MGMT3015

CORPORATE STRATEGY

Semester 1

2025

Week 4

Wednesday 12th March

Australian National University

ROADMAPS

Content: The Roadmap presents:

1. A reasoned assessment of Firm Resources and Capabilities (e.g. VRIO, Strengths, Weaknesses);
2. A reasoned assessment of Competitive Environment (e.g. 5 Forces, complements, potential partnerships, market maturity, PEST, Opportunities, Threats);
3. A reasoned assessment of Value Proposition (What customers, What needs, What relative pricing); and,
4. Careful risk assessment, including of country risk where relevant.

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STRATEGIC RISK CASE COMPETITION 2025

For undergraduate University students across Australia and New Zealand

Applications close
Friday March 28th, 2025
5pm AEDT/ 7pm NZDT

Australian National University

LECTURE 4

The Strategy Analyses and Insight:

- Identifying Opportunities and Threats and Managing Risk
- Matching organisational capabilities and external insights (VRIO framework)
- Strategic positioning
- Building strategic agility and resilience

The key strategic imperative - playing to win

What is our aspiration?
Purpose and intent (Vision, Mission & Core Values)

Where will we play and with what focus?
(geography, products, segments, arenas)

How will we win?
Where do we have advantage? How do we translate that into success?

What capabilities must we have?
What must we be good at to win?

Management systems?
How do we operate to win most efficiently and effectively?

External Analysis helps us to answer these

Internal Analysis helps us to answer these

Source: Lafley & Martin, HBR, 2013

Internal capabilities as the sources of advantage

Sources of competitive advantage that arise from organisational processes, rather than products, and from sets of assets, rather than single assets, are more difficult to compete against and therefore result in a more sustained competitive advantage. The complexity of internal processes and multiple asset sets make them difficult to imitate. Organisational processes depend upon internal relationships, while assets and agreements must be developed over time. The relationships between specific processes, assets and competitive advantage are also difficult to identify, making them hard to imitate. The development of internal processes and assets that create a competitive advantage will be the result of the organisation's core competencies.

Grant et al 2016, pp. 16-17

Internal capabilities as the sources of advantage

The resource-based approach has profound implications for organisations' strategy formulation. When the primary concern of strategy was industry selection and positioning, organisations tended to adopt similar strategies. The resource-based view, by contrast, emphasises the uniqueness of each company and suggests that the key to profitability is not through doing the same things as other companies, but rather through exploiting differences. Establishing competitive advantage involves formulating and implementing a strategy that exploits uniqueness of a company's portfolio of resources and capabilities.

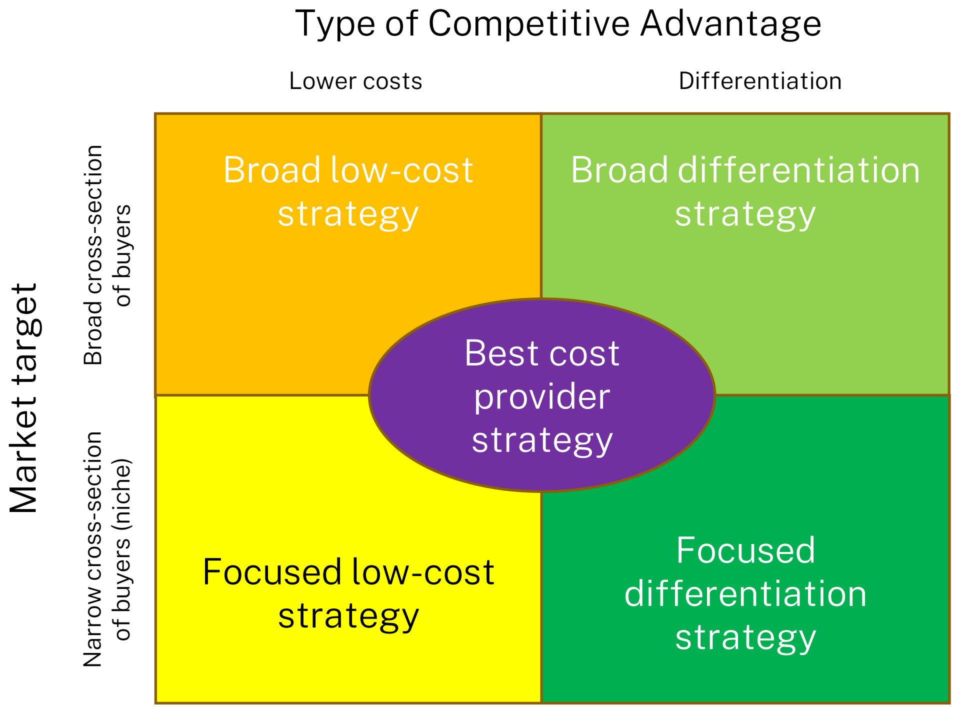
Grant et al 2016, p. 164

Resources are not productive on their own. A brain surgeon is close to useless without a radiologist, anaesthetist, nurses, surgical instruments, imaging equipment and a host of other resources. To perform a task, a team of resources must work together. Moreover, only some resources are inputs to a productive process. In fact, resources have to be coordinated in order to be effectively productive. An organisational capability is a company's capacity to deploy resources for a desired result... Of primary interest are those capabilities that can provide a basis for competitive advantage.

Grant et al 2016, p. 170

Generic Forms of Competitive Advantage

Porter 1980 adapted in Thompson et al 2024 pg 127 (NB: more to come in Week 5)



Internal Capabilities – what types matter most?

Adapted from Thompson et al 2024 p. 99

Tangible Resources	Intangible Resources
Physical resources	Human assets and intellectual capital
Financial resources	Brands, company image and reputation
Technological assets	Relationships
Organisational resources	Company culture and incentive systems

Internal capabilities as the sources of advantage

Typically based on:

1. **responsiveness to change** – the ability to identify opportunities or threats and act fast (first mover advantages), often demonstrated by an entrepreneurial mindset among strategic managers and decision- makers
2. **innovation and creativity ('new game strategies')** – the ability to invent and reinvent business models, products and processes that provide the organisation with a competitive advantage, or overturn the competitive advantages of other organisations
3. **superior access to information or greater ability to interpret information** – access to, and/or superior ability to interpret and derive strategic insights from, unique information (not available to other organisations), or from more detailed information, or from information being accessed by strategic managers earlier and with clearer insight
4. **lower costs** – the ability to deliver outcomes and outputs with fewer resources
5. **superior access to, or superior management of, complex combinations of resources and capabilities** – the ability of strategic managers to access better quality or quantities of resources, or to manage them more effectively, or the ability to integrate the resources and capabilities of the organisation more effectively and/or more efficiently
6. **superior access or management of value-adding networks or relationships** – being part of more efficient and/or effective value- creating networks, having deeper and more valuable relationships (ideally exclusive relationships) and managing them strategically to extract superior value.

Grant et al 2016, pp. 190-214

Other Potential Building Blocks of Competitive Advantage

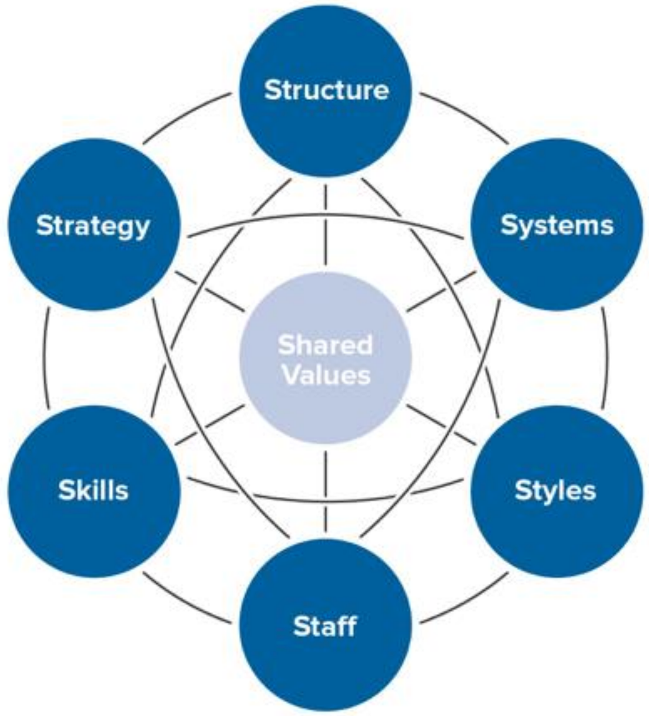
1. **Efficiency** – using fewer inputs to produce a particular level of output
2. **Quality** – offering products and experiences that are perceived by customers (or key stakeholders) as superior
3. **Innovation** – generating a continuing stream of new and more valuable business models, products and processes that lead to differentiation or cost leadership
4. **Customer (or Client) Responsiveness** – better identifying and meeting the needs of customers or key stakeholders.

Analysing Internal Capabilities

Thompson et al 2024, pg. 97 and 119

1. How well is the company's present strategy working? (Indicators are trends in: sales/earnings growth; stock price; overall financial strength; customer acquisition and retention; critical internal process improvements)
2. What are the company's strengths and weaknesses in relation to the market opportunities and external threats?
3. What are the company's most important resources and capabilities, and will they give the company a lasting competitive advantage over rival companies?
4. How do the company's value chain activities impact its costs structure and company value proposition?
5. Is the company competitively stronger or weaker than key rivals?
6. What strategic issues and problems merit front-burner management attention?

McKinsey 7S Framework



Source:
https://www.mindtools.com/pages/article/newSTR_91.htm

Financial Analysis – indicators

more detail in Thompson et al 2024 pg. 91 (Table 4.1)

Profitability Ratios	What it shows
Gross Profit Margin	Percentage of revenue available to cover expenses and generate profits
Operating profit margin (EBIT)	How profitable are current operations (before paying tax or interest)
Net profit margin	After-tax profits per sales dollar
Total return on assets	Total ROI for the enterprise
Net return on total assets (ROA)	Return earned by shareholders on the assets
Return on stockholder equity (ROE)	Returns stockholders earn on capital invested
Return on invested capital	Returns for stockholders on monetary capital invested

Financial Analysis – indicators more detail in Thompson et al 2024 pg. 92 (Table 4.1)

Ratio	What it means
(Liquidity) Current ratio	Ability to pay current liabilities using assets that are cash or equivalents
(Liquidity) Working capital	Cash available to pay for day-to-day operations
(Leverage) Total debt-to-assets	Extent to which borrowings are used to fund day-to-day operations
(Leverage) Long-term debt-to-capital	How credit worthy is the enterprise and how strong is the balance sheet
(Leverage) Debt-to-equity	The balance of debt funding and share capital
(Leverage) Long-term debt-to-equity	The balance of long-term debt funding and share capital
(Leverage) Times interest earned)or coverage)	Ability to pay annual interest charges from earnings

Financial Analysis – indicators more detail in Thompson et al 2024 pg. 93

Ratio	What it shows
(Activity) Days of inventory	Inventory management efficiency
(Activity) Inventory turnover	Numbers of times inventory turns over per year
(Activity) Average collection period	How fast the organization collects payments for sales
Dividend yield on common stock	Returns to shareholders in terms of dividends
Price-to-earnings (P/E)	Levels of investor investor confidence in the organization's future outlook and earnings growth
Dividend payout	Percentage of after-tax earnings paid out as dividends
Internal cash flow	Cash being generated after paying operating expenses, interest, and taxes
Free cash flow	Rough estimate of the cash being generated after paying operating expenses, interest, taxes, dividends, and investments.

SWOT

adapted from Thompson et al 2024, pg. 97 (Figure 4.2)

	+	-
Internal	Strengths	Weaknesses
External	Opportunities	Threats

Functional Analysis

Recognising the strategic value of being ‘better’ at critical component capabilities **related to the major functions of the organisation** (e.g. production/logistics/operations, sales & marketing, financing/financial management, human resource management, technology management, R&D/innovation/new product development, intellectual capital management, etc.)

Activity Mapping

Key Partners
- Who are our key partners?
- Who are our key suppliers?
- Which key resources are we acquiring from our partners?
- Which key activities do partners perform?

Key Activities
- What key activities do our value propositions require?
- Our distribution channels?
- Customer relationships?
- Revenue streams?

Key Resources
- What key resources do our value propositions require?
- Our distribution channels?
- Customer relationships?
- Revenue streams?

Value Propositions
- What value do we deliver for customers?
- Which one of our customers' problems are we helping to solve?
- What bundle of products and services are we offering to each segment?
- Which customer needs are we satisfying?
- What is the minimum viable product?

Customer Relationships
- How do we get, keep and grow customers?
- Which customer relationships have we established?
- How are they integrated with the rest of our business model?
- How costly are they?

Channels
- Through which channels do customers want to be reached?
- How do others reach them?
- Which ones work best?
- Which ones are most cost-efficient?
- How are we integrating them with customer routines?

Customer Segments
- For whom are we creating value?
- Who are our most important customers?
- What are the customer archetypes?

What clusters or 'nodes' of activity deliver superior performance in any of these areas?

Cost Structure
- Which are the most important costs inherent to our business model?
- Which key resources are most expensive?
- Which key activities are most expensive?

Revenue Streams
- For what value are customers willing to pay?
- For what do they currently pay?
- What is the revenue model?
- What are the pricing tactics?

www.businessmodelgeneration.com/canvas developed by Osterwalder A & Pigneur Y

Value Chain Analysis

Thompson pg. 106 adapted

https://www.smartsheet.com/everything-you-need-to-know-about-value-chain-analysis

Understanding relative advantage through Benchmarking

The objectives of benchmarking are to:

1. determine whether the organisation is performing particular value-chain activities efficiently compared to the way others do them
2. determine whether the organisation is getting better or worse at managing value-chain activities over time
3. identify and understand best practice by learning from those who have demonstrated they are best in an industry or ‘world class’
4. assess particular value-chain activities relative to those of competitors
5. take action to improve the organisation’s cost effectiveness.

Understanding Internal Capabilities – the VRIO framework

Barney in Grant et al 2016, p. 174

differs slightly from Thompson et al 2024 pp. 101-102 VRIN approach

A firm resource must have four attributes:

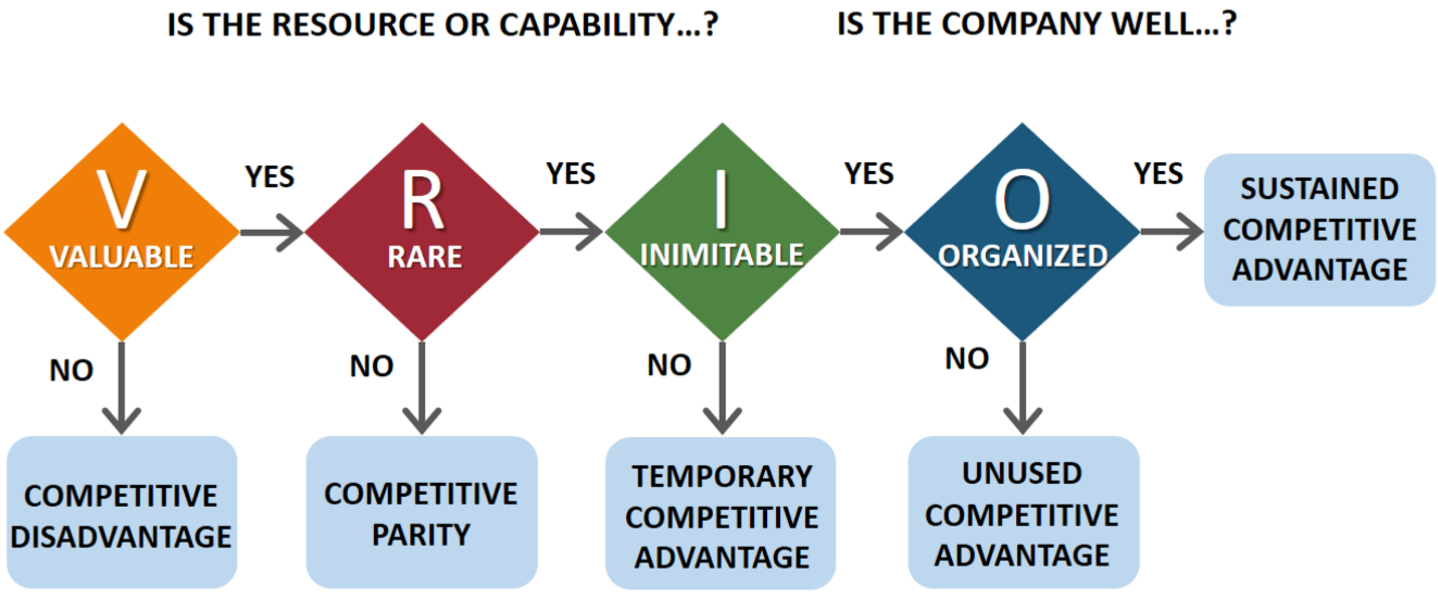
a) it must be **valuable**, in the sense that it exploits opportunities and/or neutralises threats in a firm's environment,

b) it must be **rare** among a firm's current and potential competition,

c) it must be imperfectly **imitable** and **non-substitutable**, and

d) it must be able to be exploited by a firm's **organisational** processes.

These attributes of company resources can be thought of as indicators of how heterogeneous and immobile a firm's resources are, and thus how useful these resources are for generating sustained competitive advantage.


IS THE RESOURCE OR CAPABILITY...?
IS THE COMPANY WELL...?
V
VALUABLE
YES
R
RARE
YES
I
INIMITABLE
YES
O
ORGANIZED
YES
SUSTAINED COMPETITIVE ADVANTAGE
NO
COMPETITIVE DISADVANTAGE
NO
COMPETITIVE PARITY
NO
TEMPORARY COMPETITIVE ADVANTAGE
NO
UNUSED COMPETITIVE ADVANTAGE

McKinsey's 7S Framework – Generic Building Blocks of Competitive Advantage

1. **Shared values** – the common values and beliefs the employees share; things beyond profit.
2. **Structure –** the way the organisation defines and administers internal power and relationships, including its policies and procedures.
3. **Systems** – the decision-making systems, including both IT-based and human-based systems.
4. **Style** – the organisational culture and leadership style that typifies the organisation.
5. **Staff** – having sufficient numbers of the right people, trained, motivated and committed to the organisation's success.
6. **Skills** – the presence (or absence) of key strategic competencies needed to make strategy succeed.
7. **Strategy** – the company's integrated vision and direction.

GE Matrix – Analysing strategic opportunities at an SBU (Strategic Business Unit) level

Business position; our ability to compete

Market attractiveness

GE Matrix – Analysing the strategic opportunities – generic options

	Strong	Average	Weak
High	**Protect position** invest to grow at maximum digestible rate concentrate effort on maintaining strength	**Invest to build** challenge for leadership build selectively on strengths reinforce vulnerable areas	**Build selectively** specialise around limited strengths/ seek ways to overcome weaknesses withdraw if indications of sustainable growth are lacking
Medium	Build selectively invest heavily in most attractive markets build ability to counter competition emphasise profitability by raising productivity	**Selectivity/manage for earnings** protect existing programs concentrate investments in high profit/low risk segments	**Limit expansion or harvest** look for ways to expand without high risk; otherwise, minimise investment and rationalise operations
Low	**Protect and refocus** manage for current earnings concentrate on attractive markets defend strengths	**Manage for earnings** protect position in most profitable markets upgrade product line minimise investment	**Divest** sell at a time that will maximise cash value cut fixed costs and avoid investments meantime

Sustaining a Competitive Advantage

Grant et al 2016 p. 178-179

1. **Durability** – how long will the advantage from the strength endure? How can this be refined and protected?
2. **Transferability** – can the strength be made hard/difficult for a competitor to acquire (i.e. they can't simply buy it) **and** can the strength be transferred through other parts of the organisation?
3. **Replicability** – is the capability difficult/hard to reproduce or copy? Is it based on complex and hard-to-imitate organisational routines, processes and practices that are proprietary and unique?

Strategic Agility – what do we mean?

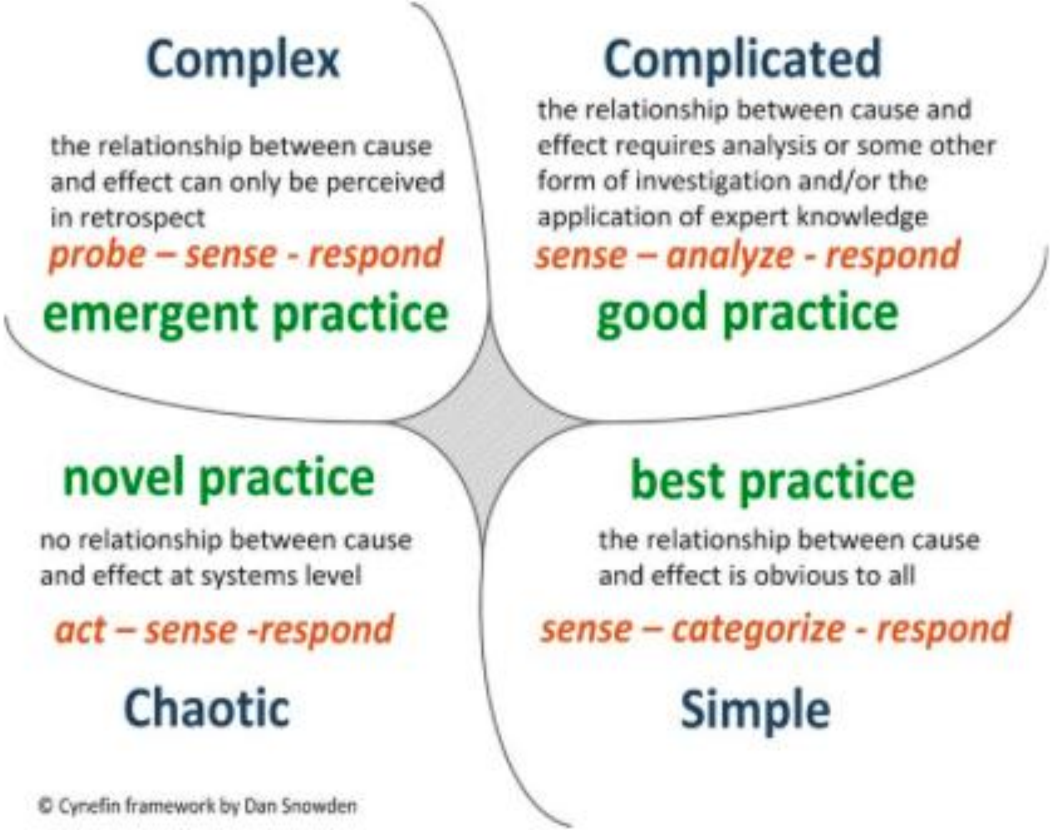
Thompson et al 2024 p. 10 has changed

… managers must always be willing to supplement or modify the proactive strategy elements with as-needed reactions to unanticipated developments. Inevitably, there will be occasions when market and competitive conditions take an unexpected turn that calls for some kind of strategic reaction. Hence, a portion of a company's strategy is always developed on the fly, **coming as a response to fresh strategic manoeuvres on the part of rival firms, unexpected shifts in customer requirements, fast-changing technological developments, newly appearing market opportunities, a changing political or economic climate, or other unanticipated happenings in the surrounding environment.** These unplanned, reactive, and adaptive strategy adjustments make up the firm's emergent strategy.

Reactive approach – five key capabilities

1. ***Strategizing*** – being clear about 'where you want' to play (and why)? Establishing 'a culture of candor' where people at all levels are willing to challenge
2. ***Perceiving*** – having sensors in the environment (and analytical skills) to identify trends early
3. ***Experimenting*** – a culture of developing and running fast, small scale experiments and investing in/scaling up what works
4. ***Implementing*** – using techniques like agile to rapidly and cost effectively establish and scale up new strategies
5. ***Adapting*** - being able to rapidly switch in and out of strategies as conditions change

The Cynefin Framework



The Cynefin Framework

Snowden and Boone (2007, p. 73)

	The Context's Characteristics	The Leader's Job	Danger Signals	Response to Danger Signals
Simple	Repeating patterns and consistent events Clear cause- and-effect relationships evident to everyone; right answers exist Known knowns Fact-based management	Sense, categorize, respond Ensure that proper processes are in place Delegate Use **best practices** Communicate in clear, direct ways Understand that extensive interactive communication may not be necessary	Complacency and comfort Desire to make complex problems simple Entrained thinking No challenge to received wisdom Overreliance on best practices if context shifts	Create communication channels to challenge orthodoxy Stay connected without micromanaging Don't assume that things are simple Recognize both the value and limitations of best practice
Complicated	Expert diagnosis required Cause-and-effect relationships discoverable but not immediately apparent to everyone; more than one right answer possible Known unknowns Fact-based management	Sense, analyze, respond Create panels of experts Listen to conflicting advice Use **good practices** rather than best practice	Experts overconfident in their own solutions or in the efficacy of past solutions Analysis paralysis Expert panels Viewpoints of non-experts included	Encourage external and internal stakeholders to challenge expert opinions to combat entrained thinking Use experiments and games to force people to think outside the familiar

The Cynefin Framework

Snowden and Boone (2007, p. 73)

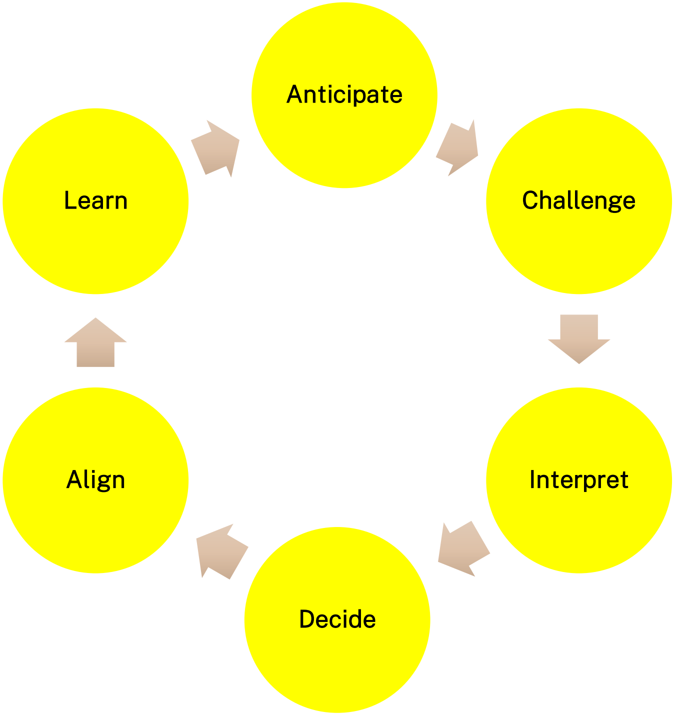
	The Context's Characteristics	The Leader's Job	Danger Signals	Response to Danger Signals
Complex	Flux and unpredictability No right answers; emergent instructive patterns Unknown unknowns Many competing ideas A need for creative and innovative approaches Pattern-based leadership	Probe, sense, respond Create environments and experiments that allow patterns to emerge Use **emerging practices** Increase levels of interaction and communication Use methods that can help generate ideas: Open up discussion; set barriers; stimulate attractors; encourage dissent and diversity; and manage starting conditions and monitor for emergence	Temptation to fall back into habitual, command and control mode Temptation to look for facts rather than allowing patterns to emerge Desire for accelerated resolution of problems or exploitation opportunities	Be patient and allow time for reflection Use approaches that encourage interaction so patterns can emerge

The Cynefin Framework

Snowden and Boone (2007, p. 73)

	The Context's Characteristics	The Leader's Job	Danger Signals	Response to Danger Signals
Chaotic	High turbulence No clear cause-and-effect relationships, so no point in looking for right answers Unknowables Many decisions to make and no time to think High tension Pattern-based leadership	Act, sense, respond Look for what works instead of seeking right answers Develop **novel practices** Take immediate action to re-establish order (command and control) Provide clear, direct communication	Applying command and control approach no longer needed "Cult of the leader" Missed opportunity for innovation Chaos unabated	Set up mechanisms (such as parallel teams) to take advantage of opportunities afforded by a chaotic environment Encourage advisors to challenge your point of view once the crisis has abated Work to shift context from chaotic to complex

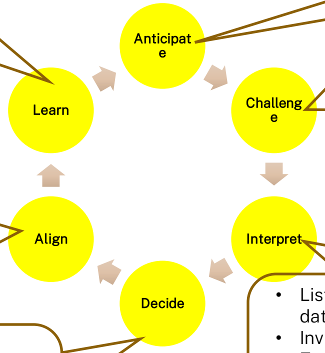
Strategic Agility – The Essential Skills (Schoemaker, Krupp & Howland, *HBR*, 2013)



Strategic Agility – The Essential Skills

(Schoemaker, Krupp & Howland, *HBR*, 2013)

- Talk to customers, suppliers, partners
- Conduct market research and simulations
- Use scenario planning
- Monitor fast-growing rivals
- Analyse lost customers
- Participate in industry learning



- Focus on root causes not symptoms
- Apply the 5 Why's
- List long-standing assumptions about this aspect of the business
- Encourage 'safe' debate
- Create a 'black hat'
- Include naysayers
- Capture input from 'independents'

- List at least 3 possible interpretations of any ambiguous data
- Invite stakeholder input
- Zoom in (detail) and out (big picture)
- Look for disconfirming evidence
- Use qualitative and quantitative analysis
- Step away and stimulate fresh eye

- Reframe binary decisions by adding options
- Break big issues into pieces
- Tailor decision criteria for long-term
- Manage input to get divergence ideas – debate – closure - choice
- Engage key influencers
- Consider experiments and staged commitments

- Communicate early, often and widely
- Map stakeholders and manage misalignments
- Use structured communications
- Reach out to resisters
- Recognize and reward support

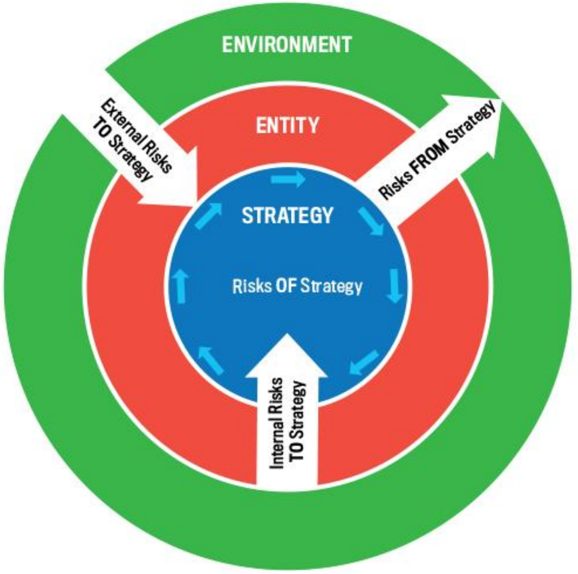
- Use after-action reviews and document lessons learned
- Reward brave experimentation (regardless of results)
- Conduct routine learning audits
- Create an inquisitive culture

Managing Strategic Risk

Common types of strategic risks include:

- Market
- Credit
- Liquidity
- Operational
- Legal/Regulatory
- Business
- Reputation
- Strategic

FIGURE 1: RISKS OF, FROM, AND TO STRATEGY



Risks of strategy: Risks inherent in the chosen strategy, arising at the time of formulation.

Risks from strategy: Risks that formulation and execution of strategy pose to the vision, mission, and core values of the organization.

Risks to strategy: Risks from internal and external sources that threaten the successful execution of strategy.

https://sfmagazine.com/articles/2021/december/strategic-risk-in-the-new-normal/

Managing Strategic Risk

Crouhy et al (2013, p. 2)

1. identify what strategic risks exist
2. measure and estimate the impact of these risks
3. assess the probability that the risk will eventuate
4. identify those risks that are unacceptable to the organisation, and develop a plan to mitigate or respond to these risks
5. develop an agile response for managing strategic risks
6. monitor critical risks

Managing Strategic Risk

Typical agile response for managing strategic risks include:

- avoid the risk (develop a contingency plan for what you will do if the risk eventuates)
- accept the risk
- seek to offset the risk (set aside money or other resources to deal with the risk if it arises)
- share the risk (look for another person or organisation willing to take on the risk in return for a share of the benefits of the strategy e.g. strategic alliance)
- trade the risk (e.g. insure or hedge against the risk).

Strategic Resilience – what do we mean?

(Hamel & Valikangas 2003, pp. 52–54)

The fact that success has become less persistent strongly suggests that momentum is not the force it once was. To be sure, there is still enormous value in having a coterie of loyal customers, a well-known brand, deep industry know-how, preferential access to distribution channels, proprietary physical assets, and a robust patent portfolio. But that value has steadily dissipated as the enemies of momentum have multiplied. Technological discontinuities, regulatory upheavals, geopolitical shocks, industry de-verticalization and disintermediation, abrupt shifts in consumer tastes, and hordes of non-traditional competitors – these are just a few of the forces undermining the advantages of incumbency...
For all these companies, and for yours, continued success no longer hinges on momentum. Rather, it rides on resilience – on the ability to dynamically reinvent business models and strategies as circumstances change... Strategic resilience is not about responding to a onetime crisis. It's not about rebounding from a setback. It's about continuously anticipating and adjusting to deep, secular trends that can permanently impair the earning power of a core business. It's about having the capacity to change before the case for change becomes desperately obvious.

Building Strategic Resilience – dealing with four challenges Hamel and Valikangas (2003, p. 54)

1. ***The Cognitive Challenge***: A company must become entirely free of denial, nostalgia, and arrogance. It must be deeply conscious of what's changing and perpetually willing to consider how those changes are likely to affect its current success.
2. ***The Strategic Challenge***: Resilience requires alternatives as well as awareness – the ability to create a plethora of new options as compelling alternatives to dying strategies.
3. ***The Political Challenge***: An organization must be able to divert resources from yesterday's products and programs to tomorrow's. This doesn't mean funding flights of fancy; it means building an ability to support a broad portfolio of breakout experiments with the necessary capital and talent.
4. ***The Ideological Challenge***: Few organizations question the doctrine of optimization. But optimizing a business model that is slowly becoming irrelevant can't secure a company's future. If renewal is to become continuous and opportunity-driven, rather than episodic and crisis- driven, companies will need to embrace a creed that extends beyond operational excellence and flawless execution.

Building Strategic Resilience – practices to help

Hamel and Valikangas (2003, pp. 59-63)

1. Routinely visiting and becoming familiar with environments where change is happening
2. Eliminating any filters that prevent honest, forthright and possibly uncomfortable assessments and insights getting through
3. Recognising when existing strategy is decaying – is failing to have impact (or will soon do so) because it is being *replicated* by others (e.g. competitors); *supplanted* by better strategies developed by others; *exhausted* because markets have become saturated, customers become bored or optimisation strategies are delivering diminishing returns; or strategies are *eviscerated* by a disruptive technology or business model that renders them redundant.
4. Actively encouraging and promoting variety
5. Balancing their portfolio of strategic investments so that they don't over-invest in strategies based on 'business-as-usual' and under-invest in strategies for 'what could be'
6. Balancing the paradox of *optimization* (making the existing investments and businesses as efficient and possible) and *renewal* (finding strategies that make the existing investments redundant).

Organizing for the future: Nine keys to becoming a future-ready company

De Smet et al (2021)

Exhibit 1

Four interrelated trends are poised to unwind the old rules of management.

More connectivity

- Rising interconnectivity speeds disruption, upending the principles for disruptive innovation
- Free-moving information bypasses—and challenges—existing hierarchies

Lower transaction costs

- Barriers to entry and costs to achieve scale are evaporating
- Internal bureaucracy presents more friction than external interactions and free-market transactions

Unprecedented automation

- Increased automation undercuts the mechanistic thinking upon which organizations were created
- 200 years of management thinking on control and predictability become obsolete

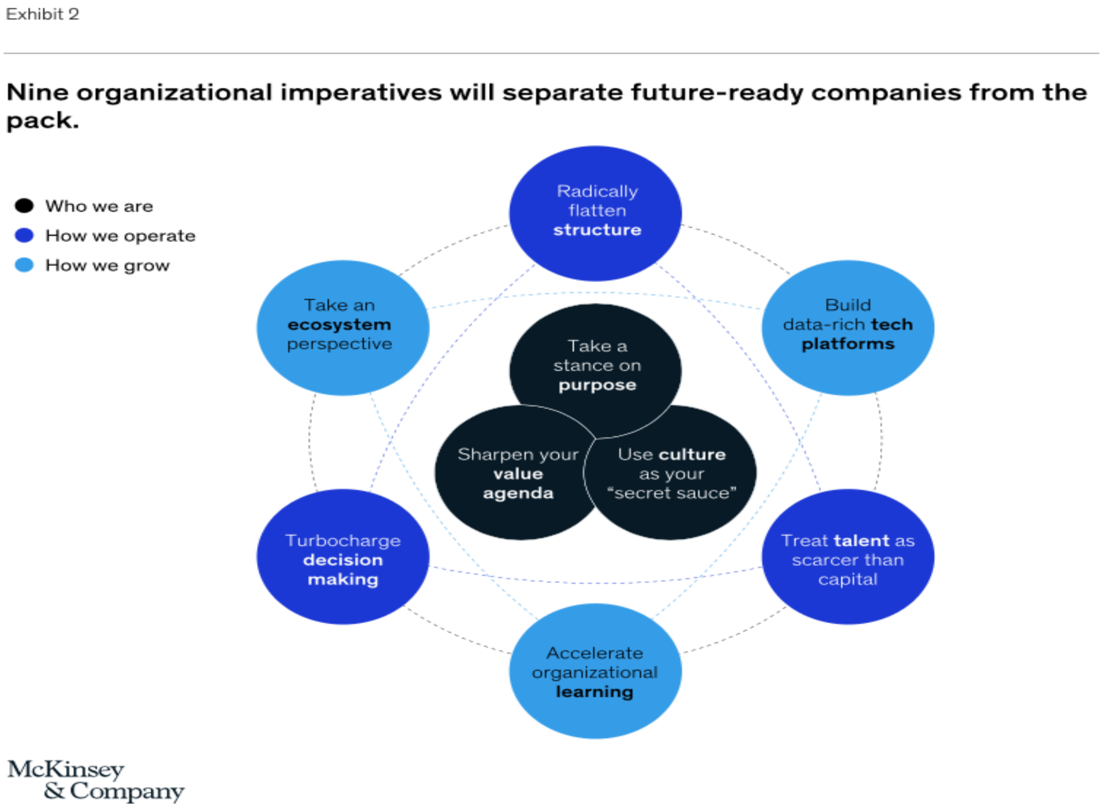
Fundamental societal shifts

- Gen Z and beyond will have new, fundamentally different career aspirations
- Expect more variety and learning, more leadership and promotion opportunities, more social impact, and more career mobility

McKinsey & Company

Organizing for the future: Nine keys to becoming a future-ready company

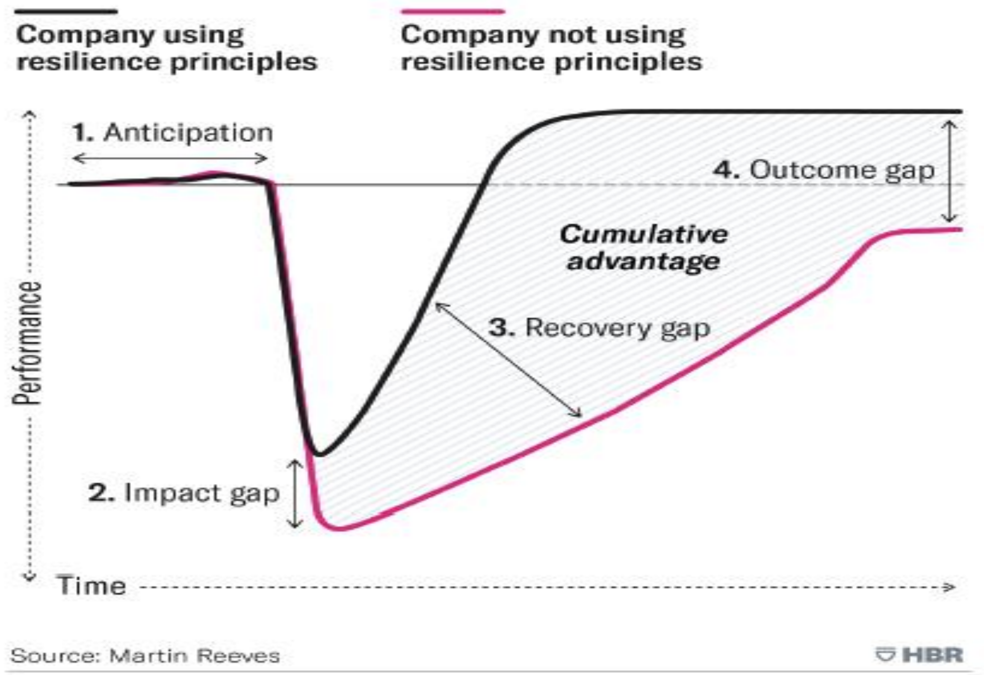
De Smet et al (2021)



A Guide to Building a More Resilient Business

Reeves & Whitaker (2020)

Benefits of resilience:



Derived from:

1. an **anticipation benefit**, representing the ability to recognize threats faster
2. an **impact benefit**, representing the ability to better resist or withstand the initial shock
3. a **recovery speed benefit**, representing the ability to rebound from the shock more quickly by identifying the adjustments needed to return to the prior operating level and implementing them swiftly and effectively
4. an **eventual outcomes benefit**, representing increased fitness for the new post-shock environment.

A Guide to Building a More Resilient Business

Reeves & Whitaker (2020)

The Challenge of Measuring and Managing Resilience

Traditional management approaches have several important limitations that make measuring and achieving resilience difficult:

•Companies have been designed predominantly to maximize shareholder value from dividends and stock appreciation. **Very few companies even attempt to measure resilience beyond merely disclosing specific material risks.**

•Companies and shareholders often focus on maximizing short-term returns. In contrast, **resilience requires a multi-timescale perspective: forgoing a certain amount of efficiency or performance today for the sake of more-sustained performance in the future.**

•Companies have been mainly focused on creating and executing stable plans, which works well when causal relationships are clear, predictable, and unchanging**. Resilience deals with what is unknown, changeable, unpredictable, and improbable — and has significant consequences** (relates to Cynefin)

•In the current model of corporate capitalism, each company is treated as an economic island to be optimized individually. While this simplifies management and accountability, it masks the extent of economic and social interdependence between different stakeholders. In contrast, **resilience is a property of systems: an individual company's resilience means little if its supply base, customer base, or the social systems upon which it depends are disrupted.**

A Guide to Building a More Resilient Business

Reeves & Whitaker (2020)

Building Resilient Enterprises

Companies can structure their organizations and decision processes for resilience by embracing six principles of long-lasting systems:

•**Redundancy** buffers systems against unexpected shocks…. It can be created by duplicating elements (such as by having multiple factories that produce the same product) or by having different elements that achieve the same end (functional redundancy).

•**Diversity** of responses to a new stress helps ensure that systems do not fail catastrophically, albeit at the expense of the efficiencies obtainable through standardization. In business, this requires not only employing people from different backgrounds and with different cognitive profiles but also creating an environment that fosters multiple ways of thinking and doing things.

•**Modularity** allows individual elements to fail without the whole system collapsing, albeit while forgoing the efficiency of a tightly integrated organizational design. Because a modular organization can be divided into smaller chunks with well-defined interfaces, it is also more understandable and can be rewired more rapidly during a crisis.

•**Adaptability** is the ability to evolve through trial and error. It requires a certain level of variance or diversity, obtained through natural or planned experimentation, in combination with an iterative selection mechanism to scale up the ideas that work best. Processes and structures in adaptive organizations are designed for flexibility and learning rather than stability and minimal variance.

•**Prudence** involves operating on the precautionary principle that if something could plausibly happen, it eventually will. This calls for developing contingency plans and stress tests for plausible risks with significant consequences — which can be envisioned and prepared for through scenario planning, war games, monitoring early warning signals, analyzing system vulnerabilities, and other techniques.

•**Embeddedness** is the alignment of a company's goals and activities with those of broader systems. It is critical to long-term success because companies are embedded in supply chains, business ecosystems, economies, societies, and natural ecosystems. Articulating a purpose — the way in which a corporation aims to serve important societal needs — is a good way to ensure that the company does not find itself in opposition to society and inviting resistance, restriction, and sanction.

Building Organizational Resilience

Suarez & Montes (2020 p.48)

When to Try Each Approach

Much of the time, organizational routines can guide how work gets done. But if resources are scarce, things are moving fast, or the terrain is unpredictable, simple rules and improvisation should be in the mix.

	Routines (scripted work processes)	**Heuristics** (rules of thumb that help simplify decision-making)	**Improvisation** (spontaneous, ad hoc responses to a problem or opportunity)
EXAMPLE	*"Follow this checklist to prep for surgery."*	*"Prioritize big-ticket client work in a crunch."*	*"Employees must stop working in the office immediately. Where do we start?"*
BEST WHEN	You're in familiar territory.	You need to make decisions faster than usual; existing routines aren't effective.	You're on uncharted ground with a high degree of uncertainty.
CONTEXT	The environment is stable.	Key assumptions remain valid; decision-makers understand the problems they encounter.	Key assumptions no longer hold; decision-makers need to experiment to figure out what will work.

Strategic Resilience – why does it matter?

(Hamel & Valikangas 2003, p. 63)

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.