EXPERIMENTATION

Increase Your Return on Failure

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One of the most important—and most deeply entrenched—reasons why established companies struggle to grow is fear of failure. Indeed, in a 2015 Boston Consulting Group survey, 31% of respondents identified a risk-averse culture as a key obstacle to innovation.

Senior executives are highly aware of this problem. On one hand, they recognize the usefulness of failure. As 3M's legendary chairman William McKnight once said, "The best and hardest work is done in the spirit of adventure and challenge…Mistakes will be made." Pixar's president, Ed Catmull, has a similar point of view. "Mistakes aren't a necessary evil," he has said. "They aren't evil at all. They are an inevitable consequence of doing something new.…and should be seen as valuable."

On the other hand, management processes for budgeting, resource allocation, and risk control are built on predictability and efficiency, and executives get promoted by showing they're in control. So even if people understand that they can and *should* fail, they do everything possible to avoid it.

But there's a way to resolve this conundrum: Rigorously extract value from failure, so you can measure—and improve—your return on it, boosting benefits while controlling costs.

In a return on failure ratio, the denominator is the resources you've invested in the activity. One way to raise your return is by reducing this number—by keeping your investments low. Or you can deliberately sequence them, starting with small amounts, until major uncertainties have been resolved. The numerator is the "assets" you gain from the experience, including information you gather about customers and markets, yourself and your team, and your operations. Increasing these is the other way to boost your return.

In the 10-plus years we've spent researching team and organizational dynamics and working with more than 50 companies across a dozen industries, we've found that when people adopt the right mindset, they can increase this ratio—not just by minimizing the downsides of projects but also by maximizing the upsides. Some failures provide immediate value in the form of market insights that can be capitalized on. Others provide broader lessons that lead to significant personal or organizational development.

There are three steps you can take to raise your organization's return: First, study individual projects that did not pan out and gather as many insights as possible from them. Second, crystallize those insights and spread them across the organization. Third, do a corporate-level survey to make sure that your overall approach to failure is yielding all the benefits it should.

Step 1: Learn from Every Failure

Begin by getting people to reflect on projects or initiatives that disappointed. Of course, this doesn't come naturally: Reviewing past problems isn't just tedious; it's painful. Most of us would prefer to invest our time looking forward, not back. To help people answer the right questions, we've developed an exercise that categorizes all the sources of value that might accrue from a failed project and all the costs. Though we've just begun to test it in organizations, so far it's yielding promising results.

Assessing a Project's Return on Failure

Even when initiatives flop, they can still provide tremendous value to your organization—if you examine them carefully and capture the critical lessons. Use our Project Review Worksheet to get a complete picture of the benefits and costs of your failed project.

Download the Project Review Worksheet

When something doesn't go as planned, it's an opportunity to challenge your default beliefs and adjust accordingly. We recommend spelling out what the project has taught you about each of these things: customers and market dynamics; your organization's strategy, culture, and processes; yourself and your team; and future trends. These insights, of course, are the assets. Our exercise also has you compile a list of the associated liabilities—the project's direct costs in time and money, any external costs (reputation, for example), and any internal indirect costs (such as excessive consumption of management attention).

Consider how this approach played out at a daily newspaper in the UK. A few years ago the CEO asked one of his brightest young editors to work with colleagues from marketing, design, and technology to prototype a new tabloid format and test it with customers. The experiment led to two important realizations: First, despite what people said in market research studies, they preferred traditional broadsheets or digital alternatives. Second, the small cross-functional team was a highly effective way to develop new editorial products. But perhaps the biggest lesson was a personal one. Because the young editor in charge of the project felt he had failed, he took a job elsewhere. Though the CEO might have chalked this up only in the liability category, he turned it into an asset by recognizing where he had made a critical misstep and growing from it. The young editor "thought he was developing a pilot, where success is about making it work," the CEO told us. "But for me it was an experiment, where success is about confirming or refuting a hypothesis. I should have been much more explicit with him." The CEO publicly took full blame for the departure and committed to communicating more clearly and encouraging a culture of experimentation going forward.

A second example comes from an elite consulting firm that lost a juicy new government contract to a much less prestigious competitor. This was a big and unexpected blow. But through a painstaking review, including an hour-long discussion in an executive committee meeting, the team members involved increased their return on this failure. They realized that the government's selection criteria were subtly different from what they had expected and that their competitor had been far more savvy in understanding what was needed and working with officials to position its bid. As the discussion progressed, deeper insights began to surface. The team had misjudged the criteria because they'd been complacent, making assumptions instead of investing time in finding out what the government wanted. And the firm hadn't even put its best people on the job, assuming its brand would be enough. "The truth is, we didn't take the whole process nearly as seriously as our competitor did, and we got burnt," one executive commented. In other words, the real value of the failure was learning that the firm needed to dramatically change how it responded to opportunities.

We've found that when you encourage people to talk about projects in this way, the resulting conversation is illuminating. It forces them to think about everything they've learned, how that might help them move forward, and all the positive side effects gleaned from the experience.

Step 2: Share the Lessons

While it's useful to reflect on individual failures, the real payoff comes when you spread the lessons across the organization. As one executive commented, "You need to build a review cycle where this is fed into a broader conversation." When the information, ideas, and opportunities for improvement gained from an unsuccessful project in one business area are passed on to another, their benefits are magnified.

Shared learning also increases the likelihood of future initiatives. “The biggest mistake you can make as a leader is to shoot the messenger and bury the bad news,” one executive noted. By reflecting on the positives, you build trust and goodwill and clear the pathway for others to take action on riskier ideas.

We recommend bringing senior leaders (across a unit or the whole organization) together on a regular basis to talk about their respective failures. These reviews work best when they are *fast* and to the point; take place *frequently*, through good times and bad; and are *forward-looking,* with an emphasis on learning. We call them Triple F reviews.

When Kal Patel was brought in as head of Best Buy’s Asian operations, in 2009, he implemented this approach. The company had acquired a Chinese retail chain, Five Star, a few years earlier, and it was performing well. But the Best Buy branded stores were struggling. Patel pushed the store managers to make a lot of changes—new layouts, ways of working with suppliers, and pricing models—and instituted weekly unit meetings. “On Friday mornings, we’d have a review: What did you set out to learn? What did you learn? What is it costing you? Bang, five to 10 minutes, move on to the next team.” Ultimately, he recommended closing down all the Best Buys in China. But because he was also overseeing the Five Star chain, he was able to transfer a lot of the insights gleaned to that operation and retain most

Experimenting with Failure Reviews at Roche

Pharmaceutical companies operate in a high-stakes environment where the rewards for successful innovation are huge, but the vast majority of drug discovery projects fail. As a leading player in the industry, Roche is always on the lookout for ways of working that will help it get the right balance between risk taking and caution.

To capture the benefits of experimentation, a cross-business team at Roche launched an initiative in 2015 implementing individual project-failure reviews. They identified 10 teams (of six to 15 people) working in different parts of the company and asked the leader of each to conduct a three-month pilot.

In kickoff meetings, groups were reminded of the importance of learning from failure and then asked to discuss a recent failed project. At two to four more follow-up meetings, team members were encouraged to share more examples of their own failures.

Participants embraced the process tentatively. As one team leader explained, "In the first meeting some people were very guarded, but the second worked much better and went on longer than planned." But another leader said that as the pilot progressed, he was "surprised by how candid people were with each other."

The reviews helped many participants recognize the personal growth they'd derived from failures. One manager described a project that had been derailed because she pushed it too far along without buy-in from other internal stakeholders. Another talked about being so focused on hitting his numbers in a new leadership role that he failed to pick up on problems that members of his team were having. Both learned from those incidents and changed their tactics accordingly.

Other participants noted new insights about their customers or markets. One team realized it had lost a major sale because it was so focused on its own agenda that it wasn't listening to or employees, and he also conveyed what he'd learned to other members of the leadership team.

Another example comes from a dairy food manufacturer. A review of a failed technology project revealed that although problems had surfaced two months in, it took the investment committee four more months to pull the plug. When the team leader pointed this out to his colleagues and bosses, there was momentum for a faster-cycle review process to ensure that failing projects would be killed more quickly in the future.

We have even seen some organizations create formal structures for sharing lessons from failures with all employees. At Engineers Without Borders International, a not-for-profit that strives to improve the quality of life in disadvantaged communities worldwide, executives were so frustrated with the limited knowledge transfer among their various affiliates that they launched an annual "failure report" that publicized, for all to see, the projects that were the biggest flops.

Informal approaches work too, however. The key is to capture relevant lessons with sayings or stories that catch on beyond the addressing its customer's questions. In another case, the failure happened because a team hadn't discerned who the real decision maker in the client organization was. Their main contact appeared to be in charge of the bid and gave them information, but he was not that influential. Those discussions helped Roche improve how it managed key relationships.

Another general benefit was team building. "It was a great opportunity to help my newly formed team work more collectively," said one leader. Another agreed: "The process helped us diffuse some tensions in the group."

Suggestions for improvement to the process also surfaced. For instance, one team leader suggested steering the discussion toward specific and recent projects to ensure that the recommendations generated were immediately relevant. "Some people protected themselves a bit, talking about things that happened a couple of years ago, which is fine if you want to improve the team's sharing culture, but the market-based insights are more limited," she noted.

But all the team leaders agreed that structured, semiformal failure reviews were useful. As one put it: "It doesn't come naturally to share failures, and you have to give people time, so you cannot

project's immediate circle and eventually become corporate folklore. At the UK newspaper, the CEO's distinction between pilot and experiment was repeated around the company. At the elite consulting firm, the tale of the lost bid became a shorthand way to remind colleagues to check their arrogance. At Coca-Cola, stories about the failure of New Coke are still told 30 years on.

Step 3: Review Your Pattern of Failure

The third step is to take a bird's-eye view of the organization and ask whether your overall approach to failure is working. Are you learning from every unsuccessful endeavor? Are you sharing those lessons across the organization? And are they helping you improve your strategy and execution?

Venture capital firms are very disciplined about examining their review process in this way. At Hoxton Ventures, for instance, partners sit down for half a day every quarter and go over the businesses they've invested in, asking if they've gotten something fundamentally wrong and looking for patterns. "It's easy to be swayed by one big success or failure," says partner Hussein Kanji, "so we push ourselves to do this systematically." At the 2008 Future of really do this as part of the regular rhythm of meetings. You need to create the space for it to happen, to put it on the calendar."

Management conference, Silicon Valley investor Steve Jurvetson observed, "You have to strive for a process of decision making that over a large number of decisions gives good outcomes. It's not 'Are we making good decisions?' but 'Do we have a process for making decisions that is statistically working?'"

These discussions should help you determine whether your failure rate is too high, too low, or just right. Sometimes you'll find you need to tighten up your systems. Consider a mining company we worked closely with. In the early 2000s it was obsessive about its post-investment review process. Projects that did not yield a positive return were analyzed carefully and then analyzed again. But during the resource industry boom of the mid-2000s, the company got overconfident, and enthusiasm for these reviews faded. They still happened, but inconsistently. The company subsequently made two spectacularly bad acquisitions, leading to a massive write-down and a change in leadership. The new CEO, unsurprisingly, came in with a "back to basics" mandate, including a return to the old post-investment review process.

In other cases a corporate-level review will show that you need to nudge your people toward greater openness to failure. We've seen several firms create awards celebrating failure: New York agency Grey has a Heroic Failure award; NASA has a Lean Forward, Fail Smart award; and the Tata Group has a Dare to Try award, which had 240 submissions in 2013. "We want people to be bold and to not be afraid to fail," Sunil Sinha, the head of Tata Quality Management Services, told *Bloomberg Businessweek* in 2009.

Failure is less painful when you extract the maximum value from it. If you learn from each mistake, large and small, share those lessons, and periodically check that these processes are helping your organization move more efficiently in the right direction, your return on failure will skyrocket.

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