A major mistake that managers make

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All through school we are taught that making a mistake is a *bad thing*. We are downgraded for them. When we graduate and enter the real world and the organizations that occupy it, the aversion to mistakes continues. As a result one tries either to avoid them or, if one is made, to conceal it or transfer blame to another.

We pay a high price for this because one can only learn from mistakes; by identifying and correcting them.

> … in business, if mistakes are made and laws are not broken, you rarely see any formal investigation. Even when the companies themselves look into what happened, they donbe't do it in a structured and rigorous way. They don't learn anything from the process. (Mittelstaedt, Jr., 2005)

One does not learn from doing something right; one already knows how to do it. By doing something right one gets confirmation of what one already knows but no new knowledge. The fact that schools are more interested in teaching than in learning is apparent from their failure to determine if students learn from their mistakes. Once they are graded based on the number of mistakes they make, the teacher presses on, does not check to determine whether the student has learned from the mistakes made.

Schools, including business schools, do not even reveal the fact that there are two kinds of mistakes.

Errors of commission: doing something that should not have been done.

Errors of omission: not doing something that should have been done.

Errors of omission, lost opportunities, are generally more critical than errors of commission. Organizations fail or decline more frequently because of what they did *not* do than because of what they did. For example, IBM ran into serious trouble several decades ago because it did not pursue development of the small computer. Eventually it woke up but never really caught up. Kodak was slow to get into digital photography and is paying a very high price for it today. Additional examples are cited by Mittelstaedt (2005): Coca Cola's "New Coke," Firestone's tire debacle, Intel's mishandling of its Pentium clip recall, American Express's failed blue card Optima launch and Webvan's ill-fated online grocery shopping experiment.

The type of accounting that all organizations use accounts for only the lesser important errors, those of commission. If something wrong is done, it eventually shows up in the books. For example, when Kodak bought Sterling Drugs and eventually had to sell it, the loss involved was conspicuous in its books. But errors of omission never appear "in the books." The fact that Kodak failed to acquire Xerox when it could have, never appears in its books.

The combined effect of these predispositions of schools and the organizations of which we are part is very costly. Most people are part of an organization that looks down on and censure mistakes. But the only kind of mistake their organizations take into account are errors of commission. Then, to avoid censure one must try to minimize such errors. This is accomplished when managers to do as little as possible. This is seldom a decision made consciously; rather it is a culturally imposed disposition of which most are unconscious. It is the disposition to avoid making a mistake or to accepting responsibility for one that is made that makes organizations averse to change to The cost of not changing is seldom taken into account.

Many years ago, when I was working on a project in one of the ten largest corporations in the United States, a senior vice president asked if I would be willing to give a course to 200 of the company's top executives on the frontiers of management thinking. I was more than willing to do so. He then explained that he wanted ten two-day courses of approximately twenty each. The first four would cover lower level vice presidents. The next three would cover intermediate level vice presidents. The next two would cover senior vice presidents and the final one would cover the executive office.

I used the last half of the second day of the course for questions and discussion of the material I had presented. At the end of the first course, one member said, "This stuff is great. I would love to use it but I can't without the approval of my boss. Are you going to get a chance to present the same material to him?" I explained that I would somewhere in the three second-level courses yet to come. He said he would approach his boss for approval as soon as he came out of the class.

Essentially the same issue was raised in each of the four lower level classes. It was also raised in each of the three second level courses. These vice presidents also believed they needed the approval of their bosses, senior vice presidents, before initiating significant changes. As a result, I was not surprised when the senior vice presidents expressed their dependency on approval from the executive office before they could initiate the kind of changes I advocated.

I could hardly wait to see what kind of reaction I would get in the final course given to members of the executive office. The CEO opened the discussion. He said, "This stuff is great. I want very much for it to be used in this company but I can't impose it on my subordinates. They must accept it voluntarily. Are you going to get a chance to present it to them so I can get their approval and support?"

This was a paralyzed company. No one in senior management was willing to do something that might turn out to be wrong. Every one of them wanted someone else to assume responsibility for whatever they tried. As a result, significant changes were seldom made.

Such risk aversion clearly limits learning and development of organizations especially in a changing environment. Such aversion is a cultural rather than an individual characteristic. It is not the result of individually made conscious decisions; it is a consequence of the way the culture works. Most of the managers who are affected by it are unaware of such a cultural influence.

Organization must become tolerant of errors provided that learning is derived from them. This was once very effectively articulated by August Busch, III, CEO of Anheuser-Busch, when he told his reports, "If you didn't make a serious mistake last year you probably didn't do your job and try something new. There is nothing wrong in trying and failing, but you had better learn from it. If you make the same mistake twice, you may not be here the next year."

How can an organization's culture be changed so that it as concerned about errors of omission as errors of commission? How can it assure learning from both types of error? This requires systematic and conscious support of an organization's learning. Such support involves the following steps.

1. Preparing a record of every decision of any significance, ones that involve doing something or (of particular importance) ones that involve not doing something. This record should include the following information:

- The justification for the decision including its expected effects and the time by which they are expected.

    Decisions are made for only two possible reasons: to make something happen that would not otherwise happen, or to prevent something from happening that would otherwise happen. For each decision the type of expected effect should be made explicit and it should be formulated in a form that is subject to verification.

    For example, if a decision is made to increase advertising expenditures, what increase in sales is expected and by when? Or if a decision is not to make a possible acquisition because of the poor performance expected of it in the future, how and when can this expectation be verified?

- The assumptions on which the expectations are based.

    For example, that competitors will not increase their advertising expenditures. Or, in the case of an acquisition not made, that its acquirer will not be able to increase its returns so as to make the acquisition worthwhile.

- The information, knowledge, and understanding that went into the decision.

- Who made the decision, how it was made, and when.

The decision record should be signed off by the senior manager involved in making it. However, it can be prepared by anyone designated by that manager.

2. The decision should be monitored to determine whether the expectations are being met and the assumptions on which they are based remain valid.

3. When a deviation is found in either the assumptions or expectations, it should be diagnosed, the cause determined and corrective action prescribed and taken.

4. The corrective action is itself the result of a decision. A record of this decision should be made and treated as the original decision. In this way the process can not only yield learning but also learning how to learn.

5. A record of the entire process (all four steps) should be made and stored for easy access by those who may later be confronted by the need to make a similar type of decision.

The number of people required to carry out these steps obviously varies as a function of the size of the organization involved, and the number of decision made. This process can and should be conducted at every level of an organization at which critical decisions are made. The process can, of course, be facilitated by use of computers.

These steps, with appropriate modifications, have been taken at General Motors' Corporate Strategy and Knowledge Development Department and Du Pont's Research and Development Department, among others. When applied, something additional has been learned: mistakes are avoided by formulating a decision record. When the expectations and assumptions on which a decision is to be based are made explicit, it often becomes apparent that the decision that might otherwise be made should be avoided.

Consider a case of learning from a decision not to do something. When a possible acquisition was revealed to a large corporation it conducted a considerable amount of research to determine what was the current value of the candidate. It then determined that this value was not high enough to justify the asking price for the acquisition. Someone else subsequently acquired the company for considerably more than the first company was willing to pay for it. The acquiring party made changes in the acquired company that increased its value significantly. After these changes were made the acquired company yielded a return greater than was being earned by the company which had turned down the acquisition. The lesson it learned from all this was: in determining the value of a potential acquisition, a plan is required for what would be done after the acquisition to increase the value of the acquired company. This estimated enhanced value should be the basis for what the acquirer is willing to pay, not its current value.

The reluctance of an organization to make changes that involve a risk results in a future that happens to that organization, over which it has little control. The willingness to make changes that involve a risk enables an organization to have a major role in creating its future.

REFERENCE

Mittelstaedt, Jr., Robert E., "Will Your Next Mistake Be Fatal*?", Wharton Alumni Magazine*, Winter 2005, pp. 30-33.