

# Organizational Resilience: Why it matters and how to improve it

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# Foreword

by Mike Ettling, CEO, Unit4

Having worked all over the world, I've seen a fair amount of change in the global economy, predominantly driven by the "Globalized North." However, as a native South African I have always paid keen attention to the fortunes of those economies outside of the G7. For a long time, many of the countries in South America, Africa and Asia have been described as – at best – "emerging" or "low to middle income" economies, but I believe we are now witnessing what has the potential to be one of the most exciting and challenging transformations to the global economy since the Second World War. In particular, looking at the policy and political statements coming from the BRICS nations, in the next ten years we could see a dramatic shift in who is influencing global trade.

At Unit4 we work with mid-market companies, often seen as the engine of growth for many countries. **According to the World Bank**, small to medium size businesses (SMEs) make up 90% of businesses globally and contribute more than 50% of employment. If these companies are to thrive as the global economy evolves, organizational resilience will be critical. It will enable the adaptability required to build sustainable organizations that can perform no matter what the challenges faced.

We have commissioned this white paper, analyzing expert commentary on this topic, because we believe organizational resilience must move higher up the agenda for every board. **According to research from the International Monetary Fund (IMF)**, by 2028 China will be the country with the highest GDP, ahead of the United States. Germany, France and the United Kingdom will remain in the top ten, but Asian countries will dominate the top places. **Africa's digital economy** will reach \$712 billion by 2050 and I saw a **recent estimate** that India's middle-class is already 432 million strong. This will create exciting market opportunities, but it will require new partnerships, supply chains and a deep understanding of a diverse range of markets. However, it will also create new competitors.

**Will your organization have the resilience to thrive in these market dynamics?**



# Why Organizational Resilience matters

**“Organizational Resilience is the ability of an organization to anticipate, prepare for, respond and adapt to incremental change and sudden disruptions in order to survive and prosper”**

**David Denyer**

Professor at Cranfield School of Management

The pandemic proved a catalyst for interest in organizational resilience. All firms were suddenly confronted by a black swan event that affected every business stakeholder. Business leaders sought a way to make their organizations reliable and innovative. They needed to find the balance between surviving and thriving.

While organizational resilience has always been important, the pandemic and events since have shown that firms need to be ready for any challenge.

Those firms with mature organizational resilience survived the disruption brought about by COVID-19 better than others. Leaders should not forget that while organizational resilience may be top of mind now, and in the face of a global economic crisis, they cannot afford to let it slip. While black swan events are rare, a resilient organization is better equipped to overcome smaller, more frequent challenges.

Increasing resilience can deliver short-term gains, such as reducing costs, by increasing efficiency. However, the real value is in the long term, as Reeves, O’Dea and Carlsson-Szlezak (2022)<sup>ii</sup> noted:

*“... analysis of the impact of resilience over a 25-year period shows that it delivers differentiated long-term performance value. Although crises occurred in only 11% of quarters, relative total shareholder return (TSR) during those times accounted for 30% of a company’s long-run relative TSR.”*

No matter what the crisis is, a resilient organization can quickly adjust to changing circumstances, mitigate risk or create opportunities across any business function, whether sales, supply chain, operations or finance.



# Dimensions of Organizational Resilience?

Pre-pandemic, business leaders believed organizational resilience related more to operational business continuity. What happens if IT systems fail (disaster recovery), and the office is forced to close due to fire, travel disruption due to strikes or weather (business continuity)? However, the scope is far wider.

Bain<sup>iii</sup> and a report from the World Economic Forum both identify organizational resilience as spanning five dimensions:

- **Strategic resilience** is the ability to respond to changes in the environment in which the business operates, whether political, economic, social, technical, environmental or legal

- **Operational resilience** enables an organization to identify and react in the event of an incident that affects things such as talent, operations, business continuity and supply chain
- **Financial resilience** is how prepared an organization is regarding financial health and processes
- **Organizational (Cultural) resilience** is how ready the organization's culture, workforce and structure is to manage disruption
- **Social resilience** recognizes the impact on the community in which the organization operates

These dimensions allow organizations to understand what initiatives they can undertake to improve.

## Strategic Resilience

Strategic resilience enables an organization to rapidly adjust business models to take advantage of sudden shifts in the business environment. For example, during the pandemic, different sectors had to change how they delivered services. In the Public Sector, government and healthcare teams had to adapt processes that had taken years to develop but were no longer suitable. Private Sector industries faced similar challenges, Professional Services firms moved to remote delivery, and higher education delivered remote classes.

These changes had to happen in days rather than weeks for organizations to survive or, in the case of the Public Sector, to deliver critical services to the public. A strategically resilient organization can respond to and take advantage of such sudden changes in the economic, legal/regulatory, physical or technological environment in which it operates.

Creating strategic resilience is, as McKinsey notes, *“To build resilience into their long-term strategic decision making, organizations need to develop certain cross-functional capabilities and strengthen resilience in a number of strategic areas.”*

This includes elements from the other dimensions of organizational resilience, but also adds reputational and business model resilience. Strategic resilience is also collaborative, as the Economist Insight<sup>iv</sup> report notes:

*“The key to successfully building organizational resilience is creating connections between functions within the enterprise, including finance, legal, HR, IT, records and facilities management, supply chain management, and risk and compliance functions. This, in turn, requires deploying the budget and personnel needed to make it effective.”*

<sup>i</sup> Reeves, M., O’Dea, A. and Carlsson-Szlezak, P. (2022). Make Resilience Your Company’s Strategic Advantage. [online] Harvard Business Review. Available at: <https://hbr.org/2022/03/make-resilience-your-companys-strategic-advantage>.

<sup>iii</sup> <https://www.bain.com/insights/getting-business-resilience-right> accessed 8th May 2023

<sup>iv</sup> <https://impact.economist.com/projects/resilience-reimagined/reports/ExecutivePage/ECO062%E2%80%94Iron%20Mountain%20Report.pdf>

# Operational resilience (often through technology transformation)

Organizations have always sought to improve and become more efficient. Proactive organizational resilience initiatives look at increasing efficiency within the business. There are several crucial areas across the Public Sector, Professional Services and Nonprofit where a huge difference can be made.

One of the most talked about actions an organization can undertake is digital transformation. It is not just moving systems to the cloud, though that is a component. Digital transformation also combines elements across technology, processes, data and people.

**“Using Unit4, we are able to attach an individual attribute, typically the vehicle registration, to identify each of our ambulances so that – via that identifier - we can instantly see the leasing costs, maintenance invoices, fuel bills and more. This single, complete view of the fleet allows us to optimize resource planning and ensure we gain the best possible value for money over the lifetime ownership of the vehicles.”<sup>i</sup>**

Darren Ward, Senior Finance Analyst, East of England Ambulance Service NHS Trust



<sup>i</sup> <https://www.unit4.com/sites/default/files/documents/news-pages/East-of-England-Ambulance-CS200617INT.pdf>

## Technology

Technology can help organizations improve how the organization functions.

**“Ten years ago, it was all around your IT Systems’ resilience and ensuring you have a good business continuity plan. Post-pandemic, in the middle of an economic crisis, it’s gone from an OPEX focus to becoming part of the core strategy and the DNA of an organization.”**

Mark Gibbison, Vice President, Unit4

As Gibbison notes, the scope of organizational resilience is much expanded from what it used to be. Today it can include:

- IT systems are constantly available from anywhere. The simplest way to achieve this is often using multi-region cloud-based solutions with built-in failover
- IT systems must be secure. Cloud systems are more secure than on-premise, yet organizations cannot relax. The weakest point of security is often people, both internal and external (supplier)
- Technology can help automate manual processes through robotic process automation or, more recently, artificial intelligence and machine learning
- Supply chain resilience is crucial for both the Public Sector and Nonprofit. For PSOs, the supply chain is often human resources and having access to contractors. Technology can help with supplier and partner management.

**“The Belgian government, for example, is pushing and investing a lot of money in digital transformation for municipalities, for governmental departments, because they know if they’re not doing it, they won’t be attracting the right talent.”**

Florence Dobbenie, Customer Success Team Manager, Unit4

## Data

Access to trusted data for everyone across the organization in real-time is critical. Data can come from many sources and, as a result, what is needed is a way of connecting them. An environment such as the Unit4 Industry Mesh that binds applications together and can extract the right data for further analysis will achieve that.

**“We can now analyze, report, and share the finance data quickly and easily, drilling down to individual transactions and automatically distribute the reports to other stakeholders. Compared with spreadsheets, our financial budgeting and forecasting is one third faster – and the data is dramatically more timely and accurate.”**

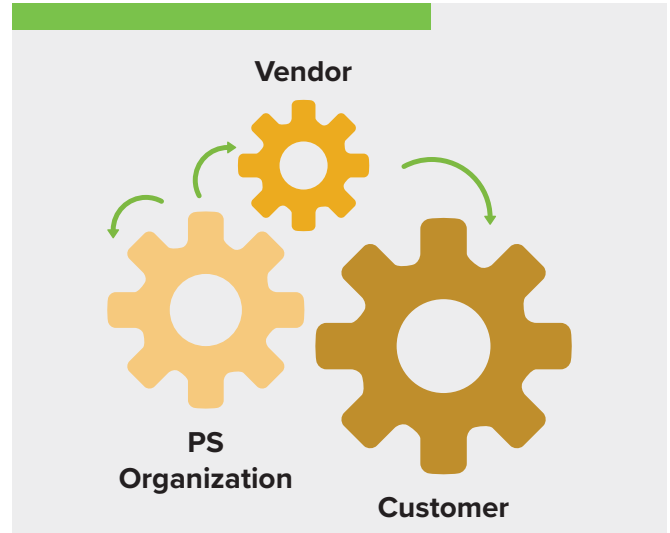
Robert Abery, Management Accountant, East of England Ambulance Service NHS Trust<sup>v</sup>

<sup>v</sup> <https://www.unit4.com/sites/default/files/2021-09/Unit4%20CS%20Public%20-%20ERPFA%20-%20UK%20-%20East%20of%20England%20Ambulance%20-%20CS210813INT.pdf>

## Processes

Processes are critical for any organization to ensure that their systems continue to function, using standards such as ISO 22301 Business Continuity Management. Internal processes such as budgeting and planning, supply chain management and operational workflows must be robust and standardized, yet flexible to cater for any disruption.

Organizations need to adopt best practices and must partner with technology suppliers and consultants to do so. It is a two-way process where the supplier must understand the organization before offering advice. Consequently, the learnings go both ways, with tech companies understanding more from the engagement and improving their products as a result. To complete this triangle, companies must have effective partner vendor management, especially when those partners are key to service delivery.



## People

An important aspect of retention is ensuring employees' needs are met. To understand those, technology - such as employee engagement - can be leveraged. Employees want a clear career path, equitable salary and flexibility.

Are organizations investing enough in technology to retain and attract new talent? They must have the right tools to support training, for example. While this is more important in a PSO, Nonprofit organizations and government employees can also benefit.

The well-being of employees has increased in importance as organizations have a legal duty of care for their people. Having systems to help track this and offer support can ensure that employees are more resilient individuals and, therefore, able to increase the organizational resilience of their employer.

**“Without digital transformation, Public Sector organizations may not be able to attract the right talent. When they’re not able to have that new talent, their diversity, equity and inclusion also becomes challenged. Then you’ve got a board or people that aren’t relatable to the community or the constituents that they’re serving.”**

Michelle MacCarthy, Global VP of Customer Experience, Unit4

# How Finance can Lead Organizational Initiatives

Financial resilience describes the organization's financial health concerning its ability to weather a crisis. A Deloitte<sup>vi</sup> report on "The resilient organization" states, "Financial resilience enables the organization to be better prepared to withstand events that impact liquidity, income and assets."

At the heart of any company is the finance team. It monitors the company's pulse, ensuring that cash flow remains positive. In the past, the finance team has reported numbers looking back. Today, finance teams have access to the tools that can look forwards. A modern ERP captures data in real-time and can provide a holistic view of what is happening in the organization. This real-time view makes finance even more important for the business.

The modern finance team, using cloud-based SaaS ERP solutions, can provide relevant information to every business leader within the organization. Using this data, finance teams can help to steer the business forward.

When COVID hit, finance teams rushed to re-forecast repeatedly. For those still using Excel spreadsheets, this was time consuming. For those with a modern FP&A solution, continuous forecasting was not only supported, but made far easier.

Today FP&A solutions support scenario planning, enabling finance teams to run **Monte Carlo simulations** – modelling used to predict the probability of a variety of outcomes - using the computing power available from the cloud.

For the CFO, it is all about the numbers, balancing innovation with keeping the business engine running. Where innovation is concerned, it boils down to the business case, how much it will cost and what value it will generate. It is not a final decision as there may be a bigger strategic picture that the CEO or CTO sees.

**“The CFO has two roles in innovation. One is to prepare the numbers for a decision with the finance team, and the second is to present that data and give an opinion.”**

**Michael Legenfelder**

Head of FP&A Product Management at Unit4

**“In the old days, you had one big forecast in the summer, where everybody had to run this one-time effort. In the fall, you had a one-time budget. The modern FP&A way of doing things is that you leave the system constantly open.”**

Michael Legenfelder, Head of FP&A Product Management at Unit4

**“Unit4 is vital in determining where we prioritize investment in the aftermath of the pandemic. It gives our executives the facts at their fingertips to revise spending plans, change the way we operate, and prepare for the future.”**

Robert Wood, Finance Manager, The National Trust<sup>vii</sup>

<sup>vi</sup> [https://www2.deloitte.com/content/dam/Deloitte/ca/Documents/risk/ca-en-Resilient\\_Organization\\_POV\\_Apr\\_2021\\_AODA.pdf](https://www2.deloitte.com/content/dam/Deloitte/ca/Documents/risk/ca-en-Resilient_Organization_POV_Apr_2021_AODA.pdf)

<sup>vii</sup> Accessed 9th May 2023, <https://www.unit4.com/blog/digital-transformation-key-nonprofit-survival-during-crisis>



# Organizational (Cultural) Resilience

**“There is a huge focus now on the quality of leadership and the importance of having very strong and effective leadership within an organization and maximizing the top talent, both from a recruitment and retention process.”**

**Mark Gibbison**

Vice President, Unit4

People are at the centre of most services organizations, whether Nonprofit, Professional Services or Public Sector. This dimension focuses on the human element of resilience and the cultural values associated with the organization.

It starts with the leaders, filters down to employees and then is extended to all stakeholders, since organizations rarely work in isolation. There are suppliers, partners, community organizations, shareholders and investors and, the stronger the bonds between all these stakeholders, the more resilient the organization.

All internal and external stakeholders working together effectively to deal with disruption will reduce the impact of external influences.

Acquiring top leadership talent is critical. However, they will be powerless if they're not right for your organization.

Diversity is also important; factors such as gender, disability, racial and age diversity ensure that an organization reflects its community. Such diversity also starts at the top, with the board and the executive team. While firms are evolving, partly because of legislation, there are strong reasons for doing so. In 2019, McKinsey<sup>viii</sup> found that companies in the top quartile of gender diversity on executive teams were 25% more likely to experience above-average profitability than peer companies in the fourth quartile.

An Economist Impact<sup>ix</sup> report stated, *“Organizations that are proactive and transparent about resilience measures win the confidence of stakeholders, which can therefore reap financial benefits. Customers, clients, suppliers, and citizens will favour an organization they perceive to be aligned with their values. Staff will be more motivated, and talented individuals will be more likely to choose an employer they can see is stable and prudently run.”*

**“Unless you’ve got top talent within your organization, specifically in the leadership roles, then you will not have a sustainable or resilient organization.”**

Mark Gibbison, Vice President, Unit4

<sup>viii</sup> <https://www.mckinsey.com~/media/mckinsey/featured%20insights/diversity%20and%20inclusion/diversity%20wins%20how%20inclusion%20matters/diversity-wins-how-inclusion-matters-vf.ashx>

<sup>ix</sup> <https://impact.economist.com/projects/resilience-reimagined/reports/ExecutivePage/ECO062%E2%80%94Iron%20Mountain%20Report.pdf>

# Social Resilience

Social resilience is probably most relevant for the Public Sector and, in some cases, Nonprofit organizations. Public Sector organizations must consider the resilience of the communities they serve during a crisis. One example of this is preparing for the impact of climate change on services. Robust, collaborative relationships with partners are critical. The challenge is the huge diversity of services; Public Sector organizations find it hard to plan for the medium or long term.

Nonprofits must understand how any crisis impacts the communities they serve with monitoring and contingency plans.

It is also relevant in other sectors. Professional Services organizations must be aware of how employees' lives outside work are impacted. COVID highlighted the importance of well-being, not just in the workplace but also outside the workplace, delivering an understanding of people's challenges. Natural disasters and human-caused incidents can impact organizations and their workforce directly. Organizations should work with local communities and government bodies to minimize the impact of future incidents. And, as we saw during the pandemic, technology helped to keep communication going with a range of communities, stakeholders and audiences.

Innovative initiatives can also help to reap rewards, with investment in local communities making it easier to source talent or improve brand recognition and employee loyalty.

**“Public Sector is hugely about creating resilience in the communities that they serve.”**

Mark Gibbison, Vice President,  
Unit4



# The Paradox: How to Improve Organizational Resilience

If organizational resilience were easy to achieve, companies would not disappear, and local governments would rarely receive criticism. As the pandemic, the war in Ukraine and other global events have shown, organizations cannot prepare for every eventuality. Furthermore, it is not just the major crises and black swan events that occur, there are smaller incidents that can derail any plans.

For want of a nail, the shoe was lost.  
 For want of a shoe, the horse was lost.  
 For want of a horse, the rider was lost.  
 For want of a rider, the battle was lost.

Unknown

The nursery rhyme is an exemplum of what can happen to any organization. **Arthur Andersen's** failure in 2002 is a case in point of an internal failure. Can an organization prepare itself for any internal or external incident? While organizations can prepare for disruption, the fact that it still occurs indicates they cannot prepare for every eventuality. It means that a measure of agility and innovation is still needed within an organization to deal with these challenges.

Organizations can prepare for the worst outcomes, which tends to introduce measuring and controls. The problems come when an event means those controls must change rapidly.

Denyer argues that the maturity of organizational resilience has moved across five phases:

- **Preventative control:** is about having systems that monitor everything with the processes and systems in place to react in a prescribed manner
- **Mindful action:** is where an organization has people who notice and react to threats, responding quickly to challenging circumstances

These two phases bring consistency to the organization but assume that there are few unforeseen incidents. The next two phases introduce flexibility that is sometimes at odds with a consistent approach.

- **Performance optimization:** is about taking existing processes and systems and improving them iteratively. It is similar to the Japanese continuous improvement philosophy, Kaizen, adopted by Toyota with great success
- **Adaptive innovation:** combines flexibility with positive thinking. It involves creating new services and processes and using new technology to disrupt markets and turn threats into opportunities.

**“Resilience is about surviving and thriving, regardless of the challenge”**

Denyer, D. (2019). Leading Resilience Workshop BSI. London

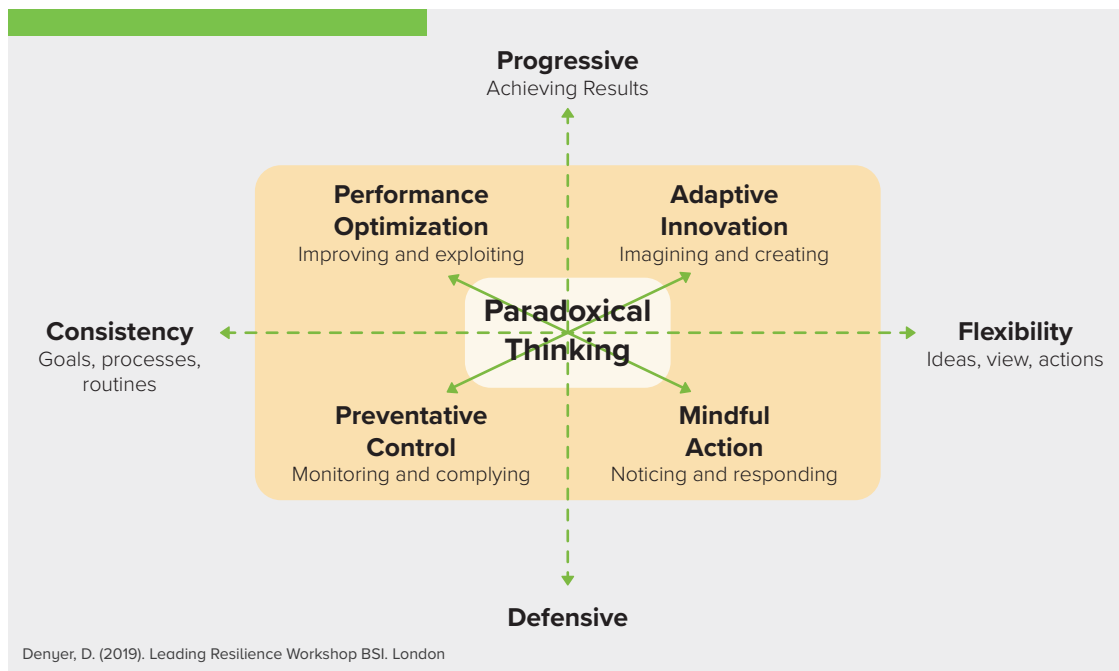
**“IT teams are familiar with P1/critical incidents that indicate a major system failure. The causes often must be diagnosed quickly and either mitigated or resolved to keep the business running.”**

Synonym Advisory

Organizations must be capable of a consistent and flexible approach to address this paradox, which led Denyer to introduce the fifth phase of organizational resilience maturity, **paradoxical thinking**.

If this seems familiar, Geoffrey Moore’s premise for Dealing with Darwin was, *“Innovation and Inertia are so deeply intertwined that both must be engaged concurrently for any progress to occur.”*<sup>x</sup>

These approaches and the paradoxes are shown below. Organizations must look to adopt all four approaches, yet there are tensions between the opposites.



Business leaders must balance a defensive and progressive approach between consistency and flexibility. Elmar Kutsch expands on this in his recent book ‘Organizational Resilience’, where he points out how business leaders can navigate these paradoxical tensions.

Kutsch looks at High-Reliability Organizations (HROs), (for example, nuclear industry firms) and how they have ensured that, despite often working in hazardous circumstances, they suffer fewer incidents than others. High-Reliability Organizations rarely suffer a catastrophic failure in their operations. (Laporte and Consolini, 1991)<sup>xi</sup>

*“The effectiveness of an HRO is due to its ability to manage paradoxes in its approach to the anticipation and containment of near miss incidents and accidents.”*<sup>xii</sup>

During the pandemic, organizations had to change ways of working, enable remote working for longer periods, innovate business processes in a new environment, and deal with the impact of mass sickness.

Leaders who develop organizational resilience will be better prepared for the next such disruption or event. However, it is more than just steering the organization through - it is also understanding, predicting and continuously innovating.

<sup>x</sup> Moore, G.A., 2007. Dealing with Darwin: How great companies innovate at every phase of their evolution. Strategic Direction, 23(9).

<sup>xi</sup> Todd R. LaPorte, Paula M. Consolini, Working in Practice But Not in Theory: Theoretical Challenges of “High-Reliability Organizations”, Journal of Public Administration Research and Theory, Volume 1, Issue 1, January 1991, Pages 19–48, <https://doi.org/10.1093/oxfordjournals.jpart.a037070>

<sup>xii</sup> Organisational Resilience, E. Kutsch 2023, p9

## Benefits of Organizational Resilience

Increasing resilience is not just about ensuring an organization survives; it will also help to thrive and can help to:

- Increase revenue opportunities
- Decrease costs
- Identify new business opportunities
- Improve efficiency
- Optimize workflows
- Create a more robust supply chain
- Improve partner relationships
- Deliver innovative digital services
- Deepen customer relationships
- Develop an effective talent strategy, leading to better retention
- Build a more agile organization
- Transform company culture
- Increase employee engagement
- Anticipate and respond to opportunities and threats better
- Improve governance and compliance

## Conclusion

An organization that has a high level of maturity is self-aware. It has a good understanding of the current situation, the health of the business, the risk it faces and its mitigating actions. It understands the vulnerabilities, strengths and capabilities within the organization.

The leadership is also aware of what is happening outside the business, together with the threats and opportunities, and the flexibility to innovate, whether in a growing or declining market. Importantly, the finance team can see what is happening in the business in real-time and forecast what will happen within a range of future scenarios.

With the right technology, finance teams can also provide insights and strategic advice to the board, not about what has happened in the past but with greater accuracy on the impact of decisions on the organization's prospects.

For an organization to become resilient, it must collaborate internally and externally with all stakeholders. Finally, resilience is underpinned by strong leadership that helps set the organization's culture so that it does not become too defensive or take too many risks.

In summary, organizational resilience helps to ensure organizations' readiness, reliability and flexibility, enabling them to turn risks into opportunities and evolve weaknesses into strengths. And finally, to achieve organizational resilience, businesses must nurture their people and take advantage of technology to implement and truly prepare for change.

For more information go to:

[unit4.com](https://unit4.com)

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