



SAMI Consulting

robust decisions in uncertain times

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To Resilience and Beyond

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TO RESILIENCE AND BEYOND

An “unprecedented” time

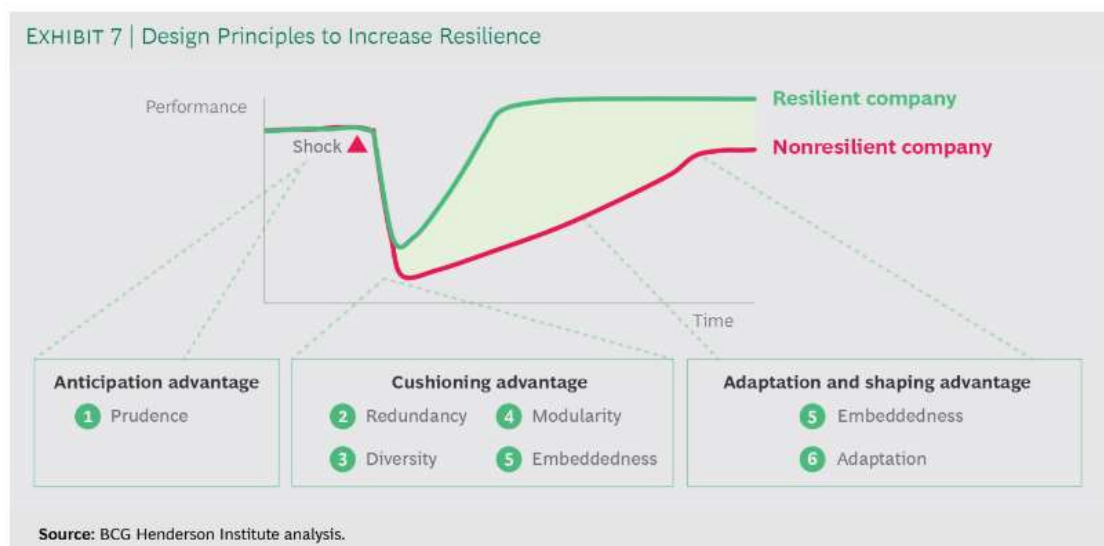
“Unprecedented” became the word of the year in 2020/21. Commentators rushed to their Thesaurus to find alternatives: “unparalleled”, “extraordinary”, “once in a hundred years”. Both the pandemic and a wide range of extreme weather events caused disruptions unheard of for centuries. And Brexit, AI and geo-politics each provided opportunities to use the word.

Forecasts were cast aside. Nothing would be as expected. A new way of thinking was needed.

RESILIENCE - a “black swan” strategy

This led to a school of thought that rather than try to predict the future, organisations should develop “resilience”, an ability to react and respond. The pandemic highlighted how successfully or otherwise different countries and organisations were coping. Several commentators have noted how organisations have increasingly been focussed on “efficiency”, with the result that there was less slack in the system to cope when shocks hit. To what extent is sacrificing short term profitability for long term success worthwhile?

The Boston Consultancy Group in their excellent blog [“Becoming an All-Weather Company”](#) produced a very valuable set of “design principles” to enhance resilience.



Anticipation

BCG continue to believe that foresight – if not forecasts – is still valuable. However, it’s probably not part of what most people think of as “resilience”, so we’ll return to this later. “Prudence” has perhaps a slightly different connotation, more related to caution and risk-aversion.

The area that BCG call “cushioning” has a number of elements.

Redundancy

An anathema to “efficiency”, having spare resources is essential to resilience. These may be *extra stocks* to cope with disruption to supply chains (the antithesis of “just in time”), or *extra staff* available to be drafted into “surge” responses (or reservists that can be called upon): training people in how to respond to shocks is also a sound investment. Just as you have first-aiders and fire marshals, you could have strategic eagles who fly in to tackle business emergencies. Regardless of the exact nature of the challenge, these people – trained in how to respond, how to implement contingency plans, how to bring together teams and resources – will spearhead your response. Having *financial reserves* above the average cash/operating cost ratio also provides flexibility of response.

Diversity

Organisations should identify the options to switch to different revenue sources: having different products, customers or regions reduces exposure to shocks. Clearly, an over-reliance on a single, narrow market makes you vulnerable. Equally, over-reliance on single suppliers, production sites or processes creates an exposure to risk. Interestingly, BCG didn't identify diversity in its cultural sense as a strength – in SAMI we always seek to get a diversity of views into strategy development, as it reduces the risk of “groupthink”.

Modularity

By this BCG mean building systems which reduce inter-dependencies between elements, so that if one fails it doesn't bring down the whole operation. Modularity can be built into production processes and into supply chains. There is also the issue of financial separation, where the failure of one division doesn't bankrupt the whole company.

Embeddedness

An innovative concept – the extent to which the organisation's goals are in alignment with the social systems of the markets it serves. Highly embedded organisations can rely on a good degree of social capital that can be drawn upon in times of crisis. Local companies tend to be better at this - eg restaurants' clienteles being willing to buy take-aways to keep the company alive. In larger organisations, Corporate Social Responsibility programmes should be aiming to achieve the same result – but probably rarely do.

BCG's next area was **Adaptation**.

This has two elements. First, the capacity and capability for experimentation, being willing and able to try new approaches, new products, new markets to see whether they offer relief from the crisis, and if not move on to something else. “Fail fast” is the mantra of this approach. The second is “Agility”, typically created by decentralised decision-making and collective action. Oddly, BCG seem to think algorithmic decision-making helps with this – it may speed up decision-making, but can it be innovative enough to cope with radical change?

Finally, we come to **Shaping**.

Change and crises are not all about risk – they create opportunities too. Intelligent organisations can identify how the shock has changed the system, and spot the new markets, products or processes that can now emerge. The ability to be the first to respond to these new opportunities will differentiate the organisation from its rivals.

There is also a discussion to be had around which industries are intrinsically less resilient and how they should manage that lack of resilience. There is an interesting dichotomy between which organisations are seen as financially resilient – long-term infrastructure companies such as telecoms networks and extractive industries are less vulnerable to everyday shocks – and those which are agile – FMCG, software – which can pick up on new trends rapidly. The longer it takes you to react to change, the further ahead you need to be looking, and the more sophisticated scenarios you should be building.

Six dimensions of resilience

McKinsey's approach, in a recent report, "[Succeeding in uncertain times](#)", identifies six dimensions of resilience and proposes ways of changing your organisation to become more so. They suggest different capabilities needed to be able to respond effectively to a wide variety of challenges.

Financial resilience

Organisations should balance long- and short-term financial objectives, and have sufficient reserves to weather financial shocks, whatever the cause. This is the basis of Bank of England "stress tests", and begs the question: "how much is enough?".

Operational resilience

This covers flexible production capacity, and supply chain substitutability. This may well require extra investment to build spare or redundant capacity and in-depth analysis of suppliers' risk profiles. There are clearly trade-offs implicit in this.

Technological resilience

McKinsey focus on IT infrastructure – on which virtually all organisations depend these days – and the risk of breakdowns and cyber-attacks. Business continuity plans and disaster recovery capability are their proposed responses – surely a standard across most industries.

Organisational resilience

McKinsey recommend a diverse, high-skilled workforce, operating in a culture of fast and agile decision-making within a set of "thoughtfully developed" rules and standards. Quite how this comes about is less clear.

Reputational resilience

Reputational pressures on organisations of all kinds are increasing. Environmental, social, and governance (ESG) policies are coming under increasing scrutiny. In a crisis, can you stick to these principles, or will you fall back on more basic corner-cutting? How well are you able to communicate with stakeholders, how transparent are you prepared to be when things are really difficult?

Business-model resilience

Innovation and entrepreneurship are required to respond to fundamental shifts in market dynamics. There should be a portfolio of alternative approaches in nascent form that can be called upon in a crisis.

They suggest that resilience needs to be “***baked in***”. This springs from a diversity of skills and experience, fostering of innovation and creative problem solving. These characteristics are helpful in good times and indispensable when quick, collaborative adaptation is needed for an institution to thrive. Institutions should link resilience to existing enterprise-risk-management processes and should consider investment in anticipation and response capabilities.

Putting resilience at the heart of policymaking

“[Future Proof](#)”, a new report from the [Centre for Long-Term Resilience](#) in the UK, focusses on “putting resilience at the heart of policymaking”. This both distinguishes it from, and makes it in many ways more practical than, much of the other thinking in the space. The CTRL is a private body, headed by [two former senior civil servants](#) - one feels that the authors are used to giving practical advice to hard pressed ministers who have little time or attention and who need to know what to do, and why.

These recommendations are really rather good. Sections cover biosecurity, artificial intelligence, improving the UK government’s risk management process and (somewhat inevitably), increasing funding for research into extreme risks. One could, were one an adventurous minister, take this report and run with it. If you did, you would make probably the greatest change to the UK’s non-military resilience profile for decades. We particularly like the “roadmap to improve UK management of extreme risks.” Establishing a “dedicated red team to conduct frequent scenario exercises” is of course close to our hearts.

The “Three lines of defence” model is simple and achievable. Risk ownership units in government departments report to an Office of Risk Management and a Chief Risk Officer at the centre (probably the Cabinet Office) with oversight from a National Extreme Risks Institute. This formalises a risk management approach which, as the authors say, “is currently done quite effectively for non-extreme risks, but much less so for extreme risks”. Tucked away at the bottom of the risk management section is “increase the resilience of the national grid”. And this highlights the one significant drawback of this report. As we have said, taken as one report, and implemented thoroughly, “Future Proof” would make a major difference to UK resilience. But it would not be enough. There are more extreme risks we need to think about – and importantly, there are extreme opportunities.

We know from our work with government, here and overseas, that preparing for the future can get swept up in the demands of the now. SAMI is, indeed, part of the future proofing infrastructure that the authors are looking for. Initiatives like the [Futures Framework](#) give an opportunity for government to engage with the risks and opportunities of life in the next five, ten, fifty years.

Futures thinking is not just about resilience and risk mitigation – it is also about opportunity. The authors are right that the pandemic, by bringing a crisis front and centre (and straight into the Treasury, importantly) provides an opportunity – what they call a “social immune response” – to re-evaluate our approach to risk. Before the shock of the pandemic fades, “we need to seize this opportunity to put in place lasting protections to safeguard the country from extreme risks — both at a risk-specific level and at a systemic level.” We agree: with the important caveat that government should also put in place lasting structures to allow the country to benefit from the future. Understanding the future will allow the government, and the UK, to do both.

Beyond resilience – scenarios

While building resilience is nearly always a good idea, it is not sufficient on its own as a robust foresight strategy. A wider culture change is needed.

There is a fatalism to the resilience ethos that suggests that, because the future is unknowable, one should abandon attempts to explore the possibilities and instead simply focus on being able to react to whatever is thrown at you. “Black swans” - inherently “unknown unknowns” – mean that it is impossible to plan for every eventuality, so improving responsiveness is the best one can do.

But we have also seen, in an [analysis](#) by the EC Joint Research Council, that “black swans” are in reality very rare indeed. Most startling events could have been – and indeed often were – predicted. The pandemic for example was most certainly not a “black swan” – it had been top of the Government’s National Risk Register for many years.

It is possible to explore the implications of alternative futures and develop robust plans and contingencies. At its simplest this can be about building “fail-safe” systems or business continuity plans. These may still be vulnerable to a succession of failures (untested back-up systems are often a risk) or unanticipated interactions causing a systemic collapse.

The stages of a robust foresight approach are:

Anticipate – build scenarios

We can identify the range of key uncertainties and use those to build alternative views of the future. First we identify long-term shifts, major drivers of change or “megatrends”. These could be categorised using the conventional STEEP (Social, Technological, Economic, Environmental, Political) approach, or simply be a list of threats identified – McKinsey suggest supply-chain disruptions; cyberattack; physical climate-risk events; technical change; macroeconomic downturns; geopolitical disruption; major regulatory shift.

This needs to be done dispassionately: the limitation is not so much imagination but willingness to address unpalatable potential futures. Optimism bias and survivor bias (“we’ve lasted this long, we will be OK”) are common to many executives and Boards.

The process should also preferably draw on a diverse range of opinions, to avoid entrenched views and “groupthink”.

Prepare

Once the future scenarios are sufficiently well expressed, organisations can test different policies and strategies against them to see how robust they are to the alternative assumptions, and develop a set of contingency plans. Ideally they should war-game them to test how well they work. Good organisations then adapt their plans: the Government’s response to the pandemic wargame (“Project Cygnus”) failed to pick up on the deficiencies identified.

Monitor

You should have systems in place that identify the “weak signals” that one of your wildcards or changing scenarios was about to happen. Make this is flagged up so that senior decision-makers pay attention. With the Covid-19 virus, news emerged early November, warning papers were in the Lancet in January.

Review your contingency plan: when change happens, don’t just blindly implement the relevant contingency plan - determine whether it addresses the issues that seem to be emerging. Unless you are lucky, the reality probably differs in several ways from what you postulated – a flu pandemic is different from a coronavirus one. Even for repeat events (such as foot and mouth disease) what worked last time may not be appropriate in the future due to changing environments. In business, a new competitor may break the conventional rules.

What don’t you know? What else could go wrong? Will the virus mutate into a more deadly strain? What are the second-order effects? If the whole Cabinet is taken seriously ill, can you cope? If half the NHS workforce is sick, what do we do then?

Determine speed of action: can you watch how things develop, or do you need to act now? Don’t just put things off until the crisis hits – try to pre-empt the problem. How far up a chain of command does it need to be escalated? Identify key trigger points – eg the virus reaching Europe – and actions to go with them.

Keep monitoring: things may not be developing the way you thought they would; it’s unlikely they will be. Make sure decision-makers are listening. In this case, testing for the virus is vital.

Adapt the plan: remember the old adage that no plan survives contact with the enemy. If possible, learn from how others are reacting; South Korea did well to stem the spread, probably because of their recent experience with MERS.

Implement

Beyond resilience – a new culture

The second unstated assumption is that change is a bad thing and that resilience is about helping you maintain the status quo. This comes from a natural fear of the unknown and a common desire for stability. Resisting the continuous challenges to what we know and the way we do things – our comfort zone – is a common organisational cultural failing. Although we know intellectually that change is inevitable, our initial emotional reaction is to fight it all costs. Many bureaucratic organisations build elaborate systems that are remarkably resistant to change. And, as Machiavelli pointed out, those who lose from change are much more voluble than those who would benefit from it.

There are many examples of organisations losing out to disruptive challengers mainly because they attempted to maintain what they had rather than accept a changing situation. Kodak inventing - and then failing to exploit – digital photography is one of the more compelling ones. Cannibalising one’s own primary product to prevent it being superseded by a competitor is a difficult decision for finance directors to take – but “eating your own lunch” is better than no lunch at all.

It is better to embrace inevitable change – to have a **vision**. Scenarios can be rather passive – they answer the question “how do we deal with what happens?”. Visioning is more active: “what do we want to happen and how can we make it come about?”

Probably incorrectly attributed to Winston Churchill, the quote “never let a good crisis go to waste” embodies the thought that times of change create opportunities. They allow – even demand – radical action that would be resisted in “normal” times, seen as too risky. Once the dust settles and the crisis ebbs away, organisations should ask “has the world and assumptions about it changed forever?” They should look to learn from the way new approaches had worked. Did they identify unnecessary, bureaucratic procedures? Were there process innovations that can be rolled out elsewhere? Did new technology play a role? Did some individuals display exceptional skills or strengths that can be put to work on other projects? And, perhaps most importantly, how well had the organisation’s foresight capabilities stood up to the challenge and do they themselves need to be reviewed and revitalised?

Examples from the pandemic could be organisations that have pulled together emergency teams at short notice and have built new skills and capabilities in their staff. The NHS for one does seem to be actively trying to do this, despite there being a fight-back about face-to-face consultations.

There are interesting echoes in BCG’s analysis of Nassim Taleb’s **anti-fragile** concept. Instead of “durability”, Taleb argues that organisations should aim to become stronger when damaged, like the mythical Hydra growing two heads when one is cut off. The resilient organisation resists shocks and stays the same; the anti-fragile one gets better and better.

This future focus can go beyond product innovation into **organisational development**. Future-adept organisations will actively seek out and create change - even change for change’s sake. Large organisations frequently re-structure themselves - this sometimes

being characterised as “re-arranging the deckchairs on the Titanic”. In fact changing organisational roles – for example de-centralising decision-making then re-centralising it - can generate and then systematise new ideas and approaches, creating greater efficiencies or new opportunities. It enables and empowers more adaptable individuals, elevating them through the hierarchy and improving the quality of management. Deliberately becoming anti-sclerotic, such organisations remain innovators and market leaders. This is a long way beyond conventional concepts of “resilience”.

Training people in how to respond to shocks is also a sound investment. Just as you have first-aiders and fire marshals, you could have strategic eagles who fly in to tackle business emergencies. Regardless of the exact nature of the challenge, these people – trained in how to respond, how to implement contingency plans, how to bring together teams and resources – will spearhead your response.

Organisations can create a culture of future awareness. By moving talented young people into a foresight team for a limited period – say about 6 months – organisations will create a talent pool of people aware of the possibilities of change and appreciative of the need to take on the challenge when it arrives. Organisations of sufficient size may well have departments which map neatly onto the “Three Horizons” model. Finance teams and product managers focus on maximising today’s profits (Horizon 1). Blue-sky thinkers in research departments are generating fundamentally new ideas (Horizon 3). And ideally, a new business team is acting as entrepreneurs (Horizon 2), converting some of the radical ideas into the next generation of profit-makers.

So, while building resilience is a good thing, and the various tips we have reviewed are valuable, at SAMI we see there being other critical aspects that should be built into organisations’ futures readiness plans.

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