How to design for strategic resilience : a case study in retailing

HOW TO DESIGN FOR STRATEGIC RESILIENCE

A CASE STUDY IN RETAILING

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Abstract: Few firms can be said to be truly resilient by sustaining high performance for a long time. We draw on a case study of a large U.S.-based retailer to explore how an organization develops resilience – the ability to recover quickly from environmental jolts or misfortunes. The company's CEO, concerned about the company's ability to maintain its industry leadership and excellent performance, sought to engage the organization in a broad quest for developing resilience capabilities. Our analysis of this case suggests that generative doubt, organizational slack, and mindful engagement throughout the organization are key conditions for resilience. These three conditions need to co-exist to develop and sustain strategic resilience.

Keywords: Resilience; organizational resilience; strategic resilience; organization design; mindfulness; generative doubt; slack resources; leadership

Few firms can demonstrate resilience by sustaining high performance for a long time (Garud, Gehman, & Kumaraswamy, 2011; Hamel & Välikangas, 2003; Vogus & Sutcliffe, 2007). We present a case study of a large firm that performed well over a period of fifteen years but had a CEO who was concerned about the firm's ability to sustain its performance record. Since its founding in the early 1980s, the firm had grown to a prominent position as the leading U.S. retailer in the consumer electronics market (with a market share of about 20 percent in the USA), while also owning retail operations in Canada, Mexico, China, the U.K., and Turkey. In 2004, the CEO read a business press article about the notion of resilience, defined as the capability to adapt to change in a timely manner before the need becomes "desperately obvious." From this article, the CEO concluded that resilience capability must extend beyond a small group of company leaders (who may be more committed to past and current success than future success) and that there is no ready formula or best practice with regard to how an organization develops resilience. He inferred, therefore, that "whatever the process is, it must inevitably be experimental."

Several organization and management researchers have called for the study of the mechanisms that yield resilience in the context of recovering from difficult situations, such as organizational crises (Vogus & Sutcliffe, 2007; Weick & Sutcliffe, 2001). Our study is about how to develop those mechanisms *before* the organization needs to recover. We call this type of resilience "strategic" because it enables the organization to learn about emerging changes early and to begin to shape responses while change is nascent. Whereas operational resilience refers to recoverability from a crisis or otherwise undesirable situation (e.g., Smith et al., 2008), strategic resilience allows the organization to benefit from and act on serendipity inherent in unfolding change with its many uncertainties (Merton & Barber, 2004).

In this article, we discuss how a firm can design for strategic resilience by analyzing the experience of a large company in the retail industry. In the remainder of this article, we will refer to this company as "Corporation."

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RESEARCH METHOD

The case study was conducted inductively (Eisenhardt, 1989; March, Sproull, & Tamuz, 1991; Yin, 1994) by adopting an *empirical contextualization* strategy (Ketokivi & Mantere, 2010). Events were documented as they occurred over a period of more than 18 months. The first author joined the resilience project at Corporation as a participant observer. In this capacity, she was able to directly observe many project activities and closely interact with the project leader throughout the process, thus having access to behind-the-scenes worries, joys, ambitions, and even gossip. As a participant observer, she spent a period of 18 months in Corporation's offices, participating in all main events. Moreover, a research assistant documented the events in the company and some of the lingering program effects and was in regular contact with the project leader.

The case study draws on multiple sources of data, including participant observation, interviews, participant document analysis, and surveys. Many of the activities were videotaped, and detailed records were kept about ideas that emerged. In addition, the researchers were in constant contact with a core group of 12-15 persons who were most actively engaged in the project. This interaction allowed for bi-weekly discussions about their emergent understanding of what resilience meant for the company, why it was motivating for them personally to be engaged (or not), and what ideas related to resilient organizational design and practice they were exploring, developing, and experimenting on. Face-to-face interaction was complemented with telephone conferences and e-mail exchanges.

CORPORATION'S QUEST FOR RESILIENCE

Corporation provided a rare opportunity to study a quest for strategic resilience. Despite occasional hiccups to double-digit annual growth rates, Corporation consistently outperformed its competitors over a period of more than fifteen years – for example, in terms of return on sales or investment. Corporation had been demonstrating a competitive edge before it engaged in its quest for resilience, and its excellent performance record gave the company substantial slack resources, in terms of customer loyalty as well as human and financial resources.

Igniting Change: The CEO Mindset

The CEO felt positively challenged by the track record of his firm. In November 2004, he publicly announced his intent that Corporation would continue to be successful. He also stated that the top management team of Corporation would not be able alone to identify all significant future threats and opportunities, thereby calling for a company-wide effort. Corporation embarked on its quest for resilience in December 2004. The initial situation, characterized by substantial slack resources and a strong interest in the notion of resilience, served to create an open-ended change process that was not charged with the direct need to improve the company's (already satisfactory) performance.

Beyond the Leadership Suite: Mobilizing People for Mindfulness

After the CEO initiated the project, Corporation's top management team thoroughly discussed the notion of resilience in January 2005. The key idea discussed was that Corporation needed to reinvent its capacity to be resilient and that the reinvention process should begin at the grassroots level of the company. Top management acknowledged that resilience capacity must extend beyond a small group of company leaders and that it could not be bought or copied as an off-the-shelf capability. The key outcome of this meeting was the decision to initiate the quest for resilience. In a letter of intent circulated throughout the company, the CEO said the resilience quest sought to "make innovation an innate capability … and enlarge the circle of management innovators within this company." The CEO deliberately used the term "management innovator" at the time, in order to include everyone in the organization and not just people in managerial positions, in developing a more resilient organizational design. (This was later perceived as highly empowering by non-managerial employees of Corporation.)

In early 2005, the CEO appointed an executive sponsor to the project. In turn, this sponsor appointed a program leader, someone with an HR background and an excellent reputation and network throughout Corporation. The program leader, backed by the executive sponsor, was expected to develop fertile ground for a project that needed to operate more bottom-up than top-down. The program leader was well aware of the ambiguities involved: the absence of pre-set targets, process steps, and strict timetables as well as the nature of the change effort as an unfolding voluntary movement rather than a formal change program: “I see this program as an opportunity to design a capability by tapping into the 80,000 people who deal with customers, a large-scale engagement.”

The first phase of the resilience project involved a large number of activities that served to diagnose impediments to resilience and call for volunteer action. For example, to develop a conceptual understanding of the resilience challenge, learning groups were formed to discuss essential readings on resilience capability, and external speakers were engaged to inspire and facilitate those discussions. Moreover, 21 managers were interviewed about what impedes resilience at the company (in February 2005). The questions ranged from open-ended ones, such as what currently impedes the company’s ability to effectively respond to change, to specific questions about cognitive, strategic, organizational, and other barriers to strategic renewal and innovation in their area of responsibility. For example, many interviewees reported an increased “bureaucratic” sense of responsibility in Corporation. Other participants talked about inflexible policies and processes. The responses were summarized and represented as a Barrier Wall – a set of Lego-like bricks that each had a specific change barrier written on it – for example, “bureaucratic sense of responsibility” and “don’t know how to drive change.”

Tapping Slack: Event Organizing and Community Building

Subsequently, a small team was formed to further motivate and explore the effort. A critical challenge for this team was to get a larger number of people involved, without a formal budget or work time allocation. A team of eight volunteers proposed to design an exhibition that was to become a key communication tool throughout Corporation. Called the Resilience Deficiency Ward, the exhibition featured small beds with pillows that had names of once leading retailers embroidered on them. More than 4,000 people (including board members) visited the “resilience hospital” to ponder on the temporariness of success and analyze the causes that brought these leading companies to the brink of extinction. Each visitor, wearing a lab coat and reading the “x-rays” that depicted the malaise of the hospitalized companies, explored whether “my own company suffers from any of these resilience deficiency symptoms.” The exhibit’s purpose was to engage participants in the diagnosis of resilience, but it also created a personal, memorable experience.

The growing awareness of the fragility of success, arising from visits to the exhibit, served to develop a workshop that came to be known as Management Innovation Jam, an opportunity to modify Corporation’s management principles, processes, and practices so that one or more of the resilience impediments could be removed. A Management Innovation Jam invited the participants – some 30-50 people at any one event – to consider the impediments to resilience at the company; resilience principles extracted from adaptive systems such as cities, markets, and democracies; and examples of management innovation from unconventional settings such as the formation of editorial rights of a website called Slashdot. Participants then sought to apply the resilience principles and examples, so that one or more novel ways of accomplishing managerial work could be created (e.g., an internal marketplace for ideas and talent). The Jam ended by encouraging participants to develop an experimental design for their management innovation ideas and try it out on a small scale.

Two Management Innovation Jams were held in the spring of 2005. The CEO attended the first Jam, where he spoke of the importance of resilience. The other Jam was attended by the Chief Operating Officer. During the Jams and thereafter, self-formed teams developed ideas for management innovation and then took these ideas forward as an experiment. As a result, a portfolio of management innovation ideas emerged (see Table 1 for some examples). Not all ideas progressed to the experimental stage: some ideas did not prove worthwhile after additional reflection, and in other cases the team gave up the effort due to a lack of time or interest. The self-formed teams varied in terms of heterogeneity but usually had members from at least two different departments.

Table 1. Some management innovations developed at Corporation.

eBay for Human Capital: Marketplace for matching ideas and talent across the company
The Idea Reserve: A place to find a mentor or a "personal idea banker"
TagWiki: Open communication and community-building platform
Red Dragon: Technology platform for harnessing innovative ideas
WOLF: Women's Leadership Forum, a corporate network initiative that seeks to help female employees excel (by reducing turnover and helping career advancement)
Boss' Boss Learning Journey: Taking the manager to whom your manager reports to a place that both of you would find instructional and enlightening
ROWE: Work-life balance initiative that focused on results not on time spent at the workplace (later spun out as an independent initiative outside Corporation)

By attending Jams and championing resilience and management innovation, the volunteer community known as "Jampions" grew during 2005 to about 250 people (all of whom were managers or employees except for ten individuals who were directors or above). This community began to hold themed Resilience Clinics as regular (monthly) get-togethers and discussion forums. Teams of Jampions presented their ongoing experiments, but others were invited to talk about related work such as ongoing customer service experiments in stores. In addition, an internal website on Resilience was set up that invited anyone to become familiar with the notion of resilience and join the quest. Most active Jampions joined the effort to further develop content for the Management Innovation Jam, make it experiential and easy to relate to, and to redesign the Jam from the original two-day event to a one-day event. They then participated as facilitators and mentors to new Jampions, sharing their experiences as management innovators. Some new material was developed, including a play on resilience (with a number of Jampions in leading acting roles) and an inspirational video that showcased "resilience principles" and invited the audience to join the quest. Groups of Jampions met with the senior executive in their area of responsibility to share their insights and give the executive a chance to ask questions and offer support. In November 2005, a group of senior executives was asked to present its perspective on resilience in a roundtable discussion with the Jampion community.

Additional activities included an Idea Elaboration Jam, a workshop to support experimentation and development of ideas which benefited from the test methodology used by Corporation in its retail stores. Case studies were also written about other company change programs in the past, offering some potential learning in how to engage in organization-wide change.

Priorities Shift: External Pressure to Improve Short-Term Results

In November 2005, bloated administrative costs had taken a toll on Corporation's quarterly profits and gained attention from Wall Street industry analysts. The CEO of Corporation hired a COO from outside the company to reduce costs. Despite various appeals by Jampions, referring to the importance and the low cost of the work they were doing, the resilience project was cut as part of an overall effort to reduce the number of ongoing activities in the company. The company regularly engaged in this type of cost-cutting effort, according to a senior executive in a retrospective interview two years after the conclusion of the resilience project. This executive also noted that, while the project fundamentally shaped her views on management, it was only later in her career as a senior executive that she was able to benefit from the understanding that such grassroots innovation capability needed to be constantly protected against short-term performance pressures and hierarchical decision privileges. Another director blamed the financial orientation of Corporation's top management team: "Finance is the most difficult function to work with; it's very internally siloed." Moreover, the quest for resilience also appeared to suffer from an increased emphasis on customers.

One vice-president recalled from a meeting with the CEO: “He made clear that customer centricity is [now] our future.”

Impact of the Quest for Resilience

Despite the fact that the resilience project was formally shut down, this quest over a period of approximately 18 months appeared to have had a lasting impact on the company, particularly in the way people perceived their role in the organization. For example, a shop floor employee in a local store of Corporation sought to serve the sailors whose ship harbored nearby, as they were buying a number of laptop computers and other electronic products for their mates who were not able to leave the ship without a visa. This “having a friend inside Corporation” strategy increased local store sales significantly and was subsequently applied in many other stores. Another innovation was created by a group of people in one of Corporation’s call centers who found a way to make substantial savings by cutting idle calling time. Further, the resilience quest had a direct impact on former Jampions. One said: “I now have more confidence in taking risks. I’m simply more comfortable when things backfire. Also, I have a better understanding of the business context for innovation and can more easily grasp ideas that seem far out instead of dismissing them.”

Many management innovations stemming from the resilience quest carried on as autonomous initiatives with dedicated teams. At any one time, there were between three and five management experiments running. Though often small-scale, they produced learning concerning what could be accomplished in the company in terms of management innovation (e.g., “no permission required to do this experiment in front of the company café”). While none of the experiments was immediately adopted as regular management practice, they provided important insights into resource allocation, idea harvesting, motivation, and innovation management. For example, a member of the team that pioneered eBay for Human Capital, a marketplace for matching ideas and talent across the company, argued that “the magic of the concept is the employee empowerment and the energy that is felt when a connection is made – a connection from a person with an idea to a person who has a passion for the idea. The connection may result in creating something that benefits the store or how we do our work at the corporate level. The opportunities and benefits are endless when you leverage passion as a tool to how work gets accomplished.”

Overall, Corporation’s superior performance as a retailer continued during the period after the formal resilience quest, including the difficult times caused by the global recession of 2008-11. Notably, Corporation’s main competitor in the U.S. went bankrupt in 2009. A senior executive attributed some of Corporation’s current practices to “engaging everyone in contributing to corporate growth during the resilience project.” Moreover, the project “aided in instilling a culture that believes that every person is capable and expected to contribute to growth in some way…This culture of contribution is still fragile but making progress.” Long after the resilience project formally ended, many of the initiatives started as part of the resilience project continued to thrive. The resilience hospital exhibit was closed only recently, having become a symbolic part of the company culture. Overall, the resilience quest appeared to have initiated a cultural change toward mindful and experimental behavior at Corporation, which invited innovation and change without the accompanying trauma.

DISCUSSION

Corporation’s resilience project offered us an opportunity to study an industry-leading company seeking to sustain its strong performance by choosing to build resilience capability ahead of the need for it. In this section, we explore the conditions for strategic resilience that can be inferred from the case study. We believe three factors are especially important: generative doubt, organizational slack, and mindful engagement.

An important starting condition of Corporation’s quest for resilience appears to include the CEO’s mindset in which he became committed to fight cognitive and structural inertia (Tripsas & Gavetti, 2000). Rather than being complacent about the company’s strong performance, the CEO did what many excellent CEOs do (e.g., Grove, 1999; Välikangas, 2010) – he worried about the company’s ability to perform in the future, exercising what

Locke, Golden-Biddle, and Feldman (2008) call *generative doubt*. Rather than formulating a single strategic vision, the CEO wished to extend the search beyond the leadership suite and develop the sensing and learning capabilities distributed across the organization (Lovas & Ghoshal, 2000). He had the confidence and foresight to engage in a process of generative doubt, defined as deliberately seeking the experience of not knowing (Locke et al., 2008). The CEO was thus able to open up the quest for broader participation. Without the CEO's questioning of the company's fitness for the future, the organization might not have embarked on the quest to develop resilience. On the other hand, the project also ended per the CEO's decision, suggesting that his organizational priorities changed from resilience to current performance (and perhaps indicating the erosion of generative doubt). We conclude that it is best to engage in exploration and experimentation in good times when the risk of failure is less costly.

Second, the company had been relatively successful for a long period of time and was one of the top performers in the U.S. stock market. Consequently, it had developed *organizational slack*, a potential enabler of innovative activity (Cyert & March, 1963; Van Dijk et al., 2011). Organizational slack allows the firm to forego short-term gains in favor of enhancing long-term viability and performance (Sharfman et al., 1988). Previous studies developed an understanding of what slack is (Voss, Sirdeshmukh, & Voss, 2008), how it may promote experimentation and risk-taking (Bourgeois, 1981), and how it may provide some discretion in responding to competitor strategies (George, 2005). Moreover, by relaxing internal controls and allowing firms to undertake multiple innovation projects, resource slack may offer partial protection from unsuccessful outcomes (Bradley, Shepherd, & Wiklund, 2011). By contrast, other studies have observed that substantial resource slack may hinder the entrepreneurial process by impairing the ability to identify new business opportunities (Mosakowski, 2002) and promoting managerial complacency (George, 2005). In this respect, firms with abundant resources may be less inclined to experiment and may prefer to continue exploiting established products and markets, as resource reserves tend to induce risk averse behavior (Mishina, Pollock, & Porac, 2004). To its credit, Corporation did not allow complacency to set in.

Organizational slack in itself, however, does not appear to provide a sufficient explanation for the fact that few organizations are truly resilient (Garud et al., 2011; Vogus & Sutcliffe, 2007), because many firms with substantial slack resources would then develop resilience. Hence, the story of how strategic resilience comes about is likely to be more complex. In this respect, whereas most previous studies consider slack as an independent variable (e.g., Sharfman et al., 1988; Voss et al., 2008), our case study suggests a third factor is important to the development of strategic resilience: broad *mindful engagement* of the organization. A high level of engagement appears to be an important condition for resource slack to have a catalyzing effect, by promoting risk-taking and experimentation (rather than promoting complacency and risk avoidance). This also was the hunch of Corporation's CEO who sought to mobilize people beyond the leadership suite as widely as possible. In resilient organizations, employees and managers act mindfully (Levinthal & Rerup, 2006; Weick & Sutcliffe, 2001) – for example, by continually questioning and reassessing the purpose and effectiveness of organizational practices and systems.

The resilience literature has thus far focused on the mindfulness of front-line employees (e.g., nurses, firefighters, customer service staff). Mindful front-line workers continuously develop, refine, and update a shared understanding of the situation they face, the problems defining it, and what capabilities exist to ensure or improve, for example, the safety, well-being, or satisfaction of clients (Gittell et al., 2006; Weick & Sutcliffe, 2006; Weick, Sutcliffe, & Obstfeld, 1999). Our case study suggests the need to broaden the notion of mindful engagement for resilience beyond front-line operational activities to include management innovation (Hamel, 2006; Hamel & Välikangas, 2003). Many resilience impediments in Corporation appeared to stem from organizational or managerial rigidities that required ongoing experimentation to develop alternative management practices (e.g., marketplaces for ideas and talent). This can only happen when mindful engagement is widespread.

The three conditions for strategic resilience inferred from the case study and literature also serve to synthesize the notions of problemistic versus slack-driven search developed by the Carnegie School (March & Simon, 1958; Cyert & March, 1963). Search in most organizations, according to the Carnegie School, is motivated by an immediate problem and will be as simple as possible in that it operates in the "neighborhood" of the problem and the solutions already being used. To be able to search for novel solutions – possibly by redefining the initial problem – resource slack operates as a potential enabler (Cyert & March, 1963). Our case study suggests that companies that have substantial resource slack and seek to enhance their resilience need to use both search strategies, embedded in an organizational culture of generative doubt and mindful engagement.

In summary, the key conditions for resilience inferred from the case study are generative doubt, organizational slack, and mindful engagement throughout the organization. We hypothesize that these three conditions need to co-exist for strategic resilience to arise because each individual condition appears to be necessary for the other two conditions to have a positive effect on resilience. For example, without mindful engagement, resource slack may not positively affect resilience; without the CEO's generative doubt, it may not be possible to mobilize and engage people in the project; and so forth.

IMPLICATIONS FOR PRACTICE

This case study describes how a leading company deliberately engaged in advancing and practicing strategic resilience. A key initiator was the CEO's leadership. Corporation's lengthy record of performance suggests that the executive leadership of a firm must have the courage to sustain an open vision of the path to resilience, one that allows the organization to mobilize people behind the quest. The case study also suggests it is important to confront past success and develop an understanding of its fragility (cf. Bunker, 1997). In this respect, generative doubt at the executive level serves to challenge the mental model often prevailing in successful organizations, in which executives rationalize particular issues away, mistake luck for smarts in explaining success, and resist admitting that current business approaches and strategies may be decaying (Argyris & Schön, 1978).

Therefore, top managers need to be able to step back and facilitate the development of a distributed organizational capability involving hundreds, if not thousands, of people throughout the organization (Romme, 1997). This implies a non-traditional role of the CEO and other top managers, which may be particularly difficult to sustain in the face of shareholder pressure (Adler, 2001), changing strategic priorities (such as Corporation's reemphasis on customer orientation), and the inability of executives in early career stages to benefit from and support a grassroots engagement (Milliken, Morrison, & Hewlin, 2003). The ability to sustain generative doubt in the executive suite provides a dual challenge for top managers: they need to overcome executive hubris, a typical result of continued success, as well as be able to not yield to quarterly performance pressures. In any case, a project that lasted for almost two years with a lingering impact on the company's operations can be judged successful, especially in corporate settings where priorities constantly shift and executives and their agendas routinely change.

Another practical implication of our case study is that the initial impetus toward the quest for resilience needs to be challenging enough to draw the interest and engagement of a broad set of volunteers (see also McGonigal, 2011). The notion of resilience had such an appeal in Corporation, partly because the content was left open for the participants to define in such a way that it became personally (and organizationally) relevant. The challenge was also very forward-looking. Adding to the appeal was the Resilience Deficiency Ward that spoke to its visitors directly in terms of the symptoms that may already be present in their own company. The challenge was to diagnose one's own company for any potential signals for trouble. This was exciting to the participants, who apparently took to the situation with "playful seriousness" (Schrage, 1999). Thus, the participants were experientially and emotionally engaged, as many later testified. The experience of becoming a Jampion encouraged participants to apply resilience ideas in their jobs (Quinn & Worline, 2008). As such, the resilience project became a sort of dress rehearsal to act differently, with more determination and imagination. It was also salient that the project was not entirely left to its own self-organization but was guided by the project manager, leaving enough room for volunteer activities yet maintaining the momentum. Such a build-up of mindful engagement in the form of open meetings, resilience clinics, and participant testimonies was particularly important to get the project going in the beginning. These events helped create a network of like-minded, innovative people across organizational boundaries, many of whom met for the first time and realized they were not alone in pursuing strategic resilience.

Finally, our case study confirms research findings arising from earlier work on organizational slack, suggesting that a high level of slack in itself does not make an organization resilient. Slack may provide an advantage in any attempt to create strategic resilience but only if top managers continually expose themselves to self-critique in reflecting on the organization's future ability to perform *and* they are able to mobilize people in taking risks and engaging in experimentation beyond the leadership suite. This type of leadership capability involving both generative doubt and distributed organizational learning is still rarely observed in public corporations.

CONCLUSION

In this article, we discussed how a firm can design strategic resilience as a capability. Our study draws on a single case, which limits opportunities to generalize the main findings. Future research, therefore, will need to explore whether the key conditions for strategic resilience inferred from our case study also apply to other firms seeking to build a resilience capability – especially firms that do not have a long history of solid performance. Moreover, future research on strategic resilience capability should consider the *combined* role and impact of generative doubt, organizational slack, and broad mindful engagement.

Most organizational change programs focus on copying competitive moves or best practices of leading companies. By contrast, our case study of how resilience can be developed suggests that executives must be courageous enough to expose themselves to generative doubt, employees must be inspired and concerned enough to develop mindfulness, and the organization must have enough resources to engage in long-term exploration and experimentation. This is likely to spur an open-ended change process where these three conditions together contribute to strategic resilience.

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