

# The Competitive Edge of Risk Entrepreneurs

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**P**roduct cycles are too short; markets are deregulating too rapidly. Innovative products and services relentlessly flood the marketplace. Often fielded by previously unknown companies, these new products cause severe market turbulence and unexpected discontinuities.

For companies to prosper in this competitive environment, merely improving the efficiency of processes will not substitute for lagging revenue growth. This is especially true for companies that depend heavily on IT. For them, it means finding innovative means to develop systems, such as adaptive development, lean development, and the like. It also means finding new ways to align business strategy and IT, ones that allow any misalignment to be corrected quickly.

Only if a company knows how to take calculated risks will it survive in this competitive environment. This is where *risk entrepreneurialism* comes in.

## NEW APPROACH TO RISK

Risk entrepreneurialism is as much a philosophy as a business strategy. It sets out a system of values by which a business should live: The business exists to reduce the risks to its customers in the least risky way for itself with the goal of creating a customer for life. How the business goes about doing so may be complex, but the underlying notion is simple.

Such companies see business transactions as an exchange of goods or services that reduce a customer's risks. To reduce your

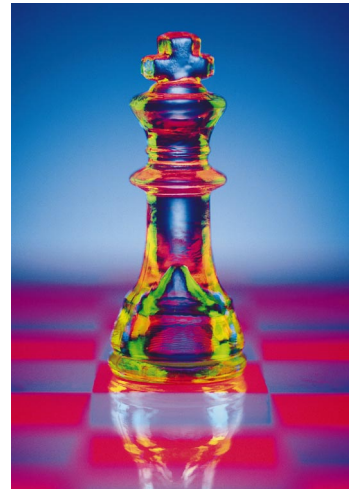
customers' risk, you need a product or service that provides more time, control, and/or information than they already have or—even better—than they expect.

Convenience was the motive cellular companies originally thought would drive cellular phone sales. However, the main selling point has turned out to be the customers' sense of increased safety—improved control. Federal Express reduced a customers' risks in relationship to time and control. Nordstrom, Home Depot, and Wal-Mart do the same via superior customer service. They take the "worry" out of shopping by providing more information and more control to the customer. Sears did so too at one time, but then lost that ability. Products that seem to leap out of nowhere—like PCs, home copiers, VCRs, Walkmans, and so on—also illustrate this principle.

The newest risk entrepreneurs can be found inhabiting the Internet. Companies such as Amazon.com and eBay.com have built businesses based on risk-entrepreneurial thinking.

We can gain an even greater appreciation of a risk entrepreneur by spending a little time comparing and contrasting the attributes of risk entrepreneurs to other types of companies.

As shown in Figure 1, I categorize companies into four different types: risk-entrepre-



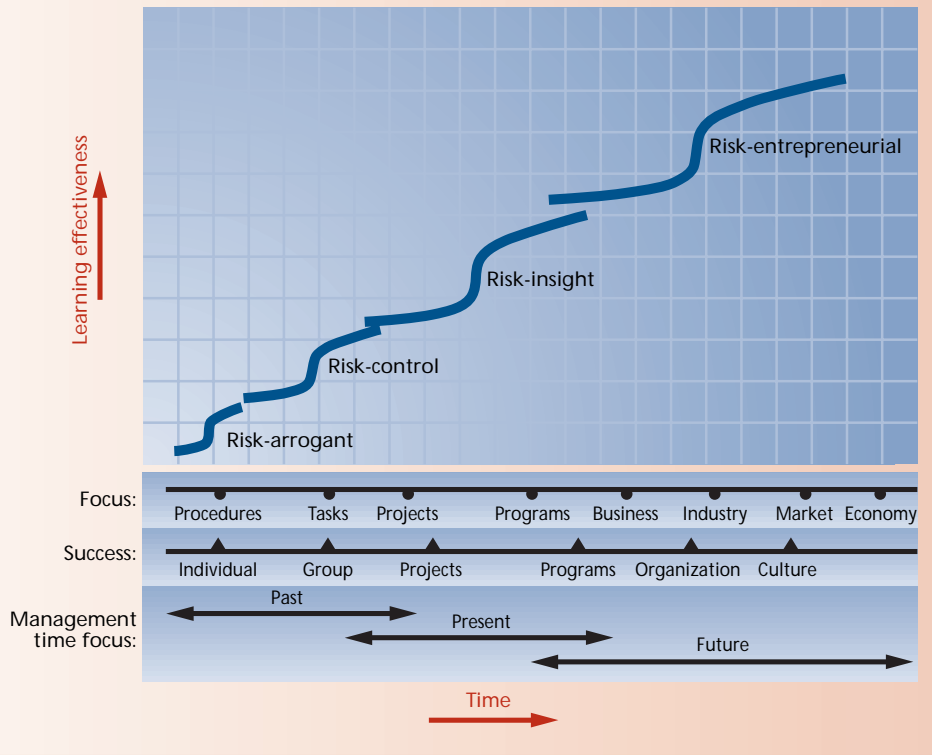
**How does your company stack up: as risk-entrepreneurial, risk-arrogant, or somewhere in between? Find out.**

neurial, risk-insight, risk-control, and risk-arrogant. These companies are positioned in four regions divided by axes labeled learning effectiveness and time. An S-curve region of differing length and height marks off each type of company.

## Risk-entrepreneurial companies

Risk-entrepreneurial companies aggressively pursue risks that others cannot, squander few opportunities, and exploit the mistakes of their competitors. They represent the most competitive form of business that exists. These companies rarely make mistakes, and when they do, they take corrective action immediately. They are

**Figure 1. Companies fall into categories by the way they manage risk.**



preneurial companies position themselves as the progenitors of competitive risk by causing one or more of these market shifts to occur.

Notice in Figure 1 that strategic, market-driven issues drive risk-entrepreneurial companies. They are concerned with how to reduce not only a specific customer's risks, but also those confronting a specific market or entire industry. This lets risk-entrepreneurial companies position themselves to not only retain large portions of an existing market, but also to rapidly take over any new markets they decide to invade.

Furthermore, a risk-entrepreneurial company's success is created by the organization as a holistic, synergistic entity—the whole organization, not just individual parts, is totally in sync and focused on achieving

constantly positioning themselves to anticipate innovation in their operating environment.

Intel is the archetypical risk-entrepreneurial company. It encourages a free flow of knowledge and insists that the person with the best knowledge and experience—rather than the highest seniority—make critical business decisions. Additionally, just before making a decision, Intel encourages everyone to argue about it. But once the decision is finalized, everyone is expected to back it.

However, if it looks like an incorrect decision, actions should be taken to rectify it quickly. Furthermore, Intel examines the reason why the decision was incorrect—especially the process to make the decision. Self-corrected learning is a very important trait of Intel and other risk-entrepreneurial companies.

Risk entrepreneurs are attuned to

exploiting the technological innovations Clayton Christensen (*The Innovator's Dilemma*, Harvard Business School Publishing, Boston, 1997) calls sustaining and disruptive technologies.

Sustaining technologies may be incremental, discontinuous, or radical. What they all have in common is that they improve the performance of established products along dimensions that the marketplace currently values. Most innovation that occurs in an industry is of the sustaining type.

In contrast, disruptive technologies typically result in near-term, poorly perceived performance. What they actually do is change the value proposition offered to the marketplace.

Risk entrepreneurs are able to exploit the different discontinuities in their operating environment caused by both types of technological innovation. Whenever they can, risk-entre-

preneurial companies cooperate in reducing the risks to their customers as well as internal risks.

Microsoft, for instance, has created a virtual company, called MS Risk Co., that tracks more than 144 risks for the company covering all aspects of its operations. The goal, as stated by Microsoft's risk manager, is to help business units see that they are really in the business of risk management. The risks tracked include customer, competitive, partnering, financial, operations, people, political, reputation, and technological risks. By understanding these risks, the true cost of risk can be included in product development and, ultimately, in pricing.

Managers at risk-entrepreneurial companies spend most of their time—as management professors Gary Hamel and C.K. Prahalad have so eloquently phrased it—focused on

competing for the future, not on the past. Such managers are constantly on the lookout for breakthrough strategies that can help them seize control of their existing market and create new markets for tomorrow. Non-risk-entrepreneurial executives spend only one to two percent of their time on strategy (*Competing for the Future*, Harvard Business School Publishing, Boston, 1994).

### Risk-insight companies

Organizations with all of the basic elements in place, but with skills that are somewhat inconsistently mastered, practice risk insight. In other words, these organizations have sufficient skill to pursue and manage some risks, but not the full gamut.

As shown in Figure 1, with a risk-insight model, business-level or smaller projects are likely to be successful. Risk-insight companies are able to capitalize on others' mistakes, but they still make many of their own. However, the mistakes seldom, if ever, lead to catastrophic disasters. Risk-insight companies can compete with entrepreneurial companies when it comes to innovation through the use of sustaining technology, but they are often left behind when a risk entrepreneur introduces a disruptive technology.

As an organization, a risk-insight company is not fully aligned toward making every project a success. Part of the reason is that management's time is not sufficiently spent looking at the future, as too many problems from the past are still occupying their time. This is why tactical business issues (those to be addressed in the current fiscal year) rather than strategic business issues (those two to three years out or more) drive risk-insight companies.

## Resources

### Articles

R. Charette, "Up the Down Escalator: Managing Risk in an Uncertain World (Part 1)," *Software Management*, Oct. 1993.

R. Charette, "On Becoming a Risk Entrepreneur," *American Programmer*, Mar. 1995.

### Books

*Competing for the Future*, Gary Hamel and C. K. Prahalad, Harvard Business School Publishing, Boston, 1994.

*Innovation and Entrepreneurship*, Peter Drucker, Harper & Row, New York, 1985.

*The High-Risk Society*, Michael Mandel, Times Business, New York, 1996.

*The Innovator's Dilemma*, C. Christensen, Harvard Business School Publishing, Boston, 1997.

## Becoming More Risk Entrepreneurial

The article "Using Risk Management as a Competitive Advantage" (*Application Development Strategies*, May 1999) offers these tips:

➤ **Find out what your company doesn't know.** For example, many new market innovations are created by market "outsiders." Are you tracking innovations created outside your own market?

➤ **Find out what you should know or figure out what you should know and how to get it.**

Various "acclaimed" assumptions constrain market propositions. Lean production succeeded because it challenged the assumptions underpin-

ning mass production. Do you know what assumptions exist in your market and why they exist? Can a change in one lead to a market winner?

➤ **Devise multiple alternatives to deal with change.** Sony produces 1,000 new or upgraded products a year to deal with market changes. Not all will be winners, but the likelihood is that many will, and a few will become market creators. Is your company creating market options?

➤ **Know when to act and when not to act.** Intel brought out the 486 while the 386 still had the dominant market share. The financial analysts all said it was a mistake, since Intel was losing a cash cow. However, Intel was able to keep potential 486 competitors from ever gaining a market beachhead. Does your company understand the endgame well enough to boldly act against its near-term interests?

➤ **Be prepared to reverse decisions should the need arise.** While initially dismissive of browsers, Microsoft moved quickly and aggressively into the browser market once it realized that it was becoming vulnerable. Even "unassailable" market positions can quickly become untenable and require a course correction. Can your company admit early that it is time to change direction?



The latter is especially key, since not being able to reverse current decisions means resources will not be reallocated from areas of low yield, and economic progress will not be achieved.

## Risk-Entrepreneurial IT

**For a risk-entrepreneurial company, the issue of whether information technology should be a prime tool to create new business opportunities or a support for a company's business strategy is irrelevant. To the risk entrepreneur, the answer is always "yes" to both questions.**

**Sometimes information technology must lead business strategy, especially if a form of technology discontinuity occurs. Immediately following such a discontinuity, technology-driven business decisions will likely dominate for a while.**

**IT technology is advancing rapidly, so IT is more likely to employ a technology-leading approach. Internal momentum will naturally develop for all business decisions to be technology-driven. This, however, would be a mistake.**

**First, not all discontinuities are profitable. Second, even if they are profitable, an organization still has to be able to implement the changes wrought by the technology. In some cases, it's wise to let others proceed first to clear out the difficulties and then follow rapidly behind. Being the second in a new market is often the best strategy. Third, chasing every new IT innovation will ensure nothing but corporate thrashing; nothing will be finished before another "opportunity" arises.**

**To risk entrepreneurs, the issue of technology and business strategy alignment is one of trying to attain a state of dynamic stability. Perfect alignment, if it can be achieved, is only achievable for a millisecond at best before something else—new technology, new competitive strategy—appears.**

**Thus, risk entrepreneurs seek to manage the inevitable misalignment efficiently. Whether technology or business strategy will lead depends on how effectively and how quickly the company can go through the entrepreneurial cycle.**



### Risk-control companies

Organizations with only some of the basic building blocks in place (for example, a decision process that limits its searches and assessment of risk to, say, technical or financial risks) practice a form of risk control or, more accurately, perpetual problem solving.

Usually, the only form of regular, active risk management is for financial risk. Thus, risk-control companies are limited in the types of risk they can comfortably take on, such as those found in a specific business project in a well-understood domain.

Risk-control companies are able to avoid the majority of disasters caused by acts of *commission* in project-risk areas, but are unable to avoid many

disasters caused by acts of *omission*. In these organizations, management is in fix-on-failure mode, rather than risk management.

Demand-side risks are rarely addressed at all, and the supply side is addressed only in a limited fashion. Risk-control companies are primarily technology-driven, as they see that this is how their risks are created and therefore should be managed. Although technology-driven, they are vulnerable to market changes brought on by sustaining or disruptive technologies.

Success for risk-control companies depends on individual groups or departments executing their tasks well. When success occurs, it is easy to pick out the individual or group

responsible, as well as to see the many internal obstacles they overcame.

Risk-control companies are uncomfortable dealing with risk. Risk implies uncertainty and means dealing with dilemmas that often have messy solutions. Risk-control companies prefer situations that have solid solutions. Thus, they will often wait for a risk to turn into a problem, then look for a clear-cut solution.

Risk-control companies find it difficult to justify the investment in risk or reward management. For instance, management sees risk management more as an excuse for management not getting things accomplished, while line personnel see it as an excuse for assigning blame by management.

### Risk-arrogant companies

Risk-arrogant organizations think they have all the skills of the risk-entrepreneurial organizations, and they even win against them occasionally. However, success is due mostly to heroic individual efforts and luck, rather than any inherent organizational strength. Heroic efforts, especially in crises (which abound), are called for in risk-arrogant companies—and encouraged.

Risk-arrogant companies persistently argue that risk management and reward assessment are "just common sense," and anyway, bad things happen to other companies, not theirs. Risk-arrogant companies stoutly refuse to admit that they need to learn or practice the most basic skills of risk or even project management. They usually stay in this mode until they are almost destroyed by some risk that they should have foreseen. All risk-entrepreneurial companies seem to have had to learn this same lesson sometime in their past.

Risk-arrogant companies see little need to communicate information, and, in fact, information is hoarded as a source of political power. Risk-arrogant companies continually ping-pong between making impulsive decisions and being unable to make any deci-

sions. When a decision is made, it is the “right” answer, which will be stubbornly pursued come what may, and reversing course is next to impossible.

Except for an occasional act by an individual, risk-arrogant companies manage neither demand- nor supply-side risks. Organizational management expert Gareth Morgan states why: “You are more easily punished for the risk that goes wrong than for the risk that you didn’t take, or the mistakes you didn’t make.”

Primarily, cost and schedule issues drive risk-arrogant companies. Concerns of the customer are low on their priority lists, and the idea of the exchange of goods and services being an exchange of risk and opportunity between themselves and their customer is not only a foreign idea to them, but a ridiculous one as well.

Risk-arrogant companies do not learn—they repeatedly make the same mistakes. Disciplined processes rarely exist, and spending resources on process improvement is looked at as a poor return on investment.

It should be clear that few companies ever achieve risk-entrepreneurial status throughout their organization. Many times, a company will have the characteristics of all four types of organizations at once. Changes created by the Internet and technology in general have created once-in-a-lifetime fortunes for those willing to understand it and take risks. Even established risk-entrepreneurial firms are at risk of being pushed down the entrepreneurial maturity ladder if they are not careful.

Figuring out how to combine efficiency and creativity is senior management’s most important task of the next decade. The risk-entrepreneurial paradigm offers a solution. ■

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