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WORLD ECONOMIC FORUM

Risk Proof:
A Framework for Building Organizational Resilience in an Uncertain Future

INSIGHT REPORT

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Foreword

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The COVID-19 pandemic was the latest in a series of shocks to disrupt our economies and societies. Both the near- and long-term future will be defined by the capacity of institutions to weather such shocks – climate, cyber, health and geopolitical – which are occurring at a frequency and with a severity perhaps never before seen in history.

As a result, the concept of building resilience has taken on added urgency within the business community, and more broadly across society. Emerging research shows that firms which invest more systemically in building resilience are outperforming their peers. And while it is impossible to predict the future with absolute certainty, what is becoming evident is that the capacity to anticipate and adapt rather than simply react will increasingly be a competitive advantage in a future defined by myriad risks.

Yet many institutions' resilience journey is only just beginning, or has not yet begun. Traditionally, there are several reasons why businesses and governments have underinvested in resilience. For one, resilience is often associated with cost – and seen as being at odds with the optimization associated with stronger short-term performance. Additionally, building a resilient organization requires hard choices today to be prepared for shocks that may appear tomorrow or that will occur with some certainty in the years to come.

This paper is a first attempt to demonstrate the imperative of investing in resilience and to outline a series of pragmatic and actionable steps that companies can take to overcome shocks and grasp new opportunities. Considering resilience across five pillars – operational, strategic, financial, social and organizational – it proposes a resilience framework built around the one pillar we believe is a prerequisite for building a foundation for the other four: organizational resilience.

Building the capacity to weather disruptions into business operations and supply chains is a critical piece of this organizational resilience imperative. But throughout the work to build our resilience framework, one key element stood out above all else as a critical driver and enabler of future organizational resilience: people and culture. Particularly given the significant changes and disruptions driven by the COVID-19 pandemic, the human element of resilience was consistently identified by respondents as the key foundation of future organizational resilience. We anticipate that this trend will only continue to grow in importance in the years ahead.

The framework outlined in this paper is the product of more than a year of in-depth interviews, case studies, research and discussions within the World Economic Forum's insurance and asset management community. Both industries have been at the forefront of integrating resilience into their operations and investment decision-making, and bring a wealth of risk-management and risk-engineering experience. The financial services sector is also the first to be subject to emerging regulations focused on organizational resilience, a trend we expect to increase across geographies and industries in the years ahead.

At its core, however, we realize that one sector alone does not hold all the answers. Organizational resilience may look different depending on the industry or geography. For this reason, the proposed framework is built around principles rather than metrics or standardized measurements. Our hope is that this approach can serve as a starting point to launch a much broader resilience conversation, with applications far beyond financial services and across different industries and geographies.

Many excellent papers and articles have already pointed to the growing importance of resilience and framed the risks that businesses and societies are facing. Our intention with this paper is to accelerate this broader conversation about the importance of resilience and to fill a gap within the existing literature that offers businesses pragmatic and actionable solutions to prepare their organizations for the future. With its multistakeholder platform, the World Economic Forum is committed to driving this conversation and advancing the necessary cross-sectoral and public-private cooperation necessary to prepare for an uncertain future.

Executive summary

We have entered an era that will increasingly be defined by risk. The latest World Economic Forum annual Global Risks Report assessed the likelihood and impact of a series of economic, environmental, geopolitical, societal and technological risks, and identified these as pointing to an increasingly uncertain and volatile future.[1]

One of the key challenges facing business leaders today is how to prepare for this future. Traditionally, businesses have been confronted by one shock or one disruption at a time. But even in the face of such singular events, history has more often shown that business has underestimated the likelihood of such events and shown limited understanding of its own exposure. The projected future, however, is one in which action will need to replace rhetoric and verbal commitments: a new approach to risk will be required. With shocks occurring not only more frequently but also simultaneously, it will be the capacity of businesses to anticipate and adapt rather than react that will increasingly define the winners and losers.

Following the onset of the COVID-19 pandemic, there has been a broad understanding of this new normal, which has given rise to a new imperative – the need to invest in resilience. Resilience is often defined as the capacity of institutions to withstand disruption and recover quickly. But emerging research is pointing to the broader role that investment in resilience will play in the future. Recent World Economic Forum research suggests that the impact of resilience (or lack of it) on annual GDP could be between 1% and 5%[2] globally in the future. As a result, investment in resilience is necessary to make an organization not only stronger and more secure but also more profitable and sustainable.

Yet today, while the concept of resilience and its importance is well understood, many businesses and institutions remain in the very early stages of either building resilience or investing in its development as a pillar of future long-term value creation. Compared to the focus on sustainability or environmental, social and governance (ESG) concerns, resilience remains less understood and in many cases is considered a less urgent problem to address. What is often lacking is a new way of thinking about resilience, built on a shared language and principles that can be translated into pragmatic and actionable steps.

This paper is a first attempt at starting to fill that gap. It offers a framework to help businesses define, identify and develop resilience in their organizations so that they can weather any crisis. And while the paper identifies five pillars of resilience – operational, strategic, financial, social and organizational – it focuses on the one pillar that ultimately supports and reinforces the rest of the structure: organizational resilience.

The resilience of an organization is based on its people, who form the foundation of its response before, during and after a crisis. Unlike strategic and operational resilience, which could encounter issues beyond an executive's control, the building of organizational resilience is an area in which business leaders can play a substantial and impactful role. This paper offers a unique framework that delivers actionable steps and pathways for management teams to implement.

This framework is deliberately built around four key principles that will be critical for businesses to become and remain resilient in a volatile future:

- *Resolve* is the organization's will to survive.
- *Communication* is necessary to move from principled commitment to developing the planning, goals and procedures that make resilience actionable.
- *Agility* facilitates execution so that companies can adapt to sudden change.
- *Empowerment* enables individuals to take ownership and collaborate with peers to meet new challenges.

The intention of this report is to spur a larger conversation about resilience and advance discussions about the tangible principles and corresponding actions that will strengthen organizational resilience. No person or business will be able to perfectly predict the future. But the COVID-19 pandemic was the latest wake-up call to one emerging certainty: so-called "black swan events" are no longer rare occurrences that we can assume will not happen in our lifetimes.

Through the newly created Resilience Consortium,[3] the World Economic Forum has committed to amplifying debates about resilience and accelerating actions to build a more resilient future. The Forum invites all stakeholders to join us in accelerating the dialogue about resilience and sharing more case studies, best practices and ideas that will help build the resilient organizations of the future.

1 A framework for building resilience

As the world contends with a series of global crises, building greater resilience has become the defining mandate of our time.

One of the major challenges facing business leaders today is how to prepare for a future that will be increasingly defined by risk and frequent large-scale disruptions. The framework provided by this paper is intended to help businesses define, identify and develop resilience in their organizations so they are better positioned to withstand any crisis.

1.1 Preparing for the next crisis with resilience-building

One major challenge to becoming resilient is a lack of shared understanding of what resilience entails and how it can be measured and strengthened.

Building resilience has risen to the top of the list of business considerations after the unprecedented disruptions of the COVID-19 pandemic. Adapting to the pandemic was a significant test, and firms around the globe met the challenge and perhaps exceeded expectations by some measures. It is tempting to consider the pandemic as a true test of resilience – one that many companies weathered with success.

But are we more resilient? The pandemic has drawn attention to vulnerabilities, from increasing employee turnover[4] to supply-chain shortages. If a company has a successful "work from home" model, is this a sufficient measure of resilience? Rather than seeing adaptability to the specifics of the COVID-19 pandemic as proof of their resilience, businesses need to recognize that resilience-building requires developing and maintaining an organizational capacity to withstand future crises in whatever form they may arise. Inevitably the next disruption will test businesses in different ways from the pandemic – and most are not prepared.

Ironically, the practical response of many companies to COVD-19 may have further weakened their resilience – for example, through increased exposure to cyberattacks or by the well-documented mental health, economic and social challenges experienced by employees. Extended remote working, disconnected teams and a lack of face-to-face engagement have eroded the bonds between firms and their employees as attrition rates soar. A renewed focus on the human element may well be the key to building a truly resilient enterprise.

One major challenge to becoming resilient is a lack of shared understanding of what resilience entails and how it can be measured and strengthened; this has hampered companies' ability to take the necessary steps. Thus, while many companies have made a good-faith commitment to becoming resilient, few have a plan of tangible actions that will help them achieve this goal. This paper is a first step in advancing the discussion by bringing together the collective ideas of insurers and asset managers with the ultimate aim of developing a resilience framework. The insurance and asset management sector, which includes the world's leading risk managers and risk engineers, has been at the forefront of considering and integrating resilience into their domains. Their expertise and knowledge will be crucial in developing the business imperative of resilience-building and propagating it across society.

FIGURE 1 | **The five pillars of resilience**

1. 2 Defining resilience

Resilience is the ability of an organization to overcome external shocks and grasp new opportunities in their wake. For companies, resilience is not the result of a single action or a single attribute but encompasses five pillars:

- *Operational resilience* captures a company's business continuity in the event of a shock
- *Strategic resilience* is the ability to respond to changes in the economic, social and political environment in which the business operates
- *Financial resilience* describes the organization's financial health in relation to its ability to weather a crisis
- *Social resilience* recognizes that a company's resilience is dependent on and interconnected with the social and political resilience of the communities in which it operates
- *Organizational resilience* refers to the ability of a company's workforce, culture and structure to deal effectively with sudden disruptions

The suggested approach here varies in certain respects from other proposed resilience frameworks that cover similar themes.

- The operational pillar considers all aspects of the operation, including technology. Other frameworks[5] have separate technological and operational divisions, which makes good sense for many companies.
- The social pillar captures the influence of community resilience factors identified in other studies.[6] Such factors are widely used in the public sector to understand the resilient and adaptive capacity of cities[7] and populations,[8] which ultimately have a bearing on the workforce.
- There is a separate, foundational focus on organizational resilience. The characteristics of resilient organizations have begun to receive more attention, here and elsewhere[9] – it is widely recognized as critical to companies' survival but less easily defined, measured and improved.

The multidimensional aspect is a significant challenge for resilience-building; however, this reflects the reality that a company's struggle (and even demise) in the face of a sudden shock rarely comes down to a single point of failure. More often, it is the result of a cascading series of difficulties amplified by weaknesses in multiple facets of the business.

Organizational resilience reflects the ability of a company's most valuable asset – its people – to work together with a shared purpose during times of stress.

While companies need to ensure that each of these pillars is sound, the beginning of the resilience journey should focus on establishing strong *organizational resilience*. Organizational resilience reflects the ability of a company's most valuable asset – its people – to work together with a shared purpose during times of stress.

The response to shock events is not simply a reaction – resilient companies anticipate trouble and prepare for what may lie ahead. Developing a culture of resilience across the organization is critical.

Companies with resilient organizations have the resolve to commit to their resilience journey, effectively communicate to develop the specific measures and procedures to make resilience actionable and possess the agility to allow for successful execution, even as circumstances change rapidly. Ultimately, the resilience of the organization depends on the empowerment of its people as the foundation that supports the enterprise under duress; this will determine whether an organization can make meaningful strides to strengthen the other four pillars – its strategic, financial, operational and social resilience.

At the same time, organizational resilience begins and ends with the top-down commitment of a company's leadership: it is the pillar most tangibly affected by chief executive officers, either positively or negatively. A CEO's commitment to organizational resilience will give it the greatest boost towards realization, but a CEO's disregard for resilience-building will undermine efforts across the company.

And while organizational resilience forms the foundation of overall resilience, it also interacts with financial, operational, strategic and social resilience.

For example, the link between organizational and social resilience is highlighted when considering the connection between an organization's workforce/culture and employees' social, political and physical milieu outside of work. Engagement and communication with systems outside of the organization – for example, local governments and community partners – can play a large role in workforce preparedness.[10]

Likewise, when faced with a natural disaster, the company's commitment to overcoming the crisis – its organizational resilience – interacts with its operational resilience when it comes to counting on the resolve of suppliers to collaborate and quickly bounce back. The interconnection between these various pillars therefore also highlights that a focus on people is not just the hallmark of organizational resilience; a company's workers also interact in myriad ways with people outside of the organization, who have an impact on the company's resilience – whether they are, for example, part of its supply chains (operational resilience) or members of the wider community (social resilience).

1.3 Resilience, sustainability and making the business case

> This imperative demands a pivot away from 'just in time' operations towards 'just in case' planning to build resilience for crises to come.

COVID-19 has revealed a number of threats to corporate resilience, many of which were well known before the pandemic but have emerged with increased severity. Examples include strained workforces, fragile supply chains and vulnerable IT systems.

One positive aspect to emerge from this shared pandemic experience, however, is a renewed focus on and recognition of resilience, and a greater awareness of the trade-offs needed to achieve it. Over the past few decades, a relentless focus on efficiency and optimization has come at a cost; lean staffing and underinvestment in critical systems meant many organizations were unable to get essential work done, which ultimately resulted in losses in revenue. Companies' ability to not only withstand present-day shocks but also convert them into opportunities requires focus on strengthening operational, strategic, financial, social and organizational capabilities. This imperative demands a pivot away from "just in time" operations towards "just in case" planning to build resilience for crises to come.

A recent article, "In Praise of Slack",[11] argues that while optimization may boost performance in the short term, it introduces fragility into systems and creates complex interdependencies that are vulnerable to unexpected events. Companies in the US and elsewhere may draw on a corporate culture prevalent in Japan, where shareholder value is balanced with the interests of suppliers, employees and other stakeholders for perhaps less optimal but more durable performance.

A complicating factor in the challenge of enhancing resilience, however, is that sustainability and resilience have become synonymous in the minds of some. With good reason, issues related to sustainability are top of mind and have attracted wide attention within many firms. Sustainability has entered the mainstream, and businesses can no longer ignore the growing public and regulatory pressure to align with ESG factors. Developing a sustainable business path across a wide array of ESG factors is a significant challenge requiring long-term focus and commitment, and much greater focus has been placed on sustainability as a business imperative, with the subsequent development of reporting frameworks such as the Sustainability Accounting Standards Board (SASB) and the Task Force on Climate-Related Financial Disclosures (TCFD).

Meanwhile, there has been limited discussion of what resilience is or of how to achieve it. But unless businesses begin to focus more on improving resilience, the likelihood of achieving longer-term sustainability goals is greatly reduced. An organization cannot be sustainable without resilience: for a company to be fully aligned with ESG factors and successfully adapt to the challenges of the future and thrive in the half-century to come, it needs to ensure that it can overcome the shocks of the next few years. Businesses should invest in both sustainability and resilience by addressing them as distinct issues.

A second complication is that acting on sustainability may require fewer trade-offs, at least in the short term, than building a robust resilience framework. Sustainability efforts focused on efforts to reduce the impacts of climate change, for example, often require gradual shifts in resources, operations or business strategy geared towards commitments far into the future, whose completion falls well beyond the tenure of individual stakeholders. This allows business leaders to commit to long-term sustainability

Businesses should invest in both sustainability and resilience by addressing them as distinct issues.

targets for signalling purposes, without imposing robust, interim targets that require significant short-term action. As resilience efforts require short-term action from the outset, they provide fewer avenues for businesses to talk the talk without walking the walk.

Resilience requires hard choices today to be prepared for shocks that may well appear tomorrow or will appear with some certainty over the next few years. Moreover, with the future challenge unknown until it appears, businesses need to prepare for a range of potential scenarios. Not only do these scenarios include the risk of natural disasters – similar to those that businesses need to prepare for with climate change – but the next big shock could result from a geopolitical fallout, a cyberattack, a financial crisis, another pandemic or even some combination of some or all of these.

Supply-chain disruptions are a good example of the need to take action today to be resilient to future shocks. Global trade growth in recent decades has resulted in an integrated world economy, and technological changes such as cloud adoption have created a network of physical and virtual interconnected risks across multiple supply chains. Vulnerabilities among these interconnected risks have long been understood.

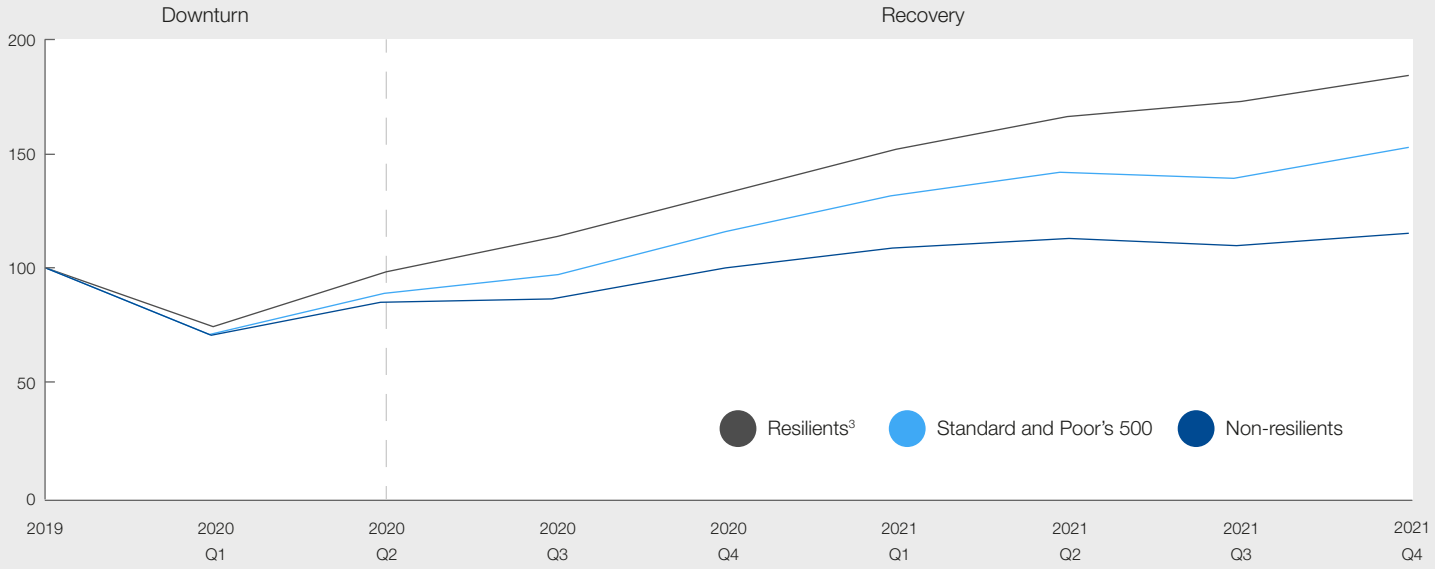
In a report[12] developed in collaboration with Lloyd's, researchers explored hidden vulnerabilities in complex supply chains, detailing the economic impacts of severe disruptions, including the 2011 Tōhoku earthquake in Japan, the 2011 Thailand floods and the 2015 Tianjin industrial explosions, among others. After the Thai floods, for example, one manufacturer experienced not only disruption but also loss of market share one year following the event. The analysis also demonstrated the benefits of supply-chain resilience and insurance protection with examples across multiple industries. Research cited by PwC[13] at the time noted that companies which prioritize resilience in their supply-chain management reaped benefits in both market share and stock price.

More recently, research by McKinsey & Company[14] has shown that during the economic downturn at the start of the COVID-19 pandemic, more resilient companies generated 10% more shareholder returns when compared to their peers, positioning themselves for accelerated growth during the period of economic recovery (Figure 2).

FIGURE 2 **Corporate performance during the COVID-19 period**

Total returns[1] to shareholder performance during COVID-19 crisis[2]

Indexed to 100 (2019 year end)



Source: World Economic Forum, Resilience for Sustainable, Inclusive Growth, 20 May 2022: https://www.weforum.org/whitepapers/resilience-for-sustainable-inclusive-growh/

Note: This analysis excludes financial companies

1 Total returns to shareholder; calculated as average of subsector median performance of resilients and non-resilients. Includes 1,140 companies (excludes FIG and REITs)

2 Calculated as average of subsector median performance of resilients and non-resilients. Includes 1,796 companies (excludes FIG and REITs)

3 Resilient companies defined as top geometric mean TRS quantile by sector

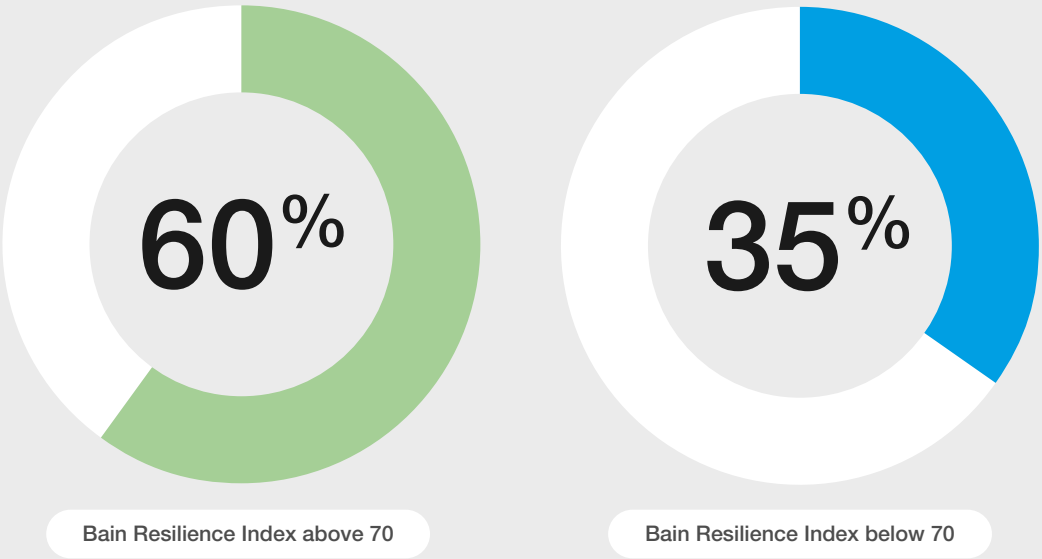
Source: CPAnalytics; McKinsey analysis

Firms with higher levels of resilience had a survival rate nearly twice as high as those with lower levels of resilience.

While there is a clear imperative for businesses to look at potential near-term challenges to ensure their sustainability, to date there has been little evidence of mechanisms forcing business leaders to invest in resilience over optimization. That is beginning to change. Bain & Company has developed a resilience index covering multiple dimensions and business attributes. Its analysis has shown that an emphasis on streamlining operations and improving efficiency over the past few decades has increased profits, but at the expense of higher volatility in performance and more business failures. More importantly, it found that firms with higher levels of resilience had a survival rate nearly twice as high as those with lower levels of resilience (Figure 3).

Key stakeholders are also beginning to take notice; supervisors and investors are beginning to place increasing pressure on businesses to demonstrate and strengthen their resilience. In 2021, the Prudential Regulation Authority of the Bank of England issued a Statement of Policy on Operational Resilience,[15] and starting in March 2022, the UK's financial services firms need to identify vulnerabilities in their operational resilience and set impact tolerances. Over the next three years, these tolerances must be tested and investments made to ensure that companies are able to operate consistently within the policy's limits. Businesses taking action today to assess and strengthen their resilience will be ready when regulations spread to other sectors and countries. The pandemic has also prompted investors to consider the wide array of natural disasters, cyberthreats and geopolitical risks lurking in their portfolios; resilience is factoring into their investment decisions as the ability to withstand future shocks is considered crucial to long-term economic competitiveness. Still, many companies struggle to know where to begin on their resilience-building journey.

FIGURE 3 **Survival rate of firms according to the Bain Resilience Index**



Source: Dunigan O'Keeffe, Hernan Saenz, Andrew Schwedel and Thomas Devlin, Getting Business Resilience Right, Bain & Company, 7 January 2021: https://www.bain.com/insights/getting-business-resilience-right

Notes: Survival rate based on nonfinancial companies listed in 2000 and still listed in 2019; excludes firms with less than $1 billion in annual revenue; the Bain Resilience Index is based on the statistical relationship between share price performance during a crisis and variables including scale, growth, margin, leverage, liquidity, capital intensity, and geographic and product concentration.

1. 4 Starting the resilience-building journey: emerging guidance

Businesses that lack financial or other resources but have strong organizational resilience may be better able to bounce back from crises.

While reporting frameworks such as those established by the SASB and TCFD guide sustainability efforts, tools for resilience assessment are only beginning to emerge. As a starting point, companies should understand the key questions across the five pillars of resilience described earlier, which focus on how they will continue to deliver value for customers, employees, shareholders and society during times of acute stress:

- *Operational:* can the business quickly resume normal operations, production and delivery of services following a disruptive event such as a natural disaster, cyberattack, act of war/terrorism or similar?
- *Strategic:* can the organization rapidly adjust its business model to respond to and take advantage of sudden changes in the economic, legal/regulatory, physical or technological environment in which it operates?
- *Financial:* does the business have the financial resources, such as access to capital and liquidity, to rebound from a shock?
- *Social:* does the company operate in, and contribute to, the development of communities with high levels of resilience, including strong infrastructure and a resilient local workforce?
- *Organizational:* does the business have the culture, structure and behaviours in place that support an agile response to shocks?

Many businesses may consider resilience-building to be a box they have already ticked; with risk-management functions focused on identifying, managing and averting risk, resilience could be seen simply as a new term for a tried and tested system. Yet resilience-building is different from risk management. Risk management is a business function focused on assessing and controlling threats to earnings and capital, and is often disconnected from day-to-day operations.

Resilience, on the other hand, is woven into the core ethos of a company. Building resilience is about building the resilience mindset and operational philosophy. A company's resilience is not limited to the risk-management function but lives across the organization and is manifest through deep resolve, effective collaboration and communication, and an agile and empowered workforce.

So what makes an organization resilient?

1.5 Organizational resilience: focus on people

Most respondents noted the challenge of balancing efficiency and redundancy – the need to deliver on short-term quarterly objectives while building resilience, which is a long-term imperative.

The resilience of an organization is dependent on its people, who form the foundation of the organization's response before, during and after a crisis. Specifically, the organization's structure, culture and workforce attributes can strengthen its ability to overcome external shocks and grasp new opportunities.

Faced with a large-scale crisis, an organization may have the financial and strategic resilience to cope, but a failure to respond to and communicate effectively during a crisis or a workforce lacking commitment to manoeuvring the organization through a crisis into calmer waters will leave the organization severely exposed to failure. By the same token, businesses that lack financial or other resources but have strong organizational resilience may be better able to bounce back from crises than firms with resources that cannot take advantage of them.

The recognition that the workforce is at the heart of organizational resilience calls for a steadfast commitment to people's well-being. If it is the workforce that steers the business through stormy waters, businesses need to ensure that workers have all the support required to be mentally and physically equipped for the task. According to Willis Towers Watson's 2021 Wellbeing Diagnostic Survey,[16] 86% of employers see mental health, stress and burnout as a top priority, yet only 25% adopted a well-being strategy. Just as businesses need to ensure adequate financial reserves, they also need to help ensure employees' mental reserves are sufficient – well-being is a depletable resource that can run dry if employees are forced to work in a constant state of crisis because the workforce is stretched too thin. When a real crisis hits, the organization may not be able to rely on these depleted employees for too long, or at all.

Business leaders have a major role to play in building organizational resilience in ways that will strengthen resilience efforts in other areas. Whereas stakeholders seeking to strengthen an organization's strategic or operational resilience can face factors that are sometimes outside their control (such as geopolitics or natural hazards), they may be in a better position to create and nurture the business environment and influence corporate culture through modelling the behaviour they would like to see their employees exhibit.

A series of in-depth interviews with business leaders in insurance and asset management identified factors related to corporate structure, corporate culture and individual behaviour that shape the resilience of an organization. At the same time, the discussions highlighted a lack of clear metrics and tools for measuring organizational resilience – especially when compared to standard financial or technological indicators of a company's ability to withstand shocks. How can companies not only assess their resilience but also track progress and measure success?

Throughout our conversations a clear consensus developed regarding the importance of *corporate culture* as a critical factor in an organization's ability to overcome shocks and identify business opportunities in challenging times. Among the various cultural factors identified, trust emerged as a central theme; most directly, trust in corporate leadership and its depth of commitment was viewed as critical in setting the tone and driving engagement across the organization. Other cultural aspects also rest on: a foundation of trust, including transparency; open and candid discussion; a tolerance of failure;[17] and collaboration across the organization as well as with external partners. Organizations committed to diversity also built trust, empowering employees to use their voice and unique experiences to navigate the organization through a storm.

The senior executives interviewed also noted specific aspects of individual behaviour as important to organizational resilience. While many noted that corporate culture is, in essence, the aggregate of individuals' behaviour, specific factors that indicate organizational resilience include perseverance and "grit", a growth and learning mindset, and the ability to find opportunity in adversity. Adaptability, flexibility and being comfortable with ambiguity[18] were also considered to be key workforce attributes for dealing with incomplete information, changing priorities and surprises that are often associated with shock events.

While elements of corporate structure were noted to be helpful in enabling a resilient organization, the shape of the organizational chart was considered less critical than the culture and people it represented. A few organizational levers that help promote alignment and response were noted, including crisis planning teams and "problem

solvers" at critical points in the organization to enable decision-making under duress, especially in the early days of an event. Most respondents noted the challenge of balancing efficiency and redundancy – the need to deliver on short-term quarterly objectives while building resilience, which is a long-term imperative.

While metrics and tools are important and provide useful markers of an organization's ability to respond to crises, the dearth of widely accepted methods may pose a challenge in the short term. There are, however, several hallmarks of a healthy culture: low attrition, long tenure, low absenteeism, high engagement and a diverse and inclusive environment that allows people to be their authentic selves at work. The goal should not be to develop a single score or checklist; instead, companies should identify various ways of measuring organizational health (e.g. from engagement surveys, employee statistics) and look for other hallmarks of behaviour and culture to allow them to make an assessment aligned with their unique organization.

The ultimate goal is to construct a *framework* to deliver actionable steps and information for management teams. While the specific actions and goals will vary from one company to the next, four key principles and practices stand out.

1. 6 A resilience framework: four key principles

As companies embark on their resilience journey, four key principles offer a guide. Building towards these principles will set their direction:

- *Resolve* forms the foundation, as businesses establish the need for and purpose of organizational resilience and gain a cross-organizational commitment to bolstering their resilience.
- *Communication* is necessary to move from a principled commitment to developing the planning, goals and procedures that enable the organization to overcome external shocks and grasp new opportunities.
- *Agility* facilitates execution so that companies can adapt to sudden change.
- *Empowerment* enables individuals to take ownership and collaborate with peers and partners to meet new challenges.

FIGURE 4 **The four key principles of the resilience framework**

Resolve

Resolve is the organization's will to survive. First and foremost, resolve rests on the deep personal commitment of the leadership team to not only steady the ship during the storm but also prepare the organization before the weather turns. The leadership team will also need resolve to advocate for investment in the other pillars of resilience, even in the face of questions and possibly criticism from other stakeholders, including the board of directors and shareholders.

Successful leaders establish organizational resilience as a company priority, starting with key stakeholders, including the board and senior leadership, and permeating throughout the organization. Leadership commitment must be genuine to be credible; organizational resilience is not developed through a collection of empty pledges but rather through a series of deliberate actions.

This shared purpose builds confidence and cultivates a risk-aware mindset – the recognition that the responsibility for organizational resilience does not rest solely with the boardroom and corner offices but on the entire organization.

Specific actions that can bolster resolve include:

- Assessing resilient behaviour during the hiring process – particularly for senior roles, where having experience in navigating a crisis can be critically important
- Setting targets to measure employee commitment to the organization (e.g. rates of attrition, absenteeism, engagement) and diversity and inclusion to strengthen workforce culture
- Linking progress on strengthening organizational resilience to performance metrics or financial compensation to incentivize engagement and commitment

CASE STUDY 1

Resolve in practice: Ørsted

In 2008, the Danish firm DONG Energy was generating 85% of its revenue from power developed from coal, oil and natural gas, with the remaining share from renewable sources. Early that year, however, the company committed to flipping its reliance from "black" to "green" by shifting 85% of its production to renewable energy. What led to this decision, and how did the firm make the vision a reality?

For the company's leadership team, the change was born of the need for long-term sustainability. Shifting societal attitudes towards climate change, local opposition to new coal-fired plants and threats of carbon taxes and other regulatory challenges were clear signals of the future state. But ultimately the company resolved to undergo a radical transformation because it was the right thing to do.

While sustainability was the goal, the decision itself was a self-imposed shock that produced numerous challenges. Remaking the business required company leaders to reassess its capabilities, develop new production methods and partnerships, and create innovative financing schemes. Overcoming scepticism from long-time employees and other stakeholders proved critical, and external shocks along the way – the financial crisis and plummeting natural gas prices – required deep focus and commitment from the top down.

Renamed Ørsted in 2017, the company accomplished in 10 years what was originally expected to take at least twice as long. Today, Ørsted is a leader in offshore wind power and other forms of renewable energy. The resolve to achieve a radical transformation was not only key to its success but has also built resilience to adapt to future shocks.

Communication

Communication necessitates putting resolve into action. While the resolve of an organization to bolster its resilience builds the foundation, communication is essential in developing the specific measures and procedures that make resilience actionable. While business continuity planning is standard procedure in most organizations, communicating the key elements of the plan and the priority of business processes a company seeks to maintain throughout the organization may be less common. Fostering a deep understanding of the key goals is critical for an organization-wide response. It may also reveal critical points of potential failure.

Organizations aiming to monitor and strengthen their communication of resilience goals can focus on several areas:

- Engaging widely across the organization on business continuity planning and goals
- Establishing cross-functional teams to assess plans and potential failure points
- Monitoring the responsiveness and speed of communication, the nature and success of cross-seniority information-sharing and overall transparency. This can be achieved with technical tools to quantify employees' level of engagement with intra-organizational communication and the speed at which employees react to relevant pieces of information

Yet it is important for employees not only to acknowledge and react to communication but also to have opportunities for bottom-up information flow to voice ideas or problems that can affect organizational resilience. To gauge the frequency and nature of communication across seniority levels and overall transparency, organizations may look at the attendance rates at information sessions such as "town halls" and collect data and feedback from across the workforce through anonymous surveys, focus groups and human resources (HR) exit interviews.

CASE STUDY 2

Communication in practice: Renesas Electronics

Production at the Japanese firm Renesas Electronics' Naka factory was halted following the 2011 Tōhoku earthquake; among the many lessons learned in the decade since, the power of communication stands out.

As the long task of restoration got under way, communication played a critical role in setting the path, strengthening teams and building resilience. A sign reading "We'll show Renesas' Potential" hung at the plant entrance, establishing the mission and keeping focus on the long-term goal, and a system called the "big room method" was developed to guide execution, track progress and foster internal cooperation and friendly competition among teams. External communication also proved critical, as the company collaborated with suppliers to get production back on track.

In addition to many operational changes following the event, Renesas has focused on efforts to promote communication and a positive culture through two-way communication and information-sharing with employees and sharing expertise and resilience practices with partners and suppliers. Teams understand how to bounce back from shocks and have been tested many times since 2011, including by more earthquakes in 2016 and 2022 and by a fire in 2021, in addition to the COVID-19 outbreak. Renesas' experience highlights that resilience efforts are a journey of continuous improvement.

Agility

Agility describes the organizational attributes that facilitate execution. If resolve provides the roadmap and communication is the vehicle, agility enables the organization to follow the path. Essential elements of an agile organization include a growth mindset, a drive for continuous learning and a commitment to continuous improvement. A workforce with a broad diversity of skills, education, experience and cultural backgrounds enhances agility and can be a strong enabler of resilience.

Agility thrives after crisis training and experience. If a company has gone through a crisis or practised how it will respond to a crisis in training, it is in a better position to quickly and effectively recognize and respond to a new challenge. Not only will a company have greater confidence when faced with a crisis if it has actively prepared for such an event, but it will also be able to implement the processes and set-up necessary to handle the crisis well.

Being ready, willing and able to switch to crisis response mode is half the battle in terms of handling a crisis well. This requires all members of an organization whose work is related to overcoming the crisis to understand that not only are they equipped to pivot to that work as their top priority until it is completed, but that there is a plan in place to ensure their everyday work is also taken care of.

Among the practical examples of preparations companies can make are:

- Scenario planning, creating plausible drills across multiple organizational dimensions to exercise the company's resilience muscle and build risk awareness across the organization
- Promoting training, learning and development opportunities
- Building redundancy across critical functions

CASE STUDY 3

Agility in practice: Allianz

In the early days of the COVID-19 pandemic, financial services giant Allianz confronted two IT-critical challenges faced by many firms: employees shifting to working from home and nefarious actors in the cyber world changing their tactics. With new vulnerabilities and an evolving threat landscape, a concentrated effort across the organization was needed to deploy new processes, better tools and enhanced training – all of which highlighted a need for more agility in cybersecurity.

This expansion of efforts improved preparations for future cyber crises. Key to the approach was constantly challenging the status quo and implementing across-the-board training throughout the organization – from interns all the way to the board of management. Scenario planning in the form of technical attack testing also played a key role, with crisis drills designed and executed to ensure that every part of the organization was engaged and prepared. Today, cyber incident prevention, detection and response are continually practised, improved and adjusted in line with the evolving threat landscape.

These efforts paid off during the Log4J vulnerability crisis in 2021 and the Russian invasion of Ukraine in 2022, which resulted in an increased risk of Russian-linked cyberattacks. With the scenarios planned and employees trained and at the ready, the organization's response was as effective as it was efficient, thereby limiting risk and allowing the business to continue focusing on what matters most: securing their customer's future.

Empowerment

Being committed to resilience-building and putting the plans and processes in place to do so are crucial steps in an organization's resilience journey, but achieving organizational resilience requires people to deliver on the vision and strategy – which is where empowerment of the workforce comes in.

Empowerment is the engine that drives the organization forward. Empowerment builds on an organization's recognition that its own ability to weather a crisis will to a large extent be decided by whether its employees believe they are in a position to take the necessary action.

Empowerment is demonstrated when employees have the skills and confidence to take ownership of organizational strategies and processes to effectively collaborate with stakeholders inside and outside the organization when a crisis occurs. This requires leadership to first build employees' knowledge and understanding of what is required in a crisis; however, it builds on employees' physical, mental and emotional well-being as the foundation.

Organizations can take several actions to empower their workforce:

- Engaging with HR and operations to recognize and address gaps in employee well-being. Information can be gained through engagement surveys, one-on-one discussions, health insurance claims by the workforce and exit interviews
- Promoting cross-functional interaction and company-wide engagement opportunities to strengthen collaboration
- Conducting regular employee training events, identifying skills gaps and interests, and supporting personal development through career progression plans and mentoring
- Modelling and promoting work-life balance among members of the workforce, including through awareness training and well-being days
- Collaborating with external partners to support employees' well-being through offerings such as physical exercise classes, mental health counselling, financial literacy workshops and volunteering opportunities

Empowerment is demonstrated when employees have the skills and confidence to take ownership of organizational strategies.

CASE STUDY 4

Empowerment in practice: Committed to Good

Committed to Good (CTG) partners with the humanitarian sector to provide staffing and logistics in conflict regions. Its experience operating in challenging environments offers lessons for empowering teams in times of crisis.

CTG's operations in more than 25 countries are continually changing as conditions evolve, with political and economic pressures and threats to safety and security a constant issue. In these environments, strictly top-down decision-making is not feasible, so teams on the ground must be empowered to act.

A commitment to the company's common purpose is key to their success. With shared goals and a clear understanding of priorities, front-line teams are able to make decisions, while close coordination with the leadership teams allows the organization to navigate and manage change together. CTG's culture is built on an understanding of the value of every employee's work, with people encouraged to go the extra mile to deliver on their promises. This close alignment sets the tone and not only exposes the teams to the reality of the business but also encourages groups to make decisions aligned with the mission. This is critical in fast-paced environments with little time to wait for top-down decision-making.

Accomplishing goals by relying on teams – instead of the extraordinary efforts of a few – requires not only that workers on the front line are prepared, but also that leaders know the capabilities (and boundaries) of their people, before a crisis hits.

Conclusion

Building greater resilience is a strategic long-term investment for business, the global economy and society.

As 'black swan' and 'one in 100 year' events are no longer occurring so rarely, it is incumbent upon businesses to strengthen and accelerate their resilience strategies and invest in the development of resilience as a critical piece of their long-term value creation.

For a company, the process of becoming resilient does not stop with its successful shift to a "work from home" model nor with it committing to become carbon-neutral by 2050. Instead, it takes focused resilience-building to be prepared for the myriad crises that may arise in the short term and to be sustainable in the long term. Across the five resilience pillars (organizational, social, financial, strategic and operational), the resilience journey should start with organizational resilience as the foundation for the other four.

Organizational resilience focuses on people as the most valuable asset of a company and recognizes the pivotal role of the workforce in steering a company through crisis into calmer waters. Resolve, communication, agility and empowerment are the key principles that help companies to overcome shocks and grasp new opportunities. Taking specific actions with a view to strengthening company performance on these principles starts with the CEO and leadership but it also takes a concerted effort across the workforce.

The unprecedented challenges of the COVID-19 pandemic should be a wake-up call for companies everywhere to go beyond mere rhetorical commitments and take specific action now to be prepared for the next crisis. We are still at the starting point on the path to building greater awareness of resilience-building as an imperative for business and society more broadly. This framework presents a first attempt at giving companies tangible principles and corresponding actions to strengthen their own resilience.

The pioneering role of asset managers and insurers in risk management positions the sector as a central stakeholder in resilience efforts. However, as we have seen in the past two and a half years, no one is immune from crises and shocks. All industries have been affected, as has every geography, and resilience has become the target for all businesses.

As "black swan" and "one in 100 year" events are no longer occurring so rarely, it is incumbent upon businesses to strengthen and accelerate their resilience strategies and invest in the development of resilience as a critical piece of their long-term value creation. Strong and agile organizational resilience is no longer a "nice to have"; today's risk-prone world has made developing resilience a foundation of all companies in the future and a defining business requirement of our turbulent and volatile times.

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Endnotes

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17. A willingness to accept negative project outcomes during usual operational times to foster a culture of learning, transparency and innovation as well as preparedness.
18. The ability to accept and navigate uncertain, complex situations by adopting an innovative and agile problem-solving approach rather than an exclusive focus on the "right" answer.

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