COGENT HEALTHCARE

Building Resilience into your Innovation Portfolio

Innovation is inherently risky. The more innovative a new product the higher the risks – and without risk, there will be no breakthroughs. However, by using good risk management practices, you can take on more risk without betting the farm.

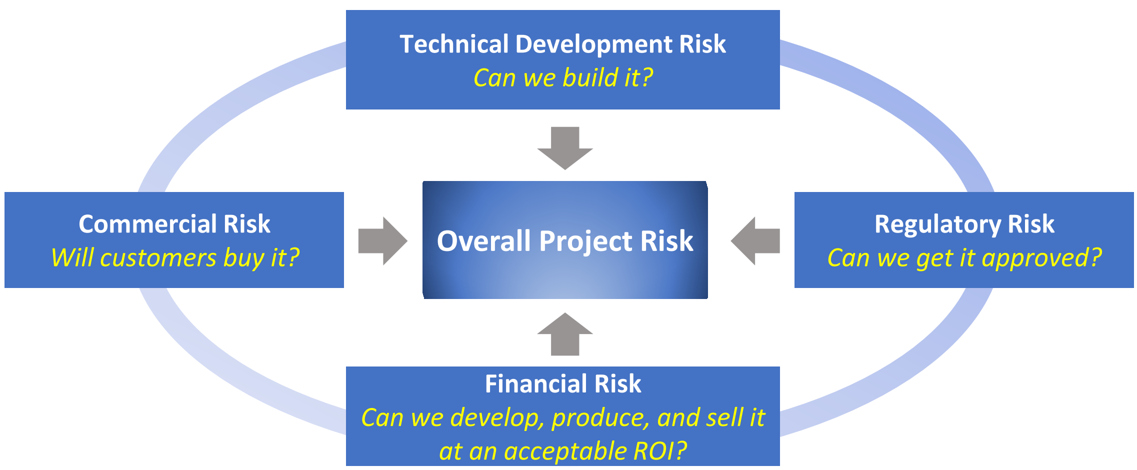
Good risk management is based on two core principles:

1. **Take on risk knowingly.**
2. **Manage risk proactively and continually.**

It does not require rocket science to identify your big, audacious bets. The goal of strong risk management processes is not to avoid those bets altogether, but to identify them and encourage them – however at a level and frequency that does not risk the business. You need to have enough development activity that you can count on in order to justify placing some bets that just won't fit into business as usual.

Risk Assessment:

Risk assessment is based on two elements. On one side, there is the qualitative (but structured) risk assessment of individual projects based on specific risks related to the nature of the project. With previous clients, we have defined risk categories and carefully described project attributes that make a particular project high, medium, or low risk in each category. The descriptions of what constitutes high, medium, or low risk should be as precise as possible to ensure that projects across the organization are evaluated consistently and similarly, minimizing the biases introduced by more optimistic or more pessimistic project managers conducting the risk assessments.



There are other risk categories that may need to be defined for your specific business, but the above are typically the categories that carry the highest risk and least predictability.

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Every project needs to be assessed for each risk category and an overall risk rating should be generated. Some projects may have almost no risk in one area but more in another.

To supplement the qualitative assessment, we look for empirical data to provide a more quantitative measure of the actual probability of success (or failure). This is where historical data plays an essential role – use success & failure rates of past projects as a guide for similar current projects. Get very specific analogues to avoid comparing apples to oranges – for example, success rates of projects that require regulatory approvals are no benchmark for those that do not. We helped clients define the critical risk dimensions for their innovation portfolio and classified dozens, in some cases 100's, of projects into pragmatic benchmark groups, If in-house projects don't suffice, you can use industry-specific databases of past R&D projects to assign a quantitative probability of success to each individual project – and roll this up to an expected value for your entire portfolio.

Risk Management:

Managing risk then becomes the ongoing process of assessing overall risk levels, identifying specific risks, implementing risk mitigation actions, and tracking whether and how much individual projects are de-risked as they progress through the development phases.

Every project's detailed risk assessment (using a template based on the agreed-to risk categories) and risk mitigation action plan needs to be reviewed at defined milestones. Project managers are held accountable to follow through on risk mitigation plans, document to what extent the project has been de-risked and update the risk assessment for the next project review.

It is essential that the decision-makers stick to previously established risk tolerances and that red lines are not crossed. Establishing clear go / no-go criteria will ensure that organizational biases don't skew decision making … and guarantee that the business will remain resilient to individual project failures and achieve its innovation objectives in the medium and long term.

The bottom line:

Successful risk management has the benefit that you can count on realizing your expected portfolio value and projects can be cancelled without losing confidence that overall business results will be achieved.

Your portfolio value will be resilient to the failures that will undoubtedly occur. And your moonshots can take place with full attention on risk mitigation, managed separately from the overall portfolio, generating an upside if they come and a calculated investment risk if they fail.

If you would like to learn more about Cogent's Portfolio Risk Management work, please contact us at [info@cogent-hc.com.](mailto:info@cogent-hc.com)