

Chris Musslewhite says unless your business supports intelligent risk-taking, your next innovation could put your entire organization in jeopardy.



Culture of Risk

The purpose of any organization's culture is two-fold: to ensure the survival of the business and to pass on the company's core values to everyone in the organization. So what does risk have to do with corporate culture? Plenty.

In today's business environment, it's an understatement to say the landscape changes quickly. A key part of adapting to these market changes is the ability to innovate rapidly—to see an opportunity or need and act before the competition to create a product or service that answers the need.

Innovation, particularly quick innovation, requires stepping outside of what you're currently doing to do something different, and that's where risk enters the equation.

Risk culture competencies

Companies that can quickly adapt to market changes while maintaining stable and effective operating systems are the companies that survive and thrive in this ever-changing business environment. These organizations, which can successfully withstand the risks associated with change and innovation, often share the following cultural characteristics:

Innovation, particularly quick innovation, requires stepping outside of what you're currently doing to do something different, and that's where risk enters the equation.



- A clear understanding of the organization's purpose and direction
- High level of empowerment and employee commitment
- Openness to and ability to respond to changes in the external environment
- Stable, effective systems for getting things done

On the surface, the last two organizational qualities (the ability to respond to changing markets and stable operating systems) appear mutually exclusive. But companies that learn to manage the positive tension between these divergent

qualities have created a smart-risk culture—one that values innovation within an infrastructure that can deliver change while protecting the organization from the associated risks.

We'll call the ability to successfully manage this positive tension a company's risk quotient, or RQ.

Determining your company's RQ

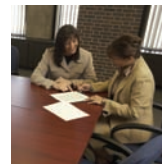
So what is your company's RQ? Is risk-taking rewarded or punished? Does your organization view innovation as a part of daily life or something that happens once every five years? Does your organization have clear metrics for assessing the effectiveness of ongoing operations as well as the impact of innovation? Does your organization conduct post-mortems on failures or sweep them under the carpet? Is learning valued in your organization? Can innovative ideas be implemented where they're generated, or do they have to pass up the organization's hierarchy?

Asking questions like these will help you start to determine your organization's attitudes toward risk and whether innovation is being encouraged or discouraged as a result of those attitudes.

One way to determine your company's attitude toward risk is to look at your senior executives' attitudes toward change. Research conducted by Discovery Learning indicates that people have different patterns and preferences when dealing with change that generally put them into one of three categories:

Originators prefer change that challenges current assumptions and beliefs. They like change that is expansive in nature and that may challenge current organizational norms, attitudes, and operating systems. They're good at initiating change but may lack the skills needed to effectively implement. Some might say that originators like change for the sake of change.

Pragmatists prefer change that addresses current and practical problems. When they believe the change has merit, they can effectively build support. Pragmatists can find the best leverage points to initiate change that generates immediate benefits. They prefer to be in tactical control of the solution.





Companies that learn to manage the positive tension between these divergent qualities have created a smart-risk culture—one that values innovation within an infrastructure that can deliver change while protecting the organization from the associated risks.

Conservers prefer change that is measured, gradual, and well thought-out. They like change that can be implemented without creating chaos or stress on organizational systems. They also prefer to preserve the parts of the organization that are working. Conservers are good with follow through and detail.

With an understanding of these general approaches to change, it's easy to make the correlation to smart risk-taking behaviors. Originators tend to enjoy risk, possibly oblivious to the consequences. Conservers are less comfortable with risk and are ever-aware of the possible consequences. Pragmatists can realistically assess the current situation and the appropriate level of risk that is justified.

To see the consequences of these behaviors and the role each of these types of people play in an intelligent-risk culture, drill one step deeper. Originators can initiate the risks necessary to create the innovations needed to respond to market changes. Pragmatists can ensure the necessary steps are taken to achieve the desired outcome. Conservers can ensure the systems are in place to protect the organization from undue risks associated with the change and to force the question: why should we do this?

It's easy to see how all of these perspectives work together to create a culture that encourages responsible, intelligent risk-taking that fosters successful innovation without jeopardizing the organization.

Cultivating an intelligent risk culture

To increase your organization's RQ, you need to cultivate a culture that incorporates all three of these perspectives. Like many things, this is easier said than done.

In organizations struggling with the implementation of change and innovation, most of the conflict can be attributed to misunderstandings and negative perceptions between and among these change preferences. Here are some steps you can take to avoid these misunderstandings and conflicts:

- Create an awareness and appreciation among employees of these change preferences.
- Make senior management aware of their personal preferences and biases. Which preferences are they supporting and rewarding?

- Build a climate of respect and tolerance for different ideas and perspectives.
- Encourage small risks on a frequent basis.
- Acknowledge and reward people who take intelligent risks.
- Encourage employees to ask tough questions about impending change and take the time to answer the questions. Do not confuse questioning of change with resistance to change.
- Differentiate between the first time an employee makes a mistake and the second time he or she makes the same mistake. The first mistake is a learning opportunity; the second may demonstrate a dangerous disregard for risk.
- Conduct "no-blame" postmortems of failures. Make sure the learning from the failure is disseminated.

Intelligent risk leads to growth

Unless your business has the people and the systems necessary to support intelligent risk-taking, your next innovation could put your entire organization in jeopardy. Risks that fail to consider the people, systems, and structures needed for successful implementation are arrogant risks. Risks that fail to consider negative long-term impact are short-sighted. However, the willingness to take risk is only half of this success equation.

To foster a smart-risk culture that rewards innovation and contributes to sustained growth, innovation must be rewarded (even when there is failure), respect for diverse perspectives about risk-taking must exist, and accountability must be demanded.

Without these things in place, innovation will either not happen, or it will happen irresponsibly, putting the entire organization in jeopardy. With responsible people in the right positions, working within good, stable systems, your company can cultivate a smart-risk culture that will fortify the strength of your overall corporate culture and ensure the survival and growth of the entire organization.

Chris Musselwhite is president and CEO of Discovery Learning, Inc. and author of Dangerous Opportunity: Making Change Work (Xlibris, 2004). He can be reached at cmusselwhite@discoverylearning.com.