

TRAITS OF RESILIENCE

Resilient organisations have a lot of things in common that enable them to change before change is forced upon them.

By Dr Norman Chorn

Most definitions of resilience focus on the ability to get back up after being knocked down. This is an admirable quality, but at the corporate level that's usually too late and too costly.

Business strategy expert Gary Hamel has described this kind of turnaround as a "tragically delayed transformation" because organisations go through serious pain and loss of confidence while enduring the process.

Instead, we are being challenged to see resilience in a broader light—the ability to anticipate and adjust to the change before it

knocks us over. General Electric boss Jack Welch always encouraged the corporation's divisions to "change before you have to". It would seem that our existing momentum is rarely sufficient to keep us going into the future. The challenge is to be efficient in both operations and strategic renewal.

In 2004 we started working with 16 organisations that had weathered the storm of a series of market and environmental shocks including new competitors entering the market, changes in customer preferences, and technology innovation that shifted the basis of competition. Wholesalers, retailers, service providers, information providers, not-for-profit organisations

and companies in the pharmaceuticals, building materials and transport/logistics sectors were all represented in the sample.

Each organisation had introduced significant strategic and cultural change without losing ground in the market, and several appeared to gain momentum along the way. They developed the ability to respond to change before it knocked them over.

By focusing not only on what these organisations were doing, but also on some of their beliefs and values—who they were—we were able to identify eight characteristics that seem to describe resilient organisations.

1 Performance and risk managed across different horizons

The resilient organisations appeared to simultaneously adopt quite different focuses in the way they managed their performance and risk.

In general, they 'protected' their base or core business. They were quite cautious about disturbing the success formula and established processes. At the same time, they recognised that the base business couldn't last forever.

In order to explore new opportunities, they conducted a series of 'experiments' designed to test improved or additional value propositions. Most were fairly manageable in size and relatively insulated from the base business activities. These experiments were in response to requests and suggestions from customers, as well as new ideas that had emerged from inside the business. In each case, however, they applied quite different standards of measurement and risk management to these when compared to the base business. The organisations had established different performance and risk horizons for different parts of their business, recognising the inherently different challenges and skill requirements in each. They specifically avoided a one-size-fits-all approach and did not insist on standard management and reporting practices across the different parts of the business.

2 A wide array of information to make decisions

The resilient organisations had several established processes for information-gathering, but they almost always supplemented these by seeking out alternative sources.

This was a fascinating discovery because we anticipated that we would find strictly-followed processes for gathering information and making it available for decision-making. We certainly found well-established processes, but they were usually supplemented by a wide array of additional—and sometimes ad hoc—sources of information.

In many instances, decision-makers would go to great pains to filter out the filterers. They would not rely on the usual chain of command

to report on situations in the field. Instead, they would often cultivate their own more direct sources of intelligence. Many executives would "go to where the change happens" and get first-hand insights into key issues facing the organisation. Examples included senior executives going with technicians on service calls or working a shift on the 1800 customer service line. One general manager of a business unit worked with the team installing equipment a customer had bought.

The resilient organisations also use a few key processes to focus on new and emerging issues. These include setting up what we called 'pathfinder groups' made up of articulate and contrary thinkers who are close to the organisation's customers and technologies. Because they have little vested in the status quo, the groups make suggestions that often challenge the established order. As C K Prahalad commented in the 1998 book *Thought Leaders*, "No monarchy has ever fomented its own overthrow".

3 A broad portfolio of strategic options

While they have their established core businesses, the resilient organisations also seem to have a broad portfolio of new opportunities for the future. These 'experiments' are usually small and manageable, indicating that the key is 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 seems to be 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 a wide range of personnel throughout the organisation. In many cases, the variety often exceeds the scope of change envisaged in the industry.

We suspect 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. It's almost like a dress rehearsal in front of a critical audience to prepare for opening night. →

Resilient organisations appear to have four forms of energy—one of them being physical energy that shapes the focus and application of effort.





Also noteworthy are the funding practices several of the organisations adopted. They separated the allocation of funds for experiments from the normal management structure. Rather than have the funds allocated to a specific department through the regular budgeting process, the funding for experiments is allocated through a bidding process and given to the individual/group that conceived the idea. The allocation system is 'market-based' as it is dispassionate and objective.



The regular management structures are not necessarily the most efficient in allocating funding for new opportunities.

4 Awareness of industry and competitive breaking points
Many of the management teams recognise that their base businesses will not last forever. Moreover, they openly discuss and speculate what trigger points could lead to the demise of the base business. Monitoring these breaking points in the industry structure takes many forms. In some cases there is regular surveillance of the offerings from current and potential competitors. In others, the levels of customer satisfaction and

value are monitored, and the propensity of the customers to seek new solutions is gauged.

The common point is that the teams are closely watching and debating the signals of a breakpoint in the way the industry or market is served and competition is conducted. And they know that, once those signs become clear, they have to be ready to alter their posture and basis of competition.

5 Effective governance structures and processes
The governance structures that function well have three common characteristics. Firstly, the organisations pay particular attention to the way their boards are selected, trained and used. While having the right balance of skills on the board is important, far more important is the board's ability to engage and challenge management in an open debate about strategy and the organisation. Board members need to be trained and schooled in the fundamentals of the industry; they need to understand the

It's almost like a dress rehearsal in front of a critical audience to prepare for opening night.

industry drivers and key strategic issues. Secondly, these organisations provide good-quality information to their board members. Information about strategic direction, resource allocation, operational controls, management priorities and performance potential is provided in a timely and succinct manner. And the CEO is happy to be challenged about this in an open and non-defensive way. Finally, there is a realistic view taken on the total corporate risk the organisation faces. In many cases, this extends beyond the traditional risks such as compliance or natural hazards and includes the major earnings-driver risks as well

as cultural risks. Earnings-driver risks include product innovation and customer concentration, while cultural risks involve factors such as change management and misalignment of incentives with strategy.

6 Close alignment with the operating environment
Resilient organisations pay close attention to the way they are aligned with the demands and challenges of their operating environment. They recognise that different parts of their environment pose different challenges, and they know the organisation needs to respond with a specific offering or strategy in each of these segments. A number of organisations in the sample have quite deliberate approaches to the strategic alignment they have created between themselves and their environments. They have designed and resourced parts of their organisation in direct response to the demands of the relevant environmental segments. This includes having

different cultures and leadership approaches to suit the different challenges.

Others seem to have created this arrangement intuitively and can't articulate how it has been achieved. But they have managed to create a strong alignment between the demands of the market segment being served and the resource configuration in the organisation.

Common to both groups is that they view their organisations as a portfolio of activities rather than a single-purpose machine. And they recognise that a one-size-fits-all approach is not useful. While they insist on having a clearly articulated and understood strategic purpose running through the whole organisation, they are comfortable about accommodating diversity and sub-cultures within their portfolio.

7 Separation of resource allocation and deployment
The organisations derive great benefit from separating the process of deciding what businesses or opportunities to be



ADVERTISEMENT
1/2 Horiz Type

ADVERTISEMENT
1/4 Vert Type

ADVERTISEMENT
1/4 Vert Type

→ in from the process of deciding how to operate or compete in these activities.

Deciding what business to be in is a corporate strategy issue. It needs to be debated and decided at a corporate level without undue influence from the asset owners—that is, the managers who actually run parts of the business. Once this decision is made, it can be handed over to managers who are focused on the business strategy—how do we compete or operate in this business?

The regular management structures are not necessarily the most efficient in allocating funding for new opportunities. Organisations' management structures are organised around resources and chains of command. (We are not referring to the culture in this instance, but rather the fact that managers have accountability for the performance of their resources and seek to make decisions that optimise their usage.) This 'managerial' structure is well suited to the

deployment of resources. But the allocation of resources is more effectively done by way of a market structure—one that is dispassionate, objective and can truly focus on the future opportunities unconstrained by what is current practice.

The organisations are creating a market-like forum to review their strategic options and future opportunities. In many cases, this ensures that the funding goes to the most promising new opportunities, irrespective of how this may threaten the status quo.

Resilient organisations find a way of capturing their essence in the way they outline their purpose and values.

8 Strong sense of purpose and values

This characteristic proved harder to pin down than the others. Almost all organisations in the sample had statements of purpose and values that appeared to guide behaviour and decision-making. We encountered an enormous range in the language they used, and the 'soppiness' of the sentiments they espoused and how well they were crafted.

There were all the usual suspects: 'innovation', 'integrity' and 'teamwork'. But we wanted to know what deeper strategic message was being relayed to the staff. Was there anything that gave a clue to the potential resilience of the organisation? Was there anything that signalled the need for continuous vigilance and adaptation?

This is still work in progress, but two common themes emerged in their purpose and values.

The first relates to the way the organisational purpose is expressed. Resilience may be linked



to the fact that the purpose is expressed in the overall value proposition (outcome) for customers. This is non-perishable and goes beyond listing products and services. It recognises that the product may be a variable that could change over time as customers and markets change. It suggests that change is inherent in the base business, and the organisation will explore new ways of meeting customers' needs in order to fulfil its overall purpose.

Secondly, 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. Concomitantly, the purpose statement can't be transposed with that of another organisation and still make sense. Senior managers use this when they make presentations to staff and customers. They speak of the organisation's 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.

RESILIENT ORGANISATIONS appear to have four forms of energy that underpin the traits described above: emotional energy that governs the recognition of and response to stimuli; intellectual energy that drives the generation and development of strategic

options; physical energy that shapes the focus and application of effort; and spiritual energy that assists in generating commitment and purpose.

We believe that these energy forms can be developed via a series of specific processes and deliberate effort by management. ☒

Dr Norman Chorn is the director and a strategy consultant at the Centre for Strategy Development, Sydney, and a part-time senior lecturer at the Graduate School of Business, Wollongong.

ADVERTISEMENT
1/4 Vert Type

ADVERTISEMENT
1/4 Vert Type

ADVERTISEMENT
1/2 Horiz Type