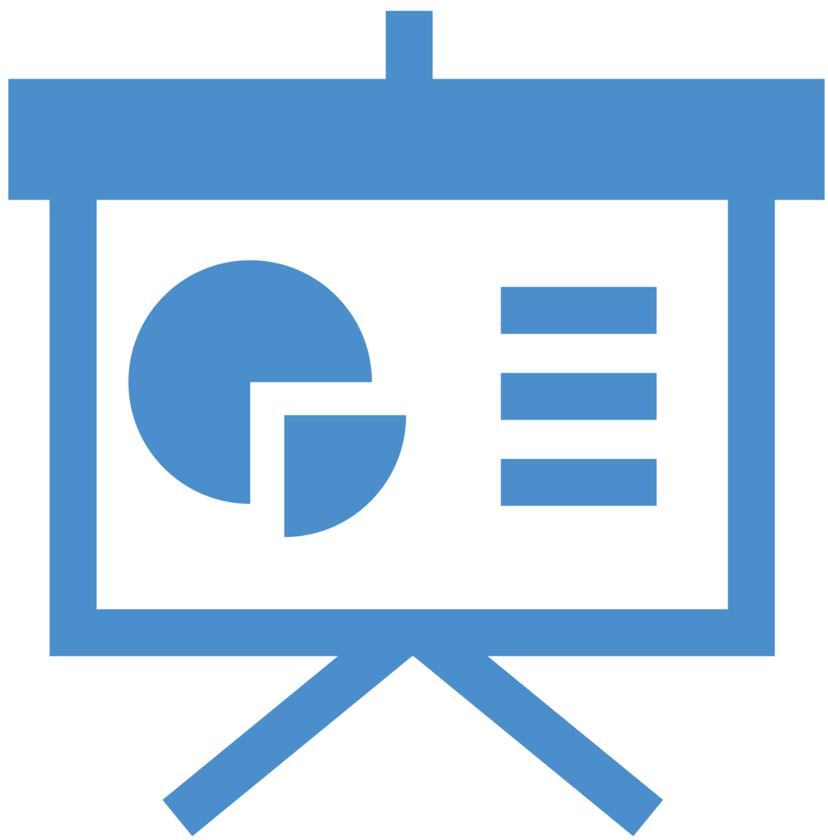
# Program-Building Tool

# Define a Smart Risk



# FACILITATION GUIDE

**SUGGESTED AUDIENCE:** Relevant for senior management.

**SET-UP:**

- This exercise can be done in groups of three to four.

**RECOMMENDED TIMING:**

| | |
|---|---|
| 1. Introduction: | 5 min. |
| 2. Review Best Practices: | 15 min. |
| 3. Group Discussion: | 15 min. |
| 4. Define Smart Risk: | 20 min. |
| 5. Group Discussion: | 20 min. |
| | **75 min.** |

**SUGGESTED MATERIALS:**

Worksheets
(enough for each participant, plus a few extra)

Whiteboard or flipcharts
(use them to write down all group ideas; no idea is a bad idea)

Colored markers, pens, and pencils
(separating ideas by color will help organize your thoughts)

Use this exercise to help senior management articulate specific boundaries around what defines an acceptable risk when it comes to innovation.

## HOW IT WORKS

1. **Designate Teams:** Divide the rooms into groups of three to four.
2. **Assign a Team Leader:** Ask each team to assign a "team leader" who will write the team's thoughts on the worksheet. It's best to have someone with the best handwriting as the team leader.
3. **Hand Out Worksheet:** Hand the worksheets to each team.
4. **Define the Challenge:** Explain that this exercise is to help define what a good or "smart" risk is for the organization. The purpose is to explore risk tolerance and boundaries, and it's unlikely the group will come to a consensus in such a short period of time. Aim for discussion, not necessarily resolution around your definition of risk.
5. **Step 1—Review Best Practices:** Ask teams to review the best practices provided. Facilitate a brief group discussion on their findings.
6. **Step 2—Define Smart Risks:** Ask teams to put a stake in the ground for how they would define smart risks. They'll think about smart risks across three different dimensions: time, investment, and people. They'll summarize their definition in the last part of the worksheet.
7. **Group Discussion:** Use some of these questions to facilitate the discussion:

   Step 1:

   1. Why are these listed as "smart risks"? What makes them smart risks?
   2. What do you see in common with these innovators?
   3. Do you see any differences? Why?

   Step 2:

   1. How did you define smart risks for our organization?
   2. What are the stupid risks we currently take? Why?
   3. Are there other factors that are not covered in this exercise? What are they?
   4. What do we need to do to make these smart risks a policy in our organization?

## Program-Building Tool

Define a Smart Risk

By defining our organization's appetite for risk, we set the boundaries of comfort for management and offer innovation teams the opportunity to experiment within a framework. This exercise is designed to start you thinking about how our organization can take smart risks.

### Step 1: Review Best Practices

Take a look at how some leading innovators take smart risks in their unique ways. What do you see in common? What can you apply in our organization?

#### GOOGLE

**Experiment, but don't distract.**
Employees are encouraged to spend 20 percent of their time on pet projects called "Googlettes." This encourages experimentation but doesn't take employees away from their day jobs.

**Small teams, small timelines.**
Teams are deliberately kept small and have quick deadlines. Three to four engineers work in a team, and have lifelines of three to four months. If the idea they're working on doesn't prove to have legs in that timeframe, teams are disbanded. Teams are expanded only if ideas have demonstrable potential.

**Defining "good failures."**
Google defines good failures as those that fail fast and those that help the team understand why they've failed so they can apply learnings to the next project.

#### AMERICAN CANCER SOCIETY

**Fund as needed.**
The ACS funds its innovation projects in phases. Ideas receive an initial $2,000 for a quick exploration and if it shows potential, it receives another $25,000 to test feasibility.

**Set timelines.**
Innovators are given 18 months to prove the viability of their ideas.

**Total ownership for faster decision-making.**
The ACS empowers individual innovators to speed up decisions. They're in charge of seeing their ideas through and are not encumbered by traditional approval systems. This makes them resourceful and accountable.

## Step 1: Review Best Practices *(continued)*

Take a look at how some leading innovators take smart risks in their unique ways. What do you see in common? What can you apply in our organization?

### AMAZON

**Focus on speed.**
Jeff Bezos' mantra on innovation is, "Maximize invention per unit of time."

**Two pizza teams.**
Innovation projects are conducted by small teams that Bezos calls "Two-pizza teams." Teams are no larger than six to seven people to maximize productivity.

**Low investments, rapid prototyping.**
Teams are encouraged to make lightweight investments and do quick build-and-development cycles. They're freed from many constraints and offered a high-change environment.

**Track and measure.**
Bezos relies on close tracking wherever possible to ensure that ideas have potential. Teams are asked to develop metrics that help to quickly measure the success of their ideas.

### BANK OF AMERICA

**Prototyping services.**
Bank of America created an "Innovation Market" within its branch network consisting of 25 branches where they conducted prototyping and concept trials. Teams worked closely with branch managers to set up product trials, quickly refine features, and make rapid decisions.

**Setting an accepted failure rate.**
Senior management at Bank of America knew that innovative ideas would inevitably produce failures. They set an idea-failure rate of 30 percent. This would not only encourage experimentation, but ensures that risks also fall within acceptable limits for management. Remember, a failure rate of 30 percent implies a success rate of 70 percent.

### 3M

**Assigned time for pet projects.**
Employees at 3M are told that 15 percent of their time can be spent on any project they like—called "dabble time." Managers are sometimes given more. This gives employees the freedom to come up with new ideas, but it also means that they have to spend 85 percent of their time on their day jobs.

**Failure forums.**
3M holds formalized meetings called "Failure Forums," where teams who have failed at a project talk to others about how and why they failed.

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### Step 2: Define Smart Risks for Our Organization

For each of the dimensions of risk listed below (time, investment, and people), think about what boundaries are right for our organization. Use the "think-about" columns to help your team define how much risk you are willing to take.

**Think About:**

> How much time have we allowed in the past for teams to develop projects without showing results? How can we improve upon it?

> How much time can we offer innovation teams before we fund further or stop the project?

> What milestones should we set for project teams to ensure we're frequently checking progress without getting in the way?

> How many levels of approval do we require on a traditional project to green-light it? How can we reduce it for an innovation initiative without putting the company at risk?

**Time (days, weeks, months, quarters)**

**Think About:**

> How should we distribute our innovation budget? Per team? Per project? Per division?

> What's the least amount of money we can give a team to start off a project?

> Can we offer teams an initial pot of money (and give them the freedom to use it) before they come back for more?

> What's the most amount of money we can afford to spend on a new project before we say no?

**Investment ($)**

## Step 2: Define Smart Risks For Our Organization *(continued)*

For each of the dimensions of risk listed below (time, investment, and people), you'll think about what boundaries are right for your organization. Use the "think-about" column to help your team define how much risk you are willing to take.

**Think About:**

- > What is the average size of project teams in our company? Can we reduce it for an innovation project?
- > How much time can a team spend on an innovation project without it affecting their day jobs? (Per day/week/month/etc.)
- > What's the smallest number of people we can put on an innovation project team so they can be autonomous?
- > If we could dedicate people to an innovation project on a full-time basis, how many can we afford to use without impacting our daily operations?

**People (Number of People and Who)**

**DEFINITION OF SMART RISK:**

1. TIME

2. INVESTMENT

3. PEOPLE