May 2017

Research & Knowledge

After two years of research, the Baillet Latour Chair on Strategic Error Management shares its insights and advice on how to manage errors

You Can't Avoid Errors but You Can Learn How to Manage Them

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What do Fortis, Volkswagen and Wells Fargo have in common? These were companies that fell from grace in the wake of strategic errors – Fortis didn't even survive as an independent institution. Research shows that errors occur all the time in organizations. From excel spreadsheets used in professional contexts containing erroneous cells (50% and up to 80% when there are formulas) to complex organisational and strategic errors that even well-trained and experienced executives have a hard time dealing with. It is the starting point of the Chair that trying to prevent errors only goes so far. Even in aviation, where safety is paramount, pilots make several errors per hour! A CEO we interviewed in a large successful company estimated that errors challenging the strategy occur every four months.

The key is to learn how to manage errors. Managing errors amounts to disconnecting initial mistakes from potential catastrophic consequences. This is what the Baillet Latour Chair on Strategic Error Management at the Solvay Brussels School of Economics & Management works on. After two years of research, the first course for Masters students was taught from February to May. This course probably represents a premiere in the world of business schools! Here we share a number of insights from our research.

Evaluate the potential for strategic errors

Making errors is human. Individually and organisationally, in the interaction between people at all levels of the hierarchy, and even more so across the hierarchy. A critical factor lies in how safe we think it is to speak about errors in the organization (see box). Managers report and correct errors much more easily and timely if they promote transparency and perceive that openness is rewarded. On the contrary, if managers fear they will be sanctioned if they report things gone wrong, they will think twice about it. This may trigger a nefarious spiral of denying and cover-up. Authoritarian managers must learn in advance: the more fear they inspire, the more likely it is that small errors will be amplified and they will never hear about issues. The "Dieselgate" at Volkswagen is a case in point. A leadership culture that never took "no" for an answer and punished bearers of bad news resulted in large-scale fraud and cover-up.

Assess error signals

An error is something that differs or deviates from normal. When in managerial or executive positions, it is often difficult to detect actual errors as we rely on indirect information, such as reporting documents. We must rely on error signals. Error signals are partial indications that something is wrong. For example, in a large multinational FMCG company, some market tests were skipped in the process of launching a new product. It certainly contributed to the utter failure of the launch, resulting in losses of tens of millions dollars. Oddly enough, our research pointed at a specific type of error signal: indicators that are too good to be true. "I'm more worried when I see an audit report with all boxes checked, as it is extremely unlikely", the chairman of a large insurance company said.

Assessing error signals consists not only of noticing such deviations, but also of projecting how they could impact the strategy. For example, as soon as he heard of a rogue trader at Société Générale back in 2008, the CEO immediately calculated it could bring the bank down. He was then able to thwart disastrous consequences.

Acknowledge the errors

It is a common pattern for people in power to assert they never made a mistake. CEOs must be right all the time, right? Research shows precisely the opposite. Executives who muster the courage to face errors in their firm are those who manage strategic errors better. Acknowledging errors represents the most critical step in the strategic error management process. It requires some courage and out-of-the-box thinking. But error acknowledging doesn't amount to self-blame!

As strategic errors never stem from one single decision and one single individual – be it the CEO – error acknowledgment supposes to recognize that "we, the company" have made an error. Offering apologies, naturally is a plus. Too often executives choose the opposite path and plead not guilty, as they couldn't know something was wrong. In our era of demanding transparency, this kind of defense is a sure way to go from CEO to ex-CEO: ask the executives of Fortis, Volkswagen and Wells Fargo, among so many others.

Act upon acknowledgment

Words are fine, but deeds count a lot more. In the case of strategic errors, acknowledgment only goes so far as executives adjust strategy, which may require deep changes. In our research, we compared two banks faced with the same litigation risks from regulators after the same kind of wrongdoings. Both acknowledged the issue, but only one took action by cooperating with the regulator and fixing internal processes, while the other waited and hoped for the best. The former incurred penalties 10 times lower than the latter.

As errors are a fact of life, we benefit not only when we learn from past mistakes, but also actively manage errors of our own and especially those of our organizations.

Key questions for strategic error management

In my company, in my job…

1. How safe do people think it is to report to one's boss something going wrong?
2. How rare is it to be blamed by the hierarchy if something has gone wrong?
3. How engaged are people in correcting errors as soon as they occur?
4. How attentive am I to indications that deviate from normal?
5. How suspicious am I when hearing good reports that I cannot explain?
6. How much time do I devote to build on error signals and worst-case scenarios?
7. How ready am I to acknowledge an error that occurred in my area of responsibility?
8. When an error occurred, how resolute am I to not throw the blame on individuals?
9. How ready am I to share with others the error episodes I was part of?
10. When an error occurred, how ready am I to apologize on behalf of others?
11. How much do I change my way of doing things after recognizing errors?
12. How efficient am I in fighting the temptation to hope for the best?

Please rate yourself on a 1–5 scale, where 1 represents "Not at all" and 5 "Extremely". Total scores below 45 may call for attention.

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