How many times have you heard, “great idea” and, “risky” in one sentence? If you’re a company wanting to make a big jump in innovation, the answer is, plenty. Yet, every year we see companies taking risks head-on and succeeding – like Mars launching a new line of chocolates named Dove, an established soap brand; or Unilever rolling out Mentadent toothpaste with a dispensing system alien to the toothpaste world.

Great rewards may justify high risks but companies cannot succeed consistently without managing those risks. The companies that win understand the risks, take a calculated approach to the development process and continuously manage uncertainty along the way.

Here we explore five practices that smart organizations use to manage risks and uncertainty.

1) **Improve Preparation**
   As cliché as it may sound, nothing beats preparation when shooting for success. Preparation starts with three basic steps:
   - **Gather data** on success drivers, technology needs, resource requirements, regulatory considerations and market factors that impact the project, followed by the same for resource and time constraints.
   - **Set standards** by creating a baseline for projects to measure their performance against other projects, organizations and industries in general. This helps projects stay on track against any deviation caused by internal or external factors.
   - **Create templates** to provide consistency in the product development and evaluation process. Standardized templates for each stage in the gated development process on all projects provide an apples-to-apples comparison.

2) **Expand Evaluation**
   Standard evaluation includes gates built into the new product development process to develop decision points as to whether or not a project should continue and/or receive more resources. Evaluation steps include the following:
   - **Conduct a strategic assessment** to identify all possible alternatives for a project or a product. The options considered should all have comparable goals and should fulfill the same business needs.
   - **Assess risk and uncertainty** for all of the identified alternatives, and then quantify the risk in terms of probability, frequency and impact.
   - **Perform a value-based assessment** by short-listing the options based on potential revenue, profit margin, ROI and other financial success measures. Assess whether the project meets minimal thresholds and fits current organizational strategies, and allow only those meeting the criteria to enter the pipeline. For better accuracy, risk-adjust criteria based on identified risk factors, the organization’s ability to manage those risks, resource requirements and market potential.
3) **Perfect Peer and Expert Review**

Peer review provides an important cross-check for the innovation process. Specifically, this step serves three purposes:

- To provide a reality check for project managers
- To establish credibility through transparency
- To incorporate best practices in the process

There are two major considerations for effective peer and expert review:

*Enable smart reviewer selection* from outside the core team to provide a variety of expertise and experiences. Include at least one finance person. Complement in-house resources with professional consultants or academics who are eminent around best practices, regulatory issues or market impact.

*Assess and reassess* the feedback from the review and incorporate it in the evaluation and management process.

4) **Improve Decision Making**

Decision making to optimize the outcome is important and should occur throughout the project via selection, prioritization and project launch. Effective decision making can be made by following these steps:

*Prioritize* against a clear list of criteria. Create two to four buckets at each major priority level and allocate the projects in these buckets. Starting with the highest priority bucket, determine which projects can be undertaken using the given resources. Consider only those for the portfolio.

*Make trade-offs* to find a balance between “what is needed” and “what is feasible.” Ambitious projects may yield high returns but they may also consume too many resources; “easy” projects, while offering lower returns, may need fewer resources. Establish clear reasoning for making any trade-offs.

*Improve as you go,* incorporating new information as it becomes available throughout the process. Use facts to prove or disprove previous hypotheses and make necessary modifications to your decisions before more resources are invested.

5) **Increase Uncertainty Tracking**

The process does not end with decision making – tracking is important to monitor progress and measure the effect of each individual decision. Uncertainty tracking includes the following three steps:

*Conduct baseline assessments* to compare various stages of the project with the baseline data and projected attributes for that stage.

*Make evidence-based updates* by revisiting previous assumptions and decisions, and determining their significance and impact on project success based on real data. This allows changes to be made in the project plan to further enhance the project or set more realistic expectations.

*Track performance* from the start of the project and continue throughout. Effective performance tracking helps to proactively manage impending risks.
Risks and uncertainties are to be expected in any product development or innovation initiative. While they cannot be completely avoided, better preparation, expanded evaluation, improved peer reviews, and a systematic approach to decision making and uncertainty tracking can help.

### Five Steps to Dealing with Risk and Uncertainty

| Improve Preparation | • Gather data  
|                     | • Set standards  
|                     | • Create templates |
| Expand Evaluation   | • Conduct a strategic assessment  
|                     | • Assess risk and uncertainty  
|                     | • Perform a value-based assessment |
| Perfect Peer and Expert Review | • Enable a smart reviewer selection  
|                              | • Assess and reassess |
| Improve Decision Making | • Prioritize  
|                     | • Make trade-offs  
|                     | • Improve as you go |
| Increase Uncertainty Tracking | • Conduct baseline assessments  
|                             | • Make evidence-based updates  
|                             | • Track performance |

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