



Embracing Risk to Learn, Grow and Innovate

As an innovator, you've likely encountered some of the most challenging and risky problems in the world of business.

Let's grow this lagging brand. Let's envision the future of our market. Let's connect to a whole new set of users and customers. When it comes to generating business growth by bringing new things into the world, the stakes are high, and risk is everywhere.

by Diego Rodriguez and Ryan Jacoby

It's easy and seductive to say that entrepreneurial business people always forge ahead, risk be damned. However, the glamour of bold action is often stymied by the specter of risk. New offerings may succeed in the market, but more often, they fail. Competitors may outwit you. Careers may hang in the balance. Taking bold risks does not feel safe. But to seek out 'zero risk' is to commit to doing nothing.

How does one move ahead and create growth in such an environment? There is a better way. We applied the design process to this challenge, and set out to understand how designers approach risk.

What we found is very encouraging. In the world of 'design thinking,' acknowledging risk is the first step toward taking action, and with action comes insight, evidence, and real options. To increase their odds of innovating routinely and successfully, today's organizations need to learn to live with risk the way designers do.

The Designer's Approach to Risk

Risk, in the traditional business sense, is an assessment of the downside that might result from taking a particular action. If the perceived level of risk is too high, people working within a business-as-usual paradigm look for a less-risky alternative, or even forego action altogether.

We've found that this traditional, negative definition doesn't exist in the lexicon of most designers. For them, risk isn't a measure of 'the downside'; instead, it is a measure of upside and opportunity. If the risk isn't great enough, designers might well ask themselves, "why bother?"

People who employ design thinking know that amplifying risk is a way to create more evidence of what works and what doesn't.

Insight #1: Designers don't seek to mitigate risk. They embrace it, even amplify it.

Yoda was wrong. When it comes to working with risk, trying is as important as doing. Consider what **Owen Rogers**, a designer who has worked at IDEO for over a decade, told us. Speaking to a set of experiences gleaned from hundreds of client engagements, he summed up how designers approach risk: "For a designer, trying is more coveted than success. The real risk isn't failing, it is not trying." Trying is a statement of optimism, and a person, a team, or even an entire company grows more by acting than by standing still.

In the worldview of a design thinker, failure is the best way to clear the fog to see a path to success. With its diminutive wheels and bug eyes, the first generation Toyota Prius looked odd, and its performance was nothing to write home about. Competitors said it couldn't possibly be profitable. A failure? By conventional standards, yes. But if we had taken Toyota's view, we would have seen it not as a failure, but as an experience absolutely necessary to creating the second-generation model, which is by all accounts a remarkable success.

Designers see risk not as something static, but as a dynamic element, as yet another design variable. Amplifying risk is a way to increase the amount of information one receives from experiments and prototypes. **Markus Diebel**, an IDEO industrial designer, told us, "On every project, we have our hands on a 'risk dial'; we have designers on one side pulling it toward the red line, and our clients and their systems on the other side pulling it toward the safe zone." In Markus's mind's eye, there is a glossy, black-anodized aluminum risk dial, and his "goes to eleven." Such is a design thinker's thirst for learning that they actively seek out failures, and even intentionally increase the frequency at which they occur. They then trumpet those failures, rather than hiding them, knowing that the feedback they receive will put them ahead in the long run.

Which brings us to our next insight.

Insight #2: Designers take risks to learn.

All of this might sound scary to someone who practices 'business-as-usual.' Are designers all about the adrenaline rush? A clue can be found in what we heard from **Madison Mount**, who co-leads IDEO's work in the food and beverage arena: "I'm slightly addicted to risk. If I'm not taking risks, I feel uncomfortable, because I'm not learning." Designers aren't hooked on adrenaline: they are hooked on learning, and embracing and amplifying risk is a way to learn. The more you try, the more you learn; and the more you

learn, the greater the likelihood that you can design a new and better experience for a user. Designers want to have a meaningful, positive impact in the world, and they recognize that taking risks is the way to get there.

So if you were to poke your head inside the door of a 'business-by-design' organization, would it look like a scene out of *Mission Impossible*? Would designers be riding motorcycles with scissors in their hands or setting things on fire to see what happens in the name of positive impact? Not exactly. There's something keeping the paramedics and firetrucks away. That force is an approach to innovation that regular readers of this magazine know well: design thinking.

Insight #3: Designers embrace risk, but their process of thinking mitigates it.

Design thinking uniquely combines conscious risk taking with structured risk mitigation.

This is a fascinating paradox: designers embrace risk, but the way they think mitigates it.

Each of the three behavioural building blocks of design thinking – empathy, prototyping, and storytelling – serves to simultaneously embrace and mitigate risk.

Empathy

Design thinking starts with people and looks for evidence of desire. This is one of the most fundamental ways to mitigate risk. Why? Because marketing things that people don't want increases one's risk of failure substantially. Ask yourself, what is the bigger risk: placing a bet on a value proposition that customers are asking for either latently or directly, or investing in an idea that springs from the cloistered assumptions of a conference room deep within your company?

In a recent innovation project, design thinkers from both IDEO and a bicycle-manufacturing client listened deeply to what potential customers said and felt. The conclusion they arrived at was not at all what they expected: instead of a desire for more technical 'extreme' biking experiences, what non-consumers of modern bicycles truly desired was a simpler, more joyful biking experience. And so they designed a much simpler experience, at the root of which is a bike that eschews complex, over-serving product features in favor of a simple foot-operated brake and an automatic gearbox. Risky? Yes, but only relative to the ingrained bias of the bicycling industry.

Prototyping

Design thinking encourages you to gather feedback long before an idea, concept or story is ‘finished.’ A prototype, in the hands of a design thinker, is finished when it can teach them something. The goal of prototyping is to accelerate feedback and failure. Failing indicates that you haven’t quite yet nailed the experience, and suggests what you might try next. Prototyping lets you find problems, but it also teaches you to ‘let go’ of ideas that aren’t fruitful. Failure due to sins of commission (as opposed to those of omission) is not a personal indictment, but an incitement to go out and create another prototype.

Imagine what could have been if the creators of **Iridium**, a global mobile phone service, had approached their challenge of orbiting 77 geo-stationary communications satellites from a prototyping mindset. In addition to the service being expensive, a severe drawback of Iridium was a lack of user satisfaction with the phone handsets, which were bulky and didn’t work well inside of buildings – both fundamental value-proposition flaws. In the end, Iridium’s \$6-billion-dollar system was not viable, resulting in a fire sale for \$25 million. Could the Iridium team have used prototyping to uncover these and other system flaws while they were still actionable? We’re not technical experts in satellite deployment, but with the optimism that comes with a design thinking approach, anything can be prototyped. The real risk lies in not doing so.

Storytelling

Crafting and telling simple, emotional, concrete stories is a critical part of the design thinking approach. Focusing on storytelling ensures that the essence of the value proposition is communicated and understood in a way that allows people within an organization to learn and act. This essence is what **Chip Heath**, co-author of *Made to Stick*, calls “command intent.” Telling stories that people can internalize is a way to reduce execution risk – they will execute with a common vision in mind. In the absence of data and direct execution experience, well-told stories might be the only way to inspire action and ensure that all parts of an organization are on the same page.

Recently **Len Wolin**, a senior director of program management at **Ritz-Carlton**, was looking for ways to “bring a little something extra out of each hotel that would help to make the experience personal, unique, and memorable.” An IDEO team worked with his organization to create a set of ‘scenography’ workbooks meant to help each individual hotel create localized service experiences, such as a warm, personalized check-in process or a ‘big night in.’ These workbooks outlined the key elements of experience scenes using a series of photos that told an evocative story. The key was to communicate the principles driving the Ritz brand experience without prescribing the solution for individual hotels. Storytelling like this created broad corporate alignment and encouraged local creativity all at once, a wonderful formula for effective execution.

Getting started

No matter your context, a design thinking approach can help you

deal with risk in a more productive, generative manner. Here are seven ways to get started:

1. Cultivate an unreasonable obsession with desirability

As we mentioned earlier, beginning with real people and what they need and value is the most fundamental way to mitigate risk. Design thinkers look for evidence of human desire and needs via an unreasonable (by business-as-usual standards) obsession with ‘what is desirable.’

Why did the Mini become a best-seller for parent company **BMW** (financial success) as well as the iconic ‘hot-hatch’ of the 21st century (brand success)? If you look at the competition, it wasn’t the fastest option, nor was it the most reliable. But the Mini cornered the market on desirability on three counts. It’s ‘I’ve-seen-you-before-and-you’re-a-cute-rascal’ styling grabs us viscerally, it’s a hoot to drive, and masterful reflective design in the form of cheeky billboards and interactive magazine ads convinced our brains that we’d be better humans if we owned one. The Mini is the product of an unreasonable obsession with desirability. You can cultivate your own desirability chops by using these three experience elements from **Don Norman’s** book *Emotional Design* – visceral, behavioural and reflective – to analyze the offerings and services in your own life that make you happy.

2. Become more comfortable acting on your informed intuition

In a speech at Harvard, **Andy Grove** made an important point about the relationship between risk and intuition, saying “I think it is very important for you to do two things: act on your temporary conviction as if it was a real conviction; and when you realize that you are wrong, correct your course very quickly.” When faced with a risky decision, and lacking complete data which would only be available at some point in the future, a design thinker decides based on their informed intuition. Design thinkers use their informed intuition and personal evidence to reduce the likelihood that they embark on a journey of solving the wrong problem. Designers know that waiting for perfect data is often the riskiest move of all.

It’s not as hard as you think to begin to shape and form your own informed intuition. As you create something new to the world, simple conversations with lead and expert users might tell you more than what any detailed survey could tell you. When it does come time to begin looking for explanatory data, uniqueness may be more important than liking or purchase intent.

3. Prototype, prototype, prototype

We believe a key measure of the effectiveness of any innovation system is the time it takes to arrive at a first prototype. Be it **Paul MacCready** crashing and building and crashing his human-powered Gossamer aircraft in rapid succession, or the crew at **Pixar** creating incredibly-rough videos of movies like *Monsters, Inc.* months and years before the start of final production, quickly iterating prototypes is a signature way to mitigate risk by giving you ‘risk-killing’ information.

To put this into action, take that challenging project that has you worried right now and list five or six assumptions you have about potential solutions. Now build something that helps you test one of your assumptions. That something could be a physical model, a quick video showing what the human experience would feel like, or even a reverse income statement. Then walk next door (or to the next cube) and put it in front of your colleague (or your spouse or your mother). What did you learn? Repeat this process again and again.

A key metric: how long is it taking to get feedback on your Big Idea from another human being?

4. Think big, but start small(er)

Think big, but use constraints – such as schedule, headcount, and scope – to learn more about what it will take to execute your big-picture value proposition without spending big-picture amounts of energy, money and time. Designers love constraints because they give them a toehold, a place to get traction, even in the most slippery of ascents. Limiting the scope of your initial efforts (without losing sight of the vision you're heading toward) is an effective way to prove viability. And limiting scope makes it easier to prototype, which, in a virtuous cycle, accelerates feedback about which constraints to keep applying energy against. In the end, it's less risky to scale a viable proposition than it is to try and make viable an operation already at scale.

Design thinkers at **Turner Entertainment Group** in Atlanta have been thinking big but acting small in order to bring a disruptive business model to market. **David Rudolph**, a Turner development executive, challenged his team to create an in-market prototype of an Internet-based 'television' business to satisfy the rabid desire of **Atlantic Coast Conference** basketball fans to watch untelevised games. However, they had to do it for less than \$35,000 in fixed costs and \$1,200 per game. The result? Each of Turner's small experiments can be cashflow breakeven after only a few months of existence. Focusing only on business viability plus customer desire instead of on getting big was a risk; but it enabled Turner to learn a lot about their customers and their own business model.

5. Treat money as a positive constraint

Money is just another constraint, but it's such an important one that we had to give it its own billing. Money is the grease, yet paradoxically, having less of it can make things move faster and seems to also help brains think more clearly. **Jaime Lerner**, a renowned Brazilian architect, urban planner, and mayor of Curitiba, says that "creativity starts when you lose a zero from your budget." To boost usage of the Curitiba's public transit system, and without access to piles of money or time, Lerner created a lottery which used bus fare as lottery tickets.

Treating a lack of money as a positive constraint helps strip away the fatty financial insulation that success builds up. Leaner budgets are less risky because they make it harder not to act.

6. Make a list of the best things that could happen

Ross Mayfield, CEO of **Socialtext**, is a Silicon Valley entrepreneur with an interesting approach to formulating strategy. "As a planning exercise, I always try to ask two questions: 'How could we take more risk?' and 'What risk can we take that creates the greatest amount of options?'"

As we saw earlier, with Markus Diebel's 11-digit risk dial, people who employ design thinking know that amplifying risk is a way to create more evidence of what works and what doesn't. When Ross Mayfield thinks of ways to take more risk, he's actually reducing the long-term risk of his venture by uncovering the kinds of long-term business opportunities that are the lifeblood of a thriving organization. He creates real options, because this risk-embracing activity puts you in to the flow of opportunities he would not have known existed without thinking through risky scenarios.

7. Seek challenges

Organizations are but groups of people, and in our work at IDEO we see over and over a direct correlation between the design thinking abilities of individuals and the innovation quotient of the organization they belong to. It is hard for an organization to be pushing itself to the edge of its capabilities and learning if its people are not adept at living with risk.

The ideal situation for someone trying to be innovative is one that balances clear, achievable goals with just enough task challenge so that there's a real risk of failure – enough to light their fires of creativity. Design thinking is the methodology individuals can hang on to in order to navigate challenges and risk. As they do so, they will learn and grow, and in their personal growth is the wellspring of creativity and innovation to feed larger innovation efforts.

Embrace Risk and Reap the Rewards

In business as in life, we all seek to reduce and manage risk, but we also need to grow and innovate. The best way to achieve both is to embrace risk while also mitigating it.

At a personal level, design thinking is a life skill that gives us the tools to recognize risk and act in ways that mitigate it so that our dreams – big and small – can come true. For organizations, this approach provides a consistent and proven way to structure challenging innovation initiatives so that they become less risky. We can't all be designers, but we can use aspects of design thinking in our lives to embrace, amplify and mitigate risk in order to create lasting value for ourselves and our world. **R**



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