synopsis

manageris

Take action despite uncertainty

Dare to leap before you look

Didier Avril, série Storytelling

Our sources

This synopsis is based on the publications presented below and on the back page.

Just Start
Leonard A. Schlesinger, Charles F. Kieffer, Paul B. Brown, Harvard Business Review Press, 2012.

Teaming
Amy C. Edmondson, Jossey-Bass, 2012.

Brilliant Mistakes
Paul J. H. Schoemaker, Wharton Digital Press, 2011.

In the wake of the 2008 financial crisis, many projects were suspended, postponed or even cancelled altogether for budgetary reasons or due to economic uncertainty. Although most business leaders now realize that they can't simply wait for the crisis to blow over before attempting new ventures, the context isn't favorable to taking risks. Decision-makers are faced with the following dilemma, i.e., they must continue to invest and innovate if only to ensure the survival of the business, or ideally find new growth engines. At the same time, they are driven by uncertainty and unpredictability to minimize the risks while waiting to regain their bearings.

In this difficult context, some firms continue nonetheless to launch new projects, grow and innovate, even in industries hit hard by the crisis. Observation shows that these successful organizations have managed to change their operating practices radically. Whereas businesses used to have to plan methodically before executing new projects, and then adapt the plan if necessary depending on initial results, some have learned to move and learn simultaneously. This enables them to adapt in real time to increasingly sudden environmental shifts.

To eliminate the lag between learning and application, collective behavior and processes must be tackled simultaneously:

- **Integrate uncertainty into the decision-making process.** Rather than waiting until every parameter is under control, you are advised to move forward immediately, and learn as you go.
- **Tolerate and learn from mistakes.** Mistakes must be tolerated before they can serve as learning opportunities and the basis for future success.
- **Move from individual to collective learning.** Specific operating processes must be put into place before the entire organization can take advantage of the lessons learned from individual initiatives.

In this synopsis...

1 Reconcile **learning and application** phases

Companies used to rely on the traditional "learning curve," in which theoretical learning and concrete application alternate successively. In the first phase, people learn a new skill or competency and how to apply it. In the second phase, they put what they have learned into practice. Once this is done, they draw lessons from the experience to prepare for the next cycle.

However, the traditional learning model has been shaken by economic transformation, as well as by the lasting crisis in which we find ourselves.

Indeed, in an accelerated world, it is difficult to acquire and apply knowledge sequentially. The information collected during the learning process is already partially obsolete before it can be applied, and the lessons drawn from experience tend to lose their relevance in a rapidly-evolving environment.

As the crisis drags on, businesses are often tempted to focus on one of these two phases to the detriment of the other. Some may find it reassuring to prolong the learning phase ad infinitum, to the point where they no longer manage to apply the new knowledge concretely! Indeed, these firms find that after conducting innumerable studies, compiling volumes of statistical and accounting data, and consulting armies of experts, they still can't make a safe decision in today's shifting context. At the opposite end of the spectrum, other companies are continuously working in crisis management mode. Although a frenzied sense of urgency may be an appropriate reaction over short periods, when a crisis lingers, these companies may easily lose perspective and lock in behaviors and practices that no longer meet market needs.

> Companies that succeed in times of crisis are those that know how to take action and learn at the same time.

The experts thus suggest that businesses focus on taking action rapidly and use this phase as part of the learning process **(Figure A)**, for three main reasons:

It is illusory to wait for the crisis to end

Although in the past, companies were probably wise to "hunker down" in times of crisis and delay action to

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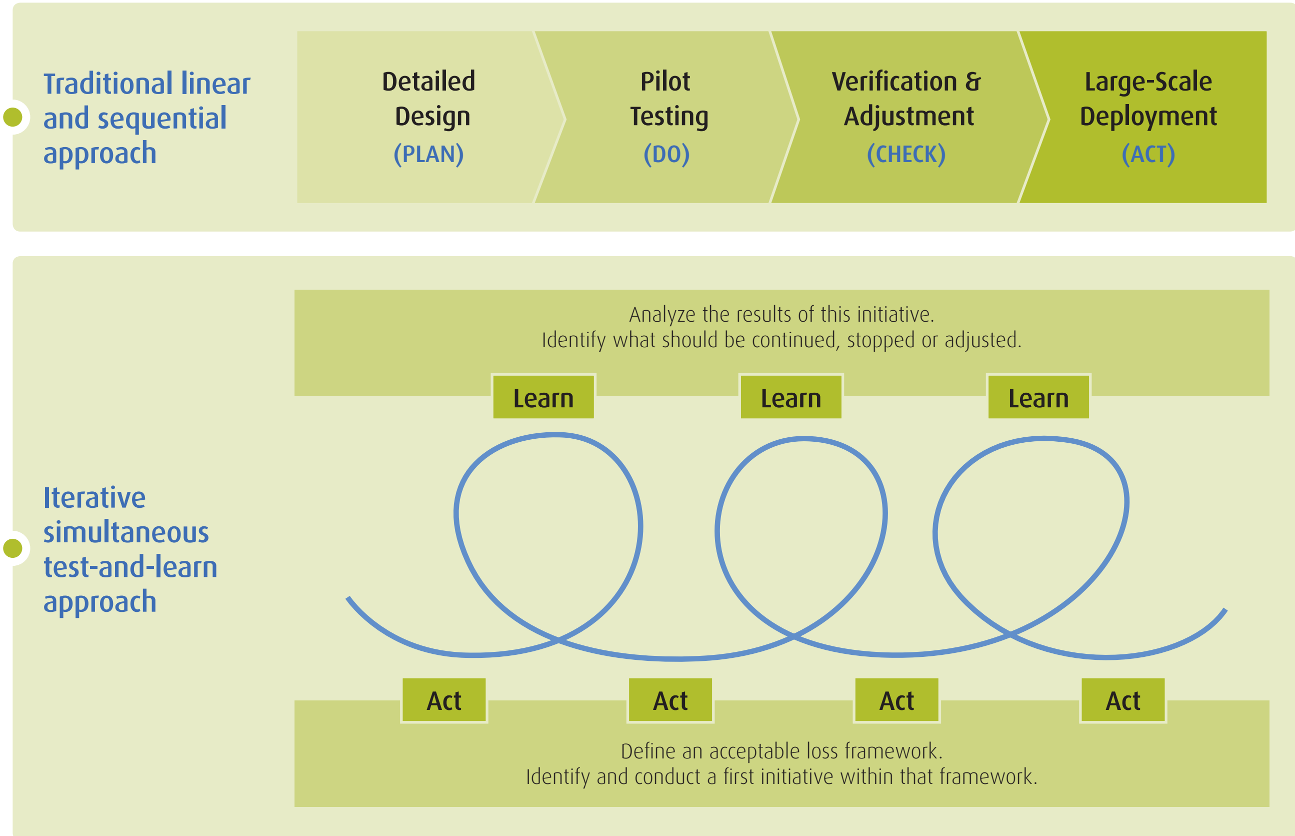
FIGURE A Iterative test-and-learn process

Planning has long been the spearhead of operational effectiveness. Companies traditionally develop, refine and optimize projects in gradual, sequential steps before launching them on a large scale.
In lasting crisis situations where the pace of change has accelerated, this approach is no longer valid, because companies can't respond quickly enough. In such contexts, a continuous test-and-learn process is preferable.



Based on ***Teaming***, Amy C. Edmondson, Jossey-Bass, 2012.

minimize risk, this approach is reaching its limits. Economists today tend to concur that this storm is unlikely to lift any time soon. At the same time, some spectacular successes in stricken industries show that the recession need not spell disaster for every company in the sector. For example, the decision in 2007 to launch a new airline might appear to be quite foolhardy in a saturated industry, struggling with declining air traffic, cutthroat price wars, and falling margins. But this is precisely when a group of entrepreneurs made the decision to launch Avion, an original and daring airline designed to carry exclusively business passengers on a single route—Paris-New York. The concept met with immediate and enduring success, and planes were filled to 70% to 80% of capacity. This success story concluded with an acquisition by British Airways. Like Avion, companies must now dare to leap without first trying to learn everything there is to know, while taking steps to refine the strategy as much as possible as the market evolves.

Forecasting no longer makes any sense

It is pointless to spend too much time planning and forecasting in quixotic, unpredictable environments. Indeed, sudden, radical shifts surpassing the framework of forecasts are likely to occur in such situations. The monetary crisis and the fall of Lehman Brothers, for example, came about very abruptly and threw the entire world for a loop. At the same time, some unlikely successes have emerged. For example, in the depressed publishing industry, where an abundance of information is available free of charge, who would have predicted the success of "magazine-books" such as XXI, which publishes lengthy articles that explore complex topics in minute detail?

To illustrate this new operating model, the futurist Joel de Rosnay recently used the metaphor of a surfer who manages to keep his balance in a continuously shifting environment: *"The surfer does not create the wave, random and chaotic by nature, but uses its force and power [...]; he knows how to assess the results of his actions and adapt to unforeseen events in real time."* Like a good surfer, business leaders must learn to accept unpredictability in their environment and be able to continuously adapt to events as they occur.

Operating practices must be completely reinvented

In many industries stricken by the crisis and economic upheaval, the stakes are now much higher than just finding new and better ways of doing things—the economic model must be completely reinvented. It is extremely risky for companies to bet most of their resources implementing a theoretical target model that is almost impossible to stop or reverse once it starts rolling. An iterative process of very short test-and-learn cycles is far preferable. Google uses this model to launch its innovations, starting with "beta" versions. This makes it possible to rapidly test the potential of the offering and make adjustments along the way as needed. As incongruous as this approach may have seemed just a few years ago, it also seems to satisfy customers, who view it as an opportunity to personally contribute to the development of new features and end up with a product more closely suited to their needs.

The capacity to adapt in real time to environmental shifts is thus a decisive success factor. The learning curve must be made as short as possible to be able to immediately apply the lessons learned from experience. Three principles in particular support this precarious balance:

- Take action without seeking to control every parameter;
- Rehabilitate the right to make mistakes, while managing risk;
- Transform individual learning into collective learning.

2 Take action **without seeking to control every parameter**

Business leaders are understandably prudent in crisis situations, where they lack visibility and are discouraged by the prospects they see. They are naturally tempted to put off high-stakes decisions to limit the corresponding risks. However, the authors of *Just Start* note that today's most successful organizations are precisely those which give themselves permission to act without controlling every parameter.

> The legitimate desire to reduce uncertainty must not prevent action.

That being said, these firms do not take inconsiderate risks, but rather have made uncertainty an integral part of their decision-making process. Their experience highlights three practices that can help companies take action in uncertain situations while managing the risks.

Establish an acceptable loss framework

Before launching any new project or business, companies traditionally establish forecasts to estimate the corresponding costs and ROI. Although this approach is quite effective in normal times, uncertainty turns projections into random guesses in times of crisis. In such situations, acting as if forecasts are certitudes is very risky, given that the data on which they are founded are hypothetical to say the least.

An effective way to avoid this trap is to give up trying to estimate potential costs and revenues accurately and instead establish an "acceptable loss" framework **(Figure B)**. Within this framework, people can continue to experiment and make adjustments without feeling constrained by the original plan. Action consequently becomes possible even when the future is hazy or uncertain and risk is limited by the managed framework established upstream.

Babson College of Wellesley, Massachusetts, used this approach when it decided to set up a second campus on the U.S. west coast. Rather than conducting long and costly market studies and forecasts, the college administrators decided to set a testing budget that they were willing to lose if the experiment didn't pan out. They began by launching an advertising campaign for a short MBA program based in San Francisco, without knowing what kind of response they would receive. Enrolment requests poured in, thus validating the demand for this type of service. The short program was then organized, and a more complete program offering was developed the following year. Administrators figure that this test-and-learn approach saved the college six months and $100,000 compared to more traditional methods. If enrolments had not been forthcoming, the losses incurred by the experiment would have been limited to the cost of the advertising campaign.

Clearly define the scope of initiative

In uncertain environments, people always worry about taking initiative. Most companies note, for example, that their employees are very reticent to take risks in crisis situations and tend to stay firmly on the beaten path. However, this attitude prevents them from making progress and learning about changes in their environment.

To avoid this trap, it is extremely helpful to define the scope of initiative clearly. Indeed, it has been observed that the clearer the framework, the freer people feel to take action, to experiment and to learn from these experiences. On the other hand, if the game rules are not clear, people tend to adopt a very conservative attitude and stay away from potential cliffs that could crumble under their feet at any time!

Using this approach, a Minneapolis hospital, for example, greatly increased staff initiative while reducing the rate of medical error. Hospitals must find a constant balance between the many protocols and procedures needed to minimize the risk of error, and the leeway for initiative needed for staff to cope with the flow of unpredictable events requiring urgent action. The director of this particular hospital made the unusual choice of presenting procedures as a starting point rather than as absolute rules. She clarified the behaviors deemed to be unacceptable, and which would be heavily sanctioned. Beyond this, no particular procedures were stipulated. In exchange, the medical staff was required to document everything they did, and these initiatives were then analyzed collectively in order to learn from them and make updates to procedures where merited. The hospital made spectacular progress as a result.

Take the time to create a shared vision

In continuously shifting environments, companies cannot possibly plan and control every project down to the last detail. One way to regain a certain degree of control, however, is to take time at the start to define and agree upon the vision. That way, the business

FIGURE B Set a limit of acceptable losses

Thinking in terms of acceptable losses makes it easier for companies to take action in uncertain situations, while managing the corresponding risks. For this framework to be relevant, acceptable losses must take account of more than just financial dimensions.

Money

How much can I spend or afford not to earn before I jeopardize the business? What are the critical thresholds and timeframes?

Time

How much time should I spend and what deadline should I establish for this project? When should we take stock and decide whether to stop or continue?

Reputation

What is the acceptable maximum risk to my personal reputation and that of the team or company?

Opportunity Cost

What projects and opportunities must I give up to pursue this project? How reasonable is this?

Based on ***Just Start***, Leonard A. Schlesinger, Charles F. Kieffer, Paul B. Brown, Harvard Business Review Press, 2012.

can be confident that employees will move in the right general direction, even though they don't yet know precisely how they will do this.

Google applies this principle when it allows employees to devote 20 percent of their time to projects of their choosing. Google can offer this sort of liberty because its employees share the values of a strong company culture and thus tend to follow established strategic guidelines. Other companies have institutionalized daily *stand-up meetings*. Conducted standing up, these short meetings at the start of the day gather all of the team members together to review the business and identify important priorities and potential issues. These brief, but frequent discussions of shared objectives point people in the right direction and help them understand where to focus their efforts and initiative..

3 Rehabilitate the right to make **mistakes**

Although the "zero defect" culture can improve quality significantly in stable environments, it can become a serious obstacle to initiative and learning in shifting, uncertain contexts.

The right to make mistakes is now integrated into most management charters. In practice, however, many companies show relatively little tolerance for mistakes. Local managers fear that if they express the right to make mistakes loud and clear, employees may lower their guard and neglect their duties. What is more, senior management tends to promote people who have experienced only successes rather than those who have made mistakes, etc.

> Mistakes must be valued as opportunities to learn collectively.

Yet, the companies that do best in times of crisis are those that manage to rehabilitate the right to make and learn from mistakes. Although deliberate malfeasance and serious misconduct are not tolerated, these firms capitalize on the errors inherent to experimentation and calculated risk-taking to boost collective performance. They are characterized in particular by the following practices:

Analyze all mistakes without exception

Most companies try to analyze their mistakes. However, most simply analyze their biggest errors, whose consequences were or could have been serious. Small mistakes are seldom examined, because they may go unnoticed, be quickly rectified, or are minimized more or less consciously by those who make them.

A true learning culture must look at every glitch, even the most trivial, to derive lessons from them **(Figure C)**. Although mobilizing this sort of energy to analyze mistakes with minimal consequences may seem unproductive, a succession of small errors or an isolated mistake can often lead to big snafus if neglected. On the other hand, companies that learn to spot every error end up learning the most. For example, an analysis of 4,600 satellites launched between 1957 and 2004 by nine countries show that the companies

FIGURE C Analyze mistakes and failures

Mistakes and failures are essential sources of learning. Errors must be analyzed systematically, especially those with little impact. The following tips can help to optimize this process:

- Systematically analyze **all mistakes**, even those which have little or no impact;
- Ask participants with different **backgrounds, status and experience** to share their perceptions;
- **Don't punish** people for making mistakes, except for deliberate misconduct or the failure to observe mandatory rules and regulations;
- Avoid **making excuses** and **finger-pointing**;
- Don't confuse the **quality of decisions** with the result obtained: A decision may be good even if it fails to produce the desired results;
- Distinguish what was caused by environmental **circumstances**, individual characteristics and the project itself;
- Try to understand whether errors are **recurrent**;
- Identify **behaviors and assumptions** that deserve to be challenged;
- Identify **corrective measures** and those responsible for executing them;
- **Disseminate** the results of the analysis within the organization.

Based on ***Les décisions absurdes***, Christian Morel, Gallimard, 2002
and ***Failing to learn and learning to fail (intelligently)***, Mark D. Cannon and Amy C. Edmondson, Harvard Business School Working Paper, 2004.

that admit to having made mistakes are much more reliable than those who admit to none. Indeed, the systematic analysis of even tiny mistakes creates a virtuous circle that facilitates collective learning by dispelling the guilt that often drives people to dissimulate or minimize their missteps. The entire organization is thus given the opportunity to learn from these errors.

Dare to admit the fallibility of company leaders

To set the example for the rest of the organization, many company leaders intuitively believe that they must be infallible. Yet this attitude is often counterproductive. Impressed by the real or simulated infallibility of their superiors, employees may be tempted to follow this model by minimizing or dissimulating their own inevitable failings. In doing so, they deprive the organization of the opportunity to take advantage of the lessons that could be drawn from their mistakes, and may even expose the company to serious risks as a result.

To encourage their subordinates to discuss their failings, managers must be willing to admit their own. Richard Branson is exemplary in this regard. He has managed to walk the fine line between conveying an unrealistic image of total infallibility, which would paralyze the organization, and an overly vulnerable image, which would make people uneasy. Whenever Virgin experiences setbacks, Branson never attempts to hide or minimize his disappointment, but is careful to thank people for the work they have done and rapidly bounces back with a new idea. By his attitude, he shows that mistakes are always a possibility when taking any initiative, but can be turned into a positive experience if they are used as learning opportunities. This attitude has had a powerful impact on Virgin's success.

Sensitize local management

Local management has an essential role to play in rehabilitating mistakes. Front-line managers are in the best position to identify small mistakes and work on them with their teams. Many managers are reluctant to share this information with their superiors, however. For example, shortly after having been appointed as CEO of Ford Motor Company, Alan Mulally established a green, yellow, red visual reporting system to enable managers to signal the status of projects as "fine," "needing attention" or "critical." He was immediately surprised when he received nothing but green reports, at a time when Ford was losing a great deal of money. A campaign was launched to sensitize local managers to the value of learning from mistakes and reassuring them that reporting errors would not result in negative consequences for themselves or their teams. Gradually, managers took on the role of liaison in identifying and processing errors, and the company was then able to learn from individual initiatives.

4 Move from individual to **collective learning**

People incontestably learn when they take initiatives and experiment. However, what is learned may well remain highly localized if a process is not established for the whole organization to take advantage of the lessons drawn from individual initiatives.

> Action-based learning requires a systematic and structured approach.

Analysis of the experience of top-flight learning organizations reveals three essential prerequisites for collective learning:

Actively combat groupthink

Groups of people demonstrate surprising inertia - the larger the group, the less willing the members to learn from individual experiences. Indeed, groupthink drives people to seek out the dominant belief, and ignore information that might challenge it. Since others in the group do likewise, this attitude tends to be self-reinforcing!

Alert companies use contrarian thinking to combat the impact of this phenomenon. This approach led to the discovery of a huge success for Organon Laboratory, for example. This lab that had been testing the antihistaminic properties of a particular drug, but field trials on patients were inconclusive. Just as the team was about to give up on the project, a medical secretary noted that the mood of some of the patients had radically improved over the course of the experiments. This remark, which ran counter to the dominant thinking that the drug was a failure, was not taken seriously by the researchers until one doctor decided to investigate further. The ensuing studies revealed the definite antidepressant effect of the drug, which went on to become a big commercial success. The only reason this particular doctor was able to glean useful information from otherwise inconclusive tests was his ability to skirt conformist thinking.

Structure the sharing of learning

People do not naturally share what they learn from their personal initiatives. At best, those who conduct an experiment may talk about it with their boss or one or two close colleagues at the coffee machine. However, the flow of communication will peter out if it is not organized, because people are busy and have other priorities to manage.

It is thus up to managers, and ideally to the entire organization, to establish procedures for people to share what they have learned **(Figure D)**. The time required to set up these systems is extremely profitable, as illustrated by the example of the Marketplace organized by the Danone corporation for its annual convention. Best practice market stalls are prepared by each country to share experiences in various domains that can be potentially transposed to other countries. For instance, this is how Danone France quickly learned how to counter the launching of Nestlé *Sveltesse* in the diet yogurt market. Inspired by a low-calorie dairy product that had been launched successfully by Danone Brazil, Danone France adapted the original recipe and was able to commercialize *Taillefine Delicioso* much more rapidly than if it had started from scratch, quickly overcoming the initial competitive disadvantage. The time required to prepare and subsequently consolidate best practices is ultimately minimal relative to the potential strategic and operational rewards. The test-and-learn cycle is thereby considerably accelerated.

Always clarify your assumptions

One of the obstacles to collective learning lies in our assumptions. Indeed, the meaning that we give words and the hypotheses on which we base our conclusions are obvious to us. However, other people, especially if they work in a different context, may have very different assumptions. For example, a plant director may tell his boss that performance has dropped for one of his teams. For him, performance means meeting deadlines, so the main cause is too many orders, whereas his boss understands that the team's productivity has declined. Efficient learning cannot take place under these conditions.

It is very important to anticipate and manage the risks of misunderstanding to keep the rest of the organization from drawing the wrong conclusions from a given experience. For this reason, companies must be careful to clarify the meaning of the words used, define a few key indicators known to everyone, avoid implicit messages, be as concrete as possible, etc. This discipline can keep people from having to guess and make their own interpretations, and thus prevents relevant knowledge from falling through the cracks.

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While companies must be bold and creative to survive and thrive in crisis environments, they often regress because uncertainty and the lack of visibility hold them back. In contrast, the most successful organizations integrate uncertainty into the project management process, and can thus rapidly apply the lessons learned from their initiatives to adapt and manage the corresponding risks.

FIGURE D Structure feedback on experience

Learning from experience is important. However, structuring feedback is critical to ensure that individual experiences can benefit everyone, and not just those who were there.
Below is an example of structured feedback on experience at Danone, based on the Market Place model:

Four Key Points	Example
THE PROBLEM Which was the encountered problem?	A major industrial corporation holds an innovation challenge in its R&D division every year. Yet, the last round was a failure. To tell the truth, for the past few years, the momentum has gradually been lost. Fewer and fewer employees participate, and the challenge goes almost unnoticed in other divisions. The resulting innovations are not particularly valued.
THE SOLUTION How was the problem handled?	Whereas the temptation was strong to put an end to the challenge, company leaders decided instead to extend it to the entire company. Every division was invited to submit innovations in any domain of application. A major communication campaign about the "Innovation Day" was launched to recognize challenge participants and their proposals. Prize-winning innovations were not only recognized and developed by the host organization, but also proposed to subsidiaries abroad to facilitate their adaptation and adoption across the world.
TANGIBLE BENEFITS What advantages did the solution create?	The innovation engine started humming once again, as all divisions became involved in the innovation challenge. A great number of proposals were submitted, even by support functions, which everyone assumed would be the least interested. Many proposals led to constructive innovations, and people felt reenergized and motivated.
PRACTICAL IMPLEMENTATION DETAILS What lessons can be taken away from this solution? What are the steps to follow and for what should you watch out?	The project team organized for the innovation challenge laid out the steps followed and points to watch. This document was shared on an intranet site.

FIND OUT MORE

Our selection

To find the best ideas on this subject, we recommend the following publications:

Just Start

Leonard A. Schlesinger, Charles F. Kieffer, Paul B. Brown, Harvard Business Review Press, 2012.

This book is based on the conviction that in times of crisis and unpredictable change, many traditional operating practices become irrelevant. Based on the example of many entrepreneurs, the authors derive the "Creaction" method, which recommends rapid and repeated test-and-learn cycles in which people take action, learn from their experience and make required adjustments in real time. To minimize the risks of taking action in low-visibility situations, the authors suggest establishing and managing acceptable loss frameworks. Within the limits of this framework, people are then free to take initiative. The attitude toward failure is deeply reconsidered; mistakes become the result of testing and an opportunity for learning, rather than an end to a process. Entrepreneurs are thus able to take initiative rapidly, make adjustments and remain in close touch with market expectations.
Although this book was primarily written for entrepreneurs, it could benefit anyone who wants to improve the agility of his or her organization.

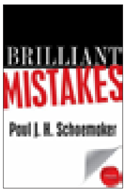
Teaming

Amy C. Edmondson, Jossey-Bass, 2012.

Amy Edmondson clarifies and develops three principles to help teams work and learn continuously together, namely, speak up, ask questions and share ideas. This approach requires managers to instill a climate of trust and proactively set the example. A large portion of the book is devoted to the importance of mistakes in the learning and innovation process. Amy Edmondson also underlines the need to stop thinking of teams as static, isolated entities, but instead to integrate and reinforce their interactions with other teams. This mindset is designed to eliminate the visible and invisible dividing lines that obstruct the sharing of knowledge, and companies can support its development by building a common vision, fostering a shared sense of curiosity and identifying relevant interfaces.
Although the book remains largely theoretical, the author proposes structured steps illustrated with concrete suggestions.

Brilliant Mistakes

Paul J. H. Schoemaker, Wharton Digital Press, 2011.



This book helps to rehabilitate the right to make mistakes. Indeed, managers must learn to spot and utilize brilliant mistakes as a source of learning and innovation that more than compensates for the cost of the original error. Paul Schoemaker starts from the principle that it is best to fail quickly and cheaply in order to bounce back all the quicker. He goes as far as to propose a process to make mistakes on purpose to test ideas, combat fears and finally take the risk of succeeding! These deliberate mistakes are suggested as a good way to test erroneous assumptions and discover new options.

And also...

We also relied on the following publications:

- *Danone se raconte des histoires - une version latine du Knowledge Management*, Franck Mougin, Benedikt Benenati, Ecole de Paris du Management, 2005.
  An analysis of the key success factors of the best practice Marketplace at Danone.
- *Failing to learn? The Effects of Failure and Success on Organizational Learning in the Global Orbital Launch Vehicle Industry*, Peter M. Madsen, Vinit M. Desai, Academy of Management Journal, vol. 53, 3rd edition, 2010.
  The most reliable organizations are those that learn from their failures, not those which never fail.
- *Strategies for Learning from Failure*, Amy C. Edmondson, Harvard Business Review, April 2011.
  A method for classifying mistakes which distinguishes between errors to avoid and errors that can serve as learning opportunities

Further readings

To explore this topic further:

- *Learn by experience*
  (Manageris synopsis 203b)
  How can you develop the reflex to learn systematically from your successes and failures?
- *Grow from your mistakes*
  (Manageris synopsis 151b)
  How can you foster a company culture that recognizes the value of errors and is able to put this analysis to good use?
- *Building teams that are both efficient and creative*
  (Manageris synopsis 168b)
  How can you reconcile productivity and creativity?

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