EＬＧ EXECUTIVE LEADERSHIP GROUP, INC.

ACCELERATING STRATEGY EXECUTION

Get free blog updates for leadership ideas you can use. **SUBSCRIBE**

When Failure Leads to Innovation
(And When It Doesn't)

William Casey, Ph.D.
President, Executive Leadership Group, Inc.

Wendi Peck
CEO, Executive Leadership Group, Inc.

April 2012

Success requires experimentation, and successful experimentation requires an eagerness to learn from failure. The entrepreneur's challenge can be summed up as ensuring that the *learn rate* exceeds the *burn rate*: those who don't learn fast enough go under.

"Instructive" Versus "Terminal" Failure

Early on, Hewlett Packard exploited the power of instructive failure. According to Peter Sims, "Hewlett Packard cofounder Bill Hewlett said HP needed to make 100 small bets on products to identify six that could be breakthroughs. So, little bets are for learning about problems and opportunities while big bets are for capitalizing upon them once they've been identified." These "small bets" are what we'd call experiments: *exposure to non-fatal failure that can teach you something.*

On the other hand, Circuit City was an electronics store chain that failed terminally because they didn't have enough instructive failures. After leading the industry in the 1980s and 1990s, the company became complacent and stopped experimenting, according to an article by Anita Hamilton in *Time Magazine*. It missed the boat on the gaming market, didn't take advantage of in-store promotions from companies like Apple, and failed to improve its internet sales, leaving room for the its more innovative rival Best Buy to take the lead. By the time Circuit City tried to pull out of its nosedive, the failure had become terminal.

Deliberate, inquisitive exposure to failure is an experiment. And a clever experiment is like a clever investment: your downside (risk) is manageable, and your upside (lesson) is spectacular. Of course, there *is* a time to bet the farm, but that's after you've learned which farm to bet on.

Dumb Failure

What's the difference between failure that's experimentation and failure that just failure? Maybe this: if you make a non-fatal mistake *and* learn from it, then it was "experimentation." But if you make a mistake and *deflect any lessons,* then it was simply a failure. Lessons learned lead to innovation; lessons flunked, as in school, tend to be repeated.
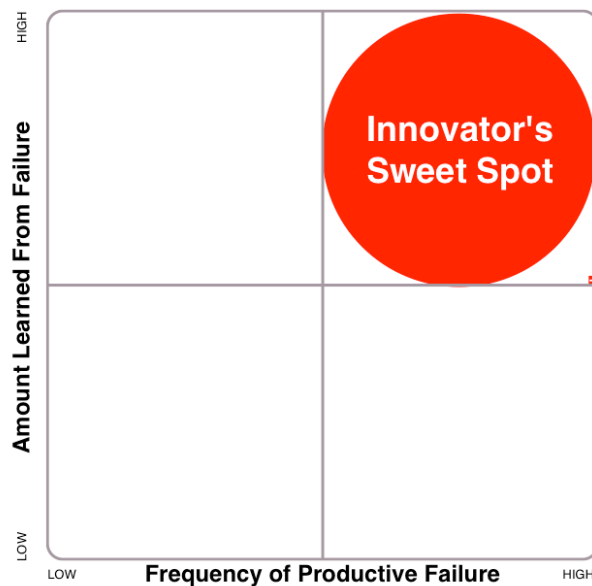
Here are some ways to flunk at failing:

- *Finger pointing.* When the question is, "Who screwed up?" instead of "What did we learn?" then the only thing anybody learns is how to duck and cover.

- *Reasons, stories, and excuses.* When an organization's lousy results allegedly stem from "the poor economy," or "difficulty finding talent," or "tough competition," then nothing is learned or even speculated about what the organization can do better. Part of Warren Buffet's initial fame stemmed from his annual reports in which he gave blunt assessments of what he and Berkshire Hathaway could have done better. It showed shareholders that lessons were not wasted on him.

- *Unclear success.* Like a scientist with an un-testable hypothesis, a leader with an unclear goal can spend a lot of time and money without learning much. For example, when any given organization consolidates two departments to "capture synergies," what does "synergies" mean? Lower costs? Faster product development? Quicker response? What? Without a clear goal, you don't even know when you've failed.

- *Activity-based success.* Of course, you can be clear about your success, but define it as an activity rather than as a result. In which case, failure and learning are equally unlikely. Again, no hypothesis is tested. For example, government officials often declare success after they've added programs or increased spending. Costs go up, but learning stays flat.

All these problems function as organizational *learning disabilities:* dysfunctions that block learning and therefore block innovation.

Smart Failure

Failure is inevitable, but you can choose whether it's instructive or terminal. Henry Ford said that failure is the opportunity to begin again, more intelligently. But many of us begin again with no increase in intelligence. Or, we don't get smarter because we won't risk failure in the first place.

HIGH

Amount Learned From Failure

Innovator's Sweet Spot

LOW

LOW   **Frequency of Productive Failure**   HIGH

On their quest for "smart failure," innovators need to focus on two dimensions:

1) Increase the rate of non-fatal failure with small, fast steps. In his pre-political days, New York Mayor Michael Bloomberg founded a vast business media empire, Bloomberg L.P. When asked how his corporation managed to complete such large information technology projects, he replied that they were successful precisely because they did not undertake large projects; they undertook lots of little projects. It's better to get your grand plans 60% right and then start an execution cycle of rapid, small steps that makes you smarter, faster – adjusting and refining the plan along the way. Design firm IDEO expresses this approach in their company slogan, "Fail often in order to succeed earlier."

2) Increase the amount learned from failure. When an employee takes an educated whack at a problem, and the problem remains unsolved, that employee and her boss are at a crossroads. One path is to deflect responsibility – i.e., she had no choice, it didn't happen, or it was someone else's fault. The other, better path is to pick the bone clean, with the employee learning every possible lesson from the tuition paid. Better yet, the lesson gets spread and *learning is celebrated* so that everyone in the team, department, or organization goes to school on one person's tuition.

Precise Advice for Innovative Leaders

Leaders can improve their organizations' performance on both dimensions – frequency of productive failure and amount learned per failure – with some reasonably simple straightforward techniques. Here are a few to consider.

- **Make *learning* – rather than *performing* – the first task.** Good management consultants always enter uncharted waters with a "discovery phase" of the project before the "performance phase."

And goal researchers have found that performance improves on difficult tasks if your initial aim is simply to learn how to perform the task. You have to learn what you need to do before you try to do it.

- **Nix any project that does not sharply define its intended outcome.** Without a crystal clear target, too much after-the-fact rationalization creeps in and then *everything* is an alleged success and nobody learns anything. You may not know the path to your destination, but your destination should be crystal clear. So, for example, next time someone wants to re-organize a department, ask him exactly what outcomes he'd like to produce, what side-effects he'd like to avoid, and how he'll know if he's been successful. Press hard for precision and measurable results.

- **Watch your language.** Call innovation projects "experiments," or "learning pilots." Make it clear from the onset that the point is to figure out what works; or at the very least, figure out what doesn't work. You can't just give people "permission to fail and learn." That permission has to permeate your language.

- **Limit Your Losses.** Target initial efforts that won't kill you if they fail. For example, if you have a theory that putting a design team and an engineering team under one boss will produce more marketable products, then try one project that does just that. Don't change the whole organization until you've lowered your risks by upping your knowledge. Think: "fast, small, and low risk."

- **Banish happy talk.** Demonstrate that you are looking for truth, not Prozac. And don't punish the truth-tellers. When Alan Mulally took over as Ford's president and CEO in 2006 he apparently got fed up with the deflected lessons that dodged both learning and accountability. As *Economist* tells the story: "He asked managers to color-code their progress reports – ranging from green for good to red for troubled. At one early meeting he expressed astonishment at being confronted by a sea of green, even though the company had lost several billion dollars in the previous year. Ford's recovery began only when he got his managers to admit that things weren't entirely green."

- **Embrace DISproof before you embrace proof.** Rather than tasking your team to prove that an idea works, task them to disprove it instead. For example, if a vendor you love has a new

"solution," find where it fails instead of looking for evidence that it works. Scientific philosopher Karl Popper taught us that we get much smarter by trying to disconfirm our theories than by looking for cases where we are right. The point of experimentation is to get smarter, not to be right.

- **Make "Aha!" and "Doh!" part of every progress brief.** While you look to your subordinates for results, also look to them for learning. When people brief the boss (that's you), they need to know that part of the way to get an "A" is to share discoveries. If all you get is happy talk, then prod them: "Surely not everything has gone well; what have you learned from the glitches?" Assume glitches and applaud learning.

- **Make "lessons learned" into "lessons applied."** Require that plans for new initiatives *demonstrate* how they are incorporating past learning. One of us (Wendi) did that with project managers whose "lessons learned" exercise had become a useless bureaucratic task. When "lessons learned" become "lessons applied," it leads to consistently smarter, more innovative projects.

Rapid, ongoing innovation demands that leaders treat intellectual capital like any other capital: accumulate it, nurture it, and use it. Requisite to that game is the organizational capability for frequent, productive failure. And that kind of smart failure requires smart leadership.

References:

Hamilton, A. (2008, November). Why circuit city busted, why best buy boomed. *Time.com*. Retrieved from:

http://www.time.com/time/business/article/0,8599,1858079,00.html

in text citation to highlight: (Hamilton, 2008)

Karl Popper. (2012, March). Retrieved from
http://en.wikipedia.org/wiki/Karl_popper

in text citation to highlight: ("Karl popper," 2012)

Schumpter (2011, April 14). Fail often, fail well. *Economist.com*. Retrieved from: http://www.economist.com/node/18557776

in text citation to highlight: (Schumpter, 2011)

Sims, P. (2012). Q&A with Peter. *Petersims.com*

Retrieved from http://petersims.com/book/qa-with-peter/

in text citation to highlight: (Sims, 2012)

Let us know *if you would like to be on the distribution list of occasional blog posts, point papers, and white papers such as this one. Just sign up at http://bit.ly/ELGsignup or send a note to bill.casey@elg.net.*

Executive Leadership Group, Inc. *is a 25-year-old management education and consulting firm located in Lakewood, Colorado. ELG is dedicated to helping leaders focus and align their organizations for predictable and agile strategy execution.*

EXECUTIVE LEADERSHIP GROUP, INC.

ACCELERATING STRATEGY EXECUTION