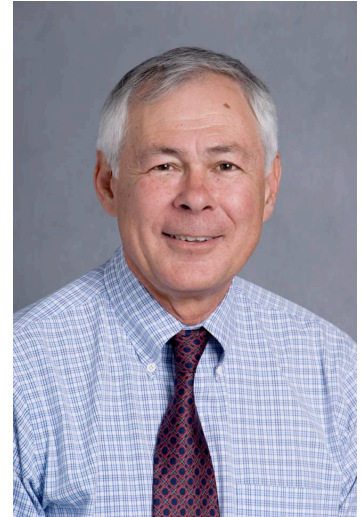


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Can firms learn from collective history?

We are all told from early childhood, by our parents, teachers, and everyone else, that we must learn from our mistakes. How many of us have said to ourselves: "I'll never do that again!" or, "That's a lesson I won't forget." And yet, as organizations, as government agencies, and as a nation we seem to ignore those important lessons.

We've all heard George Santayana's aphorism: "Those who cannot learn from history are doomed to repeat it." If we look around today, at the Wall Street meltdown, the Iraq War, the California State budget, the demise of the Big Three automakers, at global climate change, it becomes abundantly clear that, although we may learn from our mistakes as individuals, we apparently have much more difficulty learning at the collective level, be it a business, an agency or society.

Just recently Alan Greenspan, in his testimony to Congress about how we got into the current financial crisis, admitted that he had made an erroneous assumption. He had assumed the executives of Wall Street investment firms would self-regulate and protect shareholders' equity, and he admitted that he was "in a state of shocked disbelief" that they would instead have been influenced by self-interest. What's really surprising to most of us is that he would be surprised at all.

For a number of years I have been pondering this problem. Why are our organizations so prone to making mistakes that seem so obvious to everyone after the fact? What is it about large organizations that make them so prone to taking excessive risks?

I believe there are three basic reasons. First, we have failed to sufficiently study failure; too much attention has been focused on what it takes to succeed and not nearly enough on what it takes to avoid catastrophe.

Second, while our goals are often collective, our incentives are almost always individual; success usually rewards the individual but failure is shared by all (take the current \$700B bailout of Wall Street).

And finally, our popular culture increasingly reveres intuitive common sense over evidence-based principles or experience-based wisdom.

Somehow we need to find a way to apply what we all understand so well as individuals to our organizations and institutions. As our world and the problems in it become increasingly far-reaching and complex, we need to develop a collective wisdom based on our shared experience and learn to avoid catastrophic mistakes.