B2B Insights: Organisational learning from mistakes and failures

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In the highly competitive business markets of today, it is important to stay ahead of the competition by being agile and strategic. But what does it actually mean? To run a profitable business, a company must develop a culture oriented towards continuous learning and improvement. This includes, among other things, learning from failures and mistakes. It relates to, for instance, a mistake of buying a malfunctioning product from a supplier, to use in your own production process. Or failure when choosing a new business partner, without being aware of their unethical business practices. However, the way companies react to mistakes and failures reflects their culture and way of doing business and treating employees. Following these insights, in this article, we aim to explore ways that companies can learn from their failures and mistakes while finding tactics to turn them into valuable lessons for the future. To achieve that, we will analyse different types of learning, critical points to consider in this regard, some examples, as well as the benefits and challenges of using mistakes and failures as a learning opportunity.

Different types of learning

In the following, three different types of learning from mistakes and failures will be presented to highlight their main characteristics.

1. Learning from your own past mistakes and failures

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In addition to the formal education and the official training that starting a new job often entails, research has examined professional experience as crucial for improving a person's skills, knowledge, and overall learning (Gottschalk & Muller, 2022). Thus, the most direct and

impactful way to raise your skills will be your experience, which you develop by working hard and learning over a prolonged period of time. When we talk about entrepreneurs, operating and managing a business would be considered as one of the examples.

However, running a business comes with a variety of mistakes and sometimes even an experience of complete failures, such as bankruptcy. Nevertheless, even bankruptcy can provide valuable lessons and an opportunity to learn from past experiences with the goal of not repeating them in the next business venture. Bankruptcy is something that the European Commission considers a learning opportunity by claiming that it provides a chance for the entrepreneur of a fresh start and better performance for the second venture. As a result, the Commission created the initiative called "A second chance for entrepreneurs", by changing certain laws in order to make it easier for bankrupt businesses to reopen after a failure (European Commission, 2011).

2. Learning from your recent mistakes and smaller failures

While learning from mistakes you experienced first-hand in your previous companies or different jobs can be beneficial for the current organisation you are involved with, you will most likely encounter new challenges and mistakes in the current job role. This, for instance, relates to mistakes in everyday business operations and includes small, intelligent failures (Friend et al., 2020). Those are related to experimenting and exploring different alternatives to existing procedures and ways of doing things to improve the productivity of a company's operations as a whole.

Small improvements in the speed of production or a decrease in operational costs in one of the departments may not seem like a big improvement, but when applied on an organisational level, the results are worth the effort. That is where the company's culture comes into play as crucial. The amount of learning will correlate with the support that individuals get for endeavours that could lead to such learning experiences. This relates encouragement to experiment and fail fast, to learn even faster (McGrath, 2011).

3. Learning from the mistakes and failures of others

Learning from the mistakes and failures of others, as researchers call it 'vicarious learning', relates to learning from the experience of your colleagues, companies from the same industry as yours, or even your competitors (see e.g., Kim & Miner, 2007). This type of learning can serve as a wake-up call and encouragement to search for new ways of doing business.

Some studies show that vicarious learning is more valuable than learning from others' success stories (Sitkin, 1992). While there is nothing wrong with getting inspired by other firms' success and using it as a benchmark, learning about what went wrong in a bankrupt company can offer powerful lessons and a proven template for solving similar problems in the future. Learning from those examples can benefit you in different ways, whether it makes you avoid certain risky practices that could negatively impact your business, or it makes you

search for new solutions to existing problems (Kim & Miner, 2007). It can even make you aware of upcoming big changes and challenges the business you are in could go through, which might give you a head start in preparing for the upcoming shift.

Analyse, understand, and solve your problem

Learning from mistakes and failures is not an easy task, but at the same time, "in an uncertain and volatile world, avoiding failure is not an option" (McGrath 2011, p. 83). However, learning can be achieved by adopting an organisational culture that celebrates learning and supports experimentation, i.e., where mistakes are considered as growth opportunities, rather than something to be punished for. As Koporcic et al. (2023) found in their study, companies need to be willing to put in the effort and resources to learn from mistakes and failures, as it is not as easy as it might seem.

The first step is in recognising the mistake or a failure and being open to sharing it with the team and admitting when something goes wrong. Everyone needs to be open-minded to make sense of the mistake and not be judgmental or searching for someone to take the blame. This will in turn help with finding a better solution, which is the second step of the learning process. Throughout it all, it is important to have a company culture that fosters learning and encourages experiments and mistakes that will lead to the improvement of a company as a whole. But the work does not stop there.

Thirdly, to make some visible progress, the lessons learned, and the new solution(s) need to be put into practice, through different adaptation processes and implemented changes in the organisation. Last, but not least, the new progress needs to be monitored to ensure that the learning is beneficial, and the changes are effective in preventing similar types of mistakes in the future. Great ideas are still just ideas until they have been put into practice. Finally, we can summarise the process into the simple 'formula': identify mistakes and failures + find a solution + implement the new plan + monitor and modify as needed = avoid similar issues in the future.

The automotive manufacturer Toyota's story serves as a good example to illustrate how learning from mistakes can be managed well. After having to recall millions of cars in the early 2000s, because of the significant quality problems with certain models, Toyota's management did not play the blame game and made matters worse. Instead, they took responsibility for the mistakes, encouraged their employees to identify and report problems, as well as found solutions and implemented them to improve the quality of their control processes. They developed a culture that supports continuous learning and experimenting, intending to prevent problems with the cars produced in the future. This strategy worked remarkably well and resulted in Toyota being considered one of the most reliable and best-selling cars in the world.

Benefits and challenges of learning from mistakes

and failures

Each sector of business or industry has its own specific set of benefits and challenges, while some of the challenges span sectors and industries and are more or less common across different organisations. All businesses strive to ensure high-quality relationships with their customer base, to keep their brands relevant, and to maintain their employees satisfied. Facing and overcoming any challenges that emerge, while learning from the related mistakes and failures, is what makes a good business stand out from its competitors.

Next, we present some of the benefits as well as challenges a company might face along the learning process. While these lists apply to any business context, they are not sector or industry-specific.

Benefits of learning from mistakes and failures:

- Allows for continuous improvement of products and/or services as well as of organisational processes;
- Helps to avoid similar mistakes in the future, while saving time as well as financial resources;
- Prevents a total failure, such as bankruptcy;
- Brings higher levels of employee engagement and satisfaction;
- Promotes innovation, efficiency, and resilience in the market.

Challenges of learning from mistakes and failures:

- Can be costly;
- Can be unsuccessful and create tension in the team;
- Can reflect negatively on a firm's reputation;
- Can be time intensive and restrictive if the firm focuses only on short-term goals;
- There can be resistance to change among employees and departments, which restricts the learning possibilities and potential of repeating the same mistakes in the future.

Conclusions

We want to leave our readers with the following advice: in your company, you should not only focus on learning from mistakes and failures. Instead, you should promote smaller, intelligent failures as a strategy that allows for mistakes, experiments, and innovative trials (Cannon & Edmondson, 2005). While trying to innovate and grow your business, mistakes and failures will be impossible to avoid. Therefore, you should not aim to do so. On the contrary, you should recognize failure and mistakes as an important part and a by-product of learning and experimentation (Edmondson, 2011).

Successful organisations are those that strategically create an environment where employees feel safe to admit the mistakes they made. They develop and nourish a learning culture that will lead to increased efficiency from an operational perspective as well as higher

employee satisfaction. Only by carefully examining past mistakes and failures can a company make sure to take corrective actions that will lead to improvements and the creation of a more innovative, effective, and resilient future.

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