The Economist

Fail often, fail well

Companies have a great deal to learn from failure—provided they manage it successfully

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BUSINESS writers have always worshipped at the altar of success. Tom Peters turned himself into a superstar with “In Search of Excellence”. Stephen Covey has sold more than 15m copies of “The 7 Habits of Highly Effective People”. Malcolm Gladwell cleverly subtitled his third book, “Outliers”, “The Story of Success”. This success-fetish makes the latest management fashion all the more remarkable. The April issue of the *Harvard Business Review* is devoted to failure, featuring among other contributors A.G. Lafley, a successful ex-boss of Procter & Gamble (P&G), proclaiming that “we learn much more from failure than we do from success.” The current British edition of *Wired* magazine has “Fail! Fast. Then succeed. What European business needs to learn from Silicon Valley” on its cover. IDEO, a consultancy, has coined the slogan “Fail often in order to succeed sooner”.

There are good reasons for the failure fashion. Success and failure are not polar opposites: you often need to endure the second to enjoy the first. Failure can indeed be a better teacher than success. It can also be a sign of creativity. The best way to avoid short-term failure is to keep churning out the same old products, though in the long term this may spell your doom. Businesses cannot invent the future—their own future—without taking risks.

Entrepreneurs have always understood this. Thomas Edison performed 9,000 experiments before coming up with a successful version of the light bulb. Students of entrepreneurship talk about the J-curve of returns: the failures come early and often and the successes take time. America has proved to be more entrepreneurial than Europe in large part because it has embraced a culture of “failing forward” as a common tech-industry phrase puts it: in Germany bankruptcy can end your business career whereas in Silicon Valley it is almost a badge of honour.

Related topics

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A more tolerant attitude to failure can also help companies to avoid destruction. When Alan Mulally became boss of an ailing Ford Motor Company in 2006 one of the first things he did was demand that his executives own up to their failures. He asked managers to colour-code their progress reports—ranging from green for good to red for trouble. 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.

Failure is also becoming more common. John Hagel, of Deloitte’s Centre for the Edge (which advises bosses on technology), calculates that the average time a company spends in the S&P 500 index has declined from 75 years in 1937 to about 15 years today. Up to 90% of new businesses fail shortly after being founded. Venture-capital firms are lucky if 20% of their investments pay off. Pharmaceutical companies research hundreds of molecular groups before coming up with a marketable drug. Less than 2% of films account for 80% of box-office returns. But simply “embracing” failure would be as silly as ignoring it. Companies need to learn how to manage it. Amy Edmondson of Harvard Business School argues that the first thing they must do is distinguish between productive and unproductive failures. There is nothing to be gained from tolerating defects on the production line or mistakes in the operating theatre.

This might sound like an obvious distinction. But it is one that some of the best minds in business have failed to make. James McNerney, a former boss of 3M, a manufacturer, damaged the company’s innovation engine by trying to apply six-sigma principles (which are intended to reduce errors on production lines) to the entire company, including the research laboratories. It is only a matter of time before a boss, hypnotised by all the current talk of “rampant experimentation”, makes the opposite mistake.

Companies must also recognise the virtues of failing small and failing fast. Peter Sims likens this to placing “Little Bets”, in a new book of that title. Chris Rock, one of the world’s most successful comedians, tries out his ideas in small venues, often bombing and always junking more material than he saves. Jeff Bezos, the boss of Amazon, compares his company’s strategy to planting seeds, or “going down blind alleys”. One of those blind alleys, letting small shops sell books on the company’s website, now accounts for a third of its sales.

Damage limitation

Placing small bets is one of several ways that companies can limit the downside of failure. Mr Sims emphasises the importance of testing ideas on consumers using rough-and-ready prototypes: they will be more willing to give honest opinions on something that is clearly an early-stage mock-up than on something that looks like the finished product. Chris Zook, of Bain & Company, a consultancy, urges companies to keep potential failures close to their core business—perhaps by introducing existing products into new markets or new products into familiar markets. Rita Gunther McGrath of Columbia Business School suggests that companies should guard against “confirmation bias” by giving one team member the job of looking for flaws.

But there is no point in failing fast if you fail to learn from your mistakes. Companies are trying hard to get better at this. India’s Tata group awards an annual prize for the best failed idea. Intuit, in software, and Eli Lilly, in pharmaceuticals, have both taken to holding “failure parties”. P&G encourages employees to talk about their failures as well as their successes during performance reviews. But the higher up in the company, the bigger the egos and the greater the reluctance to admit to really big failings rather than minor ones. Bosses should remember how often failure paves the way for success: Henry Ford got nowhere with his first two attempts to start a car company, but that did not stop him.