

"The biggest need is to systematically, intentionally and purposefully build strategies, systems and practices that create the future instead of defending the past."

Revolution, Renewal and Resilience

An April 19, 2006 presentation by

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Synopsis by Rod Cox



"Companies are successful until they are not."

- Market value for Sun Microsystems jumped from +- \$15B in 1998 to +- \$140B in 2000 during a time of lack-luster revenue increases – and then plummeted to +- \$18B in 2002. Over the same time period, net income increased from +- \$500M to +- \$1.5B, and then dove back to +- \$3.5B negative net income by 2003.
- IBM's net income dropped from +- 6.8B in 1990 to a net loss of \$8B by 1993, then recovered to a positive +- \$2.5B by 1994. But it took IBM four more years to regain its 1990 net income level.

No doubt today's accelerated rate of change has much to do with it. But what is it about large organizations and the people who inhabit them that makes deep change difficult until it is precipitated by a crisis? In this Management Forum Series presentation, Liisa Välikangas uses the findings of the highly acclaimed Woodside Institute to challenge leaders to deal with problems while their organization is still at the top of its game – when it has the greatest energy and other resources – and to shoot for the maximum change with the minimum amount of time, expense and trauma. Välikangas teaches us:

- The need for revolution: why we should care
- What comes in the way of renewal
- The challenge of resiliency
- How to improve; i.e., the role of management innovation

"A truly resilient company has the power to prosper no matter what the economic climate. The biggest need is to systematically, intentionally and purposefully build strategies, systems and practices that create the future instead of defending the past."



Dr. Liisa Välikangas earned her Ph.D degree in business administration at the University of Tampere, Finland, and is currently the Managing Director and Research Director of the Woodside Institute in Woodside, CA. Previously, she was Director of Research at Strategos, an international consulting company. Her research and publications have won her recognition from numerous academic and professional societies, and have positioned her as a trusted advisor to a number of leading corporations and governmental organizations in the U.S., Europe and Asia. Her professional involvements include the World Competitiveness Report, SRI International's Business Intelligence Center, KNEXUS (a research project on regional and organizational knowledge), and The Business Intelligence Program, among others. Dr. Välikangas also serves as the Honorary Consul of Finland in the San Francisco bay area.

This synopsis is based on Välikangas' intriguing and highly interactive presentation. It includes participant input as well as concepts and quotes from *"The Quest for Resilience"*, Hamel and Välikangas, Harvard Business Review, September, 2003.

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First, some background about the Woodside Institute. Founded in 2003 by Välikangas and Gary Hamel (a past Executive Forum speaker), Woodside Institute is an independent, non-profit network of leading practitioners and academics who are dedicated to using research, education and advisory services to advance innovative management practices and organizational resiliency. The intent of this collaboration is to use experimental methodologies to develop new management practices, processes and principles. Novel management ideas are explored on a limited scale inside participating companies, and the lessons are shared. Current Woodside member organizations include some of the world's leading companies, governments, and public organizations. The Institute recently entered into a collaborative venture with the London Business School.

The need for revolution: understanding the challenge of resilience

When we examine managed earnings over the past several decades, it's clear that the business environment is becoming turbulent faster than companies are becoming resilient. Over time, there has been a significant increase in the number of established companies whose earnings have severely declined.

Decade	1960s	1970s	1980s	1990s	2000s
Average volatility in earnings growth rate (%)	50.2	53.5	61.2	70.6	?

During the 1968-72 timeframe, for example, the average number of companies that experienced an earnings decline of at least 50% (over the subsequent five years) was just over 30. By 1993-97, the average was nearly 90, a three-fold increase; and those organizations that experienced the 50% earnings decline could expect a minimum five-year recovery time. Additionally, the cost of dying (or already dead) organizations negatively impacted their community, their knowledge bank, and their employees, among others.

How did this happen? At these well-developed and well-regarded companies, what got in the way of resilience?

- Some companies maintained their existing "immortal" business strategies when the market changed.
- Many continued to use mentalities that had become inappropriate.
- Some established companies depended on momentum to sustain their success.
- Instead of realigning when mergers occurred, the strategy, policies and processes of the dominant organization often persisted.
- Some disregarded competitive entrants (especially non-standard ones) as well as innovations in technology and processes.
- Some had drifted into human capital lethargy where demotivated people felt "it doesn't matter anymore," and where the return on human talent was low.
- At some, the rules changed mid-game. Ventures that were critical became non-critical, and new critical ventures were not implemented.

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- Many of the leaders who rose in these organizations were control freaks, antithetical to allowing people be entrepreneurial within their areas of responsibility.
- Instead of looking outside the organization for inspiration, many were myopic.
- People at all levels within organizations were resistant to change.
- Companies were unwilling to produce the thousands of ideas necessary to yield a few extraordinary successes.
- Many organizations were driven by elective processes and tools. True management behavior (strategic choice, for example) was rare.
- Few had measurement systems that were renewal based.
- People at the top didn't pay attention to "little things" until they became "big things."
- In the interest of treating everyone equally (the HR orthodoxy), entrepreneurial and venturesome instincts were often thwarted.
- Optimization – doing things better, faster and cheaper – *“was often an inadequate shrine that drew attention and other resources away from strategic variety, wide-scale experimentation and rapid resource redeployment.”*
- Strategic experimentation was seldom evidenced. Instead, companies regularly over-invested in the past. *"They overfunded legacy strategies."*
- Frequently companies that were operationally efficient were at the same time strategically inefficient. They did not *"find and fund the unconventional ideas and initiatives that might yield an even higher return."*
- Serious shortfalls often came as a surprise, *"suggesting that executives frequently take refuge in denial."*
- Believing that resources rule, the largest units (which may not have the most resilience or earnings power) received the greatest share of the resources.
- Companies often led with metrics alone, tending to reinforce the status quo instead of funding to create things not yet discovered.
- Virtually all of the organizations were forced into the position of being reactive rather than proactive.

It is clear that the existing best practices of these organizations were not sufficient to address the issues. The principles that had served them well over the years no longer applied, and others that needed to be considered were put in place only after the situation had evolved into a crisis. Resilience was forced, not inherent.

"For all companies, continued success rides on resilience – on the ability to dynamically reinvent business models and strategies as circumstances require. . . . A truly resilient company has the power to prosper no matter what the economic climate. To be resilient, organizations need management systems that facilitate, rather than frustrate, innovation and experimentation."

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Companies must be ready to change not only their products and business models, but also their goals and aspirations . . . to be as nimble as change itself . . . Hence, a turnaround is a transformation tragically delayed."

In a nutshell, an organization's level of resilience is determined by the frequency and magnitude of strategic transformation balanced against the time, expense and trauma of executing it. When time and funds are ample, and trauma is low (or ideally, zero), resilience is positively affected. When time and funds are short, and trauma is high, resilience is negatively affected. In other words, organizations with the foresight to continuously innovate and strategically transform are likely to remain resilient. This proactive move is well worth the time, expense and trauma involved, and is certainly less expensive than the alternative: organizational stagnation and/or death.

So the question is, how can organizations open themselves up for management innovation? For starters:

"First, senior managers must make a habit of visiting the places where change happens first.

Second, you have to filter out the filterers.

Third, you have to face up to the inevitability of strategy decay. Over time, strategies get replicated; supplanted by better strategies; become exhausted as markets become saturated; get eviscerated by (changes such as) the internet."

Increasing resiliency

Any company that hopes to become resilient must address four challenges:

- *The cognitive challenge: free of denial, nostalgia, and arrogance*
- *The strategic challenge: the ability to create a plethora of new options as compelling alternatives to dying strategies.*
- *The political challenge: able to divert resources from yesterday's products and programs to tomorrow's.*
- *The ideological challenge: embrace a creed that extends beyond operational excellence and flawless execution."* Hamel and Välikangas, HBR, September, 2003

In many respects, increasing resiliency is like exercising to develop the necessary muscles to handle unexpected situations. A resilient company well-versed in management innovation and strategic wellness is in a good position to forestall a trip to the financial ER or the morgue. *"To join the quest for resilience, you need to become a management innovator."*

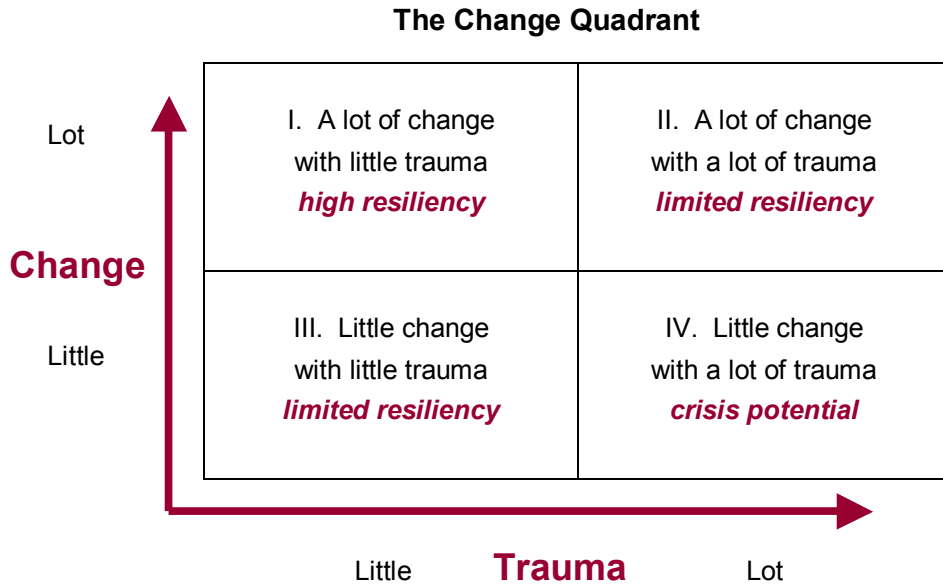
Variety is also a critical factor. *"As any systems theorist will tell you, the larger the variety of actions available to a system, the larger the variety of perturbation (non-equilibrium) it is able to accommodate. If the range of strategic alternatives your company is exploring is significantly narrower than the breadth of change in the environment, your business is going to be a victim of turbulence. Resilience depends on variety."*

In your own organization, the first step in expanding resiliency may be to determine where the organization currently is, and from that determine what it will take to make it become more resilient.

Historically, where does your organization fall on the quadrant below? What are the evidences? What impact (positive/negative) does this position have on your efforts to increase your resiliency?

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The second step may be to redefine how you think about leadership and change.

Most organizations perpetuate the myth that the leader is in control. Actually, the reverse is much more often true. In nearly every case, leaders are led by their organizations as well as by external dynamics.

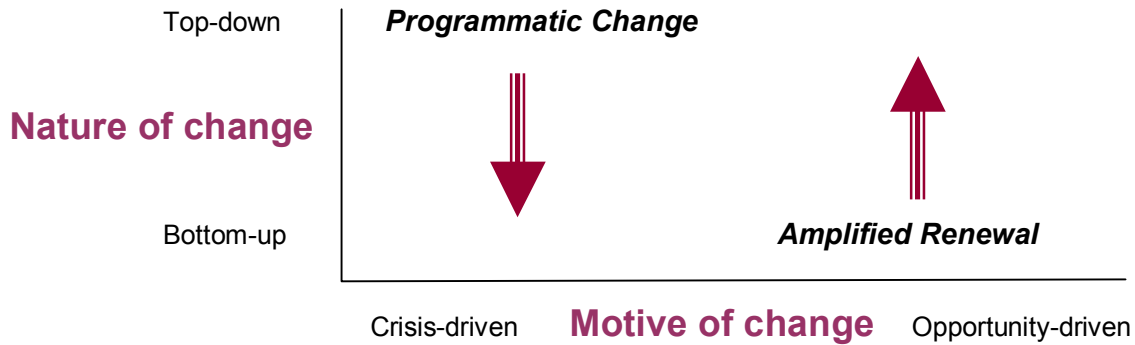
"Organizations need to battle the management arrogance that says, "I have the position so I have the best ideas;" rethink the principles on which they are managed; discard their managerial DNA and it's toxic side effects; and initiate the principles which guide change."

Managerial DNA	Toxic side effects
1. Specialization	Limits cross-boundary learning and circumscribes opportunities
2. Standardization	Foregoes Innovation in favor of conformance
3. Hierarchy	Over-values experience and under-values new thinking
4. Planning and Control	Creates a dangerous illusion of extrapolation-based predictability
5. Extrinsic rewards	Discounts the power of self-organization and volunteerism

Programmatic Change vs Amplification Renewal

Organizations traditionally employ Programmatic Change: crisis driven, and implemented top-down. Recognizing the limitations of this approach, resilient organizations focus on Amplified Renewal: opportunity driven, implemented bottom-up.

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Note how Amplified Renewal offers resilience and strategic advantages that Programmatic Change does not:

	Programmatic Change	Amplified Renewal:
Underlying assumptions about human nature	<ul style="list-style-type: none"> • Most people fear change as something extraordinary, and thus tend to resist it. • Change requires safety and trust, in particular to the extent there is failure in doing something new. • People can be encouraged to change if they are co-opted, have slack resources/energies, and are taught how to change. 	<ul style="list-style-type: none"> • People are naturally curious, open to exploration and learning. • Change is natural to human beings. • Most change happens 'despite the system' as people follow their passions and engage in meaningful activities.
Impetus	CEO-led	Passion-led
Participation	Mandatory	Voluntary
Drivers	"Experts"	"Users"
Organization	Programmed	Emergent
Guidelines	Detailed SOPs	Simple rules
Methodology	Roll out	Roll up
Occurrences	Episodic	Continuous

What are needed are new resilience drivers (principles) made on a small enough scale to make them palatable to programmatic organizations and leaders. "You can't create new management practices without new management principles." In their companion article in HBR, Hamel and Välikangas define a Roadmap to Resilience:

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<p>Come to Grips with Accelerating Change</p> <p>Face up to the declining value of incumbency. Recognize the limits to CEO-led change efforts. Distinguish between operational flexibility and strategic resilience. Believe in the possibility of spontaneous renewal. Commit to zero-trauma change.</p>	<p>Embrace the Resilience Imperative</p> <p>Acknowledge the limits to incrementalism. Deconstruct your business model. Challenge industry orthodoxies. Reinvent the demand chain. Become a strategy activist.</p>
<p>Accelerate the cycle of renewal</p> <p>Conquer organizational denial. Build a portfolio of strategy experiments. Redeploy capital and talent – <i>fast</i>. Create internal markets for innovation. Get inside your competitor's renewal cycle.</p>	<p>Drive innovation to the core</p> <p>Make innovation everyone's job. Build pro-innovation management processes. Master the paradox of optimization and innovation. Design resilience into your organization. Stay the course.</p>

So rather than top-down directives, these innovative bottoms-up principles form a dynamic, resilient, proactive, interdependent, symbiotic, overlapping, systemic organization that is highly resistant to annihilation.



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Second, using the above as a point of reference, *"Determine which vulnerabilities pose significant risk:"*

Impediments related to:	Those that pose significant risk:
size and scale	1.
	2.
	3.
past successes	1.
	2.
	3.
the nature of bureaucracy	1.
	2.
	3.
the nature of human beings	1.
	2.
	3.
other	1.
	2.
	3.

Third, *"Decide which three impediments are the most critical to overcome; that is, if successfully addressed, which three would make the greatest contribution to your organization's capacity for continuous, proactive strategic renewal?"* Note the effect of each of these three impediments on the beliefs and values, core processes, and actions and behaviors in your organization.

Impediment			
Effect on beliefs and values			
Effect on core processes			
Effect on actions and behaviors			

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Fourth, from the chart above, *"Pick one impediment that your team considers most damaging to your organization's resilience, and apply a resilience principle (see pages 2, 3 and 7 for ideas) that has the most appeal and potential power."* The underlying questions are:

- Who you are?
- How do you conduct your work?
- What you are capable of accomplishing?
- Given the orthodoxies, what are your organization's vulnerabilities?
- What impactful steps could you take so that these resilience shifts might become reality? They can be small or big, and they don't have to solve the whole issue at once.

Fifth, take action.

And sixth, go back to Step Three and work through the process again with your next most damaging impediment. Because turbulence is constant, remaining resilient and staying on top of the game is a continuous process. Absent regular revisions, the innovative strategies, systems and practices you create today are destined to become tomorrow's obsolete constraints.

Closing thoughts:

"... unplanned, open-ended trial and error – not conformity to one central vision – is the key to human betterment. Thus, the true enemies of humanity's future are those who insist on prescribing outcomes in advance, circumventing the process of competition and experiment in favor of their own preconceptions and prejudices." Virginia Postrel, *"The Future and Its Enemies"*

"Battlefield commanders talk about 'getting inside the enemy's decision cycle'. If you can retrieve, interpret, and act upon battlefield intelligence faster than your adversary, they contend, you will be perpetually on the offensive, acting rather than reacting. In an analogous way, one can think about getting inside a competitor's 'renewal cycle'. Any company that can make sense of its environment, generate strategic options, and realign its resources faster than its rivals will enjoy a decisive advantage. This is the essence of resilience. And it will prove to be the ultimate competitive advantage in the age of turbulence – when companies are being challenged to change more profoundly, and more rapidly, than ever before." Hamel and Välikangas, HBR, September, 2003