

Embrace Failure to Build a Stronger Innovation Culture

Anyone who works in innovation knows that failure is an inherent part of the process of coming up with something new. What matters is not that you sometimes fail — because you inevitably will — but rather how you respond to that failure and whether you learn from it. A few years ago, I began to argue that we needed to become better at learning from the failures we encounter. One challenge to making this happen is that the word failure itself is so negatively loaded, which makes the topic difficult to raise in many organizations. How could we create a new concept and vocabulary on the intersection of failure and learning?

With the help from my network, I came up with the term “smartfailing” as an example of a new term that we can use to address the issues surrounding the lack of learning from failure that are so abundant in many, if not most, organizations.

The idea is that when things go wrong (as they frequently will), a smartfailing organization does not focus its energy on assigning blame and doling out consequences. Instead, the smartfailing organization uses failure to learn and become better. When an organization embraces smartfailing, it de-stigmatizes failure internally and uses failure as an opportunity to learn and to find a better course.

Before we get much further into our discussion, let me define what I mean when I talk about failure, especially in the context of innovation. Like most words, it can mean different things to different people. It can also be defined differently from one organization to the next.

Paul Sloane, an internationally known author and speaker on innovation and leadership, points out, it's important to “distinguish between the two types of failure - honorable failure is where an honest attempt at something new or different has been tried unsuccessfully and incompetent failure where people fail for lack of effort or competence in standard operations.”¹

Another way to look at this distinction is to clarify the difference between failures and mistakes. On this topic, Jamie Notter, who leads the consulting division at Management Solutions Plus, put it this way in a blog post: “A mistake is when you do something wrong, even though you knew the

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right way to do it. Failure is when you are trying something new, and you don't know ahead of time how to make it successful.”²

Certainly, our topic here is not incompetent failure or mistakes. If your organization suffers from repeated bouts of incompetent failure and/or mistakes, your company almost certainly has bigger problems that I am prepared to address. But how else can we define failure?

Tim Kastelle, who co-writes the Innovation Leadership Network blog and is a member of the Technology & Innovation Management Centre in the School of Business at the University of Queensland, also writes about mistakes, saying, “Mistakes are things you do even though you know better. Experiments are tests designed to expand your knowledge. The big difference is that you learn from experiments (or at least you should).”³ I completely agree; to innovate, we have to learn and we do that through experimentation, some of which are destined to fail. But it's not the failure that drives innovation, but rather the learning. Hence, my term “smartfailing.” It is important to note that I do not advocate that organizations should strive to become “failure cultures,” but they should become more adaptive, which includes a higher tolerance from failure — and, when failure happens, they should learn from it.

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Kastelle also offers up this hierarchy of failure:

- System failure (the collapse of communism)
- System component failure (stock market crashes)
- Major firm failure (Enron going out of business)
- Start-up failure (pets.com going out of business)
- Product failure (New Coke tanking)
- Idea failure (Apple Navigator prototyped but never launched)⁴

For our purposes here, we are primarily talking about the last three categories on the hierarchy, although, certainly, if a company continuously experiences product and idea failure, they put themselves at risk of eventually moving up the hierarchy to suffer a major firm failure. Business model failure is another level we might consider adding to the hierarchy because a lot of innovation revolves around finding a new way to do business and, certainly, lots of failure occurs there, too. This is different than start-up failure because often start-ups are following old business models that have succeeded elsewhere.

Survey Results

My research on this topic has included conducting an online survey to uncover how innovators in medium-sized and large companies (about 250 people and up) deal with failure in their organizations. Here are some key learnings:

- When asked “to what level is failure acceptable in your innovation team,” only 46 percent selected “failure is acknowledged as an inevitable part of the innovation process” as their answer. A slightly larger number (47 percent) chose “small failures are accepted, but not big ones,” and 7 percent said “failure is not accepted here.”

These answers reveal just why it is so difficult to even raise the topic of learning from failure in some organizations. The majority of respondents (54 percent) chose answers that indicate they are in organizations where failure is not recognized as being an inherent part of innovation and where only small failures or no failure at all is accepted. This is alarming since in such a culture, real innovation — the kind that goes beyond incremental innovation — is almost impossible to achieve because you need to dare to experiment and even fail when you try to bring such innovation to market.

- Another question asked what the attitude of the top leaders is when an innovation effort fails. We could be encouraged when we see that 54% said their top leaders encourage them to learn from the failure. Also, 48% said their leaders appreciate the effort that went into the work, even though it failed.

However, only 32% said their leaders accept failure in a constructive way, meaning that over two-thirds do not. Also, 35% said their leaders distance themselves from the failure, 21% said they assign blame and seek to punish those who have failed, and 19% said their leaders sweep the failure under the rug. None of these responses is supportive of building an organization where smartfailing could thrive.

- When asked “what levels are most often responsible for innovation-related failure in your organization,” the external factors of “industry” at 36 percent and “macro” at 20 percent lagged significantly behind the internal factors of “business unit” (68 percent), “organization” (60 percent), and “team” (47 percent). Another internal factor, “personal,” was chosen by 29 percent.

These responses indicate that most people seem to think their organizations have it within themselves to improve at innovation as opposed to being stymied by factors outside their control. The challenge is exactly how do you make that improvement, and I believe a key part of the answer lies in developing the ability to learn from failures.

It is also interesting to note the high scores earned by “business unit” and “organization.” I interpret this to mean that the majority of respondents see failure as being more systemic than just a problem within the innovation team. Again, this may point to attitudes within the corporate culture that make failure unacceptable and thus impede learning.

- Respondents were asked to check all the answers that applied among a list of 13 possible causes of innovation failure. The top four problems that were deemed most common were: 1) too much focus on products and technologies rather than considering all aspects in bringing innovation to market (55 percent); 2) unrealistic expectations from top management regarding the resources and time required to achieve innovation (53 percent); 3) inadequate resources – budget, people, infrastructure (50 percent); and 4) company operates in silos instead of taking a team approach to innovation (50 percent).

Just look at how these issues play out against the previous question about what level of the organization is most often responsible for innovation failure. These answers could be interpreted as meaning that innovation projects

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are doomed to failure from the get-go due to decisions made by higher-ups that leave the innovation team focused on the wrong thing, strapped for resources, trying to meet unrealistic expectations, and operating without a cross-company team approach (i.e, working in silos). Furthermore, in many cases, if in fact they even have an innovation strategy (many don't), the one they do have is poorly designed. Sadly, there are no quick fixes for any of these problems because the top executives who got us into this mess are not ready to lead us out of it!

Levels of Failure

Here is another way to look at failure. I believe failure in organizations most often happen on two levels: the failure to anticipate and the failure to execute. I would also argue that failure to anticipate happens on three levels:

- Organizations fail to anticipate changes in the market.
- Organizations fail to anticipate changes that impact the platforms needed to bring their products and services to market. This includes the failure to build proper ecosystems.
- Organizations fail to anticipate changes that will have an impact on their organizational setup and the culture.

My focus on this is very much about change; it is important to notice that the fast pace of change we experience today actually seems to happen much faster outside organizations than inside. It takes time for organizations to adapt to changes and this creates pockets of opportunities that can be lost or won.

Equally important, as Ron Adner points out in his book, *The Wide Lens: What Successful Innovators See that Others Miss*, failing to comprehend the importance of ecosystems can cause even the best of innovations to crash and burn in the marketplace.

One great example Adner gives is of Michelin, which in the 1990s came up with a revolutionary tire with an internal hard wheel that could run for over 100 miles after a puncture. The tire included sensors and a light on the dashboard would alert the driver of the puncture. In launching this radically new technology, Michelin built an alliance with Goodyear and car manufacturers, including Mercedes, Audi and Honda. But the element of their ecosystem that they left the garages that would repair the tires out of their thinking. This new tire required expensive new equipment, equipment that the garages had neither the money nor space for. And since these tires would only slowly become an important part of the tire market, the garages had no real incentive to buy costly equipment that would not get heavy use for some time. This failure to consider all parts of their ecosystem cost Michelin early; they withdrew the tire from the market in 2007.⁵

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Adner gives many other examples of companies that got in trouble by overlooking a portion of the ecosystem in which their innovative new product or service would be operating. These include Sony, which was first into the e-reader market with a superior product but lost the race to an inferior product from Amazon because they failed to take into account the economic and legal concerns of publishers. In contrast, Amazon kept publishers' doubts top of mind and put together a system — including a strong digital rights management system — that answered their concerns about launching themselves into the digital reader revolution.

From these examples and more, Adner concludes that the best approach to avoid failure is to start with a “minimum viable footprint” rollout followed by a staged expansion. In other words, don't start with a complete ecosystem, but a limited one. This is the approach embraced by the lean start-up approach, made popular by serial entrepreneur and academician Steve Blank and other Silicon Valley entrepreneurs such as Eric Ries, author of *The Lean Startup: How Today's Entrepreneurs Use Continuous Innovation to Create Radically Successful Businesses*.

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I argue that the lean start-up method relies heavily on smartfailing. A lean start-up uses validated learning, scientific experimentation and iterative product releases to shorten product development cycles. All the while you are measuring progress and gaining valuable customer feedback about where your new product, service or business model is falling short and what needs it's not fulfilling. It has been summarized as fail fast, fail often and fail cheap.

Steve Blank has identified six stages that innovators go through when they are faced with failure. Stage 1 is shock and surprise, stage 2 is denial, stage 3 is anger and blame, and stage 4 is depression. The culture of an organization determines how long people get stuck in these negative stages. As you can see from the results of my survey, denying failure or getting caught up in the blame game is all too common. An organization that understands the inevitability of failure during the pursuit of innovation will quickly be able to move into stage 5, which is acceptance, and then, most importantly, into stage 6, which is insights and change. This is where you will begin to get insights into what must change going forward.

An important part of stage 5 is to accept responsibility for your role in what went wrong. Without the self-analysis that this requires, learning cannot occur. Similarly, the organization as a whole must analyze why things went awry so improvement can occur. As you move into stage 6, this self-analysis and organizational analysis will provide insights into what behavior needs to change, what skills need to be improved, and what processes need to be altered for the next innovation challenge to be successfully met.

What Is the Solution?

Unfortunately, there is no clear solution, toolbox or blueprint to attach to these issues. One major reason for this is that most— if not all — companies are very reluctant to share their failures and how they approach them and learn from them.

Here you get my suggested actions for a company that wants to tackle these issues:

1. **Take responsibility.** All of what I've said so far points to the need to start changing behavior within companies when it comes to dealing with failure. For such change to occur, someone needs to take ownership of the process. And each person involved in innovation needs to recognize that smartfailing is something they need to do better, and determine how they can take a more active role in making that happen.
2. **Understand what goes wrong.** You need to know why failures really happen. The answer will be different in each organization, but every company needs to gain a better overview of where the problems lie that keep them from learning from failure. The key thing to keep in mind is this is not about avoiding failure; it's about how can we learn from failure and apply that into future processes. The challenge is to create a common understanding in which failure is seen as a learning opportunity that holds the potential to make the organization smarter and better.
3. **Be transparent and communicate better.** It seems as if every organization I encounter can benefit from greater transparency and better communication on their innovation issues and the same goes with failure. The people – and especially the executives – taking the responsibility for developing a smartfailing process must put in a significant effort on how you communicate on this sensitive topic internally as well as externally. It can be damaging to communicate too much, or to share insights on things that do not really help in the long run. You need to find the proper tone and balance for this.

I often talk about perception as being important for building a stronger innovation culture and the same goes with failure. If executives and managers show and tell the employees that failure is not tolerated, then this will become a perception that will turn into reality. This also goes the other way. If your company has examples in which you actually have a high tolerance for failure and ways in which you also learn from this, then the company can build further on these pockets and build a more positive perception towards smartfailing.

4. **Reward behaviors, not just outcomes.** Too often, organizations are too focused on rewarding the outcomes of their employees. It is just very difficult to reward the team of people in charge of a failed project or initiative, but then what do you do when the learnings the team captured and shared leads to great success in the future? Should these people not be rewarded and recognized

in some way? If you really want to change a corporate culture, you must find ways to reward the behavioral changes that lead to the desired outcomes. If not, you might not get there at all.

5. **Educate up and down.** It must be a key objective for a corporate innovation team to educate the organization on innovation and this goes for employees, managers and also the executives. The latter is more difficult, but it can be done — and it is really needed — as the executives in many ways are the reason for the mess that you are in. The corporate innovation team could take the lead on how to educate on smartfailing together with other relevant functions such as HR and also representatives from the business units.

Conclusion

The steps I've outlined above all present challenges; it is no easy task to develop a more adaptive corporate culture that is open to smartfailing. However, I don't think you have any other choice but to make the effort because innovation is key to prosperity — let alone survival — in a business environment driven by a faster and faster pace of change. You either get this or you fall behind. It will be interesting to see how this plays out in the coming years.

As a final remark before you embark on this journey, I encourage you to open up and get in touch with the many other people who want to see their companies becoming better at learning from failure. You are definitely not alone and the more we can talk about this and share insights and learnings, the faster we can all learn from our failures. Hopefully, this white paper can help us get started.

Endnotes

1. Paul Sloane, "Welcome Failure," March 27, 2007, <http://www.lifehack.org/articles/management/welcome-failure.html>.
2. Jamie Notter, "Failure Versus Mistakes," June 7, 2012, <http://www.getmejamienotter.com/2012/06/failure-versus-mistakes>.
3. Tim Kastle, "Mistakes Versus Experiments," July 14, 2012. <http://timkastle.org/blog/2012/07/mistakes-versus-experiments>.
4. Tim Kastle, "Finding the Best Way to Fail," March 14, 2010. <http://timkastle.org/blog/2010/03/finding-the-best-way-to-fail>.
5. Frederick E. Allen, "Why Great Innovations Fail: It's All in the Ecosystem," Forbes, March 5, 2012. <http://www.forbes.com/sites/frederickallen/2012/03/05/why-great-innovations-fail-its-their-ecosystem>.

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Addendum






1. Name and company (optional)

	Response Count
	28
answered question	28
skipped question	75




2. What is the size of your organization?

	Response Percent	Response Count
0 – 250 people 	9,7%	10
251 – 1000 people 	9,7%	10
1001 – 5000 people 	8,7%	9
More than 5000 people 	71,8%	74
answered question		103
skipped question		0

3. What is your role with regards to innovation in your organization?








	Response Percent	Response Count
I work with innovation on a full-time basis in a senior leadership position 	36,3%	37
I work with innovation on a full-time basis in a middle-manager position 	27,5%	28
I work with innovation on a full-time basis without leadership or management responsibility. 	19,6%	20
I work with innovation from project to project or on an ad-hoc basis 	15,7%	16
I am not really involved with innovation in my organization 	1,0%	1
answered question		102
skipped question		1

4. To what level is failure acceptable in your innovation team?





	Response Percent	Response Count
Failure is acknowledged as an inevitable part of the innovation process. 	47,1%	48
Small failures are accepted, but not big ones. 	46,1%	47
Failure is not acceptable here. 	6,9%	7
answered question		102
skipped question		1

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5. When an innovation effort fails, what is the attitude of the top leaders of your organization?(check all that apply)

		Response Percent	Response Count
They accept failure in a constructive way.		32,0%	33
They encourage us to learn from the failure.		54,4%	56
They appreciate the effort that went into the effort, even though it failed.		47,6%	49
They assign blame and seek to punish those who have failed.		21,4%	22
They sweep the failure under the rug.		19,4%	20
They distance themselves from the failure.		35,0%	36
They spin a failure as a win.		19,4%	20
answered question			103
skipped question			0

6. Does your innovation team have a process in place to capture learnings from failures?





		Response Percent	Response Count
Yes, we do this each time.		24,3%	25
We do this some of the time.		45,6%	47
We rarely focus on this.		20,4%	21
No, we do not focus on this at all.		9,7%	10
answered question			103
skipped question			0

7. What levels are most often responsible for innovation-related failure in your organization? (Click all that apply)





		Response Percent	Response Count
Personal (internal factors)		28,4%	29
Team (internal factors)		46,1%	47
Business unit (internal factors)		66,7%	68
Organization (internal factors)		59,8%	61
Industry (external factors)		37,3%	38
Macro (external factors)		19,6%	20
answered question			102
skipped question			1

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8. To what extent do the same problems occur again and again in your innovation efforts?

		Response Percent	Response Count
Almost always		8,7%	9
To a high degree		21,4%	22
To some degree		58,3%	60
Rarely		11,7%	12
answered question			103
skipped question			0

9. To what extent are innovation-related failures made public in your organization?





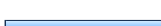








		Response Percent	Response Count
Always		2,9%	3
To a high degree		8,7%	9
To some degree		53,4%	55
Never		35,0%	36
answered question			103
skipped question			0

10. To what extent do you feel your innovation team is learning from its failures?

		Response Percent	Response Count
Yes, we are definitely improving and learning more each time something goes wrong.		26,2%	27
We are improving to some extent but not as much as we could if we took a strong approach to learning from failure.		65,0%	67
We are not improving. The same types of failures keep occurring.		8,7%	9
answered question			103
skipped question			0

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11. What are the most common causes of innovation failure in your organization? (check all that apply)

		Response Percent	Response Count
Inadequate resources (budget, people, infrastructure)		50,5%	51
Lack of innovation strategy		33,7%	34
Poorly defined innovation strategy and goals		42,6%	43
Lack of quality ideas in our organization and/or industry		16,8%	17
Wrong personnel in place to make innovation happen		43,6%	44
Lack of a formal innovation process		16,8%	17
Poor management of the innovation process		23,8%	24
Lack of training in innovation		19,8%	20
Unrealistic expectations from top management regarding the resources and time required to achieve innovation		53,5%	54
Lack of appropriate external partners		27,7%	28
Company operates in silos instead of taking a team approach to innovation		47,5%	48
Too much focus on idea generation rather than execution		28,7%	29
Too much focus on products and technologies rather than considering all aspects in bringing innovation to market		55,4%	56
Other reasons:			18
answered question			101

12. Do you have any suggestions on how companies can improve their learnings from failures? (optional)

	Response Count
	20
answered question	20
skipped question	83

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