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Cultivating a Healthy Appetite for Risk

by Anne Field

Employee innovations can deliver tremendous value, yet many managers do little to encourage the risk taking that generates new products, fresh strategies, and better processes. In a recent survey by management consulting firm BlessingWhite (Skillman, N.J.), 40% of respondents said their managers never encouraged them to look for new solutions or to take risks, and 34% said they were rarely encouraged.

Cultivating a healthy appetite for risk in your employees and your organization requires the support of managers all the way to the top of the company. Wherever you are in the hierarchy, applying the following techniques will encourage your employees to take more risks and help them—and you—extract more value from the inevitable failures.

THIS ARTICLE EXPLAINS HOW TO CREATE A RISK-FRIENDLY CULTURE BY:

- **Increasing the potential gains and reducing the potential costs of taking risks**
- **Lessening individuals' accountability for riskier projects**
- **Productively managing failure**

INCREASE THE POTENTIAL GAINS AND REDUCE THE POTENTIAL COSTS OF TAKING RISKS

Making risk taking more palatable starts by letting employees know that it's safe to speak up. No one is going to step forward and volunteer new ideas if he knows he'll be shot down, either by his manager or by his peers.

James R. Detert, an assistant professor at Cornell University's Johnson Graduate School of Management, and Amy C. Edmondson, the Novartis Professor of Leadership and Management at Harvard Business School, interviewed close to 200 employees of a leading high-tech firm, following a companywide survey in which more than half the respondents said that it wasn't safe to speak up at their company.

What were they most reticent to talk about? "Not problems but rather creative ideas for improving products, processes, or performance," the authors write in their recent *Harvard Business Review* article, "Why Employees Are Afraid to Speak" (May 2007, #F0705B).

Why were employees afraid to step forward and put their necks out? "In a phrase, self-preservation," the authors write. Because the perceived risks of speaking up seemed greater than the possible benefits, "people often instinctively played it safe by keeping quiet. The frequent conclusion seemed to be, 'When in doubt, keep your mouth shut.'"

Employees rarely reported holding back because managers had reacted negatively to previous suggestions they had offered. Instead, most had remained silent in the past out of concern that their bosses and other higher-ups would feel challenged or embarrassed by their input. For instance, some mentioned that when a superior had an ownership stake in a project, they feared that he "would resent suggestions that implied a need for change." Other employees worried that "their bosses would feel betrayed" if they offered suggestions when the bosses' superiors were present, or that their bosses "would be embarrassed to be shown up by a subordinate in front of other subordinates."

Making employees feel comfortable expressing ideas that implicitly challenge higher-ups or run counter to prevailing wisdom goes beyond removing volatile leaders or sticking suggestion boxes in the cafeteria (both of which won't hurt, of course).

Employees must feel that the potential gains from speaking up significantly outweigh the potential costs, say Detert and Edmondson. To reduce the potential costs, leaders need to communicate that they do not mind having their ideas challenged and will not punish those who step forward with contrarian proposals. They should broadcast the message "that ideas are most helpful when they're openly discussed and other people can help develop them," write the authors.

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To increase the potential gains of taking risks, publicly acknowledge employees who have volunteered innovative ideas or stepped forward to join riskier projects. Revamping compensation systems so people are rewarded for taking risks is also important.

For instance, after riskier projects are completed at the San Jose, Calif.–based high-tech firm Xilinx, the company awards stock options to project participants—even if the project fails to generate revenue. About seven years ago, a group of 50 engineers completed a two-year project to perfect a new technology. They succeeded, but then-CEO Wim Roelandts decided for strategic reasons not to bring it to market. Nevertheless, he gave them all stock options immediately. Soon after, the same team worked on another product that became one of the company's top sellers.

Roelandts explains the thinking behind the policy: "Typically, the projects that fail are the most challenging," he says. "If we reward only successful people, we'll discourage employees from taking on the tough projects that probably will have the highest payback." With more than 100 patents to its name and steady year-over-year growth, the company says that the approach has paid off.

LESSEN INDIVIDUALS' ACCOUNTABILITY FOR RISKIER PROJECTS

Getting employees to propose high-risk projects is very difficult if they know that they'll be on the hook to show tangible results in six months. To make involvement in more-experimental initiatives less daunting, create a project review board. By green-lighting a project and monitoring its progress, the review board makes itself at least partly accountable for its results and shoulders some of its risk.

Three years ago, LandAmerica Financial Group, a $4 billion Glen Allen, Va., real estate financial services provider, introduced a small-business committee. Staffed by senior managers, twice per year it reviews potential new-business ideas and monitors the progress of projects it has already approved. A few years ago, an employee proposed entering the small-business commercial real estate transactions market, an area the company wasn't serving. He suggested offering title insurance and closing services to large banks lending to small businesses.

> Fear that their careers will be hurt if they don't succeed is what stops most employees from taking risks in the first place.

After reviewing a five-year-business plan, the committee approved the venture, which was set up as a separate, wholly owned unit. The committee monitored the venture's actual performance against projections and prescribed needed corrections. When the unit started demonstrating consistent profitability, it was released from the special review process.

"A lot of time people hesitate to take a risk based on their own analysis," says G. William Evans, LandAmerica's CFO. When they submit an innovative project idea to a formal committee for review, "senior people look at it and identify all the potential pitfalls and give it their seal of approval."

A riskier venture often requires more time to pay off. To give it a chance to succeed, "you have to change the metrics," says David Garvin, C. Roland Christensen Professor of Business Administration at Harvard Business School. He points to efforts IBM launched in 1999 to encourage employees to participate in new-business opportunities.

All managers involved in new ventures met regularly with two top executives—a group or division head and the senior corporate manager in charge of emerging businesses—to review progress. But assessments relied not on traditional metrics, such as profitability or revenues, but rather on project-based milestones—for instance, in the early stages, the formation of a leadership team or the amount of positive publicity generated.

As a project matured, its success metrics became increasingly traditional—for example, the number of pilots in operation or new partnerships formed.

By the spring of 2003, just four years later, two emerging businesses were generating more than $1 billion a year in revenues, while several others passed the $100 million mark.

PRODUCTIVELY MANAGE FAILURE

No attempt to encourage risk taking can work unless there's also a positive, nonpunitive process for dealing with failure. After all, fear that their careers will be hurt if they don't succeed is what stops most employees from taking risks in the first place.

Make it clear that intelligent, excusable failure won't be punished. LandAmerica's Evans says that when employees' projects flop, "it doesn't blemish their career." For example, he cites an employee who spearheaded a pilot project that, after 12 months, was determined not to represent a big enough market to be worth pushing forward. He was moved into a new job with more responsibility than the one he had before.

In a 2002 *Harvard Business Review* article, Richard Farson and Ralph Keyes praised what they called failure-tolerant leaders. These are "executives who, through their words and actions, help people overcome their fear of failure and, in the process, create a culture of intelligent risk taking that leads to sustained innovation" ("The Failure-Tolerant Leader," August 2002, # R0208D).

How do you become a failure-tolerant leader? Urge your followers to see failure—excusable failure, that is—in a new light. (Failure resulting from recklessness or sloppiness is another matter.) Failure-tolerant leaders "know that as long as someone views failure as the opposite of success rather than its complement, that person will never be able to take the risks necessary for innovation." Help your employees understand that failure that results despite careful planning and conscientious execution offers a learning opportunity.

To help your followers derive value from projects that fail, have them hold after-action reviews that dissect what went right and wrong. And celebrate intelligent failures, as Eli Lilly does. Harvard Business School's Edmondson says that the pharmaceutical giant holds "failure parties" to honor those who worked hard pursuing experiments that didn't yield hoped-for results.

By celebrating hard-won failure and framing it as a learning opportunity, you allow it to be a source of pride rather than shame. At the same time, you give the employee who spearheaded the effort license to take further risks in the pursuit of value-adding innovations. As long as the employee continues to learn and adjust, chances are good that one of those risks will pay off. ◆

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