



Patterns of prediction — the basis of resilient organisations

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- Survey of CEOs finds that trust is vital in fostering an organisation's resilience, regardless of what perspective or definition is used
- For CEOs trust is fundamentally about patterns of prediction that operate in the organisation rather than honour or integrity
- Understanding the differences between patterns of prediction under stress and those that operate under normal conditions is crucial to resilience

In a world characterised by increasing numbers of disasters and change, it's not surprising that the topic of organisational resilience is attracting more interest from executives and the public alike.

When we say disasters, we speak not just in the physical sense of the Japanese tsunami of 2011 or the Christchurch earthquakes, but non-physical as well, such as the global financial crisis. The increased complexity and interdependencies that characterise modern organisations makes dealing with the notion of organisational resilience a significant challenge for executives and board members.

Globally, the topic of resilience is often discussed in terms of business continuity and disaster recovery¹ and, though important, these aspects represent a relatively narrow notion of what's involved.

In Australia it is worth noting that a different approach to the problem is being adopted. The Commonwealth Attorney-General's Department (AGD) has embarked on an initiative to build greater capacity in organisations to manage unforeseen or unexpected risks, through an organisational resilience approach. In June 2011, we were commissioned by the Commonwealth Attorney-General's Department to undertake a study on the perspectives of chief executive officers (CEOs) about organisational resilience as

the basis for developing a research agenda on the topic.²

The AGD funded the project as part of the Australian Government's Critical Infrastructure Resilience Strategy. The objectives of the strategy are that critical infrastructure owners and operators:

- effectively manage foreseeable risks to the continuity of their operations, through an intelligence led, risk-informed approach, and
- enhance their capacity to manage unforeseen or unexpected risks to the continuity of their operations, through an organisational resilience approach.

Fifty-one CEOs were interviewed from a wide range of organisations and sectors, most of which were classified as critical infrastructure. We attempted to make as few assumptions about the topic as possible; we wanted to know what our leaders actually thought about the topic and how they approach it.

In this paper we want to explore one aspect of the results that suggests a new direction for discussions of organisational resilience — the role of trust.

Different concepts of resilience

Within the literature and in practice, the concept of resilience carries a range of different meanings. Indeed the US Department of Homeland Security identified 119 different definitions that

could be applied to the topic.³ Each definition deals with a slightly different context, stakeholder group or perspective and hence we end up in a never-ending cycle of definitions.

As such, we will not attempt to define what resilience is in this paper, but rather present the spread of perspectives that emerged from the data. In short, we would like to emphasise that resilience is a concept that is very sensitive to the context in which it is applied — a one-size-fits-all notion is inappropriate.

Unsurprisingly, given the above, the way the CEOs described resilience depended upon a combination of the context they found themselves in and the purpose they were pursuing. The emphasis and focus applied by the organisations to dealing with challenges to short-term resilience for example were quite different to those required for resilience in the long-term.

While the distinction between short- and long-term resilience was fairly consistent across the sample, there were three broad 'concepts' of resilience described by the CEOs that characterise the challenge the topic presents. While these three concepts of resilience were described to varying degrees by the CEOs, they were not seen as being incompatible with each other. In fact we would suggest they are indicative of a maturity model in the way they relate to each other.

The three concepts the CEOs described were:

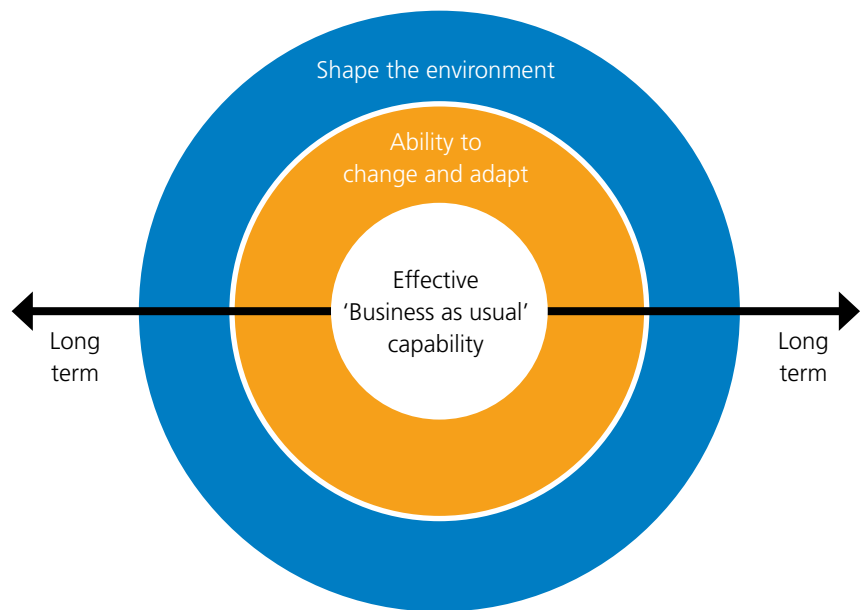
- an effective 'business as usual' capability
- the ability to change and adapt
- the ability to actively shape the environment of the organisation.

Figure 1 illustrates the relationship between these concepts.

Effective 'business-as-usual'

This refers to the efficiency and effectiveness with which the organisation undertakes its 'business as usual' (BAU) activities under normal conditions. All

Figure 1: Concepts of organisational resilience



the CEOs interviewed identified this requirement in some way. Their view was that if the organisation isn't good at BAU during times of relative stability, it's unlikely to be effective when under disruption. As one CEO noted:

If you've got a strong core, your ability to have strength in other areas is probably enhanced. By core, organisationally I mean your ability to do business as usual.

This notion of resilience was viewed as the entry ticket to the game, a necessary first step, and none of the CEOs advocated this as the ultimate goal. The threat that arises from this conceptualisation of resilience taken in isolation, is that increased efficiencies often involve the removal of redundancy from the organisation. This removal narrows the range of circumstances in which the organisation can continue to operate, finely tuning its BAU operations to existing stable operating conditions and increasing vulnerability to disruption.

Change and adapt

Approximately 90 per cent of the sample described resilience in terms of the

organisation's ability to *change and adapt*. In the resilience literature, the ability to change and adapt has dimensions of risk and opportunity to it. However, the way it was described by the CEOs in our sample was largely reactive. For example:

In the short term, can you take the punch?
In the long term, can you dodge it?

There was no real sense of 'laying a punch' playing a role in this form of resilience. The emphasis was on the development of cultures that could adapt to changing circumstances and activities that supported preparedness for shocks or disruptions. Innovation was rarely discussed by the CEOs who described resilience in this form. This doesn't necessarily mean they didn't think innovation was important, they just didn't mention it. This is distinct from the perspective described by approximately ten per cent of the sample, whose view formed the third concept of resilience.

Shape the environment

Here the focus of the organisation is to actively create the environment it operates in, either through the innovation of new categories of products and

Key Issues Applied Corporate Governance

services, the influence of regulation, or fundamental reinvention of the industry in which it operates.

In this conceptualization, the ability to react to changes in the environment is not enough to be resilient. All the CEOs who described this stance came from long-established, global firms. Furthermore, it was not the ability to shape the environment once that constituted resilience, but the organisation's track record of having done it multiple times, such that it actually represented a capability in itself.

So if you look at a lot of ... companies, they tend to have phenomenal success in a short period of time, and then it's whether or not they can actually be adaptive and resilient as they go forward... you question their resilience long term as to whether or not they can actually re-invent themselves again.

Factors supporting resilience — the role of trust

Regardless of the different ways in which the CEOs described resilience, all saw the

organisation's culture as the key. Figure 2 shows the cultural characteristics the CEOs described and their relative importance.

While trust was clearly the most important factor supporting resilience in their view, it is important to recognise that the causal relationship between these different factors was poorly understood. Very few of the CEOs in our sample appeared able to describe the relationship between these cultural factors (though some did in great detail), suggesting that — although they may have been exposed to the characteristics of desirable organisational cultures — they had not internalised what this meant for practice, and therefore how to achieve it in their organisations. As a consequence culture was described as a fruit salad of concepts, rather than a recipe for building resilience.

Many of the cultural and behavioural characteristics described in Figure 2 appeared to come together for the CEOs under the single unifying concept of trust. Trust is often described as a moral concept, involving issues of honor and integrity, and if asked, many of the CEOs may also have

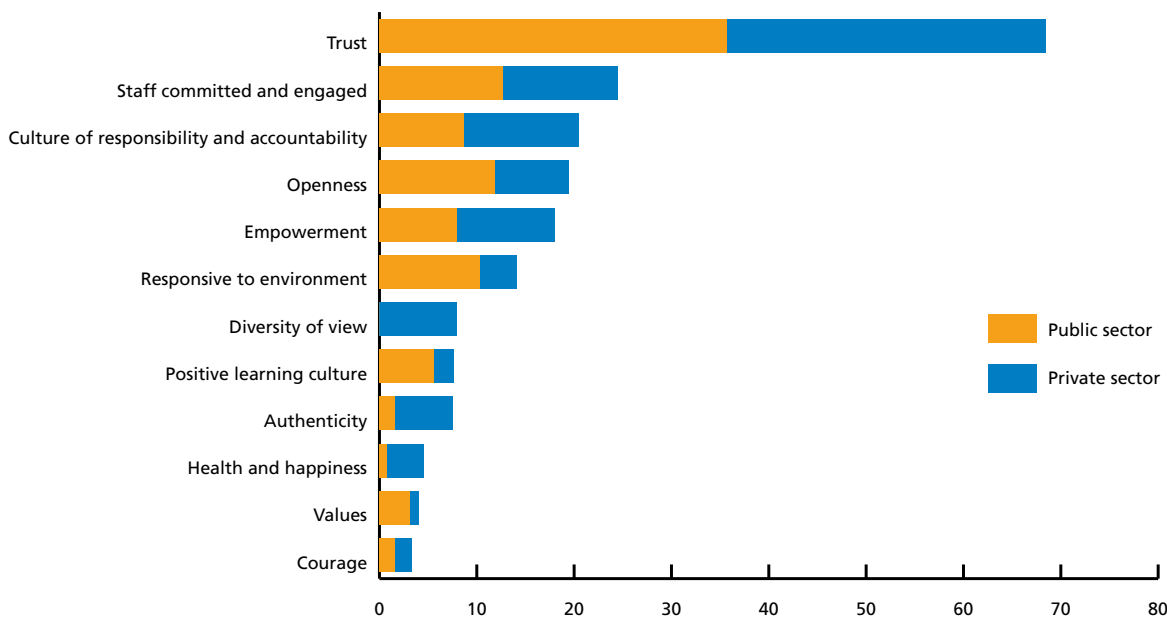
attributed moral concepts to it. What we found interesting, however, was that the contexts in which they described the role of trust did not highlight issues of morality. Put simply, trust in the context of resilience is a prediction by an individual about how others (including organisations) are likely to act.

If I pick up the phone, and conversely, if they pick up the phone and ask for it, you don't have to worry about 'Why do you need it?', 'What have you been through ...?' You know what their background programs are, you know that they wouldn't be asking for it unless they need it.

Distrust did not necessarily suggest that a person was bad from a values point of view; it simply meant that the CEO was unable to draw predictions about how they would act in different circumstances.

Considered in the context of the different concepts of resilience shown in Figure 1, the further out from the centre of the concentric circles, the more important trust (viewed as patterns of prediction) became in helping organisations deal with uncertainty. External to their organisations, CEOs talked

Figure 2: Cultural characteristics important to organisational resilience



of trust in the context of agreed 'roles, systems and reputations' — implying an impersonal form of trust in their institutional arrangements. Again, these arrangements were designed to increase the predictability inherent to their relationships. This form of trust was described more in relation to long-term resilience.

Deepening the 'patterns of prediction' around issues of short-term resilience involved a different process. In the short-term, the value of face-to-face and regular joint exercises in real or simulated contexts, was seen as more important. This suggests that a more personal basis for trust was needed during short-term disruption. Exercises and simulations were the most regularly cited activity that the CEOs associated with resilience.

Importantly, these exercises were described more in terms of cultural development activities rather than technical exercises. Scenarios or exercises attempt to place the organisation under stress in an artificial way and therefore provide the opportunity to build experience of behaviours in 'under stress' contexts. For the CEOs, understanding how others would behave under stress was more important than knowing how long it would take to get the servers operating again.

Mostly, these predictions will be developed in times of stability rather than stress. This leads to a situation where people will 'trust' others without knowledge of how they will act under adverse circumstances, and research shows that many people act quite differently under stress compared with a relaxed state. As a consequence trust is given on the basis of what can turn out to be irrelevant experiences (misplaced trust). The CEOs appeared to have an intuitive sense of this challenge.

[Simulations and exercises] put things under pressure, and cause people to think strategically about the implications of what's going to happen. They force people together. There's nothing like adversity or a potential catastrophe to force people together. Desktop exercises; exercises where no one's under pressure — so what?

The focus on exercises and simulations was done to reduce the degree to which trust constituted an act of faith that others would do the right thing. In demanding and rapidly changing circumstances there is often no time to establish more formal relationships or to place controls around who is responsible for what. Trust therefore reduces transaction costs in unpredictable situations by reducing the need for information exchange to achieve control.

This supports the use of devolved or loosely coupled systems for decision-making — increasing the capacity for those closest to the action to use their judgment about what to do in response to fast changing situations.

The downside of trust

If we accept that trust (viewed as patterns of prediction) is central to organisational resilience, the problem of blind trust becomes an important issue of concern. Blind trust, under our conceptualisation here, arises when a leader has no basis upon which to validate their patterns of prediction — they haven't worked with a person before, they don't have first-hand knowledge of the systems that have been put in place, they don't undertake appropriate due diligence; their trust is assumed.

When a manager claims 'it will be OK; I trust them', it is worth thinking about the basis on which that trust has been given. Is it a statement about the patterns of prediction they hold, based upon the structured development of experience or is it simply a nice word for abrogating their responsibility to others?

Extreme examples, like the ponzi scheme established by Bernie Madoff in the US, and allowed to operate for up to 20 years, illustrate what can happen when tangible patterns of prediction based upon experience (the returns from Madoff's fund were clearly impossible) are ignored in favour of an 'I trust him; he's honourable' approach.

The degree to which staff are 'engaged and committed to the purpose of the organisation' is something that emerges over time in response to the actions and decisions of others. Good decisions, that is, those that are clearly consistent with the espoused purpose of the organisation, build that commitment.

How is trust built and maintained

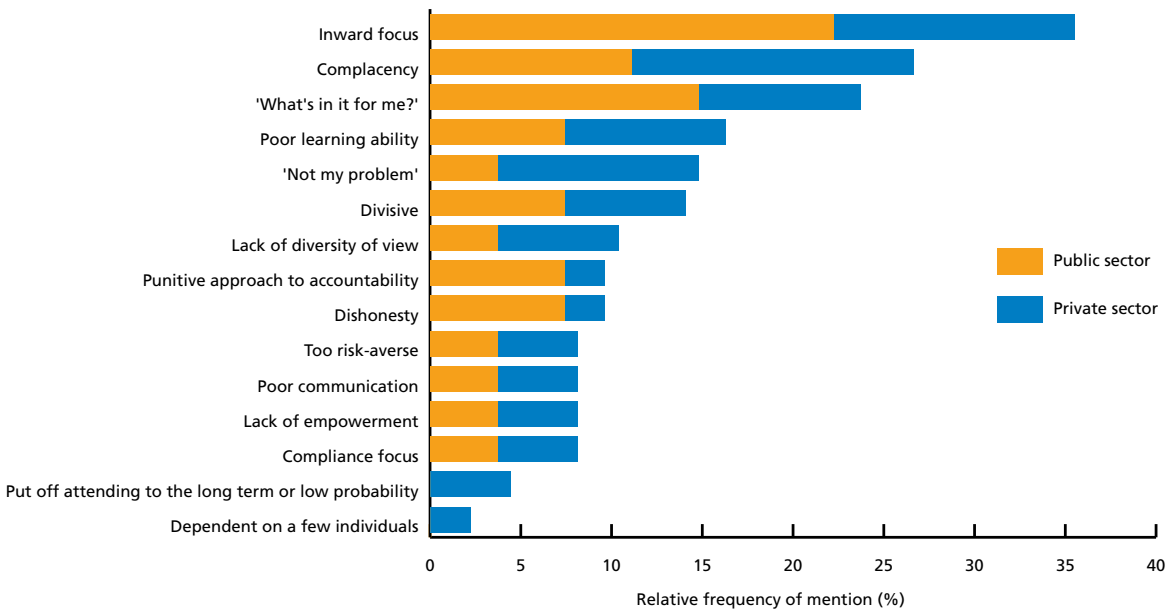
Trust, as a prediction, is created through ongoing interactions over time, enabling people to build a set of predictions about the way in which others will act. In analysing the CEOs' stories, we found that the patterns of prediction fell into two broad categories:

- engineered patterns, or patterns resulting from some sort of purposeful activity like a training course or simulation exercise and
- emergent patterns, those that arise as a function of an individual's ongoing experiences in an organisation.

This second category cannot be trained. The degree to which staff are 'engaged and committed to the purpose of the organisation', for example, is something that emerges over time in response to the actions and decisions of others. Good decisions, that is, those that are clearly consistent with the espoused purpose of the organisation, build that commitment. Bad decisions (or decisions that are seen as inconsistent with the purpose) destroy it and with that erode the resilience of the organisation.

The emergent patterns present a significant challenge to resilience. One thing we know about trust is that generally it is slow to build but can be

Figure 3: Characteristics of non-resilient organisations



quickly destroyed. When these patterns are destroyed they are replaced with new ones, (for example, cynicism, inward focus, complacency). The CEOs provided a long list of characteristics for non-resilience, all of which are also emergent. See Figure 3.

It is therefore not surprising that the CEOs placed more weight on the emergent patterns in supporting resilience than the engineered ones. Acceptance of this idea holds some significant implications when considered in the context of one last research outcome from the study.

The average CEO tenure in our sample was 4.4 years. This number is consistent with a number of other studies on CEO tenure and for more than 40 per cent of our sample meant the CEO had been in place for less than three years.

When considered against the dynamics of the creation and destruction of trust in organisations, this is a sobering statistic as a common result of a change in CEO is the rapid movement towards a new strategy and new cultural approach.

Sometimes this brings a positive outcome for the organisation, but often results in

the destruction of the existing patterns of prediction. In circumstances where the organisation suffers a succession of rapid changes in leadership, 'engagement and commitment' to the organisation experiences a long-term decline, that while not irreparable, can take considerable time to rebuild, leaving the organisation in state of diminished resilience for extended periods.

Conclusion

That trust should come through so strongly in the analysis was a surprise but makes sense when considered against the many challenges CEOs face. When viewed in terms of 'patterns of prediction', trust becomes a more tangible and practical concept to deal with.

Notions of honour and integrity are important to the way in which organisations are run; indeed most organisations include some version of integrity in their value statements but it would appear that predictability was a far more important dimension of trust and the basis on which decisions were made.

The patterns of prediction that drive trust in our organisations are being created and destroyed on a daily basis, yet generally receive little attention. Acknowledgement of their impact on the resilience of organisations suggests an important new direction for research and management practice, and arguably one we cannot afford to ignore.

Notes

- 1 See also Whitehorn G, 2011, 'Building business resilience', *Keeping good companies*, Vol 63 No 7, pp 402–405
- 2 A more comprehensive discussion of the results from this research can be found in Kay R and Goldspink C, 2012, *CEO Perspectives on Organisational Resilience — Research Paper 1*, Commonwealth of Australia, and accessed at www.tisn.gov.au [20 September 2012]
- 3 Department of Homeland Security: Directorate of Science and Technology, 2010, *Risk and Resilience; exploring the Relationship*, Publication Number RP10-01.03.06-01 ■