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**The Intelligent Risk Equation: When Opportunities Outweigh Threats**

Daryl V. Watkins<sup>1</sup>, Valerie P. Denney<sup>2</sup>

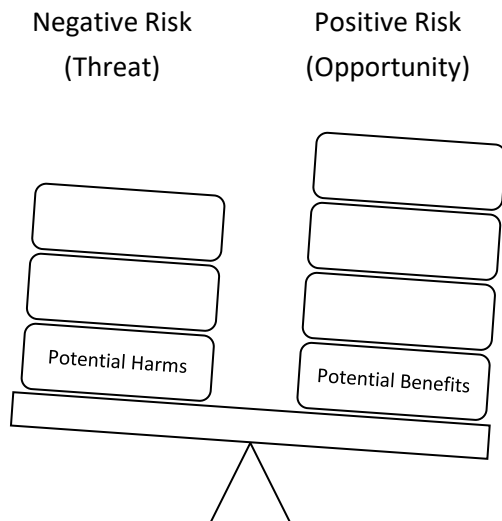
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The idea of intelligent risks is not new. After all, most of us are familiar with the phrase, “No Risk, No Reward!” However, the phrase reinforces two fallacies: that risk and reward are separate constructs, and that the word *risk* implies only a potential for harm. For some reason, though, when asked to consider the concept of risk or assess risk, the mind goes to what can go wrong. People rarely think of the upside of risk. Risk is the potential for *harm* or *benefit* brought about by uncertainty. We do not know what will happen. Over time, as uncertainty resolves, a threat may lead to harm, an opportunity may lead to benefit. Identifying and actively working to address risk may help reduce uncertainty and tip the balance toward achieving the benefit. The Baldrige Excellence Framework (2019, 49) defines intelligent risk as “opportunities for which the potential gain outweighs the potential harm or loss to your organization’s future success if you do not explore them.” Figure 1 depicts the balance of positive and negative risk in the intelligent risk equation. Negative risks are threats that may harm the organization. Positive risks are opportunities that would provide a benefit to the organization if they come to fruition. With intelligent risks, positive risk outweighs negative risk.

**Figure 1**

*Intelligent Risk: the potential gain outweighs the potential harm.*



Focusing on the downside of risk creates problems for organizations because they may invest too many resources in mitigating threats while ignoring opportunities. High-performing organizations take advantage of strategic opportunities to respond to environmental and competitive changes. McEachran (Bailey, 2016) argued that considering risk from a positive light helps people develop a tolerance for embracing risk to innovate towards their most critical priorities. Even experienced employees with broad responsibilities across organizations fail to consider intelligent risks. A recent study, (Denney, 2020), reported that fewer than 20% of experienced project and risk managers reported that their organizations considered risk through a positive lens. Close to 90% identified a lack of funding to pursue opportunities. These project managers and their organizations seem to have erected a conceptual firewall between their mental models of threats and opportunities. We suggest that organizations can benefit from eliminating that firewall by reframing risk in alignment with the Baldrige Excellence Framework view of intelligent risks.

The Baldrige Excellence Framework asks about intelligent risks in five of the seven categories (Baldrige Performance Excellence Program, 2019). For example, in the Leadership Category, Item 1.1 asks how senior leaders cultivate an environment of intelligent risk taking. The note for 1.1c(1) suggests that leaders should think about their organizations' tolerance and appetite for risk, specifically considering the threats and opportunities related to emerging technologies, integrating and securing data and information, safety, and the environment.

Item 2.1 in the Strategy Category asks about the processes the organization uses to determine which strategic objectives to pursue as intelligent risks. Concerning the Workforce Category, Item 5.2 asks how the workforce management systems reinforces intelligent risk taking. This idea is reinforced in the core values and concepts under *valuing people*. Within the Operations Category, Item 6.1 suggests that the approaches for pursuing strategic opportunities deemed as intelligent risks are part of innovation management. This is also reinforced within the core concepts under *managing for*

*innovation*. Finally, the Results Category asks Baldrige applicants to provide their results for taking intelligent risks in Item 7.5.

Each organization operates within the context of its industry, resources, size, and other factors that affect how senior leaders view risk. The point is not to prescribe what leaders should do, but to ensure that they are building intelligent risk-taking into their culture, processes, and results. This means that organizations need to build a tolerance for failure; pursuing intelligent risks does not always work out. A culture of intelligent risk-taking allows employees the freedom to pursue intelligent risks without the fear of being fired, demoted, or reassigned. Of course, those failures should be accompanied by robust organizational learning that attempts to diagnose if signs were missed along the way.

Some sectors and industries tend to be more risk adverse due to the nature of the threats (e.g., financial services, public health, pharmaceuticals, automobile manufacturing, aerospace, and aviation). Breakdowns in these industries can cause loss of fortune and/or lives. Therefore, organizations within these sectors and industries often have more robust processes to ensure effective mitigation or negation of threats. For example, an automaker might decide that an intelligent risk related to a more efficient tire design is not worth the potential loss of life that might occur due to the small risk of a high-speed blowout. Thus, it should be clear that an organization need not automatically “take” an intelligent risk because it assesses that the positive outweighs the negative. The decision to pursue an intelligent risk is value-laden and might rely on organizational values, thoughtful analysis, risk tolerance, projected financial outcomes, previous (especially recent) failures, and additional considerations.

#### **Potential Loss or Harm – A Prevailing View of Risk**

Benjamin (Benjamin, 2017, 27) described enterprise risk and opportunity management as “the methods and processes used by organizations to manage risks and seize opportunities related to the achievement of their objectives.” That definition is consistent with the prevailing view that risk and

opportunity are loosely related. Most people actively quantify risks from the standpoint of potential loss rather than a potential for loss *and gain* (Denney, 2020; Funston, Wagner, and Ristuccia, 2010). That narrow perspective creates missed opportunities for innovation and growth. The experiences of project and risk managers provide a window into the problems faced by organizations. Both project and risk managers deal with issues and opportunities across the range of organizational functions. Both groups are usually trained in specialized techniques to collect and analyze conflicting information, to communicate at multiple organizational levels, and to seek wide-ranging perspectives. A recent study, (Denney, 2020), sampled 63 experienced program, project, and risk managers to discover whether they and their organizations viewed risk from an opportunity frame and to expose underlying biases between threat and opportunity management. This study consisted of four parts: (a) opportunity identification; (b) stage identification; (c) funding sources; and, (d) participant and tool identification. In part one, the participants described one or more examples of specific opportunities identified within their projects. Only 38% were able to cite a specific example, and 17% admitted they had not seen a good example of opportunity identification. These senior practitioners pointed to four reasons they could not recall specific opportunities. First, many were inexperienced or lacked training in identifying opportunities. Second, in some cases, they reported that the organizational culture did not place enough emphasis on continuous improvement and opportunity management. Third, overwhelmingly, they were too busy with day-to-day operations to recognize and take advantage of opportunities. Finally, opportunities were not emphasized until senior leadership needed a recovery option.

In part two, participants described the project or program stages where their organizations consider opportunities. The project managers identified opportunities at the proposal stage of projects, if at all. Most reported that they did not continue to scan for opportunities beyond the early stages of the project lifecycle. These experienced project and risk managers operated in an ad hoc manner, not thinking of opportunity identification as a continuous, iterative process (Denney, 2020).

In part three, participants described funding practices for opportunity management in comparison to threat management. Nearly 50% of the participants commented on how opportunities are *not* funded, instead of how they *are* funded. About 25% reported that organizations fund opportunities on a case-by-case basis and only after a rigorous business case. Business cases were not required for addressing threats. None of the participants reported that their organizations had systematic and repeatable processes to manage opportunities within their projects (Denney, 2020).

In part four of the survey, participants described who is involved in identifying opportunities and what tools and techniques they use for opportunity identification. Participants reported that subject matter experts, project members, risk board members, and other individuals who are closest to the project are typically involved in opportunity identification. Some participants reported using outside experts and processes (e.g., Lean, Six Sigma) to bring fresh perspectives and skills that were not available internally. The participants reported that their organizations used common management tools such as checklists, prompt lists, and SWOT analysis to aid in opportunity identification.

### **Suggestions for Practice**

The study pointed to a need for change from the top. Senior leaders can emphasize and reinforce opportunity management as part of the organizational culture. Organizations benefit from creating systematic processes for opportunity management and deploying those processes throughout the organization. Ideally, managers would fund those processes during the budgeting cycle, including training for employees who are involved in the processes and seed money for pursuing intelligent risks (i.e., exploiting opportunities). Systematic processes might reduce the feeling of overwhelm felt by many managers who need time to think and to allow opportunities to percolate. Finally, it may take a village to bring opportunities to fruition. Leaders should encourage opportunities for diverse sets of employees to come together to identify opportunities. Leaders should also consider including outside experts,

where useful, as they may be more familiar with an arsenal of tools and techniques than internal practitioners.

Intelligent risk management can consist of sophisticated processes and tools. However, it need not be complicated to be effective. Any organization committed to continuous improvement and innovation can adopt the tools and techniques referenced in the remainder of this document. Employees may need to broaden their mental models to include the concept of opportunity as positive risk. That recognition alone would enable more people to take advantage of the wealth of tools and techniques for identifying and managing intelligent risks. The assumption here is that employees have used many of these tools in other contexts (outside of positive risk identification). They can repurpose the tools and techniques for opportunity management.

Within the Baldrige Excellence Framework, the idea of intelligent risks ties closely with strategic opportunities and innovation (Baldrige Performance Excellence Program, 2019). Here we are talking about opportunities that are important to the organization, not tactical or logistical decisions like switching to a lower-cost or more reliable supplier to decrease costs or cycle time. Strategic opportunities have the potential to provide breakthrough improvements to the organization in alignment with strategic objectives. A well-integrated organization has mature processes to identify strategic opportunities, determine whether those opportunities represent intelligent risks, and create discontinuous improvements through innovation.

We emphasize the systems nature of choices that the organization makes about intelligent risks because these risks should tie clearly back to the organizational mission, vision, and values. It can be difficult to conceptualize these ideas without a tangible example to describe these concepts. So, we have constructed a hypothetical example to consider how an organization might place intelligent risks within its leadership and operating systems.



### **A Hypothetical Example**

Imagine a hypothetical university, HHEI, that uses the Baldrige Excellence Framework. Like most educational institutions, our hypothetical university has a vision of contributing to society by advancing the knowledge of students and conducting ground-breaking research. The university's mission is to educate students and future leaders to transform society. The university values students, academic freedom, collaboration, integrity, excellence, and inclusion.

HHEI's strategic advantages are a world-class faculty, proximity to a large metropolitan center, and a large and active alumni group. World-class faculty are an advantage because they typically have exceptional credentials, can generate grants, and their reputations can draw students into the university. The proximity to a large metropolitan center creates a large market of progressively minded college-aged students, potential industry partners, and an attractive environment for students and faculty. The large and active alumni group offers a strategic advantage because there are many prospects for donations, service, internships, jobs, and advice.

On the other hand, HHEI has strategic challenges of a small endowment, a disproportionately large enrollment of military personnel and international students, and sensitivity to a government shutdown and public policy decisions. The small endowment is a strategic challenge because it means that the university must rely on tuition, grants, and federal funding. The large enrollment of military personnel is a challenge because military student enrollment is subject to military change orders, deployments, and operations tempo. Likewise, international students are subject to numerous processes and regulations for enrollment and record-keeping. Finally, the sensitivity to a government shutdown and public policy decisions creates a strategic disadvantage because enrollments and registrations slow during sequestration or reductions in foreign visas.

After reviewing strategic advantages and challenges, HHEI selects a few strategic objectives: (a) develop an online presence; (b) reduce reliance on tuition revenues from military and foreign national

students; and (c) become more resilient in the face of operational disruptions. These strategic objectives would enable HHEI to exploit their strategic advantages and begin to address their strategic challenges.

HHEI must assess strategic opportunities to decide how to go about achieving their strategic objectives. HHEI believes that building online capability and capacity represents a strategic opportunity. However, they must go through a learning process of discovery related to developing an online presence. For example, they need to understand the potential costs of developing the infrastructure to deliver online courses. During their discovery, they learn that numerous processes and systems must change to facilitate online learning. For example, the faculty will need training because most do not have experience teaching online. The university may need to invest in course designers to help create compelling content. HHEI might need to replace its learning management system. On the other hand, some private, for-profit universities have already built out the infrastructure and have well-developed online processes. However, many of these for-profit universities suffer from negative public perceptions.

HHEI assesses that partnering with or purchasing one of these private universities is also a strategic opportunity. They must consider both the positive and negative sides of whether to pursue developing an internal online presence or pursuing the partnership path.

The HHEI example used key terms that appear regularly through the Baldrige Excellence Framework (NIST, 2019). To help organizations gain a common understanding of important concepts, Baldrige defines key terms used within the framework. These terms might have a different meaning to people depending on their industry, role, specialization, and familiarity with Baldrige terminology. Table 1 describes key Baldrige terms introduced in the hypothetical discussion on HHEI. The mapping illustrates the coherence of the framework with regard to intelligent risks and innovation.

**Table 1:**  
 2019 Baldrige Excellence Framework Definitions of Key Terms mapped to the HHEI example

Baldrige Term	Definition from Glossary Key Terms (pp. 46-52)	Hypothetical Example HHEI
<i>Key</i>	Major or most important; critical to achieving your intended outcome.	<ul style="list-style-type: none"> <li>key processes such as enrollment and records management</li> </ul>
<i>Mission</i>	Your organization’s overall function.	<ul style="list-style-type: none"> <li>educate students and future leaders to transform society</li> </ul>
<i>Vision</i>	Your organization’s desired future state.	<ul style="list-style-type: none"> <li>contributing to society by advancing the knowledge of students and conducting ground-breaking research</li> </ul>
<i>Values</i>	The guiding principles and behaviors that embody how your organization and its people are expected to operate.	<ul style="list-style-type: none"> <li>students, academic freedom, collaboration, integrity, excellence, and inclusion</li> </ul>
<i>Strategic advantages</i>	Those marketplace benefits that exert a decisive influence on your organization’s likelihood of future success.	<ul style="list-style-type: none"> <li>world-class faculty</li> <li>proximity to a large metropolitan center</li> <li>large and active alumni group</li> </ul>
<i>Strategic challenges</i>	Those pressures that exert a decisive influence on your organization’s likelihood of future success.	<ul style="list-style-type: none"> <li>small endowment</li> <li>disproportionately large enrollment of military personnel and international students</li> <li>sensitivity to a government shutdown and public policy decisions</li> </ul>
<i>Strategic objectives</i>	The aims or responses that your organization articulates to address major change or improvement, competitiveness or social issues, and business advantages	<ul style="list-style-type: none"> <li>develop an online presence</li> <li>reduce reliance on military and foreign national tuition</li> <li>develop resiliency in the face of operational disruptions</li> </ul>
<i>Strategic opportunities</i>	Prospects for new or changed products, services, processes, business models (including strategic alliances), or markets	<ul style="list-style-type: none"> <li>develop an internal online capability</li> <li>acquire or merge with school with a large online presence</li> <li>diversify student population</li> <li>implement new development office for fundraising</li> </ul>
<i>Intelligent risks</i>	Opportunities for which the potential gain outweighs the potential harm or loss to your organization’s future success if you do not explore them	<ul style="list-style-type: none"> <li>develop an internal online capability</li> <li>implement new development office for fundraising</li> </ul>
<i>Innovation</i>	Making meaningful change to improve products, processes, or organizational effectiveness and create new value for stakeholders	<ul style="list-style-type: none"> <li>transition traditional classroom-based course to the online environment</li> <li>create new processes for student and faculty interaction and engagement</li> </ul>
<i>Alignment</i>	A state of consistency among plans, processes, information, resource decisions, workforce capability and capacity, actions, results, and analyses that support key organization-wide goals	<ul style="list-style-type: none"> <li>strategic objectives flow from strategic advantages and challenges to support HHEI’s goals</li> <li>decision-making reflects consistency between planning, process improvement, workforce management in support of HHEI’s objectives</li> </ul>
<i>Integration</i>	The harmonization of plans, processes, information, resource decisions, workforce capability and capacity, actions, results, and analyses to support key organization-wide goals	<ul style="list-style-type: none"> <li>all elements presented work together as a coherent system to support HHEI goals</li> </ul>

High performing organizations develop well-defined processes that are effective and systematic. Those organizations consistently use those processes throughout the entire organization, including with, as applicable, their customers, suppliers, and other stakeholders. The organizations also systematically improve their processes through learning, innovation, and knowledge sharing. The best organizations have integrated key processes to support their goals and objectives. They develop metrics on what is essential, track how they are doing longitudinally, benchmark against other high performing organizations, and integrate their results into their management processes. These practices are foundational to the Baldrige Excellence Framework scoring criteria of A-D-L-I (approach, deployment, learning, and integration) and Le-T-C-I (levels, trends, comparisons, and integration). HHEI exemplifies an organization that has adopted the Baldrige Excellence Framework. HHEI determined strategic objectives and assessed strategic opportunities in a manner that was both consistent and harmonized with their mission, vision, and values. That consistency and harmony are indicative of alignment and integration.

As previously described, within the Baldrige Excellence Framework, the concept of intelligent risks ties closely with strategic opportunities and innovation (Baldrige Performance Excellence Program, 2019). Organizations assess strategic opportunities to determine which are intelligent risks, especially those that might lead to breakthrough innovations. Thus, organizations that do not do an effective job of assessing risk within their strategic opportunities might miss out on breakthrough innovations. In the following section, we share tools and techniques used to gather data, analyze data, and imagine possibilities during opportunity identification.

### **Identifying Risks**

We start from an assumption that many individuals have not thought of or are not familiar with tools and techniques they can use to manage intelligent risks. Thus, it might seem daunting to get




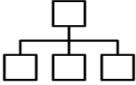

started. We believe that readers will be familiar with most of the tools that we share below, although perhaps not in the context of opportunity identification. We base the following examples from one of the strategic opportunities listed for the fictitious university introduced earlier. While the actual analysis would be more detailed than described here, the example illustrates steps to examine HHEIs' strategic opportunities of *developing an internal online presence vs. acquiring or merging a school with an existing online presence.*

Employees use data gathering tools to collect data to answer relevant questions about prospective opportunities. A list of data gathering tools is presented in Table 2. Some of the tools in the list would lend themselves to the current example, while others would not. Checklists, retrospection, and taxonomies would not be particularly appropriate here since they rely on past experiences. HHEI seeks to develop a new capability; so, a prompt list, such as PESTLE, can be particularly useful in gathering positive and negative elements for each item. PESTLE is an acronym for political, economic, social, technological, legal, and environmental.

- Political - considerations include unique requirements for every student's state of residence, availability of state grants, and lobbying needs and relationships.
- Economic – considerations include costs associated with creating an online infrastructure, offsets for having a distributed faculty with less need for office space, and additional grants and tuition
- Social - considerations include changed student experience of campus life, ethical concerns over potential for cheating, faculty and administrative buy-in
- Technological - considerations might include bandwidth, cybersecurity, network resiliency, and implementing new software and hardware.
- Legal – considerations include student rights in an online environment and human resource requirements.

- Environmental – considerations include positive environmental impacts of reduced campus footprint, less traffic around campus, and less food waste in the campus cafeteria.

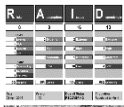



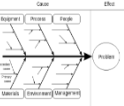

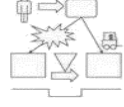
**Table 2:**  
*Data Gathering Tools and Techniques for Opportunity Identification*

	Name	Description
	Checklists	Specific list of actions, behaviors, and environmental considerations to highlight past threats and opportunities. Draws on the expertise of past organizational activities to ensure consistency. (Chapman and Ward, 2011; Pritchard, 2015)
	Prompt lists	Predetermined categories to generate ideas. Common types include: PESTLE – political, economic, social, technological, legal, environmental; TECOP – technical, environmental, commercial, operational, political; VUCA – volatility, uncertainty, complexity, ambiguity; SPECTRUM – socio-cultural, political, economic, competitive, technology, regulatory/legal, uncertainty/risk, market. (Kendrick, 2015; PMI, 2017; PMI, 2019)
	Retrospection	Organizational risk (positive and negative) history examination, including activities and how individuals worked to resolve those experiences. May include historical information, post-activity reviews, lessons learned, and best practices. (Hillson, 2019; Kendrick, 2015)
	Risk Breakdown Structure (RBS)	A generic hierarchical framework to identify sources of risk (positive and negative). Groups risks into clusters for categorical analysis. (Hillson, 2019; PMI, 2019; Pritchard, 2015)
	Taxonomies	A risk hierarchy which groups types of risks (positive and negative), ensuring broad coverage (Carr et al., 1993; Pritchard, 2015)

The data gathering tools generate lists of opportunities and threats that need to be further analyzed using data analysis tools. The data analysis tools generate deep insights about the opportunities and threats that are fed into the intelligent risk equation. Table 3 describes common tools used for data analysis. As with the data analysis step, some of the tools or techniques would not work for the current HHEI example. These strategic opportunities are not due to a prior failure; therefore, root cause analysis and failure model analyses would not be useful. We begin with document analysis. The PESTLE analysis identified regulatory requirements as a concern. Through document analysis, details



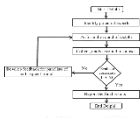



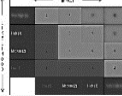
of online accreditation requirements could be ascertained. Another useful tool would be influence diagrams to generate a graphical representation of the decision process. Here, the decision process includes evaluating the potential harm and benefits associated with developing an internal online capability vs. acquiring a school with a significant online presence. The diagram would include all internal and external variables, events, outcomes, consequences, and payoffs relative to this decision. Variables should include quantified values and uncertainty associated with each to provide the most utility for decision-makers. As with the PESTLE application, data analysis tools need to account for positive and negative elements.

**Table 3:**  
*Data Analysis Tools and Techniques for Opportunity Identification*

	Name	Description
	Assumptions/ Constraints Analysis	Examining the validity of challenges, assumptions, and expectations. (Hillson, 2019; Kendrick, 2015; PMI, 2019, Pritchard, 2015)
	Document Analysis	Analyzing and parsing documents to identify assumptions, concerns, or generalizations that were not flagged in the requirements or procedural documentation. Develops insight through inference. (Pritchard, 2015)
	Failure Mode Analysis	A model structured to identify various elements that can cause system failures. Variations include: FEMA – Failure Mode Effects Analysis FMECA – Failure Model Effect and Criticality Analysis Fault Tree Analysis. (Hopkin, 2017; PMI, 2019; Sankey & Chapelle, 2016)
	Influence Diagrams	A type of causes and effects and cognitive mapping. Showing feedback and forward-loop effects, as opposed to the single path shown in a tree diagram. (Chapman & Ward, 2011; Hillson, 2019)
	Root Cause Analysis	Progressively examining the underlying reasons for risk until arriving at the most basic level. Includes Ishikawa or fishbone diagram. (Kendrick, 2015; Pritchard, 2015; Sankey & Chapelle, 2016)
	SWOT Analysis	Identifies specific cultural, organizational, and environmental issues that could have a positive or negative impact on the organization. Opportunities derive from strengths and threats derive from weaknesses. (Hillson, 2019; Hopkin, 2017; PMI, 2019, Pritchard, 2015)
	Value Stream Mapping	A lean management tool and business mapping method that helps visualize the steps from product creation to delivery. (Womack & Jones, 1996)


The data gathering and data analysis tools uncover elements that are known. Sometimes, we need to think about risk from a place of imagination and discovery. The imagining tools from Table 4 are used to explore novel concepts to generate lists of what could be. For our example, a multi-faceted approach works best. Assuming that HHEI has little experience with online teaching, the university might use questionnaires, surveys, or interviews to seek expert input from external consultants. Open-ended questions about the future would guide the imagining process. “Imagine that in four years, we are a top university delivering online education. What does that look like?” “How do we get there?” would be used to extract comments about developing an online capability vs. acquiring one. Those methods could be followed up with the Delphi method. Facilitators would guide domain knowledge experts through an interactive process of questioning, discussing, and honing their thoughts on the best practices to develop the desired capabilities.

**Table 4:**  
*Imagining Tools and Techniques for Opportunity Identification*

	Name	Description
	Brainstorming	A facilitated technique to generate ideas and insight, encouraging participation without criticism or commentary. (Kendrick, 2015; Pritchard, 2015)
	Crawford Slip Method	A facilitated, iterative technique that establishes a clear premise by collecting responses on pieces of paper and repeating the process ten times to extract all the information available. This avoids groupthink. (Pritchard, 2015)
	Delphi Technique	An iterative, asynchronous, idea generation or clarification technique taking advantage of expert insight. (Kendrick, 2015; Pritchard, 2015)
	Expert Judgment and Interviews	One-on-one exchanges with individuals having significant expertise to obtain accurate judgment (PMI, 2017; PMI, 2019, Pritchard, 2015)
	Force Field Analysis	Uses an environmental scan to determine the external forces impeding achieving the desired state. (Hillson, 2019; PMI, 2019)
	Questionnaire/ Surveys	Similar to interviews, but in written form and to a broader audience. (Kendrick, 2015)
	Residual Impact Analysis	Assesses potential impacts which remain following risk mitigation activities (PMI, 2019)



**Table 4:**  
*Imagining Tools and Techniques for Opportunity Identification*

	Name	Description
	Scenario Analysis	Step-by-step analysis of high severity events asking what might go wrong or right. Similar to walkthroughs and inspections used in the software industry. (PMI, 2019)

The previous analysis teased out HHEI’s strategic opportunities related to developing an internal online presence. Going through defined processes enabled the organization to consider both the positive and negative risks systematically. Here, HHEI used several of the risk identification tools to uncover opportunities that would otherwise remain buried in someone’s head or, worse, be exploited by a competitor.

After going through defined processes to weigh the potential benefits and harm of each opportunity, HHEI decided that developing an internal online presence is better in keeping with their mission, vision, and values. Partnering with or purchasing an online private university might devalue the strategic advantage of world-class faculty, exacerbate the strategic challenge of sensitivity to public policy decisions, and challenge the value of excellence. Thus, HHEI determined that pursuing a partnership is not an intelligent risk worth pursuing. The potential harm outweighs the benefits. The partnership, while innovative in terms of novelty, was not a better choice because of the potential harm to the organization (Hertz, 2018). However, developing internal capabilities to move online is considered an intelligent risk.

**Excellence in Action**

Considering intelligent risks for a hypothetical organization is an academic exercise. Applying these concepts in the real world may not be so simple. The context of COVID-19 will provide an excellent backdrop to look back and evaluate intelligent risk-management processes. Few organizations and

pundits predicted a global pandemic would shake the world. Fewer still had processes in place that protected the organizations from the fallout. Just as the Great Recession of 2007-2009 birthed Uber, Pinterest, Square, and a host of Internet 2.0 companies, COVID-19 may provide fertile ground for innovation and discontinuous improvements (Wilson, 2020). We already see innovations in healthcare, government, education, technology, and politics (Chesbrough, 2020). However, many organizations are still sitting on the sidelines, developing a patchwork of responses, or they are desperately trying to catch up in an innovation game they were not prepared for and for which they did not understand the rules. It is better to enter a crisis with a robust intelligent risk management infrastructure in place than to have to deal with an existential crisis and also attempt to develop a new process.

Consider the well-known failures of Eastman Kodak and Blockbuster to innovate in response to discontinuous changes within their industries. Both companies held positions of industry leadership and had the time and opportunity to develop viable strategies to address industry disruption. Instead, they viewed the necessary investments as too risky (Hobbs, 2017; Wang, Chen, and Jaume, 2016). Each company threw good money after bad, continuing to invest in failed strategies. Each had the opportunity to acquire or develop the companies and technologies that are now leading their respective industries.

The Texas grocery chain, H-E-B, provides a stark contrast. The grocer developed its first pandemic and influenza plan in 2005 and has been refining the process ever since (Solomon & Forbes, 2020). As a result of that foresight, H-E-B was actively communicating with Chinese grocers in January of 2020 and started executing their pandemic response in early February, several weeks before President Trump's March 11 prime-time address to the nation in which he detailed the national response to the virus.

Experts are hailing H-E-B's pandemic response as an exemplar for preparation, but it was not just the pandemic planning that enabled that success. Faced with increasing pressure from Amazon's

purchase of Whole Foods in 2017, H-E-B moved aggressively into information technology by establishing a digital hub in Austin, Texas, to accelerate its investment in digital technologies (Hawkins, 2019). As a result, H-E-B innovated customer offerings to include curbside pickup, grocery delivery, and online ordering. Those innovative services proved essential in positioning H-E-B to respond successfully to COVID-19. While other grocers were deciding how to respond, H-E-B was leading the way and developing even more trust with their employees and customers. H-E-B is the largest private employer in Texas. There are many people in Texas who can be thankful that H-E-B has aggressively improved its processes for managing intelligent risk.

### **Conclusion**

Achieving operational excellence is not good enough if systems and processes cannot adapt and grow to meet future needs. Organizations that have committed to quality and performance excellence benefit from systematic processes that incorporate intelligent risks into their leadership and operational systems. These processes may be evident in terms of how the organization stimulates and incorporates innovation, allocates resources, rapidly modifies action plans, identifies new products and services, develops priorities for continuous improvement, embeds learning into operational process, prepares its workforce for changing capability and capacity needs, and reinforces intelligent risk-taking.

We have made a case that organizations should commit to incorporating positive risk into their risk management processes. Furthermore, we provide suggestions for how senior leaders can begin to change the culture of risk management by deploying systematic processes for opportunity management, funding employee development, and seeding the pursuit of intelligent risks. We suggest that leaders encourage occasions for diverse sets of employees and outside experts to come together to identify opportunities. We have also provided a list of tools, techniques, and examples for how to use these in risk identification.

**Key Takeaways [COMP: SET THIS AS A BOX IN THE PAGES]**

- Organizations should expand their definition of risk to intelligent risk, including the idea of positive risk as opportunity. Look proactively at the potential for innovation and disruption.
- Organizations need to train and educate their employees to broaden their mental models to include the concept of positive risk. Adopt a culture and mindset of looking at every risk to discover both threats and opportunities.
- Senior leaders should emphasize and reinforce opportunity management as part of the organizational culture. Leaders need to create systematic processes for opportunity management and deploy those processes through projects, programs, products, and services lifecycles.
- Organizations must set aside funds to pursue intelligent risks and to train employees to identify, assess, and pursue intelligent risks.
- Systematic processes might also help to reduce the feeling that many managers have that they are chasing their tails. They need time to think, to allow opportunities to percolate.
- Leaders should encourage opportunities for diverse sets of employees to come together to identify opportunities. Leaders should also consider including outside experts, where useful, as they may be more familiar with an arsenal of tools and techniques than internal practitioners.

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