# EXAMINING INNOVATION AND RISK THROUGH THE LENS OF EMOTIONAL INTELLIGENCE


*"Innovation distinguishes between a leader and a follower."*
*- Steve Jobs*

Innovation continues to be a crucial aspect to the growth and well-being of companies across all industries. Many great, innovative leaders are characterized by their unique personalities. On comparing himself to Steve Jobs, Richard Branson stated: "I admired Steve Jobs, although he was completely different from me... [he] broke all the rules I believe in." (Rose, 2011)

Despite varying in personality, all innovative leaders possess common underlying skills, as well as the willingness to take calculated risks.

While you may not have a Richard Branson in your organization, it is likely that every decision facing your leaders, involves some element of risk. Should your company invest in a new technology? Should you hire that candidate you just interviewed? Should you extend a project deadline? These examples show that risk is often part of a leader's day, and understanding the way they approach risk will help foster a culture of innovation.

*"The biggest risk is not taking any risk… In a world changing really quickly, the only strategy that is guaranteed to fail is not taking any risks."*
*- Mark Zuckerberg*

In their 2012 report "Executive Guidance: Reducing Risk Management's Organizational Drag", the Corporate Executive Board Company (CEB) reviewed the costs of executive inaction and "Organizational Drag" (the result of disproportionate focus on risk prevention). When executives focus too much on risk prevention, they will often miss opportunities for growth and innovation. For example, many companies use "stage gates" (a funneling process to reduce uncertainty as risk exposure grows). However, this process often becomes too risk averse, resulting in only the low risk ideas ever emerging to the market and little expansion into unexplored areas (Culp, 2013).

However, this doesn't mean that initiating only high risk ventures is the solution to the innovation problem. Taking on too much risk can be detrimental to the longevity of an organization (especially when those risks are unsuccessful). "Risk management can help foster a company's innovation agenda by revealing blind spots and areas of underinvestment that threaten the upside of a company's future." (Culp, 2013)

This need for balance begs the question: How do leaders manage risk effectively, but still avoid organizational drag?

*"An over-focus on process misses the fact that people are the biggest source of risk and fails to make employees part of the solution."*
*- Executive Guidance: Reducing Risk Management's Organizational Drag, p. 10*

The answer is understanding individuals' risk appetite. At the heart of every decision is a person, or a team, who will approach risk differently. All the policies, regulations and standard operating procedures in your company won't help you understand personal preferences for taking risks and how a leader may act under pressure. Unfortunately, traditional risk management focuses on the risk found in policies and procedures, rather than understanding how the decision makers are influenced by their personal tolerance of risk.

One way to examine innovation, and whether or not a leader will take that creative risk, is through a lens of emotional intelligence (EI). Certain EI skills are closely linked with traits common to innovation, and these are skills that can be developed. In order to be innovative, an individual needs to be independent, assertive and realistic. They need to be able to manage the stress of uncertainty, be flexible in their approach, and quickly solve problems which may arise throughout the creative process. They must also


see back

control their impulses towards extreme risk, while still being open to calculated risk taking.

While emotional intelligence is able to provide a development path for greater innovation, it cannot explain someone's innate approach to risk; their risk personality. In particular, it is unable to examine an individual's openness towards risk, or explain how an individual may approach different contexts with different levels of risk. However, personality-based risk assessments are able to examine these qualities.

> *Think about some of the leaders you work with. How would you describe their approaches to risk and innovation? Wary, adventurous, or prudent?*

Using a personality approach to risk assessment allows you to establish a shared risk appetite within the team and uncover any potential points of organizational drag. Once each individual's comfort with risk is understood, the team can establish their collective limit to risk engagement. Additionally, it will then be possible to understand how the team's risk tolerance influences their decision making processes. For example, if a majority of the team is risk averse, it's possible that those who are risk tolerant may not hold any influence on the group (despite having innovative ideas).

Once the team's risk dynamic is understood, steps towards establishing a shared risk appetite can be taken. ■

## CASE STUDY

# EMOTIONAL INTELLIGENCE AND THE WILLINGNESS TO TAKE RISKS

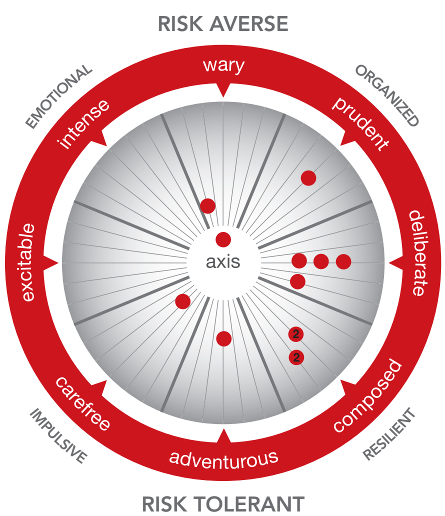


**Figure 1**. Risk preference types of each executive in the study.
**Note:** A dot with the number "2" means that two executives overlap in their risk preferences.

To examine the link between emotional intelligence and willingness to take risks, a group of 13 executives completed both the EQ-i 2.0 (a measure of emotional intelligence) and the Risk Type Compass (a measure of risk personality). The group scored about average in their rating of emotional intelligence. However, their preferences towards risk varied (Figure 1).

This group faces a common issue: The risk tolerant members (those in the bottom half of the circle) outnumber those who are risk averse (those in the top half of the circle). As a result of this imbalance, the group may take more risks than all of the members are comfortable with, indicating that a shared risk appetite may not be established, or the contingency planning that often provides comfort to the more wary or prudent executives may be overlooked.

Also, notice that there are no executives who fall in the excitable or intense risk types. This team may not have overtly strong passion or emotions that are needed to rally others towards a common goal or decision.

As described earlier, this lens shows the natural comfort level that each executive has with risk. However, in terms of providing this team with strategies for growth, using EI skills such as independence, emotional expression and stress management is where you can really move the performance bar. In other words, while the above examination of risk tolerance provides a stable measure of personality, EI skills are malleable and provide room for growth. To further understand how risk tolerance and EI skills work together, the team's scores on the two assessments were compared.

Risk tolerance was found to correlate well with the ability to work independently, as well as the ability to manage and tolerate stress. It was also found to correlate moderately with one's self-perception (including their confidence and the ability to persistently pursue meaningful goals) and one's ability to control impulsive behaviors.

Both assessments revealed similar conclusions about the group. They are very resilient towards stress, though they would be advised to ensure that they are balancing their ability to tolerate stress (and the resulting desire to take on many projects) with a realistic appraisal of their resources. On the other hand, they tend to be less emotional (or, at least, less willing to make a decision based on emotion). Despite being more tolerant to risk, they may not be able to express their true opinion (especially if it may contradict what the others feel). In order to improve in this area, it would be recommended for each executive to write down their thoughts about the decision at hand, and hold each other accountable for expressing both pros and cons at the next meeting. The variety of opinions may force the group to consider perspectives which have been previously unexplored (i.e., those held by the small group of wary and prudent executives), and can lead to a decision that suits each leader and the organization as a whole. ■

## REFERENCES

Rose, G. (2011) Richard Branson on why competing is fun. Retrieved from: http://www.virgin.com/news/richard-branson-why-competing-fun

Culp, S. (2013). Risk management can stimulate, rather than deter, innovation. Retrieved from: http://www.forbes.com/sites/steveculp/2013/01/07/risk-management-can-stimulate-rather-than-deter-innovation/

The Corporate Executive Board Company. (2012). Executive guidance: Reducing risk management's organizational drag. Retrieved from: http://www.executiveboard.com/exbd/executive-guidance/index.page

## ABOUT THE AUTHOR

Justin Deonarine is a Research Analyst on the Research and Development Team for the Performance Assessments Division of Multi-Health Systems Inc. (MHS) He holds a Master's degree in Cognitive Psychology (University of Waterloo) and a Bachelor degree in Cognitive Sciences (University of Toronto).

Justin's work at MHS includes custom analysis projects, including assessments for various organizations, as well as for reality television. Recently, he has published an article on emotional intelligence for the Choice Magazine Expert Series, and a co-authored chapter on emotional intelligence in a textbook.

Justin's professional interests include predicting and improving human performance.