Reprinted by permission from
The CEO Advantage Journal,
a publication of CEO Advisors, LLC.
Visit www.tcajournal.com.

Lago di Como Reflections (Phil Fisher)

There is much to be learned in the study of success, but executives cannot afford to ignore the lessons of failure.

By Troy Schrock

Failure, *a Great Teacher*

MICHAEL JORDAN, LANCE ARMSTRONG, Tiger Woods. New York Yankees, New England Patriots, Detroit Red Wings. Southwest Airlines, Walmart, Apple. Bill Gates, Warren Buffet, Jack Welch.

We are obsessed with success. In sports, entertainment, business, government, individual feats, group accomplishments…whatever the genre, we find, highlight, profile, study, and promote the success story. In a profound way, we relate to success. It awakens within us a sense of, "Hey, I could do that!" At that moment, it doesn't matter if we ever do. We get fired up to participate vicariously through the successes of others. That is why sports fans, for instance, talk about their favorite team in the first person.

We especially love the stories of those who have pulled themselves up by their bootstraps – people who were seemingly little before they made it big. The rags-to-riches theme is common in our movies. The "defy all odds" script characterizes our national heroes and the legends they spawn. Put simply, America loves a winner. It encourages us. It inspires us. It drives us.

The same goes for business. Books about business and leadership success routinely top the bestseller lists, and in the last few decades, many authors have risen to meet that demand (see list on next page). Each study tries to identify more obscure successful organizations and attempts to develop yet another framework of "essential" principles for success. Each time, eager business leaders and entrepreneurs gobble them up.

I am not surprised that the bookshelves of the last 30 years have been crowded with success stories. It has been one of the greatest periods of business building and wealth creation in the history of the United States and the world. We have also enjoyed a sustained period of peace in industrialized nations. It has felt good, and studies on business success allow us to bask in the good vibes. Surrounded by success, we naturally focus on it.

I am also not surprised that this mood has changed in the wake of the 2008-2009 financial meltdown and economic recession. Suddenly, people are buying books on failure. Organizations are struggling financially, customer patterns are changing drastically, and the regulatory environment is more volatile than ever. Executives realize they don't have it all figured out. All the levers they knew to pull are no longer working. Thus, they are newly interested in the factors of failure. Even Jim Collins, the *Good to Great* guru, has released a book called *How the Mighty Fall.* It's a trend that will probably continue for some time.

Business leaders are accustomed to studying the possibility of failure, but they are much less comfortable studying the reality of failure after it happens.

This is good. We know that we learn from our mistakes and the mistakes of others, but until now, how many of us have habitually studied failure – particularly our own – to glean its lessons? Probably not many. When we fail, the conventional wisdom is to "move on" and "not dwell on the past." Yet, the study of failure may be the most fertile ground for productive improvement leading to sustained excellence. All entrepreneurs and business executives should give it serious attention.

Business leaders already understand risk, and the successful ones embrace it. Failure is inherent in risk, so business leaders are accustomed to studying the *possibility* of failure on the front end of a decision, but they are much less comfortable studying the *reality* of failure after it happens. The effective executive needs a balanced approach. In this article, I hope to prompt leaders to study failure, and I will offer some general guidelines on how to do it.

To begin, we must first understand how faulty we can be in our attribution of either success or failure.

FAULTY ATTRIBUTION

> *"When a company is doing well, with rising sales, high profits, and a surging stock price, observers naturally infer that it has a smart strategy, a visionary leader, motivated employees, excellent customer orientation, a vibrant culture, and so on. When that same company suffers a decline—when sales fall and profits shrink—many people are quick to conclude that the company's strategy went wrong, its people became complacent, it neglected its customers, its culture became stodgy, and more. In fact, these things may not have changed much, if at all. Rather, company performance creates an overall impression that shapes how we perceive its strategy, leaders, employees, culture, and other elements."*
>
> PHIL ROSENZWEIG[1]

We tend to go overboard with our diagnosis of the factors that lead to success or failure, and thus, we get it wrong. If a company does well, we think they do everything well. If they struggle, we assume there is room for improvement in everything. For a simple example, Jerker Denrell at Stanford University notes that persistence will always be noted as a factor in success.[2] However, when an initiative fails, persistence will probably not be acknowledged even if it played a role in the failure (i.e., stubbornness, resistance to necessary change). The reason is that we think of persistence as a positive trait, so we are not inclined to look for it in an unsuccessful endeavor.

This is important for executives to understand. The first step in diagnosing the root cause of an outcome is to get beyond the apparent, and that is tougher than it sounds. End results quickly construct the lens through which we interpret reality, and we oversimplify factors that are complex and intertwined. Business does not operate in a vacuum, so outcomes are rarely attributable to a single variable.

Furthermore, not all variables are within our control. Sound decisions and well executed actions can be doomed by bad fortune. Recently, I learned of an organization that was set to close a big deal on September 11, 2001. Obviously, that deal did not close due to the events of that infamous day – events that were completely uncontrollable and unexpected by those who worked so hard on the deal. Ultimately, the deal *never* happened. While those circumstances were extreme, similar stories are countless. Failure is not always attributable to poor decisions or poor execution.

At the risk of oversimplifying, outcomes can be attributed to three sequential factors:

1. Decisions (good or bad)
2. Actions (good or bad)
3. Fortune (good or bad)

Suggested Books on Business Success

In Search of Excellence: Lessons from America's Best-Run Companies by Tom J. Peters and Robert H. Waterman, Jr. (1982)

The Winning Performance: How America's High-Growth Midsize Companies Succeed by Donald K. Clifford, Jr. and Richard E. Cavanaugh (1985)

Built to Last: Successful Habits of Visionary Companies by Jim Collins and Jerry I. Porras (1994)

The Discipline of Market Leaders: Choose Your Customers, Narrow Your Focus, Dominate Your Market by Michael Treacy and Fred Wiersema (1995)

Good to Great: Why Some Companies Make the Leap and Others Don't by Jim Collins (2001)

Less is More: How Great Companies Use Productivity as a Competitive Tool in Business, by Jason Jennings (2002)

Think Big Act Small: How America's Best Performing Companies Keep the Start-up Spirit Alive by Jason Jennings (2005)

The Breakthrough Company: How Everyday Companies Become Extraordinary Performers by Keith R. McFarland (2008)

Suggested Books on Business Failure

The Loyalty Effect: The Hidden Force Behind Growth, Profits, and Lasting Value by Frederick F. Reichheld (1996)
Note: This book is not entirely on failure, but chapters 7 and 8 challenge the reader to look for and learn from failure.

When Giants Stumble: Classic Business Blunders and How to Avoid Them by Robert Sobel (1999)

Why Smart Executives Fail: And What You Can Learn from Their Mistakes by Sydney Finkelstein (2003)

Greed and Corporate Failure: The Lessons From Recent Disasters by Stewart Hamilton and Alicia Micklethwait (2006)

The Self-Destructive Habits of Good Companies: And How to Break Them by Jagdish Sheth (2007)

How the Mighty Fall: And Why Some Companies Never Give In by Jim Collins (2009)

When studying outcomes, we tend to make three mistakes. First, we focus 80% of our time on the outcomes resulting from a good/good/good sequence and the remaining 20% on those resulting from bad/bad/bad. Second, we tend to ignore the element of fortune altogether. Granted, it is out of our control, but we can still anticipate it and plan accordingly.

Third, we view the contributing elements strictly through the lens of the outcome (faulty attribution). A favorable outcome may have occurred in spite of a poor decision, for instance, but we see the favorable outcome, proclaim "success," and pat ourselves on the back. Consequently, we miss hundreds or thousands of hours, gobs of resources, and a host of environmental issues that contributed to the final outcome. We are so intent on getting the short story and moving on that we leave behind a pile of instructive gems.

THE KEY IS LEARNING

> *"Companies can...fix problems, alter course, adapt to new environments and new circumstances, even completely rebuild themselves. But the lifeblood of adaptive change is employee learning. ('Organizational learning' is a useful term, but it's only a metaphor. People learn, not organizations.)... Employee learning is the vital asset that allows companies to change and heal themselves."*
>
> Frederick F. Reichheld[3]

The ultimate purpose of studying success and failure is to learn, and the rapid pace of change in today's economy makes learning more important than ever. Businesses simply cannot expect to make money tomorrow the same way they make money today. Technologies change. Customers change. Needs change. Competitors change. You simply *must* stay on top of all this change.

Even the "great" companies of the success books are susceptible to the challenges of change. Critics point out that many of the profiled companies struggled after the books were published. However, an organization's fall from success does not negate the lessons from what led to their success. We just must be disciplined in accurately identifying the causes of their success, unblinded by faulty attribution. The key is learning.

Similarly, many organizations (thankfully) recover from periods of failure to enjoy sustained periods of success. Yet, we can still learn a great deal from what caused them to initially fail. Indeed, their ability to recover from that failure likely resulted from their own commitment to learn what caused it.[4] Again, the key is learning.

As the business leader, the pattern of learning starts with you. Invest the time in knowing *yourself*. Establish a consistent rhythm of reviewing your own performance (I like to do this at least once per year). What did you do well? What did you *not* do well? What have you learned about your competencies, communication style, and leadership abilities? What specific steps do you intend to take to improve?

Do this same thing with your executive team. To survive and thrive, you must invest the time and resources in *really knowing* your business and market environment. Finally, train your employees to follow suit. Frederick Reichheld is right: there is no such thing as "organizational learning." Only

individuals can learn. Your organization simply reflects the collective efforts of its people.

Failure is a great teacher, so capitalize on it. Every individual in your organization should track their decisions and actions and watch for failure. There is no guarantee that the final analysis will lead to new actions that are consistently successful, but over time, assessing failure in this way can only help your organization.

In this dynamic economy, you cannot afford the "let's just wing it" approach. Not only are your chances of success less, but the benefits and consequences of the decision are more random and more difficult to identify. With a robust system of analyzing success and failure, you can build decisions on previous ones, watching for patterns of success (to be emulated) or failure (to be avoided).

LOOK FOR FAILURE

> *"I've often felt there might be more to be gained by studying business failures than business successes. In my business, we try to study where people go astray, and why things don't work. We try to avoid mistakes…It's an inversion process. Albert Einstein said, 'Invert, always invert, in mathematics and physics,' and it's a very good idea in business, too. Start out with failure, and then engineer its removal."*
>
> Warren Buffet[5]

Why do we not study failure more readily? I suspect the reasons include:

- We naturally try to hide mistakes. As individuals and as organizations, we simply want to look good.
- Failure hurts. We do not like experiencing it, and so we choose not to dwell on it.
- Success is much more fun. Whether it's our own experience or sharing in the excitement of others, success feels much better than failure. That's why winning teams lead professional sports leagues in attendance each year.

We must fight the natural inclination to ignore failure. We've all heard the old adage: *those who ignore history are doomed to repeat it.* Studies and anecdotal experience show that disasters are rarely – if ever – unique; the indicators and preconditions tend to be the same. Investigating past failures and their root causes will help to recognize and eliminate them when they emerge again. As Buffet said so well, "Start out with failure, and then engineer its removal."

HOW TO STUDY FAILURE

> *"Hundreds of engineers are scrambling to figure out why a fuel gauge on the space shuttle Discovery failed right before its launch, while NASA clings to the possibility that it might be able to make another attempt on Sunday."*[6]

The aerospace industry does a good job of studying and learning from failure. Commercial airlines, for example operate way beyond six sigma when it comes to the most important aspect of their business – safety. The only way to get to that level is by fervent study of failure and taking steps to ensure that mistakes do not repeat themselves.

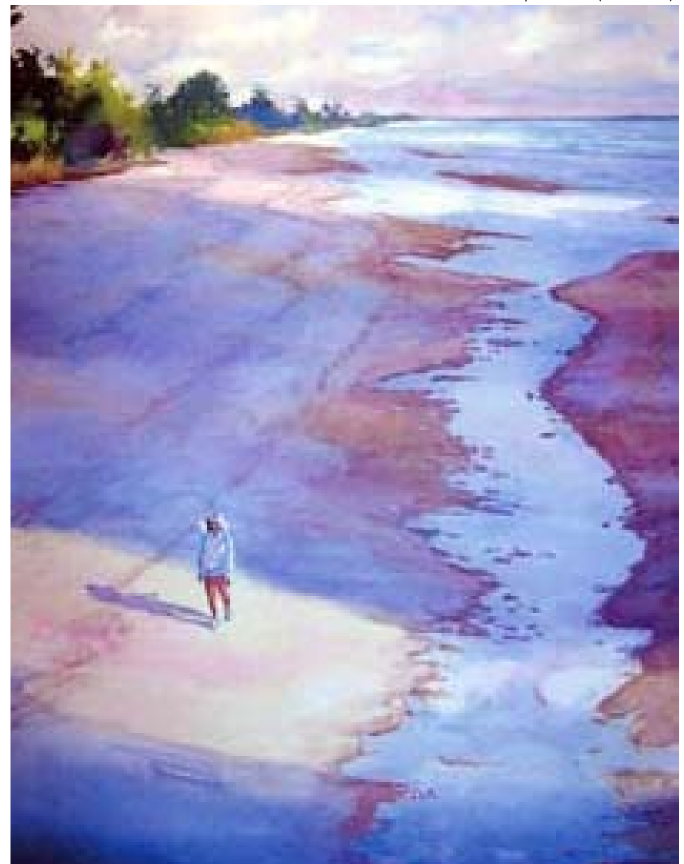
Look at the resources immediately assigned to the problem in the NASA example – literally *hundreds* of engineers all focused on one little malfunctioning fuel gauge. Does your organization attack failure with this level of urgency? Sure, your business may not be launching multi-billion dollar space expeditions, but as far as your employees are concerned, you might as well be. For the sake of your organization's future, you must make a habit of studying failure.

What failures should you study? Some examples include:

- A loyal customer who goes elsewhere
- Good employees who leave the organization
- Breakdowns in delivery of a key product or service
- Poor financial performance – specifically in gross margin
- Project outcomes that fall short of targets
- Failure to achieve strategic priorities

In short, a failure is any outcome that falls short of the goal. Even outcomes that appear to reach the goal, however, should not be exempt from analysis. Remember to avoid the mistake

Low Tide on Naples Beach (Phil Fisher)



A systematic approach to studying failure begins with establishing a rhythm for debriefs.

of focusing too much on the final outcome. Even bad decisions and bad actions sometimes result in good outcomes. Therefore, *every* outcome – failures *and* successes – should be analyzed.

A systematic approach to studying failure begins with establishing a rhythm for debriefs. The United States Military does this very well, as noted by Geoff Colvin in *Talent Is Overrated*:

> A powerful tool with great potential for most organizations is the U.S. Army's after-action review. Colonel Thomas Kolditz, who runs the leadership development program at the U.S. Military Academy at West Point, says that for the past twenty-five years "it has literally transformed the Army." The concept is simple. After any significant action, in training or in combat, soldiers and officers meet to discuss what happened. They take off their helmets – a symbolic action indicating that "there's no rank in the room," as Kolditz says. "Comments are blunt. If the boss made a bad decision, often it's a subordinate who points that out." The session isn't about blaming; instead, it's "a professional discussion," as an army training circular puts it. Part of its strength is that it yields very complete feedback. [7]

Practically speaking, you may not be able to debrief with your team after every significant outcome. That's why it is so important to have a rhythm to your reviews. I suggest a quarterly meeting where you and your team review the goals for the previous quarter and assess your performance, then set new goals for the next quarter. The simple discipline of a quarterly recalibration meeting is possibly the most powerful single step you can take to learn from failure and improve your execution. Do the same thing with your annual initiatives at the end of the year. Where did you fail? What did you learn? What steps have you taken as a result of those lessons?

The second component of a systematic approach to studying failure is a solid process for root cause analysis. Whether it's LEAN, Six Sigma, or something else, a *process* provides the discipline to search for the true source of a problem rather than just its symptoms. Eliminating the source of a failure is the only way to ensure that it won't happen again.

The third component of a systematic approach to studying failure is to involve people from throughout the organization in failure analysis. As much as possible, mix executives, managers, and staff on analysis teams. This is the best way to ensure that you consider every aspect of the failure in question. It also maximizes your ability to think in terms of the customer, as certain levels of your organization are probably in closer contact with the end product than others.

CONCLUSION

As an avid reader of Peter Drucker, I have often noticed that he naturally uses examples of both success and failure to highlight various points. The ultimate goal is to identify what works, and there are lessons to be learned in both. As opposite as they may seem, success and failure are just different types of the same thing – experience. And experience is a horrible thing to waste.

Troy Schrock is a certified CEO Advantage advisor, helping CEOs and executive teams in a wide range of industries with team effectiveness and strategy execution. He can be reached at troy@theceoadvantage.com.

End Notes

1. Rosenzweig, Phil, "Misunderstanding the Nature of Company Performance: The Halo Effect and Other Business Delusions," *California Management Review*, Vol. 29, No. 4 (Summer 2007): 7.
2. "Stanford Business School Study Finds Failure is a Key to Understanding Success," *Business Wire*, August 2, 2004. This article can be viewed at *www.highbeam.com/doc/1G1-120025318*.
3. Reichheld, Frederick F., *The Loyalty Effect*. Harvard Business School Press, 1996, p. 187.
4. Jim Collins offers a few good examples of such companies (IBM, Nucor and Nordstrom) in Appendix 6A – 6C of *How the Mighty Fall*.
5. Buffet, Warren, "Track Record is Everything," *Across the Board*, October 1991, p. 59.
6. "NASA Is Studying Failure of Fuel Gauge," *The Cincinnati Post,* October 16, 2009. This article can be viewed at *www.highbeam.com/doc/1G1-134107692.*
7. Colvin, Geoff, *Talent Is Overrated*. The Penguin Group, 2008, p. 132.

For a complimentary reprint of this article, visit tcajournal.com.

Do the Lessons of Large Corporate Failures Apply to Midsize Businesses?

During 2009, I embarked on a study of executive and organizational failure by tackling a number of books on the subject. The examples in these books are primarily large multinational corporations, so in my work with executives of midsize companies, I am frequently asked, "Do these lessons apply to a company our size?"

The answer is definitely yes. The general causes of failure highlighted in these books include:

- Poor strategic decisions
- Unsuccessful new ventures
- Overreaching in expanding the business
- Bad acquisitions done in the ever-elusive search for synergy
- Choosing not to cope with innovation and change
- Failure to face reality and act on vital information
- Dominating CEOs who see the business as an extension of their egos and personal agendas
- Executive hubris
- Failure of internal controls
- Ineffective boards of directors

With the possible exception of ineffective boards of directors (which most midsize businesses don't have), each of these is a real possibility for midsize companies.

In fact, midsize companies might even be more susceptible to some of these than larger corporations. First, CEOs of midsize businesses are often the founding entrepreneur; thus, they are susceptible to seeing the business as an extension of themselves because it really is their business. This can create an environment in which executives and employees are unable to properly challenge the CEO on anything – a sure-fire recipe for failure. Second, midsize businesses may be more susceptible to the failure of internal controls. They simply don't have the resources for this function that larger corporations do.

Beyond these, however, I see little difference in the susceptibility of midsize and large businesses to these causes of failure.

–Troy Schrock

Evening in the Everglades (Phil Fisher)