Operational Flexibility

Success comes from balancing planning with flexibility and the creative management of change.

Results, not excuses. That weather event, change in company management, change in client expectations, or change in market appetite might not be the fault of you or your agency, but your customers don't care. They want solutions that meet their needs. If your company can't deliver, another company will.

How do you ensure that your company can bounce back quickly from disruptions, big or small? It's impossible to plan for every type of problem. Instead, you have to build in resilience. The principles that build a generally resilient agency will help you no matter what will hit you.

Finding Your Company's "Point of Entry" to Resilience

Resilience also depends on the kinds of risks and threats an agency faces, something that differs for each on an individual basis. Each needs to find their own "point of entry" to resilience. It may be markets or finances, geographic limitations, or the local economy.

Disaster recovery tends to concentrate on the worst case. But for most agencies, the worst case doesn't happen very often. Instead, non-catastrophic disruptions occur much more frequently but can deal a severe blow to an agency and its day-to-day operations.

Flexibility is often substituted for comprehensive planning.

Traditional approaches to strategic planning rely for their success on accurate predictions of the future. But the nature of the uncertainty that imbues almost every aspect of today's business environment has made prediction and even forecasting difficult. And since many significant but unforeseen threats and opportunities crop up faster than agencies can respond to them, it’s impractical to rely on "agility" as a mechanism for coping with uncertainty.

How to make plans that help, not trap, you

Agencies too often duck the need to reconcile this conflict between the desire to operate from a plan and the work-a-day contingencies that so often define our success. They are good, even brilliant, firefighters. Yet they avoid all but the most tactical planning needs.

The search for a balance between the need for focused plans that address changing priorities and the flexibility expected of us is central to the success of any business.

Operational Flexibility can be defined as an organization's capability to identify major changes in the external environment, to quickly commit resources to new courses of action in response to change, and to recognize and act promptly when it is time to halt or reverse such resource commitments.

This is the ability to recognize problems and reverse resource commitments in a timely fashion when the initial action and resource commitments turn out to be unsuccessful (i.e., strategic mistakes).

Mistakes in strategy can result from an initial inaccurate evaluation of the environment and from maintenance of the status quo despite environmental changes.

However, distinguishing mistakes in strategy from temporal setbacks is difficult. The decision-making process involved in maintaining operational flexibility focuses on the use of three capabilities, each at a different stage:

(1) The capability to pay attention to negative feedback (attention stage),

(2) The capability to collect and assess negative data objectively (assessment stage), and

(3) The capability to initiate and complete change in a timely fashion even in the face of uncertainty (action stage). Correctly balancing commitment and timely change should produce outcomes that maximize potential benefits and minimize losses.

At the same time, achieving the correct balance is undoubtedly challenging. Abandonment of an initiative too quickly because of initial problems may result in the loss of a large future potential benefit, while overly strong commitment to a money-losing project can only exacerbate problems.

Overconfident managers assume that their decisions are unlikely to fail and unconsciously ignore negative signs regarding their decision outcomes.

Even if managers remain vigilant and recognize a negative signal at an early stage, they do not necessarily initiate a response. First, managers are often reluctant to admit that they made a mistake.

To justify their decision and avoid admit ting a mistake, they may attribute the poor out comes to external factors (e.g., the economy or other uncontrollable events like war in Iraq).

Alternatively, they may reemphasize their commitment to make the initiative a success. Research has shown that people in situations that are likely to produce a loss are more willing to take risky actions to create positive returns.

An early negative signal may be interpreted as the result of insufficient time or inadequate implementation actions, and thus even more resources may be invested. Therefore, when confronted with undesirable outcomes, managers who initially pursued an initiative vigorously may take a risk by making a further commitment to the project as opposed to taking the opportunity to abandon it.

These managers may continue to invest, hoping for a dramatic turnaround of the initiative. In so doing, they sequentially over-invest in the business and make it increasingly difficult to earn a positive return on the investment.

Poor results can come about because of the initial strategy, inadequate implementation, or mitigating external factors.

Managers often prefer the status quo as the easiest path until the outcomes become extremely bad.

Strategic Flexibility requires that agencies:

- Anticipate multiple scenarios;
- Formulate strategies for each;
- Acquire the capabilities to execute those strategies;
- Execute the "most likely" strategy;
- Be prepared to rapidly adopt one of the alternatives if market forces dictate.

Next, we’ll examine the concept of Operational Flexibility in more detail, from recognizing the need for a new approach to dealing with uncertainty to successfully implementing this powerful framework:

Damn the strategy! We’ll compensate with agility! (Not so fast)
If commitment won’t work, maybe flexibility itself will, right? Sounds fair enough: rather than commit to investments based on predictions I know will turn out wrong, I’ll just stay agile, bobbing and weaving, shucking and jiving as needed to adapt to my environment as it unfolds around me. Fine — but in taking that approach, you’re sacrificing the benefits of planning your strategy.

By the time the need for action is clear, the ability to act might be gone. And even when organizations can respond, they run the risk of ceding “first-mover advantage” to competitors.

In short, conventional notions of unplanned flexibility — which are perhaps better captured by the idea of “agility” — are either impossible to implement or abandon the competitive high ground.

Operational Flexibility busts the paradox. Now you can take the fork in the road.
Since effective commitment is impossible, and agility alone cannot address all possibilities, agencies need the means to understand how to engage several paths

simultaneously without diluting the resources ultimately necessary to strike boldly in a given direction. This is Yogi Berra's famous paradox - "When you come to a fork in the road, take it."

The four phases of Operational Flexibility

There are four stages to Operational Flexibility — anticipate, formulate, accumulate and operate. Here we look at each element in more detail and learn what each entails for companies adopting this approach.

Anticipate: Identify the drivers of change and define the range of possible futures.
Abandon the tendency to predict and adopt the capacity to anticipate. How? By developing a set of scenarios that bound future possibilities along lines of particular interest, thereby defining a range of relevant possible futures. Think of these scenarios as buoys in uncertain and potentially turbulent waters, each constituting a boundary marker that collectively serve to illuminate the future, rather than predict it. Carving out this “possibility space” will allow an agency to think creatively and expansively about what might happen, and to define a finite set of possible futures within which it might have to operate. As it is typically practiced, scenario-based planning is very useful. It provides a context for interpreting events: you observe the world around you, sense the need to react, and respond based on the signals. It rehearses an agency for the future and is a great start. But it's frequently not enough.

Formulate: Develop an optimal strategy for each possible future and define "core" and "contingent" elements of these strategies.
Step two involves creating an optimal strategy for responding to each scenario, using the conventional tools of strategy formulation. In itself, all this accomplishes is to multiply the work of the strategist: instead of developing one strategy, he or she must now develop several. However, the power of this approach emerges in an analysis of the commonalities and differences between these optimal strategies.
Specifically, those initiatives that apply to all possible scenarios can be considered core elements — “no-matter-what” bets that can be pursued confident in the knowledge that they will form part of an optimal response to whichever future emerges. In contrast, initiatives specific to a particular optimal strategy are called contingent elements. Where core-element initiatives are “no-matter-what” bets, each contingent element is an “only-if” bet — an initiative to be pursued only if the scenario it targets begins to emerge.

Accumulate: Acquire the elements required to execute the core strategy and take options on elements required for contingent strategies.
With core and contingent elements in place, you'll determine two forms of investment: assets to be acquired to execute the core elements, and “real options” on assets needed to pursue contingent elements. Since core elements pay in the face of any future, acquiring the means to execute them bears little or no risk. A company requires these assets or capabilities, no matter what. Examples of “core capabilities” include CRM capabilities or the adoption of shareholder-focused performance metrics.

In preparing for a future of multiple possibilities, real options serve as well-considered investments that hedge against sudden market or competitive shifts. As uncertainties in the market are resolved, the operationally flexible company exercises some options and abandons others, depending upon what it will need to exploit a future it can now see more clearly.

Operate: Execute the core strategy, monitor the environment and exercise or abandon options as appropriate.

With the core elements in place, and real options established to address all reasonable scenarios, the time has come to orchestrate your multi-track mix. Execute the core elements. Allocate the capital necessary to leverage the core element that is integral to the agency's success, irrespective of what the future holds. Monitor the environment: competitive dynamics, markets, customer behavior, employee performance — all the variables that affect the business. What are you looking for? Signs of uncertainties resolved. That will be your moment to strike. Let time resolve uncertainties and at the moment of resolution, exercise and abandon options as appropriate.