# Five signposts on the road to Resilience

by Norman Chorn


## Abstract

*The recent GFC has re-ignited the interest in organisational resilience, the ability to anticipate and adjust to change before being knocked over. Our research has identified five signposts that characterise the journey to resilience. Several practices and processes are associated with the development of resilience. The role of leadership is shown to be paramount in following these practices and erecting the appropriate signposts for the organisation.*


## Does resilience matter?

The last 18 months has been extremely difficult for most organisations in developing and developed economies. While the history of the GFC is still being written and interpreted, we know that many of these organisations failed or had to make painful adjustments during the difficult economic conditions.

There is speculation that our current management models are outmoded and no longer fit the requirements of the communities they serve. Analysts point to many questionable practices by leaders and their organisations that contributed to the high number of corporate failures. But many other organisations, without excessive or “high-flying” practices, also failed or had to make painful adjustments in order to survive.

What can we learn from this difficult period from which we are now beginning to emerge? Are there practices and processes that can improve our ability to survive these environmental shocks? Some may argue that the jolt from the GFC was so profound that little could have been done to anticipate and survive it.

This may be true, but we have observed some interesting characteristics from organisations that display high levels of durability during times of change and crisis. While this may not be the whole answer to the issue of long term survival, these so-called “resilient” organisations offer useful insights into practices that promote longer term prosperity.

During the last four years we have been working with a group of organisations that we define as "resilient" – organisations that have demonstrated the ability to survive, and indeed prosper, during times of significant strategic and cultural change. Interestingly, this work commenced long before the so-called GFC became a significant factor in the business environment.

Our conclusion is that resilience does matter. Our society has learned some painful lessons about "creative destruction", the economic argument that suggests that corporate failure is an indication that societal resources are being used inefficiently and that they are better deployed elsewhere[1].

We believe that allowing "inefficient" people and organisations to die and be replaced is not the most useful way to think about adaptation! It is painful and often results in the loss of valuable learning and experience. And despite the recent liquidity crisis, we know that an economy's most critical resource is knowledge and intellectual property. We cannot afford to squander these valuable resources.

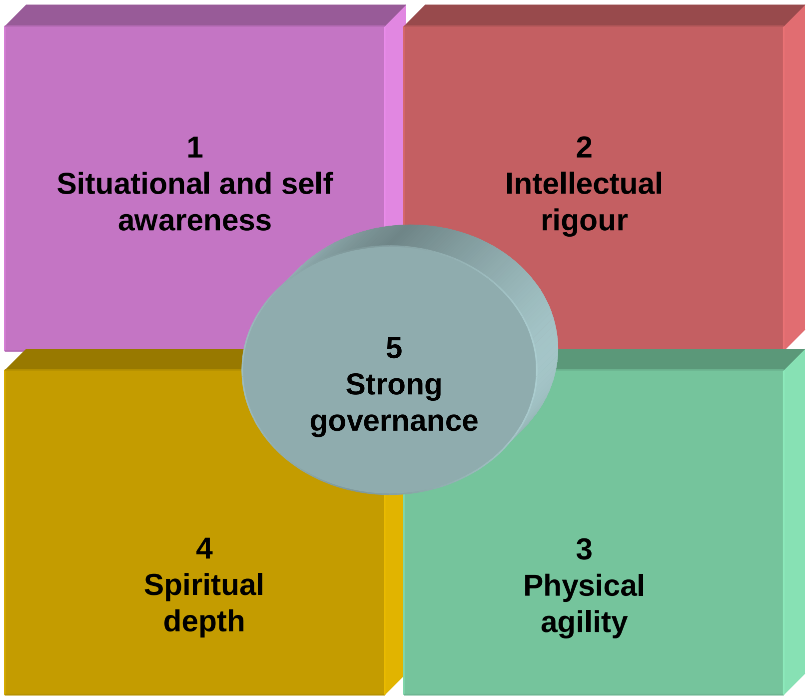
Our work in this area shows us that there are practices that are associated with resilience and the ability to survive significant change. And we believe that this is preferable to making the painful cost cutting so often connected with "turnaround" strategies.

## Five signposts of Resilience

Our previous work[2] defines resilience as the ability to ***anticipate and adjust to change before being knocked over***. By working with a sample of resilient organisations since 2006, we have identified five unique signposts that characterise these organisations. See our previous paper for more detail on this study.

Resilient organisations appear to display five key signpost characteristics – each of which is linked to a series of processes that contribute to their development:

[1] Schumpeter, *Capitalism, Socialism and Democracy,* 1942
[2] Chorn, *Eight Traits of Resilience*, 2006. See this paper for detail on the sample and methodology of the research.




### 1. Situational and self awareness

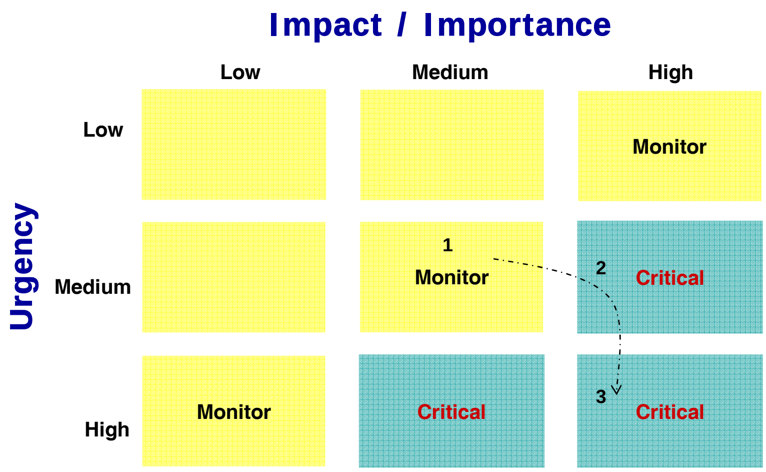
We found that resilient organisations have a level of emotional maturity that enables them to form an honest and unfiltered view of their situation. Action is rarely taken before a calm and relatively objective assessment of information. And the information is analysed from many different perspectives to produce a "rich picture"[3] of the situation.

This requires a willingness to tolerate ambiguity and paradox in the planning process – and a preparedness to dedicate the time to thinking things through.

Two key processes appear to be connected to the development of this situational and self awareness - an issues management process and the use of pathfinder groups

Issues management is a process of identifying and managing the key issues that face the business. After identifying the issues (and this is a relatively skilful process in itself), management team members begin conducting informal and ongoing research of their own. As they do this, individuals become more aware of information relating to the designated issues and begin actively seeking this out. Indeed, they begin "connecting the dots" – linking together apparently disparate pieces of data to develop a more comprehensive understanding of the subject under study. This focus on "soft" as well as hard data develops a richer picture of the issue.

[3] Van der Heijden et al, *The Sixth Sense*, 2002. The "rich picture" refers to an analysis conducted from multiple positions so as to produce a balanced, holistic view of the situation.




The use of <u>pathfinder groups</u> produces challenging insights about the organisation and its situation. By assembling groups of contrary thinkers who are close to the customer and technology, management can generate a series of challenging insights about the organisation. Because these people are usually outside the formal power “elite” of the organisation, they have little to lose by making suggestions and observations that challenge the status quo.

A key to the success of these pathfinder groups, however, is that they should be shielded from the corporate politics and report directly to the executive. When this condition is successfully achieved, a number of interesting observations can emerge.

We notice how often the current culture “blinds” the organisation and how the organisation’s prize assets can sometimes be a major millstone around its neck.

In one particular case, we noted that the highly effective sales force of a business was a key factor in their historical success. The organisation had invested heavily in their training and remuneration and the various sales managers had significant influence in the strategic decision making. However, this factor was preventing the organisation from exploring alternative channels of sales and distribution, such as the use of 3rd party distributors and the internet. Only after repeated observations by pathfinder groups did it become apparent that alternative channels needed to be seriously considered. Even this venerable sales organisation was becoming vulnerable to shifting market conditions.

## 2. Intellectual rigour

A notable feature of the resilient organisations is their alertness to potential change in the markets and the possible decay of their business models. They recognise that their business may not last forever, and there is a willingness to explore alternative business models as conditions change.

New options for the future are actively developed and many of these businesses assemble a portfolio of new opportunities for the future. These “experiments” are usually small and manageable – the key seems to be to have many small opportunities rather than betting the business on the success of a few large, higher risk ventures.

The performance of the overall portfolio is what counts, and this implicitly accepts the notion that some failure is inevitable – and indeed a sign that innovation is underway! Moreover, the portfolios are rich in variety and diversity. Many different things are attempted and championed by wide range of personnel throughout the organisation. In many cases, the variety often exceeds the scope of change envisaged in the industry!

This last point really caught our attention and we suspect that this is a key factor in dealing successfully with change. By experimenting with a wide range of options and possibilities within the portfolio, the organisation is better prepared for the “real thing” when it comes along. Almost like a dress rehearsal in front of a critical audience to prepare for the opening night!

Again, two key processes stand out as being critical to the development of this intellectual rigour.

<u>Scenario planning</u> has been attempted at some point by several organisations. Many are put off by the alleged complexity of the process and the notion that one cannot plan for an uncertain future. While the complexity argument is partially correct, a properly constructed scenario planning exercise can be easily undertaken by competent planners in most situations. However, the second argument – that one cannot plan in an uncertain environment – is worthy of further consideration.

Ironically, the need for planning in an uncertain environment is greater, since the organisation requires a different repertoire of capabilities to cope with the unpredictable conditions. And planning is essential to ensure that the organisation is ready. But the important consideration is the myth that scenario planning attempts to predict the future.

Instead of attempting to predict the future, scenario planning considers the range of possible futures that the organisation might face, and then seeks to develop the capabilities necessary to deal with these. In reality, scenario planning is a sophisticated approach to capability planning. As such, we have seen it used very effectively in a large proportion of the resilient organisations.

A recent example was its use by a hotel chain through the Australasia / SE Asia region. One of the possible scenarios was the outbreak of conflict between the key nations in the region, and the subsequent reduction in holiday travel. While this scenario did not eventuate, the recent outbreak of SARS had a similar impact on regional travel and the organisation was well prepared to cope with the subsequent change in holidaying patterns.

The second process we have observed being used to build intellectual rigour is the use of different growth horizons[4] in planning and the way that performance is managed. The resilient organisation appears to manage different parts of the business in quite different ways.

They recognise the inherently different challenges and skill requirements in the different parts of the business. They specifically avoid a "one-size-fits-all" approach and do not necessarily insist on standardised management and reporting practices across the board.

The resilient organisations are viewed as a portfolio of activities rather than a single-purpose machine. So while they insist on having a clearly articulated and understood strategic purpose running through the organisation, they are comfortable about accommodating diversity and sub-cultures within their portfolio.

In this way, the business portfolio is thought of in three different horizons[5], each horizon having a different set of performance, resource and risk criteria[6]:

[4] Baghai et al, *The Alchemy of Growth,* 1999
[5] Baghai et al, *The Alchemy of Growth,* 1999
[6] Chorn, N; *Building Corporate Resilience,* 2006

| | Horizon 1 | Horizon 2 | Horizon 3 |
|---|---|---|---|
| | Base business – traditional business of the organisation | Emerging business – in response to customer needs | Business of the future – yet to be created |
| **Key strategic issue** | Defend and manage the business for profitability | Respond to customer needs by expanding and improving the value proposition on offer | Establishing collaborative ventures with strategic partners / customers to create new opportunities for the future |
| **Key performance indicator** | Efficiency, productivity, profitability | Customer satisfaction, customer value, market share | Intimacy of relationship with partner, level of innovation |
| **Cultural style** | Reliability, systematic approach, control | Action orientation, marketing skills, focus | Entrepreneurial skills, innovation, visionary |

We observe that management puts in place systems and processes that supports – and indeed encourages – these differences so that they get the best out of the whole portfolio.

### *3. Physical agility*

This capability might seem more suited to an elite athlete than to a resilient organisation. In reality, the analogy is useful since it refers to the ability of a business to focus and apply different types of effort in different parts of the organisation. Once management recognises the different requirements across the three horizons, the organisation requires the agility to deploy its resources accordingly. It requires deft handling to manage the tension between the drive for centralisation (one size fits all) and the need for local empowerment.

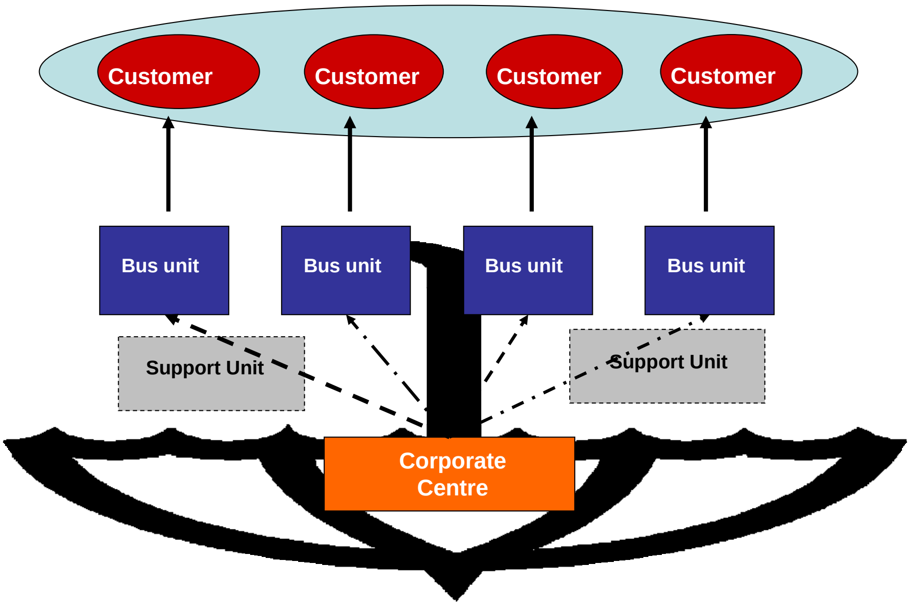
Two practices stand out as we analyse the development of physical agility in resilient organisations.

The first is the use of a portfolio organisation design that balances the need for some centralisation with local empowerment. There are several principles that can be identified in the development and application of such a design:

a) There is a clear distinction between the functions of the corporate centre and that of the business units. In general, the centre should set overall policy and performance standards while the business units deliver services. This means that, wherever possible, services should be devolved to the business units so that they occur within the customer-focused environment of the business unit

b) Where there is a need to create a centralised shared service – either because the resource is scarce or you cannot afford duplication – ensure that the shared service is not a critical part of the business unit's value chain. Removing a critical part of the business unit's value chain will limit their ability to deliver a coherent value proposition to the market

c) The business units own the (external) customers of the business. Allow each of the business units to develop the culture and operating style that is aligned with the needs of the market they serve. This means, for example, that a business unit serving a market where the emphasis is on speed and fast response will have a different approach to one that services a market that values accuracy, reliability and lowest cost.




The second practice relates to the risk management approach adopted by these organisations. By and large, they seem to adopt a broad definition of risk categories to be monitored and managed. In addition to the traditional risks such as regulatory and fraud risks, they also seek to understand risks that potentially impact their earnings and cultural alignment.

| Type of risk | Examples |
| --- | --- |
| Traditional risks | ▪ Natural hazards<br>▪ Legal / regulatory<br>▪ Compliance<br>▪ Ethics / fraud |
| Earnings driver risks | ▪ Customer concentration<br>▪ Product innovation<br>▪ Distribution channels<br>▪ IP |
| Cultural risks | ▪ Change management<br>▪ Cultural differences<br>▪ Alignment of incentives with strategy<br>▪ Key staff attrition |

Earnings driver risks assess the risk to the current and future revenue streams, while cultural risks evaluate the overall effectiveness of the human side of the enterprise. The latter is particularly important in service and knowledge-based businesses.

## *4. Spiritual depth*

In essence, this is the capability to generate commitment for the purpose and values of the business. This capability is proving to be harder to pin down than the others.

Almost all of the organisations in the sample have statements of purpose and values that appear to guide behaviour and decision making. We encountered an enormous range in the language they used, the “soppiness” of the sentiments they espoused, and how well they were crafted.

And of course we had all the usual suspects such as “innovation”, “integrity” and “teamwork”. But we were searching for something else. We wanted to know what deeper strategic message was being relayed to the staff and stakeholders. Was there anything that gave us a clue as to the potential resilience of the organisation? Was there anything that signalled the need for continuous vigilance and adaptation?

We believe that we have found two themes in their purpose and values that display some commonality.
The first relates to the way the organisational purpose is expressed. It seems that resilience may be linked to the fact that the purpose is expressed in terms of the overall value proposition (outcome) that is being delivered to customers. This tends be a “non-perishable” definition, and goes beyond simply listing the products and services that are provided. Indeed, it

recognises that the product may be a variable that could change over time as customers and markets change. In this way, it suggests that change is inherent in the base business and the organisation will continually explore new ways of meeting customers' needs in order to fulfil its overall purpose.

Secondly, we believe that resilient organisations find a way of capturing their "essence" in the way they outline their purpose and values. In many cases, the organisation can be recognised from the purpose statement even when the corporate name is removed from the statement. Concomitantly, the purpose statement cannot be transposed with that of another organisation and still make sense. And this fact is used by senior managers when they make presentations to staff and customers – they speak of the organisations' uniqueness and the clarity of the overall strategic purpose. This seems to go a long way in developing a sense of commitment and shared purpose.

So, in summary, we find two processes that are key in developing spiritual depth and commitment to the purpose and values of the organisation.

Firstly, the statement of purpose and values must be carefully constructed to ensure that:

- The purpose is expressed in outcome terms that describe the value being added to the customers
- The purpose is considered "worthy" by staff and is not overly focused on the generation of shareholder returns
- The focus allows for the possibility that the current products / services may change with new technology or business models – ie that the product is a "variable" in the business
- The values are not a collection of generic "feel good" aspirations, but are an actual description of the way that the business will work.

Secondly, leadership should develop a compelling story about the business's purpose and seek every opportunity to communicate it to staff and stakeholders. Importantly, their visible behaviour will have a profound effect on the credibility of the story and they need to remember their roles as exemplars of the organisation's stated values.

## 5. Strong governance

Strong governance practices are important contributors to the resilience of most organisations. In general, we find that durable organisations make good use of non-executive boards, although the executive management can remain fairly active on these.

In essence, strong governance ensures that the previous four capabilities of resilience are present and in good health within the organisation by way of the oversight and guidance they provide to the executives.

Three practices seem to characterise strong governance in the resilient organisations.

Firstly, these organisations pay particular attention to the way in which their boards are selected, trained and used. While having the right balance of skills on the board is important, what seems far more important is the ability of the board members to engage and challenge management in an open debate about strategy and the business. But there is always a clear separation between the corporate strategy[7], which is the natural domain of a non-executive board, and business strategy[8], which is the domain of executive management. This separation is vital to good governance practice in the business.

Secondly, these boards are provided good quality information about the business and its strategy. And they need to be educated to understand the fundamentals of the industry – they need to understand the industry and the key strategic issues. In addition, they do not rely purely on what they are told by management. They seek their own sources of information through industry forums, personal contacts and research. They learn to “filter out the filterers” so that they can assemble their own rich picture of the business and its situation in the market.
Finally, there is an expanded view taken on the total corporate risk faced by the organisation. Non-executive boards extend their oversight beyond traditional risks such as compliance or natural hazards, and include risks related to future earnings and cultural alignment (previously covered in Physical Agility above).

[7] Corporate strategy addresses the shape of and resource allocation within the overall business portfolio. The central question is “what business should we be in?”
[8] Business strategy addresses the way in which the business operates and competes within its market. The central question is “how do I compete in this business?”

## Travelling the road to Resilience

The five signposts provide a useful description of the resilient organisations in our sample. But they are only the visible manifestations. Many of the important supportive factors, such as the underlying assumptions and beliefs, play an important role in developing strong resilience. Factors such as the belief that the current business model cannot last forever shape many of the practices and processes we observe in these organisations.

And this is the domain of leadership. Leaders play an important role in creating meaning and understanding within the organisation. They shape the strategic conversations, tell the stories and act as powerful exemplars for the culture these resilient organisations build. In the final analysis, the organisation will only travel down the road to resilience if leaders ensure the appropriate signposts are in place.

### About the author

**Dr Norman Chorn** is a strategy and organisation development practitioner with over 20 years experience in Australia, UK, New Zealand and South Africa. His work is focused on strategies for growth and corporate resilience.

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