RISK TAKING
IN TROUBLED ECONOMIC TIMES

There is no debate that the current troubled economic conditions were in large part caused by taking unreasonable and undefined risks. The role of excessive risk and the consequences that behavior caused has likely resulted in management taking a new and perhaps leery view of undertaking “opportunities” that are at all risky.

Following are some thoughts concerning approaches to risk taking that allows risks to be taken with the assurance that the consequences are not fatal to the company and that an atmosphere of reasonable risk taking is indeed encouraged among the managers of the company. When these two conditions are imbedded in the culture of the company then risk taking becomes a powerful tool for growth and leadership.

Perhaps the best example of a culture of productive risk taking is found in the 3M Company. Here managers are expected to spend about 15% of their time and budgets developing and testing new ideas, new process, and new products. Performance against the time and budget allocation is an important part of the employee’s evaluation. A wide open architecture of communication across divisions and departments further leverages the development and encouragement of managed risk taking as a vital activity that has driven the storied growth of 3M.

One of the keys to making this well developed 3M process work is that risk taking is controlled by creating the expectation that the scope of the risk will be limited so that even in the worst case outcome neither the resources nor the reputation of the company will be jeopardized.

Another important characteristic of the 3M risk taking model is that managers are not punished for taking risks on opportunities that do not succeed. Rewarding and recognizing reasonable risk taking is a powerful tool for long term, industry leading growth. When taking a reasonable and controlled risk results in a failed idea taking the time to recognize the “good try” and encourage taking the next risk is powerful in creating an environment where risk taking becomes an engine for growth of both the company and of the manager.

History is full of examples of companies exiting economic downturns stronger and better competitors because of managed risk taking around investments in the future during the economic doldrums. Investments in new product development, associate development and streamlining operational processes are examples of counterintuitive decisions and invesments during downturns that can lead to strengthened, more competitive companies when the economic conditions improve.

Periods of economic downturn are not the time to eliminate all risk taking but rather it is a time to develop a plan and an environment that encourages managed risk taking that is rewarded and recognized across the enterprise. Well managed risk taking will allow your company to leapfrog the competition and capture the imagination of the customer as the economic conditions improve.

Learning to manage risk taking is one of the critical skills that allows a company to excel and to “own” a leadership position that translates to optimizing the value of the company’s franchise equity.

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July 2009