

# Report on Business

## Failure and risk

How can business 'successfully fail' so it becomes a learning experience for all involved?

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Globe and Mail Update Last updated on Friday, Apr. 10, 2009 06:39AM EDT

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Innovation is the result of taking big leaps, but failure is often the downside of taking those leaps. While media profiles on [successful companies](#) have long celebrated how business encourages creative risks and embraces the possibility of failure — from the battle-tested CEO to the front line worker — without penalty, we wondered if this was a myth, especially in today's tough economy.

So Incubator asked business leaders, **Tony Chapman**, CEO of Capital C, a Toronto communications and advertising company, **Charles Plant**, [Managing Director](#) of the Market Readiness Program for entrepreneurs at MaRS, and **Naeem 'Nick' Noorani**, founder and publisher of Canadian Immigrant magazine, a series of tough questions about risk and failure.

### Is failure necessary?

"The only way you're going to grow your business is innovation," says Tony Chapman. "If you're going to have an innovative culture, you must understand that that comes with the acceptance of failure. Innovation comes with a lot of mistakes."

"You need a culture that allows failure for success because without it, people become anti-failure," says Charles Plant. "Trying different things is the act of innovation. If you fail 14 times, hopefully you're going to succeed on the 15th try. Without failure, we're not going to be driving and growing the economy."

"Canadian Immigrant magazine was my 17th entrepreneurial venture," says Nick Noorani. "The other 16 were lessons in how to do it right!"

### Myth or reality?

"Everybody in theory embraces the concept of failure and risk but if the person at the helm is purely financially driven, there really isn't a lot of tolerance for risk" says Chapman, who says the tolerance for failure in his own company is incredibly high. "We're in the business of creativity so our profitability is based on being able to deliver big ideas that work. The cost of that is that some jobs are just not going to make money. Nobody is penalized for that because collectively, we all share in the success of the business."

Plant says that acceptance of failure is a cultural problem in Canada in that we tend not to reward the people who have failed. "We tend to punish people who fail whereas in Silicon Valley, they tend to reward people who have failed because they've learned lessons and can gain from that failure."

"There are measurement benchmarks that we can't get away from, depending on the business," says Noorani. "But we need to give people the opportunity to be creative and therefore, allow them to fail."

### Is there a permissible way to fail?

Everyone agrees that the key to successful failure is doing it in a sensible manner to protect against the downside. The trick to successful failures is to know when to quit.

"I think you have to quickly acknowledge when something is a failure and have a back up plan of what you're going to do," says Plant. "Don't keep flogging a dead horse."

According to Chapman, there are two types of failure in his company: external and internal. The most punitive is external where they've failed in the eyes of their client because it's not only lost revenue, but loss of reputation and confidence as well. In that case, the best way is to handle it with transparency and honesty with the client and to talk about solutions to make sure it won't happen again. Internally, Chapman says that they've put a process in place to mitigate and isolate failures. Each step along the way, they evaluate so they can course correct if needed. Then, if they have to abandon something, they're not months down the road.

### Employees who fail

According to Chapman, employees who've failed become the most valuable employees because they've learned wisdom along the way and how to deal with their mistakes. "Everybody makes mistakes in this world, says Chapman. "You've got to have a culture that's not a culture of fear but one of creativity and innovation."

"To make failure a learning experience, first you have to celebrate it by acknowledging in a very positive way, the person who tried something and failed. You can't hide it under a table," says Plant. "You've got to develop a system that both rewards for the attempt as well as the success. Frequently, we don't do that and that sends a bad message. The act of punishing people makes them want to stop innovating."

We also need to build more accountability into failure, according to Plant who says that when failures are detrimental to the economy, we can't pretend that nothing happened. "Right now, some people are being rewarded for absolutely hideous failures, such as in the banking system," says Plant, who is also a Chartered Management Accountant. "Part of the problem is accounting which does a very poor job of measuring risk. Never leave anything up to the accountants!"

Noorani says that immigrants tend to view failure as devastating so it's essential for senior management to be involved in making the employee comfortable in the environment. "Employees become empowered when they take risks," says Noorani. "Employees who don't take risks are essentially pen pushers."

### Tolerance of failure by industry and size

"Anybody who's in the business of inventing the future has to be more tolerant of risk and failure because the future hasn't been created yet," says Chapman. "If you're in the business of creativity or innovation, software, technology or ideas, you have to be tolerant of experimentation and creativity. If you're in a business with very thin margins, it's difficult to absorb the cost of failure into your system. But if you have more margins, an organization tends to have a greater appetite for failure, because that failure is leading to the next invention that will make the next high margins for the firm."

According to Plant, there's a different risk tolerance in smaller companies versus big ones, although he doesn't see a real difference by industry. Whether a company tolerates or accepts risk depends largely on the nature of the company. "The more established companies probably don't tolerate failure as well so they don't actually incubate a culture of risk," says Plant. "Larger companies do a lot of things to make sure they don't fail. Smaller ones tend to favour risk because it's the only way they can get ahead. And if you're doing things that haven't been done before, then you're going to fail again and again."

## The effect of the current economy

"A lot of people are going to work in an economy of fear," says Chapman. "The greatest danger of this economy is that it will create a culture of fear. Companies will not get to where they want to go by keeping the status quo."

"You have to allow people to fail in this economy," says Plant. "It's failure that leads to productivity gain and innovation."

"The danger is that creativity will be lost in this fear miasma," says Noorani. "The economy will come back and we must be prepared for it."

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