Controlled Failure

Idea In Short

A 2015 study published by the Journal of Financial and Quantitative Analysis suggests that more than 50% of companies won't survive to age 16. The the highest corporate mortality occurs in the 4^{th} year.

Many companies want to move fast, want to innovate, challenge and lead. Yet, they stagnate, fumble and fail. To a large extent, incumbents are overly risk averse and spend enormous amounts of time trying to avoid failure. They focus on reducing risk and minimising cost. In doing so, they miss out on invaluable opportunities that would set them up for future marketplace success. Meanwhile, new risks and greater challenges emerge. Instead, they should experiment and fail fast. A.G. Lafley, ex-CEO of Procter & Gamble (P&G), proclaimed:

> we learn much more from failure than we do from success.

In literature

In the book Art and Fear, the artists Ted Orland and David Waylon share a story about a ceramics teacher who tried an experiment with his class1.

> The teacher divided the students into two groups. Those sitting on the left side of the studio were to be graded solely on the quantity of their work, while those on the right, solely on the quality. The instructor informed the students in the quantity group that a simple rule would be applied to evaluate their grades: those who produced fifty pounds of pots would get an A, those who produced forty pounds a B, and so on. For the quality group, the instructor told the students that he would assign a course grade based on the single best piece produced over the duration of the course. So if a student created a first-rate pot on day one of the course and did

nothing else for the term, he would still get an A. When the end of the quarter arrived and it came to grading time, the instructor made an interesting discovery: the students who created the best work, as judged by technical and artistic sophistication, were the quantity group. While they were busy producing pot after pot, they were experimenting, becoming more adept at working with the clay, and learning from the mistakes on each progressive piece. In contrast, the students in the quality group carefully planned out each pot and tried to produce refined, flawless work, and so they only worked on a few pieces over the length of the course. Because of their limited practice, they showed little improvement.

Controlled failure

There are degrees of failure. For a business, the worst case is bankruptcy. In a consulting engagement, worst failure is completing the project late with cost overruns, only to discover that the findings and recommendations are unusable, unwanted and unneeded. Though success cannot be guaranteed in any enterprise, simulating failure is relatively easy. The key point is to embrace small failures and leverage them as learning opportunities. If you do so early and often, you'll avoid catastrophic failures later.

Case Microsoft

Windows didn't catch on until version 3.0. Microsoft knew that it needed customer feedback and support from hardware vendors to make Windows a success. It needed to get software into customer hands early, even though incomplete. Microsoft accepted small failures in exchange for long term success.

Case Apple

Apple followed the same process evolved with iPhone. The first iPhone couldn't multitask and didn't even have copy and paste function. Apple knew it would be criticized and the issues need to be fixed. But, it also knew that first mover advantage was more important than perfection.

Recommendation

Eric Ries, the author of The Lean Startup, calls this achieving failure2:

> We spend a lot of time planning. We even make contingency plans for what to do if the main plan goes wrong. But what if the plan goes right, and we still fail? This is the my most dreaded kind of failure, because it tricks you into thinking that you're in control and that you're succeeding.

In summary, successful companies seek out controlled failures. They do enough planning to understand what's really important. They prioritise activities and deliver fast — even at the risk of small failures. The key aspect of controlled failure is the word Controlled:

- The failure should not be material or lead to significant loss
- You should be in a position to control, if required, reverse the situation

Failures are good on long run if you learn the lesson out of it. A controlled failure will help to learn the lesson. Controlled failures are important tool in management.

Summary

Regardless of their previous successes, companies that fail to experiment, fail, and embrace change will be swept away. Learning from successes will systematically prejudice results and long-term thinking. Only by studying failure and learning from them can preempt similar failures and gain the knowledge to set up the organisation for future success.