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Making hindsight foresight: Strategies and preparedness of failure management☆

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INTRODUCTION OF FAILURE MANAGEMENT

Failure can be beneficial. In other words, failure can help us make creative breakthroughs. But how? Let's think about the answers to the next questions. How did the United States use the threat of the USSR's achievements during the space race of the 1960s? How did the Post-it note of 3M that was too weak to permanently hold paper on a surface become so popular among consumers? How can you throw heavy opponents easily in judo? How did Apple spin Steve Jobs's death to be beneficial to the sales of iPhone 4s? In short, are there any systematic patterns through which we can make creative strategies by using failure or adversity? This study attempts to answer this question.

Recently, the idea that failure can be a paradoxical seed for creating strategies has come to light. The idea of "failure management" suggests that entrepreneurs actually have been using their failures and challenges beneficially to create new opportunities. Of course, failure is in the eye of the beholder. According to the expectations of each decision maker, the definition of failure may range from total loss or bankruptcy to frustration, conflict, challenge, regret, or any adversity. One of the common grounds of the diverse definitions of failure is the fact that failure is an adverse state in which reality is inferior to expectations.

ABOVE AND BEYOND FAILURE MANAGEMENT

According to the framework of failure management, there are 16 different ways in which organizations can benefit from their failures or adversities. These 16 ways encompasses both retrospective and prospective activities in the face of failure. The retrospective approach to failure focuses on how to find and correct the causes of failure, which is a focus of risk management and crisis management. On the other hand, the prospective approach emphasizes more forward-looking ways to benefit from failure and create new opportunities. In sum, the failure management framework can help systematically describe and prescribe how organizations can use failures both retrospectively and prospectively by complementing risk management and crisis management.

However, the present framework of failure management does not specify the mechanisms behind the 16 propositions such as (1) either retrospective or prospective strategic options in the value chain of organization; (2) decision-making processes and preparedness of failure management. In light of this situation, we have employed a grounded theory approach to explore the answers to the following two questions.

Q1. What strategies can we create to use failure retrospectively and prospectively?
Q2. How can we assess how well we are prepared to use failure?

With the goal of answering these two questions, the examples presented in the introduction will be analyzed again to better determine systematic patterns behind creative strategies and also how to be better prepared in the face of failure.

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Q1. WHAT STRATEGIES CAN WE CREATE TO USE FAILURE RETROSPECTIVELY AND PROSPECTIVELY?

For this first question, we need to think about the two types of answers to the question "**Why** did we fail?" The first type of answer is retrospective: "We failed due to (or because of) a certain **past cause**." The second answer is instead prospective: "We failed due to (or for) a certain **future purpose**."

If you take the first answer, you will focus on how to correct past errors. But if you adopt the second answer, you will pay more attention to how to evaluate the failure from the perspective of the future. Then, how can we systematically analyze such different attributions of failure to make strategies more creative? There are some distinctive factors characterizing the retrospective and prospective strategies in the face of failure, as we discuss below.

Factor One: How Do We Respond to Failure?

As the failure management framework suggests, failure can be operationally defined as "a state in which reality is inferior to one's goals or expectations." Such an inferior reality may occur in the forms of a deficiency, excess, or inconsistency. Based on the operational definition of failure, there are two ways to respond to failure (i.e., the case in which reality is inferior to one's goals). First, we can try to tune our reality to attain our goals. Second, we can try to adapt our goals to fit our reality.

Factor Two: What Opportunities Do We Get from Failure?

Besides the responses to failure noted above, opportunities from failure can occur in various ways. Considering various management activities that are conducted in the value chain of an organization, the benefits of failure may diffuse throughout the value chain. For instance, a failure in leadership can be beneficial to communication because a loss of leadership that had an entrenched network with outsiders can help diversify communication channels with external stakeholders. In another case, a failure in current customer relations can help facilitate new relations with the broader general public as new customers. In a nutshell, in order to help describe such difference between "where failure occurs" and "where opportunities occurs thanks to failure," management activities in the value chain or organization can be categorized as follows.

Management activities in the value chain:

- Governance/leadership
- Internal human resources
- Planning/communication
- Physical capacity/assets
- Finance
- (Relations with) partners/contractors/suppliers
- (Relations with) customers
- (Relations with) the general public
- (Relations with) competitors
- (Relations with) regulators

In terms of these management activities in the value chain of an organization, there are two types of opportunity from failure. The first type of opportunity from failure is that we can improve our reality using failure as an impetus to change. This opportunity occurs in the same management activity in the value chain in which the failure occurs. The second type of opportunity from failure is that we can create new goals using failure as a door to new benefits. This opportunity occurs in a management activity in a value chain other than the one in which the failure occurs.

One example of the pattern in which benefits of failure diffuse to every corner of management activities in the value chain is listed in Table 1. This 10×10 symmetric square shows the relation between the two things—"where failure occurs" and "where opportunities thanks to failure occurs" in the value chain of an organization. In this table, "S" in the diagonal represents the case that opportunity thanks to failure occurs in the same value chain as where the failure occurs, and "D" represents the case in which the opportunity occurs in a value chain other than the one in which the failure occurs. In this way, this table exemplifies the patterns of how benefits of failure diffuse throughout the value chain of an organization.

Spectrum of Retrospective and Prospective Strategies of Failure Management

By using the two factors noted above (i.e., how we respond to failure; what opportunities we gain from failure), the scopes of retrospective and prospective strategies dealing with failure can be systematically described, as listed in Table 2. This table lists the spectrum of retrospective and prospective strategies in a two-dimensional matrix using the two factors discussed above.

Because the retrospective approach to failure is to find and correct the causes of failure, the upper left area—where tuning and improving reality appears—represents the retrospective approach best. On the other hand, because the prospective approach to failure is to explore new ways to use failure, the lower right area—adapting and creating goals—represents the prospective approach best. However, the line between the two approaches might not be dichotomous but rather continuous, which is why the two approaches are visualized as the opposite ends of a spectrum.

Four Strategic Options for Dealing with Failure

Such a continuous distinction between the retrospective and prospective strategies can be specified with four discrete strategic options. Table 3 lists how the combinations of the two dimensions yield four different strategic options for dealing with failure. It should be noted again that the line between each of four strategic options is not always clear. The strategic options suggested in this study are instead "archetypes" that may be used in a mixed form in practice. Each of the four strategic options listed in Table 3 is explained using widely known examples.