



Stanford eCorner

Entrepreneurs Take Intelligent Risks

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February 22, 2012

Video URL: <http://ecorner.stanford.edu/videos/2907/Entrepreneurs-Take-Intelligent-Risks>

Entrepreneur and investor Reid Hoffman articulates why individuals and companies who do not take intelligent risks will eventually marginalize themselves over time. Hoffman also describes the importance of holding and testing contrarian views.



Transcript

Risk is real and sometimes you fail with risk. And taking risk is essential because if you not taking risks in order to make it competitive different - make yourself competitively different to potentially have breakout success and to be learning and adapting to the changing game around you, then by playing it totally safe, you essentially marginalize yourself over time which is one of the things you can see happening with large businesses that don't take risks, right, as a function of that. And so the question is risks are not just kind of like oh, jumping with the unknown, do anything, right. There is different kinds of risks and part of what is to do, is to figure out what risks are intelligent risks? Which risks have manageable downside, which risks have potential for upside, which ones you can get a sense of early and its not fatal, these sorts of things are part of taking intelligent risks. And the whole point of taking risk is, so for example classic good like 1950s investment dictum is buy low so high. Well, how do you buy low sell high whether it's in your career or stock market etcetera. Well, the way you do that is you have a contrarian viewpoint that happens to you right because if everyone thought oh, that's what you should buy, well then of course it's impossible to buy low, right, because everyone also doing it. So part of taking that risk is figuring out essentially, how do you see something that other people don't see and then test it in terms of what you're doing. And there is all of kinds of ways to try to figure out how to minimize the kind of the what is scary about risk. You can for example figure out well, if there is some way I can test doing this, there is things about like talk to other smart people, get a sense of feel of what it is to essentially kind of go, okay, what's - one of the frameworks we have which is called ABZ planning, well the Z plan is all right when I know this is doing bad how do I reset to doing another plan and this kind of risk taking of deliberately going what kind of risks can I take that establishes something that's different, potentially breakout, is one of the things that entrepreneurs do all the time.

They do all the time in their company is because they essentially - if they don't have something substantial competitive differentiation, the market is occupied. So you have to take the risk in going somewhere.