

Risks and rewards part of innovation

To be more competitive and grow, Canadian companies need to take more risks – and HR can help, according to 4 CEOs we talked to across the country

Nolan Watson, president and CEO, Sandstorm

The Vancouver-based company and its subsidiary Premier Royalty have about 30 employees

In 2004, Nolan Watson was a 25-year-old CFO at Silver Wheaton. He and mining entrepreneur Ian Telfer were involved in executing a new finance business model called silver streaming, in which an upfront cash payment is exchanged for the right to purchase a mining company's silver production at a certain predetermined price.

That innovative approach saw Silver Wheaton become a \$10-billion market cap company in just eight years, says Watson, now president and CEO of Sandstorm in Vancouver, which provides financing to mining companies and, along with its subsidiary Premier Royalty, has 30 employees.

"That was a very successful example (of innovation) in our industry," he says.

But companies that aren't innovative enough die, says Watson.

"Anytime, and this is a law of economics of business, anytime there's someone returning an above-normal profit for the risk that they're taking on, it attracts competition and that competition is relentless and it comes from all sources and the people that have the best business model and the best people and the best innovation survive. And the ones that are mediocre end up going by the way-side," he says.

"If you're not innovating, then it's just a matter of time before you fail."

For every Apple, there are 1,000 people who tried to make an Apple and failed, he says.

"People underestimate how hard it is to have a lasting, successful business and innovation is not something that is easy to do well. There are lots of people who try to in-

novate and they do so with bad ideas and poor execution and they fail. So it's tough to do. There are a lot of people who try to innovate — they just don't have the raw skills to do it well."

For example, in the mining industry, people trying to innovate have to be world experts on mining, finance and business — otherwise their ideas will be ill-conceived and probably not successful, says Watson, who says he is often pitched ideas on how to innovate or iterate Sandstorm's business model by people who lack the fundamentals.

At Sandstorm, innovation is involved from a business model perspective, he says.

"We are always trying to figure out what is the best niche to deploy our business model in, who are the best customers to do it with, what is the best way to structure the business arrangements that we have, what is the best way to structure ourselves internally to effectively go after that target market, and so on and so forth. So we do quite a bit of innovation, including with the structure of contracts we have."

Finding the balance

And when it comes to balancing risk and reward, the challenge isn't normally with the reward, says Watson.

"Usually the problem lies in not understanding the risk that you're taking on and allowing the company or an organization to take on systemic risk when they do try that innovation. So the key is isolating the risk and mitigating it."

For example, if a company is developing a new business model, it should be tried out

in a limited area. If it doesn't work, the company should find out why and take the steps needed to solve the problem — and then roll it out in a broader way, he says. Too often, people roll out their ideas to the entire company and these don't work, and then the company has to go into damage control mode and try to find a solution.

"That's a bad innovation process," says Watson. "You see it with HR policies, client policies, with iterated business models. I've seen it many, many different times and I've just made sure that whenever we're iterating something at Sandstorm, we're doing it in a limited way and we can test people's reactions to it before we roll it out in a broader sense."

It's the leader who has to make sure an organization is innovative and ensure that innovation is executed well.

"A failure of either of those two things could be the end of the company. So leadership is key or the organization will not continue," he says.

And HR plays a role in finding the right people who can be innovative and have the fundamental skills to deal with innovation.

"If HR gets their job wrong, you can have a CEO of a company pushing innovation all they want but all they're going to get from their people is poor-quality ideas and poor-quality execution," says Watson.

"It starts with recruitment and it starts with hiring people with high emotional intelligence. If you can conform teams where each individual team member has high emotional intelligence, they tend to function a lot better together as a team when working through various ideas."