can contribute the success of any project that encompasses Agile methods. Agile does have very distinct advantages when innovating: it is quick and cyclical, bringing solutions and benefits to the business quickly. It is reflective, learning from mistakes and failures and implementing them on the next cycle. The challenge is getting the ideas acknowledged and into the development framework or road map in a timely manner.

Opportunity

Many organisations, in a continuing campaign for efficiencies and excellence, focus on measurable outputs in their people's jobs. Measured and assessed by key performance indicators (KPI), staff are encouraged to achieve their KPIs as bonuses, promotion and other rewards are dependent on KPI achievement. How do we legislate for innovation and ideas? You can't force ideas, put a KPI on them. What can be done is to provide an incubator for ideas.

Every organisation has experts in their field, but if they are constrained by managing the risks, innovation and change is stifled. Universally it is known that no matter how good you are, sooner or later someone will beat you at your own game. Innovation challenges the organisation to make the most of its intellectual capital and incubate ideas. Organisations must unlock ideas from their employees' minds. It is a management responsibility to remove the risk of personal failure, to provide the opportunity, expertise and environment to empower staff to explore and develop their ideas. This will create a flexible ideas portfolio from which those with potential can be championed, supported to proceed to the evaluative stage of benefit and risk, then onward to the proof of concept.

Innovation Risk

Traditionally risk managers focus on the impact to the organisation if things go wrong. They mitigate that risk using various metrics in accordance with the organisation's appetite for risk. This works well for risks such as compliance, workplace health and safety, safety of products and goods and avoiding or preparing for action if things go wrong. Risk management is weighted towards the status quo: once a risk has been analysed and various treatments applied, the risk is mitigated or accepted and all is well. Risks are managed to prevent anything out of the ordinary happening, to protect against personal injury, negative reputational impact or financial loss.

If innovation is to be encouraged, innovation risk must be treated in an entirely different paradigm. Innovation risk must accept the probability that things will go wrong, that mistakes will be made, that things will fail. Crucially, innovation risk recognises that getting things wrong, going up blind alleys, is a key part of innovation and learning. Upside down thinking changes the emphasis for managing innovation risk.

If a risk occurs, the focus is on implementing the risk treatment plan and afterwards (one would hope) a post incident review (PIR). PIR will focus on what happened, how was it dealt with and can we do better. In every PIR I have attended there has always been a sense of someone failed to do their job correctly: stigma of failure. Ideas are risky; many ideas will fail but the impact to the organisation is low. The idea failing is not the problem, the stigma of failure is. The real risk is not failure of ideas but failing to innovate. The priority is removing the stigma of failure and increasing the organisation's appetite for innovation risk.

Ideas Incubator

Handy emphases the need for motivation for innovation and this is where the employer must take responsibility. Michael Maccoby in *Why Work: Motivating and Leading the New Generation,* challenges Maslow's motivation model. Maslow's hierarchy of needs was designed to address motivation in the industrial age where safety, security and praise were key motivators. Maccoby said that information age workers are motivated by opportunities for self-expression and recognition.

Work should be organised to encourage participation in the development of ideas and technology. One such increasingly popular technology - in-house social media - can be leveraged to allow robust challenges to the status quo without fear of recrimination. It is also important to encourage the face to face activities that spawn and grow ideas. Non-core time should be built into the workload to allow collaboration and explore ideas. In addition, the physical layout of the workspace must encourage the exploration of ideas.

> *Having worked for several years as a project manager in education and enjoying the freedom to use the facilities a university offers to encourage innovation and collaboration, I was shocked, when moving to the financial sector, how poorly equipped it was. No meeting room had a single whiteboard nor were there any informal meeting places around personal workspaces for teams to discuss ideas or issues.*

It is the purpose of innovation to challenge the status quo: provide opportunities to change, be more effective, provide better customer satisfaction, get competitive advantage. Ideas need to be edgy; some will be plain unpalatable and management must tolerate failure. People need security and freedom from critical oversight to free-up their ideas. Not every idea will succeed but an unviable idea may be a catalyst: sparking innovative thinking in others. The risk to innovation is too much scrutiny, not allowing nonconformity, not allowing people to think the unthinkable. The ideas incubator provides the framework for creativity and problem-solving.

Timing

Having established the ideas incubator, the next challenge is getting these ideas through proof of concept and into development. Speed is important and rapid methods such as Agile take an iterative approach to ensure benefits start to be enjoyed at the earliest opportunity. However, if the project isn't on the development road map then the most advanced and quickest methods of bringing an idea into the business as usual environment will not help.

If a high impact risk occurs, the risk response plan is initiated, development takes place and other contingency actions (such release of emergency funding) simply happen. Why not use this model for dealing with innovation risk? The project portfolio road map outlines the general direction, with compliance and other risks such as upgrading out of support computer hardware and software as the significant milestones. Sufficient tolerance is allowed for resources to be allocated to the real gamechangers, innovation, sponsored by the risk manager and funded by the Innovation Risk Response Plan.

Conclusion

Business is global and even the small local company can and will challenge for income streams far, far away. The public sector is expected to provide ever increasingly improved services on constrained budgets. Victoria, once the powerhouse of industry now has education as its biggest export. The common theme linking the above three statements is added value. If the consumer of these services can't see added value then they will not purchase the goods, engage in the services or pay premium education fees.

Handy wrote a simple formula: *Added Value = Ideas x Intelligence x Innovation*. To maintain the confidence of our consumers we need to demonstrate we are innovative, the goods and services we provide are the best, will continue to meet the need and are robust, safe and reliable. For this to happen, long development cycles are not an option. Innovation and the development of new goods and services must be quick, otherwise the advantage is lost. The risk of not innovating is too great.

Organisations of all sizes will benefit from using rapid development techniques to turn ideas into products, driven by the risk of not innovating. However, for this concept to work, it should be congruent with the organisation's culture and values. The single most powerful driver for this approach is to add the ideas incubator into the risk management portfolio. The risk manager becomes accountable for the risk of not innovating, with the rigour and controls normally associated with protecting the organisation from adverse events. The risk manager together with the expertise and leadership from subject matter experts and development professionals will drive the ideas into well considered options. The risk manager becomes the agent for change!

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