

ARTICLE

Building resilience to survive and grow

How to be responsive and agile in an uncertain world

COVID-19 and Brexit, two profound disruptions, have placed new, unprecedented strains on the ability of many companies to flex and respond in uncertain times. These events have highlighted that data analytics alone cannot predict the future in the face of such discontinuities. Without the benefits of forewarning, companies have had to react as new events unfolded. Those with more resilient business models which were designed with a degree of flexibility to adapt and evolve to trends saw the benefit of their investment. However, many companies found that the degree of flexibility they had was insufficient to cope when hit by such unforeseen discontinuities and rapid shifts.



75% of companies found their crisis response plans were insufficient to deal with the challenges of COVID-19, despite 80% of G20 companies using AI and analytics to monitor for scenarios that impact risk and compliance

For many years companies have pursued a path to be lean, trying to bring stability through the end to end supply chain and creating business models that delivered a narrow set of outcomes at optimised cost. Market and consumer trends could be followed and accommodated over time with adjustments to products, processes, organisation and production. Data analytics were turned to for predictions of the future, and each year's strategic planning cycle would see adjustments to suit the evolving competitive landscape.

COVID-19, Brexit and recent 'one-off' events like the Ever Given container ship becoming wedged in the Suez canal and the Texas power grid failing, have shown how fragile and volatile our globally connected infrastructure is, and how in an already uncertain environment there is always room for further unexpected disruption. This is disruption that cannot be managed within rigid, cost optimised business models.

Now, more than ever, businesses need to rethink and reshape their ability to sense and to rapidly respond to the unknown, and to develop appropriate contingencies to tackle potential scenarios successfully.

How did companies survive?

These recent events forced companies to react quickly and make massive changes to their operations, and how they served their customers. Managing cash took on an elevated priority with staff being furloughed, capex plans being deferred and balance sheets rising up the management priority list. The shifts towards lean organisations with simplified business processes, operating models and ‘rightsized’ workforces had left many organisations with limited contingency, low resilience and more vulnerability than they might have envisaged.

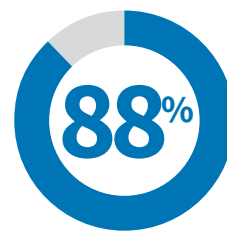
Companies were forced to clear the decks of non-urgent, but still important activities and fight fires across their businesses to survive and operate as best they could. For example, Amazon decided to stop accepting all ‘non-essential’ items at its warehouses for an extended period of time – and in Italy and France (earlier in the pandemic) delivered only essential items, regardless of what it had in stock, creating huge challenges for Amazon sellers who then needed to find new ways to get their products to customers. Ted Baker, the clothing retailer, put temporary stores in “satellite” locations around big cities this year, in the UK and US, as sales in bigger cities suffered from the trend towards home working and reduced tourism. Restaurants became takeaways, supermarkets and convenience stores partnered with delivery partners like Deliveroo and Uber to deliver their products, field sales teams moved online, back-office functions and call centres relocated almost overnight to a ‘work from home’ model. Hybrid working, once a dream for the future, became the norm for many.

Companies learnt to make quick decisions with a ‘just get it done’ mentality and many allowed greater short-term decision making at lower levels of the organisation. Companies learnt as they went along, adjusting and changing plans as the situation and rules changed.

Supermarkets adapted and continued to change their customer experience – from reshaped aisles in-store to adaptive ways of prioritising deliveries to customers at risk. Restaurants reworked every aspect of their business – with rationalised menus, different ways of serving

customers, faster takeaways and partnerships to meet and create demand, ensuring they could stay relevant and responsive throughout.

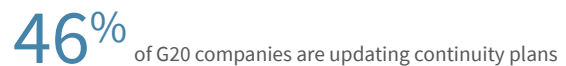
Many companies reached for data and analytics to better detect disruptions early, building up their analytic capabilities. As examples: Henke, Puri and Saleh (2020) indicate that ‘organisations are standing up analytics capabilities in a matter of weeks to inform business responses to COVID-19 challenges and prepare for the future’.



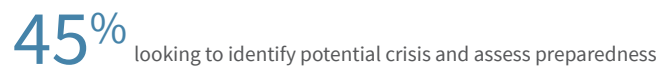
88% of G20 companies agree that businesses should continue to be run in the interest of all stakeholders, not just shareholders, going forward



One in five (21%) of G20 companies have experienced an “Inability to plan for the future” over the past 12 months. A similar proportion (20%) experienced their “Business Model becoming outdated” in the same period.



and



And perhaps at a most human level, many organisations took what previously would have been regarded as outlandishly radical steps to bring to life the values of inclusivity, empathy and wellbeing. Customer service levels as well as working practices were adapted to accommodate the personal and family needs of their employees. The last 18 months has seen companies take many rapid actions to survive, and indeed provide a degree of success for some, however, we suggest that many actions will not have delivered the optimal solution. In many cases what was implemented was simply what could be implemented rapidly within the constraints of COVID-19. As the pandemic eases and businesses start to return to some kind of new normal, companies will need to re-assess their future way of operating and whether more robust solutions should be re-engineered in a more considered manner.

Whilst not all companies have survived or remained profitable, these actions have certainly delivered results and have allowed many companies to continue to trade. For many they will have felt a sense of achievement at being able to react with speed that they never realised was possible.

These rapid and unplanned responses have also created uncertainty across entire businesses, leaving employees wondering what will happen next, not only externally but importantly internally. Speed was of the essence in the rapidly changing situation and for many the response was less planned, controlled or coordinated than businesses and employees were used to. Often these reactive and rapid solutions came at a cost, just to make sure the business could survive in the rapidly changing environment.

Planned and controlled change allows for more optimal solutions to be implemented and normally presents opportunities for institutional learning that benefits the organisation in the future. A consequence of round after round of rapid actions, often seen as firefighting, is that the organisation simply gets better at fighting fires which, whilst a good capability to possess, does not address the underlying issues, nor result in optimised solutions from a performance, cost and benefits perspective.

For many employees this added organisational disruption and uncertainty will challenge engagement as a new normal starts to emerge. We are already seeing the so called “Great Resignation” wave across industries, and this uncertainty, change and disruption is one of the many drivers.

We think there is a better way

Whilst companies have undoubtedly taken massive steps forward to respond and adapt to the new realities of COVID-19 and Brexit, companies have discovered that their operating model needs to be more resilient and agile for an uncertain world. One of the hallmarks of resilient companies is their willingness to challenge existing practices from the balance sheet up and seize opportunities to accelerate growth. With a different approach required and companies re-evaluating their business models, the question remains — how should they reconfigure to better manage a world of increasing discontinuities?

Long before the pandemic, innovative companies were already deploying new business models, ways of working and technologies in the purposeful pursuit of greater responsiveness to cope with everyday variability and

80%

80% of G20 companies believe their business model needs to fundamentally change as a result of the pandemic

evolving trends. Examples range from Zara’s responsive supply chain, based on rapid insights and late-stage customisation, through to Deliveroo’s “gigging” workforce. The pandemic has both underlined this need, and accelerated the execution.

BUILD RESPONSIVENESS

Workforce management can be a major lever in driving responsiveness, with many different strategies available to manage labour as a variable cost. Almost every category of the workforce offers opportunities to develop “plug and play” capacity and capability when required, allowing companies to scale and skill up quickly and/or temporarily when circumstances demand it. Even pre-COVID-19, the rise of experienced freelancers and next generation temp agencies was making this opportunity increasingly accessible.

For companies with British workforces whose business models rely on the use of contractors at the centre of their supply chains, the High Court Uber ruling earlier this year is an unwelcome development, with its ‘gigging’ drivers now deemed to be employees with all the associated employment law protection. Many companies will likely push back, challenge and look for alternative models that achieve similar levels of workforce flexibility. Nevertheless, the trend towards entrenchment of employment rights and the squeezing of related loopholes is likely to continue, meaning companies will have to rethink, literally, how they approach, define and optimise their ‘human resources’. The prospect of employing rather than contracting, albeit on a different basis, could be more compelling than it may seem at first glance.

The international acceleration in hybrid working in a post-pandemic world will also reshape the workplace, creating opportunities for greater flexibility both for workforce management as well as for individuals seeking a better work-life balance. A key downside of using temporary labour has always been retention and the need to retrain. As an alternative, hybrid working legitimises flexibility and in many environments may increase employee attraction

and retention whilst playing well from a sustainability perspective. Making hybrid working a truly effective means of creating workforce flexibility will not be straightforward, creating challenges for people managers with the need for increased planning, communications, technology and compliance.

Digital also has a significant role to play in increasing responsiveness and flexibility. Robotic Process Automation for example, is reducing back-office response times, whilst the combination of artificial intelligence and automation to create virtual customer service agents is not only understanding what customers need, but also processing actions immediately to shorten response times. Further, telemetry and monitoring is being used to anticipate issues and implement preventative maintenance in production environments, again speeding up the response to events. Creating effective responsiveness has also opened up new propositions. We see supermarkets like Sainsburys, Tesco and Asda in the UK trialling or rolling out one-hour deliveries, based on flexibility enhancements in processes, technology and employees.

However, whilst responsiveness, defined as the speed with which one reacts to organisational or market stimuli, is undoubtedly an important part of any resilient operating model, it is not sufficient to deal with increasingly unpredictable events and situations.

Learn to be adaptable

When even a responsive operating model does not allow for a fast enough or planned response, it must first adapt to be able to do so. Leading organisations develop the ability to rapidly manage and adapt to discontinuities in a controlled way, without disturbing the entire business - so called adaptability. The speed with which this can be done is critical and therefore adaptability, as well as responsiveness, needs to be core to any company's resilience strategy. In practice, there are many actions an organisation can take to support this, centred on the key principles of considering alternative scenarios, being prepared, deploying contingency and deferring key decisions to the last responsible moment.

Adaptability can be used as part of the launch strategy for major innovations where the probability of success is less certain. Typically an educated bet is taken on whether an innovation will succeed, and then investments are made upfront to support the anticipated volumes, or at least a good proportion of them. However, this can lead to costly wasted investments if the volumes don't come through, or sometimes worse, the inability to deliver enough volume

to meet unexpectedly high demand when customers are willing to pay the most. In this instance an approach based on adaptability may be more appropriate, assessing the range of alternative outcomes and the range of scenarios that would best respond. Investments are then made only in the dominate outcomes and a combination of plans or contingencies put in place to cover the alternative scenarios. Pre-agreed actions and target outcomes can be signed-off, allowing the final commitment to act to be delegated down the organisation, providing a rapid and agile response to events. Actions could be, for example, when to use pre-planned contingency capacity, commit to the investment for a new line to be housed in space that has already been identified and made available, or exit the innovation and avoid the additional costs to the business.

Another example is geostationary satellites that are equipped with redeployment capabilities at an additional cost (e.g. additional fuel). This is done when there is transmission capacity demand uncertainty in a specific geostationary location, allowing the satellite to be relocated profitably.

In our recent Resilience Barometer Survey[®], 70% of respondents said they are already undertaking some form of contingency planning in anticipation of a prolonged downside. However, businesses should fully assess options to create adaptability, ensuring they make 'no regret' decisions that will leave their business more resilient and able to thrive in the long term. Both responsiveness and adaptability come at a cost and should only be used where the outcome is uncertain and the impact on the business is significant. Where there is sufficient certainty, a lean, optimised approach is the best option.

Businesses that have optimised the known and are responsive and adaptable to the unpredictable will be cost efficient, as well as agile to deal with day-to-day variability, evolving trends and life's unexpected events.

Whilst standardised working practices are undoubtedly an essential control mechanism of any lean organisation, they can equally be a constraint on responsiveness and adaptability. Similarly out-dated corporate governance approaches applicable in more stable times can constrain an organisations ability to respond and adapt. Therefore, a different control mechanism is required. A truly agile business will pursue "dynamism by design", routinely designing responsiveness and adaptability

into organisational processes in an organised, planned and governed manner. Essential to this is developing a clear unifying purpose for the organisation that is well understood across the business, establishing rapid feedback mechanisms and being principle rather than process led. This requires strong leadership supported by appropriate performance management and governance to keep the organisation on track.

Culture drives organisations through their unique set of ambitions, beliefs, behaviours and ways of working. How these coalesce will determine the extent to which companies can be responsive and adaptable, remain consistent in the delivery of excellence and engage, retain and reward their employees.

Many characteristics of an agile approach, for example integrated teams, devolved responsibility, and iterative solution development, require a new cultural connectivity to function. Attempting to hardwire agility without considering culture will sever that connectivity, which creates the need to enable the culture and manage the human dimensions of change as a matter of critical priority.

Conclusion

The pandemic has further highlighted the need to move away from relentless lean optimisation to designing more resilience and optionality into the operating model and value chain, by being responsive and adaptable in a controlled manner.

This will not only create resilience and the ability to lead your competition, but additionally enable staff to feel part of a workforce that qualitatively improves engagement,

reinforcing the ability to drive productivity, agility, resilience and cost efficiency.

Companies will need to take an outside-in view of their situation and challenge existing norms, throughout the organisation, and make key trade-off decisions around where to invest in responsiveness and agility, and where the focus should be cost optimisation. As experts with impact FTI Consulting brings years of experience to support companies as they make these choices and realign their organisations to survive and grow in an increasingly uncertain world.

Data from the *FTI Consulting Resilience Barometer*[®] – September 2021. For more information please visit ftiresiliencebarometer.com.

How we can help

FTI Consulting offers a comprehensive suite of services designed to assist clients right across the business cycle – from proactive risk management to the ability to respond rapidly to unexpected events and dynamic environments.

To find out more about how to transform performance through organisational agility, please contact the authors listed below.

Ralph Fernando has also authored the book *Agile Strategy: How to create a strategy ready for anything*, published by the Financial Times.

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