



Creating the Future: "*Chaos, Risk and Nimbleness*"

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The views expressed by Gary Hamel and Liisa Valikangas (1) in their paper "**The Quest for Resilience**" (September 2003 edition of the *Harvard Business Review*), and from an article "**The Zero-Trauma Company**" by Robert Charette, Director of the Risk Management Intelligence Network (USA), are presented in this February 2004 newsletter.

Hamel and Valikangas describe a turbulent business world that is becoming faster and more chaotic. The late 20th century quality management guru W. Edwards Deming once said "*that it is not necessary to change - survival is not mandatory*". To survive, organisations will need to become **resilient** to the many changing marketplace trends and circumstances.

Some recent examples of unusual business trends include:

- ✂ Of the largest 20 bankruptcies in the past 20 years, 10 occurred in the last two years
- ✂ Over the past 40 years, year-by-year earnings growth volatility increased by 50%
- ✂ Almost 20% of the US Fortune 500 companies witnessed net income decline during the years 1993-1997, in the midst of the longest economic expansion of the modern financial era.

The business world now resembles a place where periods of equilibrium are becoming increasingly shorter.

Hamel and Valikangas have observed a world is changing at a faster pace than at which organisations are able to adapt. This situation has produced a **resilience gap**, defined as the difference between *what the current competitive situation calls for, and an organisation's ability to continuously reconstruct its core competencies and business models to operate successfully in the changing environments*.

American Airlines, one of the world's largest airlines, totters on the brink of bankruptcy, while airlines such as Southwest thrive. Southwest succeeds by creating new business approaches, and by constantly adapting them to meet market needs.

American Airline's past strengths are now its weaknesses - *size and reach*, which it built up over a period of relative market equilibrium, but now not suited to its volatile marketplace.

Hamel and Valikangas suggest that organisations cannot survive on an assumption that their current business models are "immortal". Instead, the need is to develop a *fundamental competency* - the capability to dynamically reinvent business models and strategies as circumstances dictate.

Hamel and Valikangas stress that organisations should aspire to become **zero-trauma** organisations: those *with no calamitous surprises, no convulsive reorganisations and no colossal write-offs* in their future.

The concept of zero trauma is "parallel" to the idea of achieving zero defects. Just as defective parts cost an organisation wasted time, effort and money, so do defective corporate strategies.

Four **focus areas** are considered in developing "resilience". They are :

Awareness of Realities

There is a need for **increased realism**, or "conquering denial". Senior managers and executives need to observe, understand and respond to changing environments and customer needs - to access "real" information via reliable and unfiltered channels. Strategies need reviewing regularly for relevance.

Valuing Variety

Resilience depends upon **valuing variety**. The 20th century environment is changing so rapidly that organisations will need to create and evaluate many new strategic options.

This means developing and evaluating new products, services and business processes - to see which work, and then being able to implement them quickly. It also implies moving away from taking a few big risks on a small number of products, services and processes, to taking many small risks on a larger potential set of products, services and business processes.

Liberating Resources

Organisations will need to be flexible in **liberating resources** and devoting more time to creating the future, and less time to hanging onto the past. An organisation's hierarchy may be an effective mechanism for applying resources, but it is an imperfect device for allocating resources. An organisation can be operationally efficient yet strategically inefficient.

To be resilient, organisations should minimise their propensity to over-fund "legacy" strategies. Hamel and Valikangas suggest creating internal capital - investing 3%-5% of resources in new and innovative strategic initiatives - as a mechanism to overcome innovation inertia.

Embracing the Paradox

Zero-trauma organisations will learn to **embrace paradox - to be simultaneously cost-effective and innovative**. A new imperative is emerging - one in which organisations will *resource-maximise* rather than *resource-optimize*. Maximisation assumes that the business model will always be changing.

Organisation resilience includes understanding the environment, generating new strategic options and realigning resources. A zero-trauma organisation will demonstrate risk leadership in which situational awareness, broad knowledge and decision-making will allow opportunities to be pursued amongst marketplace turbulence.