



STRATEGY, RISK AND INNOVATION. THREE SIDES OF THE SAME COIN

- Davis Cook

It's always a gamble, betting heads or tails on the flip of a coin. And while we usually assume that coins have only two sides, of course they have a third – the edge. That edge is what connects heads to tails, that binds them together. And this seems a wonderful analogy for the relationship we see between strategy, risk, and innovation.

Strategy is about setting a series of long terms programmes of action, in support of some greater goal, whether that be as simple as returning maximum value to shareholders (the traditional view of many businesses) or as ambitious as, say, getting people off Earth before we're struck by something large and unforgiving (the goals of some of our more... daring and modern organisations).

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The art of strategy, then, is largely in understanding whether the chosen programmes of actions will continue to be relevant in future, in the pursuit of those goals. And that relevance is based on any number of factors – social and technological change,

political and economic transitions, climate and environmental pressures, competitors, partners, and the varied and diverse group of stakeholders that are deeply involved in the way that organisations create value. This extends to our staff and employees, our partners and supply chains, our customers, and the people that our customers add value to, helped in some small way by our own contributions to their lives.

So – that's a lot happening on one side of the coin; all of which can change, and ultimately bring into the question the very relevance of a business model. With all this happening – how do you know that you will stay relevant in future? Does your coin still have value down the line?

Turning that coin over brings us to risk, and risk management. All businesses will absolutely face existential crises at some point in their existence. All organisations must, at some point, ask the question – why do we exist? And if the reason for your existence is not as meaningful as it once was, then the firm needs to undergo a (usually) painful process of transformation. But this basic question around *does the business model still make sense, and if not, what can we do about it*, speaks to the heart of strategic risk management.

That leads one to ask questions such as – what can impact on our ability to achieve our goals, what sort of impact will this have on us, and what can we do to manage that? These are fundamental questions that any risk manager will recognise.



Perhaps the most difficult of these to actually get right though, is the last one – what can be done to manage this? How do you transform what you do – how do you find new ways to create value?

This is nothing other than the process of innovation – the process by which new and useful solutions to challenges are developed and successfully brought to life and society. Innovation is thus an important connection between the Heads of Strategy, and the Tails of Risk.

There are many ways to go about this, and surprisingly few of them are based on technology. Sure, tech is important, and is going to fundamentally alter the world in which we live. The evidence is most obvious, in that, since the discovery of fire, man has been a ‘technology-driven’ creature... we constantly find new tools to solve problems (though, sadly, we usually create more complex problems in the process). The advent of the next industrial revolution around digital technologies has already passed, and it may not always seem obvious, but this process is well underway around the world. Already, there are many black boxes that no-one really understands, yet we rely on them to drive our cars, to manage our power systems, to operate our phones – technology that for the bulk of the population is so complex that it may as well be magic.

*“Any sufficiently advanced technology is indistinguishable from magic”
Arthur C. Clarke*

Yet, the most important innovations are not so much around technology, but rather how we organise ourselves to use that technology. Social and business model innovation finds continuously new ways to use existing technology to achieve goals – think of Twitter and the Arab Spring, or any of the modern *excess capacity* businesses (Uber, AirBnb, and my new favourite – **Trusted House Sitters**, where you get to stay for free around the US in exchange for looking after people’s pets).

The problem, of course, is that innovation is **hard**. It’s messy, it’s uncertain, it costs time and money and then you fail, and for what? Yes, there are learnings that can arise from it, but very often these are ‘well, we’re not doing that again’. People get punished, budgets cut, and innovation efforts abandoned because they didn’t yield the promised outcomes.

This is the wrong attitude, and partly it’s because, for many organisations, innovation is not seen as a core professional discipline. Innovation is undertaken by people that have only a limited understanding of structured innovation methodologies, governance and management around innovation decision making, or how to establish effective innovation decision making frameworks... instead, there are any number of people deeply passionate and excited about making changes, but who really have only limited training and experience in successfully delivering these types of engagements. It’s like finding people who’ve read a lot of books on reiki and acupuncture, care deeply about healing others, and then expecting them to be a successful surgeon.

Instead, a highly structured decision process should be followed, that runs from the deeply strategic questions of relevance, down to the innovation and change programmes necessary to maintain relevance.



RIIS SRI Decision Framework (c)

The most innovative organisations take exactly this approach – a structured process to understand how innovation can be used to manage strategic risks. They develop a clear line of site between what their longer term goals are, the risks facing those goals, and the points at which innovation is the most effective tool to address those risks.

Yet we still see many organisations taking more of a ‘faith-based approach’ – let’s put together an innovation lab or go visit Silicon Valley, and we’ll somehow manage to come up with the next big thing... not sure how, or when, or even why, but we hope that it will work. Sadly though, the universe is not a casino, and throwing coins into one-armed innovation bandits in the hope that something will come of it... that’s a sure strategy to waste a lot of money and make the bandit rich.

Rather invest those coins into wiser structures – into problems that directly face the organisation, that connect back to the critical risks that lie in your future. Once you start treating innovation as a core management discipline within the organisation, delivered by professionals who deeply understand not just innovation, but also strategic planning and risk management, your overall organisational performance will improve, risks will be managed better and strategic objectives met more effectively. Rather than guessing on heads or tails, try and manage your coin to land on the side of innovation, and in the long run you’ll beat the house.