

## Four Steps to Corporate Resilience by Liisa Välikangas

05/24/04

a strategy+business exclusive

# Four Steps to Corporate Resilience

Strategic planning in four areas helps established companies stay competitive.

by Liisa Välikangas

It's fashionable to argue that corporate failure, decay, even death, are natural and essential to keeping an economy adaptable and healthy. Those who endorse this view believe hostile takeovers help cleanse industries, because weak and uncreative companies are subsumed. Similarly, advocates of "creative destruction" say the demise of struggling companies liberates financial and human capital for more productive uses. In the end, say the corporate undertakers, there is always a stronger and better company to supplant the one that dies.

But is this really true? Can a startup ever fully replace the wisdom and wealth accumulated by a 50-year-old company that succumbs to competitive forces or to its own mismanagement? Is society well served when a corporate innovator unable to overcome transitory market challenges dies prematurely? Are takeovers the best way to make a weak company's assets strong again?

## Revival of the Fittest

Not necessarily. Rather than survival of the fittest, a truly healthy approach to economic adaptation and wealth creation is for companies to become more resilient. Indeed, all companies need to improve their capability to cope with economic downturns and disruptive competition, and to continuously reinforce

matters because of the huge economic and social costs of corporate decline and failure. Too often, large, venerable companies linger in a coma for years before dying, as Marshall Meyer, professor of management and sociology at the University of Pennsylvania's Wharton School of Business, and Lynne Zucker, professor of sociology

## Imagine the innovations that would have been lost if Apple Computer had failed to revive itself.

strengths and resolve weaknesses so they can recover more quickly from mistakes. Think about the innovations in personal computing, design, and entertainment that would have been delayed or lost if Apple Computer Inc., which several times in its history was declared dead, had failed to revive itself.

Promoting corporate resilience

and policy studies at the University of California, Los Angeles, indicate in their book *Permanently Failing Organizations* (Sage Publications, 1989). The U.S. and Europe are littered with once-thriving industrial cities laid low by the inability of large local employers to adapt to new technologies, globalization, or competition.

## Steps to Resilience

It is never easy for big, mature companies to execute dramatic strategic or operational change, but no matter its age or size, any company can build the capability to continuously renew itself. We at the Woodside Institute suggest four steps that help pave the way.

The first is rethinking the underlying principles on which management is founded. Consider the argument of Max Weber, the German sociologist, that those with the most relevant expertise in a

radically innovate aspects of its business model, such as pricing or industry alliances. The transformation can be profound, involving, say, a shift from selling high-margin products to selling services, or involving customers in strategic planning.

The third step is careful examination of resource allocation. Most companies create budgets based on the legacy principle: If you have been successful, you deserve funds in the future. The resilient solution is to use market-based mechanisms to manage resources so that funding

## Liisa Välikangas

(lvalikangas@woodsideinstitute.org) is the managing director of the Woodside Institute, a research organization in Woodside, Calif., that develops new management practices to improve corporate resilience.

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given situation or strategy should take the lead in decision making. That principle is why most companies have marketing departments to make marketing decisions, sales teams to control sales campaigns, and so on. Yet recent research suggests that cross-functional decision making gets better results. Managing a resilient corporation requires a greater willingness to access information from multiple sources for richer content, and to avoid guidance by those with a vested interest in the status quo.

The second step is generating a portfolio of strategic options. Resilient companies don't just develop a portfolio of product innovations; they build a portfolio of experimental strategies, often mining ideas from all parts of the company. To be resilient, a company should earmark some portion of its capital expenditures — 30 percent or so — to test new strategies and

of known opportunities is balanced by an appetite for new ventures.

Finally, resilience is likely to get a boost from more effective corporate governance that not only provides better safeguards against wrongdoing, but also improves leadership. Directors, feeling the heat from shareholder activists, litigators, and regulators, will have to make sure that management has a plan for the future that doesn't just relive the past, and provides the right resources to promote resilience.

In the long run, the answer to economic adaptation is not to let companies die. We need to apply our ingenuity to drive management innovations from within corporations and seek to define policy reforms that make companies more capable and thus less disposable, so that all corporations, old and new, live longer and more productive lives. +

## Resources

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