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# The Wisdom of Deliberate Mistakes

Key ideas from the Harvard Business Review article By Paul J.H. Schoemaker, Robert E. Gunther

## The Idea in Brief

If you're like most managers, you frown on mistakes--yours and others. Why? Your organization demands optimum performance. And it rewards you based on the height of your successes, not the depth of your learning from failures.

Yet mistakes--done right--accelerate learning, thereby enhancing competitiveness for your firm. Consider advertising pioneer David Ogilvy. In ad tests, Ogilvy deliberately included "mistake" ads he thought wouldn't work. Most of these "losers" bombed as expected. But a few succeeded--and they pointed to innovative approaches in the fickle world of advertising.

Mistakes are costly, so how do you extract *profitable* learning from them? Schoemaker and Gunther recommend first determining *when* to make mistakes. For example, the time is right when you need fresh approaches to a complex problem and the potential learning from a failure far outweighs the potential expense. Also know *which* mistakes to make. The most profitable failures are those that challenge your company's unquestioned assumptions, such as "Our clients buy on reputation; they have limited price sensitivity."

In today's volatile business environment, the strategic advantage goes to companies that learn faster than rivals. Failing often, fast, and cheap may be the best way for *your* company to take the lead.

## The Idea in Practice

How to make mistakes that pay off? The authors provide these guidelines:

### Know When to Make Mistakes

Consider making deliberate mistakes when:

**Potential gain outweighs possible cost.** Ogilvy's cost of running additional ads was fairly small compared to the value of identifying which ad strategies worked best.

**Decisions are made repeatedly.** Citibank examined a key assumption informing its consumer credit-risk assessments: college students, with high debts and no job, were terrible credit risks. The company decided to issue cards to students without requiring parents to co-sign. The "mistake" led to a valuable discovery: parents bailed out student cardholders when they couldn't pay, and many students ultimately became valuable long-term customers.

**The environment changes dramatically.** To learn faster about the increasingly fickle consumer market, Procter & Gamble systematically makes frequent deliberate mistakes. For example, it challenged its long-held assumption that successful innovations only come from inside by making the "mistake" of using outside partners to develop products, some of which became blockbusters like the SpinBrush.

## Know Which Mistakes to Make

Use these steps to make profitable mistakes:

**1. Identify your assumptions.** List deeply held assumptions about core areas of your business.

A management consulting firm listed 10 long-held "axioms" about how to run its business, such as "Cold calling on Fortune 100 clients won't work" and "It's not worthwhile responding to RFPs, since these clients are usually price shopping."

**2. Select assumptions for testing.** Ask what you'd do differently if you knew an assumption was false. The greater the impact on your organization of discovering an erroneous assumption, the more valuable disputing it may be.

The consultancy decided its assumption about responding to RFPs was worth testing--in part because discovering they were wrong to ignore RFPs could unleash a significant new revenue stream.

**3. Create mistake strategies.** The consultancy decided to respond to an RFP from a regional electric utility with an elaborate, customized, and high-priced proposal.

**4. Execute the mistake.** The proposal won the consultancy an invitation from the utility to explore several projects. The resulting work amounted to more than $1 million of additional consulting revenues.

**5. Learn from the mistake.** The consultancy now looks at new RFPs through a fresh lens and responds to RFPs it would have ignored before.

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# Further Reading

## Articles

**Teaching Smart People How to Learn**

*Harvard Business Review*

February 2000

by Chris Argyris

Argyris provides additional insight into why managers resist making mistakes. For example, they want to remain in unilateral control, maximize "winning" while minimizing "losing," and be seen as rational. How to overcome the resulting resistance to erring--and thereby pave the way for learning? Strategies include: 1) Apply the same kind of "tough reasoning" you use to conduct strategic analysis. For instance, collect the most objective data you can find on an issue. Make your inferences from the data explicit and test them constantly. Submit your conclusions to the toughest test of all: ensuring they aren't self-serving or impossible for others to verify. 2) Model desired changes. By demonstrating your willingness to examine your own assumptions critically, you'll help those around you do the same.

**The Hidden Traps in Decision Making**

*Harvard Business Review*

November 2000

by John S. Hammond, Ralph L. Keeney, and Howard Raiffa

This article takes a closer look at the importance of challenging business assumptions and lines of reasoning that limit learning. The authors describe modes of thinking that impede good decision making--and offer tips for avoiding these traps. For example: 1) Through *anchoring,* you give disproportionate weight to the first information you receive. To illustrate, a marketer projects future product sales by looking only at past sales figures. To avoid this trap, pursue other lines of thought in addition to your first one, and seek information from a variety of sources. 2) Through *status quo,* you favor decisions that perpetuate the existing situation. To avoid, ask how well the status quo really serves your objectives. 3) Through *sunk* costs, you make choices to justify past, flawed decisions. To avoid, elicit views from people who weren't involved in the earlier decisions, and discourage fear of failure.

## About the Authors

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