

Strategic Innovation: Harnessing the Power of Risk

The Innovation Imperative

Many C-suite executives are daunted by the challenges being posed by a number of emerging trends and disruptive forces. They realize that their business model and organizational structure must be more agile, adaptable, and capable of integrating innovation in order to accelerate growth and to continue competing successfully. But how? How can their organizations be more innovative? How can they seize new opportunities while still managing the risks of this changing global and competitive business landscape? And how can they fully engage the entire organization so that the effort is not limited to just a few?

Strategic Innovation Defined

One way to respond to these challenges is through strategic innovation. **Strategic innovation**—dramatically redefining a company’s customers, its value propositions, or how value is delivered—can be fueled when the strategic decision-making process integrates important elements of the philosophies behind **Design-thinking** and **Risk Management**. In essence, the decision-making process must promote design-thinking skills that serve to exploit the upside, or opportunities, while incorporating risk management competencies to manage the downside, or possible negative consequences, of the decision.

Design-thinking

Just as Apple has become nearly synonymous with “design”, for many, innovation has become equally synonymous to the highly celebrated model of design-thinking. Simply put, design-thinking can be viewed as a **formal method for practical decision-making and creative problem resolution to foster strategic innovation and growth** by leveraging the upside potential.

Although traditionally limited to the purpose of product design and development, design-thinking today has become a much broader, richer, comprehensive and self-sustaining approach. In fact, for a diverse array of organizations, design-thinking is being converted into a strategic tool for organizational change and innovation—a means of transforming outdated business models, improving corporate strategies, and propelling strategic innovation and growth.

***Both
risk-taking and risk-management
play a central role
in a decision-making process
that fosters strategic innovation.***

Risk Management

Unlike design-thinking, risk management in many organizations is not perceived nor utilized as an integral part of the decision-making process; instead it remains anchored in its traditional, narrow role of addressing “what” the risks are. A depiction of how risks are often understood in organizations when they are identified and described in isolation is provided in the parable of the **six blind men and the elephant**. In this story, one blind man touches the elephant’s body and insists it is like a wall. Another wraps his hands around a leg and claims it to be like a tree. A third grabs the tail and claims the elephant to be just like a rope. And so on. While each is right, all are wrong because none has the complete picture.

Companies can easily fall into the same trap when, for example, pursuing an accelerated growth strategy through alliances or M&A. In such cases, executives oftentimes view risks through the prism of their functional area (legal, labor, fiscal, financial, etc.). While each can provide important information about the new reality, it is not the whole picture. More importantly, focusing exclusively on answering “what” the specific risks are may discount the “how”. It is precisely in answering the “how” that we can begin building the foundation for developing a formal risk management methodology or a **formal method for practical decision-making and creative problem resolution to foster strategic innovation and growth** by mitigating the downside potential.

Bringing it All Together: The Strategic Innovation Model

Clearly then, strategic innovation must be understood in terms of a **fully-integrated decision-making approach** that institutionalizes taking and managing risks by using the lens of both design-thinking and enterprise risk management.

In other words, the bedrock of strategic innovation is the actual decision-making process that must adequately and systematically permit **executives to harness risks** – without which strategic innovation is simply not possible.



As the Strategic Innovation Model shows, innovation can be understood as an elaborate and formal **balancing act** that aims to reconcile two seemingly opposite philosophies. On one hand there is **design-thinking**, based on a desire to exploit opportunities by generating creative alternatives and leveraging the upside potential of risk. On the other hand lies **enterprise risk management**, that is based on the need to mitigate the potential downside of risks by clearly understanding the trade-offs and limitations. Organizations that aspire to perform daring feats by knowingly and willingly taking on or looking for risks may in fact be able to do so, precisely because risk management provides for an excellent safety net.

But be forewarned that strategic innovation is not a one-off operation! It requires a continuous and delicate balancing act that can only be sustained in an organization when **visionary leaders** find the courage necessary to empower people to think differently, to create new opportunities to innovate, and to succeed and fail. These values are necessary to cultivate an **open organizational culture** that reinforces collaborative teamwork among diverse individuals that bring different skills, abilities, and perspectives to bear on a problem. If both of these supporting factors—visionary leadership and open culture—do not exist simultaneously, organizations will fail to integrate innovation in order to accelerate growth and to compete successfully over the long-term.

Innovation Cheat Sheet

In conclusion, should you want to adopt strategic innovation within your organization, keep the following in mind:

1. Strategic innovation is a **decision-making process** that rests on the philosophies of design-thinking and enterprise risk management.
2. Design-thinking is an approach to problem resolution that builds on possibilities and opportunities. It is based on the **willingness and ability to take risks**.
3. Enterprise risk management is a methodology that emphasizes establishing clear values and trade-offs. It is based on **managing and controlling the downside of risks**.
4. Leadership: visionary leaders that **empower teams** to take risks at all levels of the organization are necessary.
5. Culture: an **open and collaborative** culture that permeates the organization is the glue that binds innovation at every level of the organization.

About the Author

Yolanda Barreros Gutiérrez has dedicated most of her professional career to defining and executing business transformation strategies that are supported by change management initiatives. She has a Bachelor of Science Degree in Finance and a Master in International Political Economy from the University of South Carolina. She also holds a Certificate in Strategic Decision-Making and Risk Management from the University of Stanford in the United States, a Certificate of Risk Management from the Institute of Risk Management in the United Kingdom, and a Certificate in Corporate Governance from the Institute of Board of Directors-Administrators in Spain.