



FinServe – the organisational resilience report

Background and objectives

FinServe is a UK based business, selling financial products to a major engineering industry. As with all financial services companies, it is heavily dependent on having good information technology – but, at the time of the review of the resilience of the FinServe organisation, its main database management system is basic and rather out-of-date.

The FinServe market includes much of the EU as well as the UK. It is based in the North West of England, but its major UK clients are all in the South East. It has two main sectors to its market. It is stronger in the one that is declining and weaker in the one that is expanding. Moreover, new EU regulations applying to the market have been announced, but not yet implemented. These will have the effect of accelerating the decline of the one sector of the market where FinServe is stronger, while also accelerating the growth in the one where FinServe is weaker.

While the impending changes are well known, the exact effect is less well understood.

The declining market comprises large manufacturers, and is numerically small and focused, but with high volumes and margins; the expanding market comprises dealers, brokers and agents, and is numerically large, unfocused and with small margins. A new database management system has been ordered, but is not yet fully commissioned. It is due to go on line during the 6 months following the resilience review.

Some of the implications of the changes facing FinServe are:

- There will be a significant rate of change, in a company that has previously operated in a stable market, and has become adjusted to that happy state.
- The management team that has grown accustomed to being rather operationally focused, will need to shift its attention to strategically important changes.
- The management team will also need to develop an organisation that has the capacity to handle a high rate of change.
- As part of its marketing strategy, the company has taken customer focus to an extreme, in terms of developing a high degree of customer responsiveness by adapting service offers to meet changing market fashions. This great benefit is potentially a problem, in that it will be impossible to continue that high level of responsiveness with a larger number of smaller accounts, (with generally smaller margins). To achieve that will need a massive change in the way that accounts are set up, administered and updated, with new technology to support that change.

All this points to the need for an organisation with a high level of capacity for adapting to a changing external environment – but there are considerable doubts about the current capacity of the organisation to do so. There are also some doubts within the management team about its own ability to develop such a capacity.

All the senior management team members are strong on technical skills and knowledge, with very considerable industry experience. Another potential problem is that these technical skills and knowledge will not necessarily equate to the ability to develop a resilient organisation. Moreover, the industry experience is mainly in the wrong sector - the larger corporate accounts that are being replaced by the smaller, dealer and agent accounts.

The MTL project has three main objectives. These are:

- To establish the degree to which the FinServe organisation is currently capable of adapting its internal and external processes and practices to a rapidly changing environment.
- To establish what actions will be needed to develop a greater capacity for organisational adaptation and learning, so that the demands of a changing market can be met.
- To start the change process without needing 'heavy' management direction from above.

As part of the agreement concerning the design and conduct of the Magus Indexer review, the FinServe management team agreed to process whatever came out of the review without defensive reactions. There was also a commitment to both enabling people throughout the organisation to design and implement changes in processes and practices as needed, and to take management action to support the development of a more resilient organisation, where that need is flagged up.

The project

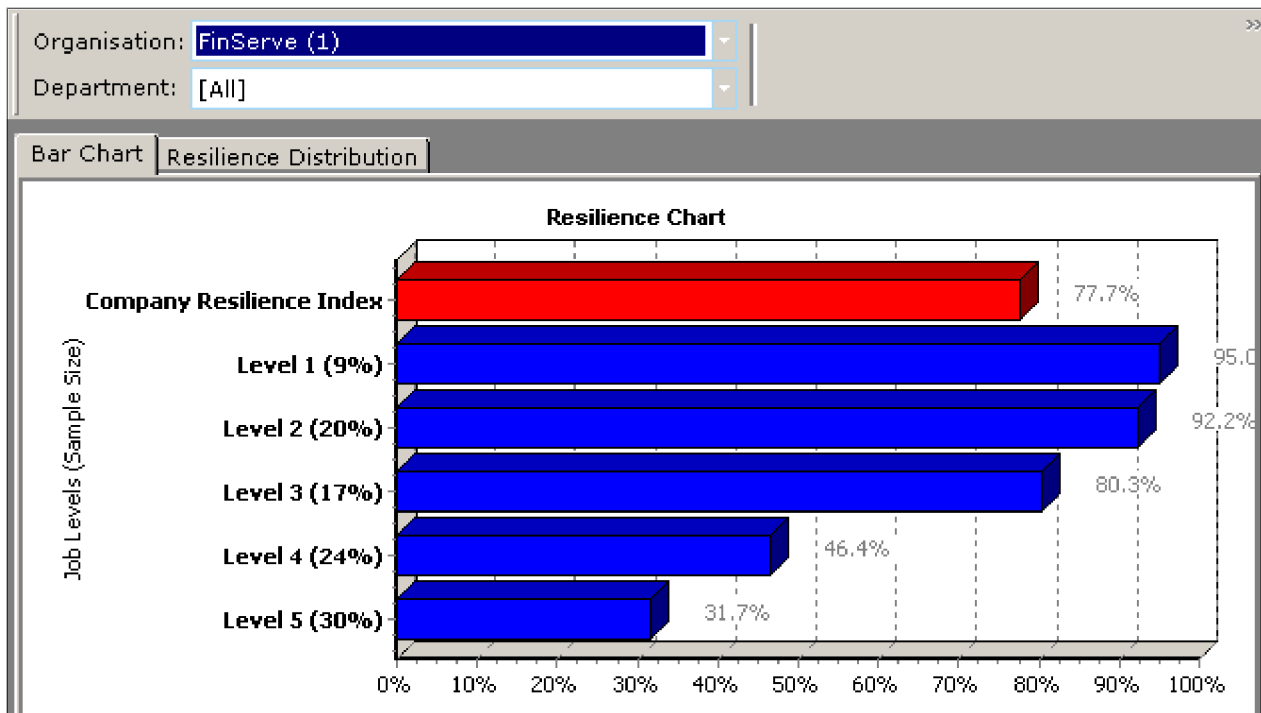
This report concerns the intervention that used Magus Indexer to assess the existing level of organisational resilience. Resilient organisations are those that constantly adapt to a changing environment. In resilient organisations all employees contribute to the process of seeking, sensing and interpreting signals indicating a need to change; all employees contribute to the process of testing new ways of working and implementing those that are successful; all employees are able to get important items on the strategic agenda, where they do not have the resources, including information and power, to make the required changes themselves.

The outputs from the Indexer analysis were used as input information to a short series of workshops. All respondents who completed the Indexer on-line questionnaire were invited to attend. The objective of these workshops was to identify the priority issues; identify the causes of those issues; and agree action to be implemented by the respondents themselves to fix the majority of whatever was so identified. Their 'reports' would also include a request for management action, outside their own group, where this was required.

The designed sample had 72 people nominated to provide data through Magus Indexer. 69 actually completed the questionnaire, giving a response rate of 96%.

The FinServe results

The very first results from the review of the state of resilience appear to bear out the expressed fears of the directors of FinServe – see the chart below:



For this chart, Magus Indexer calculates the 'Index of Resilience' for the company as a whole, reported as the red bar in the chart. The index is calculated as a percentage of the maximum attainable Index of Resilience – the theoretically 'perfect' organisation that does not actually exist.

The figure for the company as a whole – using the whole sample of 69 sets of data – is unusually high at 78%. Magus Indexer, however, also calculates the same index by level. In this context, 'level' means reporting distance from the most senior person in the organisation, not seniority. Level one data generates an index of 95% - implying a nearly perfect organisation, in terms of its resilience. By the time levels 4 and 5 are reached, the Index of Resilience has dropped to 46% and 32% respectively.

It needs to be borne in mind here that the question set used by Magus Indexer for data collection does not touch directly on the issue of organisational resilience. No questions are asked on this subject.

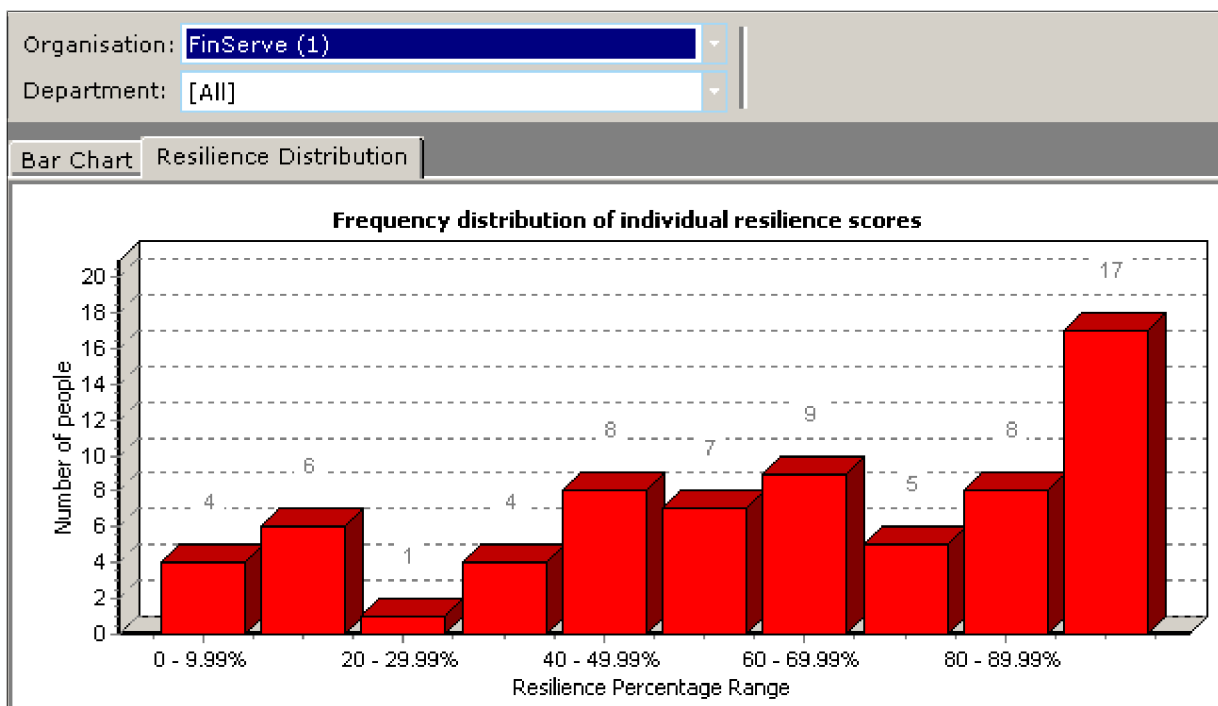
The underlying model used by Magus Indexer is based in research conducted in 1990, (and updated in 2007), to determine why some organisations can 'turn on a sixpence' while others find it an almost unsurmountable task. Through the research a continuum of organisations was identified, with those that are 'change disabled' at one end to those that are 'change enabled' at the other. The correlations that distributed the organisations in the

research along that continuum were all about the processes and practices that were used to manage the organisation, plus the behaviour of individual managers.

The question set used in Magus Indexer is all about those organisational practices and processes, and the observed behaviour of managers going about their ordinary jobs. The input data are driven through an inference engine, which interprets the data, using the results of the research project noted above, and defines the characteristics of the organisation, both in terms of its overall resilience and in terms of 15 dimensions of that resilience – see the notes below.

Given the results in the chart shown above, it would appear that the way that senior managers think the company operates has relatively little to do with the reality as experienced by more junior people. This is not unusual - not all policies and directives are implemented and operated the way that is desired. Not all have the effect desired, even where they are.

In Magus Indexer, the indexes calculated for the organisation as a whole and by level, are qualified in a chart showing the distribution of indexes, when calculated from the individual sets of responses generated by respondents. This chart is shown below:



There are two key points about the data contained in this chart. The first is that there are significant numbers of respondents whose data, when interpreted, suggest that the organisation is anything but resilient - the left hand end of the chart. The second is that there are 17 people, represented in the bar at the right of the chart, whose data suggest that the organisation is in the very top flight of resilient organisations. It is the data from those 17 people that are heavily distorting the Index of Resilience of the organisation as a whole.

Organisational resilience

The 1990 research used a model with 100 characteristics of organisations to map the position of the companies in the sample along the continuum of change disabled to change enabled. 100 criteria are fine for a research project, but over the top for a practical, working, organisational development tool. For Magus Indexer, the 100 criteria have been reduced down to just 15. The complete set of Magus Indexer outputs are shown in the table below - positive versions of the criteria on the left and the negative on the right.

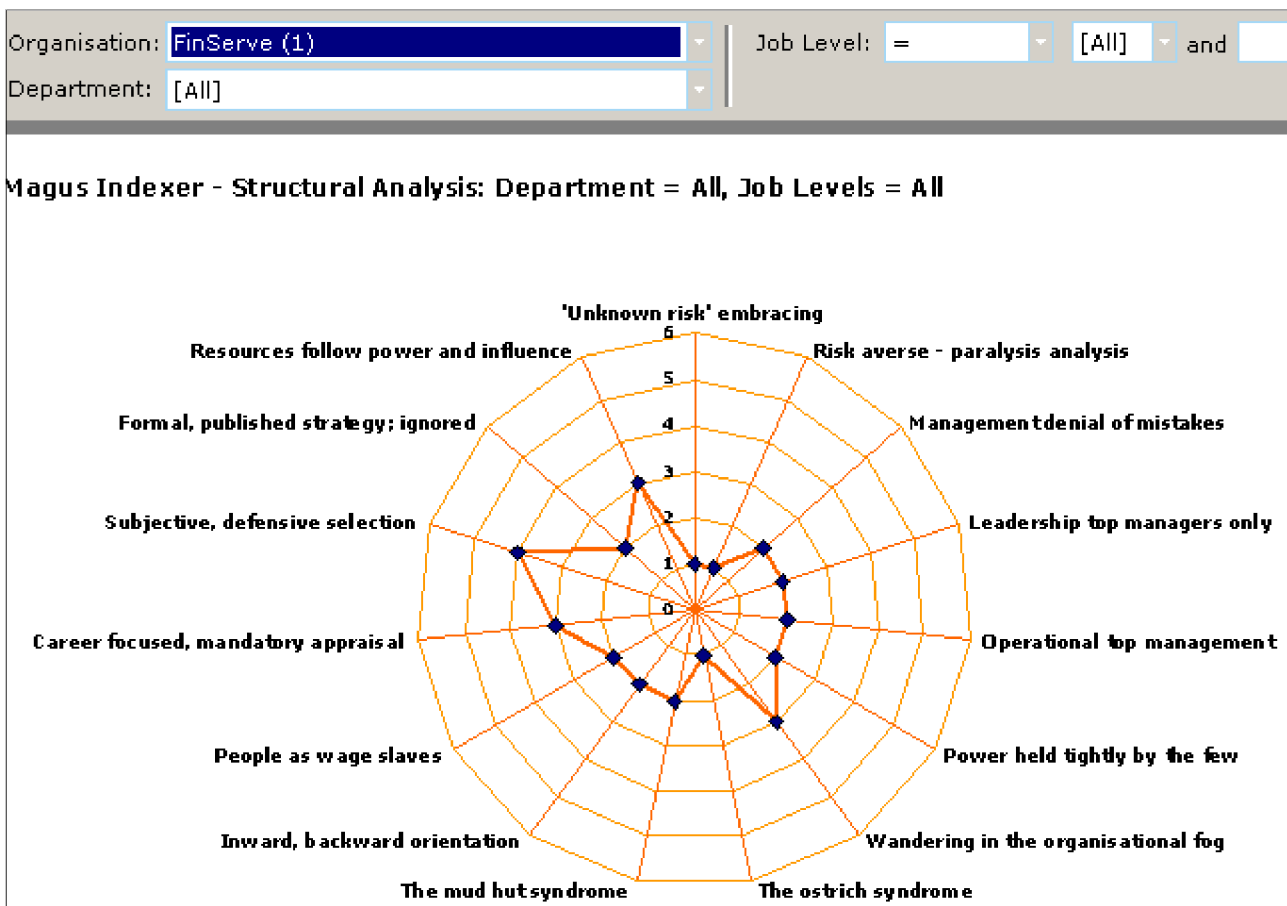
Making decisions involving risk, after assessing probability and seriousness of risks and how to manage them	'Unknown risk' embracing - often 'taking a chance' because of attractive possibilities and un-assessed risks
Accepting risk - making decisions balancing assessed probability and seriousness of risks and expected benefits	Risk averse - analysis paralysis - never making the move until certainty beckons - often when it is too late
Top management - the drivers and exemplars of open feedback and experiential learning	Top management - denies mistakes instead of learning
Leadership is demonstrated and valued throughout the organisation	Leadership is assumed to be the responsibility of and something that happens in top management
Top management - the learning brain of the organisation	Top management - the operational arms and legs of the organisation
Power to decide and influence important decisions is widely and openly distributed throughout the organisation	Power is held tightly by a small group of people and often exercised covertly through power brokers
There is a clear sense of direction in the business - everyone knows - and their contribution to it	Few seem to know where the business is heading - it's a bit like wandering around, lost in the fog
Helicopter vision is practised at the top - critical issues anticipated and actioned - adaptive learning is the norm	The ostrich is emulated - head in sand waiting for the outside world to deliver a swift kick up the posterior
Cross functional working and temporary power coalitions for problem solving are the norm	The mud hut syndrome is alive and well - everyone in their own little mud hut, doing their own thing - in isolation
Managers throughout the organisation focus on future oriented issues relating to the outside world	Managers tend to have an inward looking, backward facing, short term focus on performance issues
People are valued as THE key business asset, and seek responsibility and chances to contribute to the strategy	People are treated as wage slaves, who only get into motion if they are bribed (carrot) or threatened (stick)
Performance appraisal is embraced and welcome, and underpins a focus on continual improvement	Appraisal is formal and mandatory, and tends to produce an emphasis on career development and training needs
Selection processes are open, and driven by objective, analytic assessment of skills vs. job needs	Selection processes driven by who you know / halo effect -defensive measures protect against mistakes
Strategy development is influenced widely through the organisation - through an informal, emergent process	Strategy is published as formal documents and presentations, and gets little attention from employees
Resource allocation is openly driven by business priorities - customer facing groups take first place	Resources follow power and influence, and spenders (overheads) get preference over earners (producers)

If the positive set of criteria on the left is a perfect description of the organisation, then it would be argued that it is perfectly resilient, or change enabled. If the negative set of criteria on the right is a perfect description of the organisation, then the opposite would be argued – the organisation would be perfectly non-resilient, or change disabled. Neither extreme has yet been discovered.

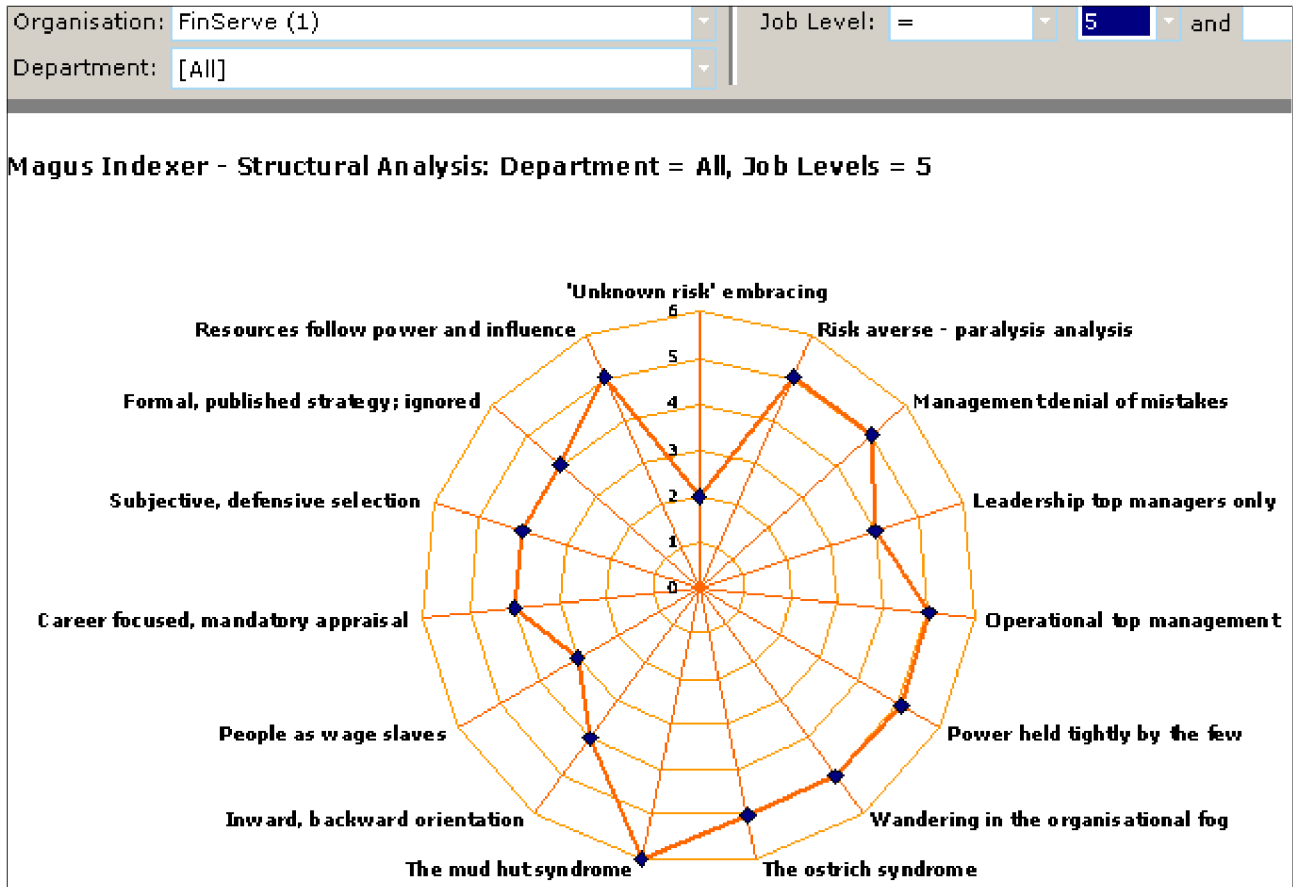
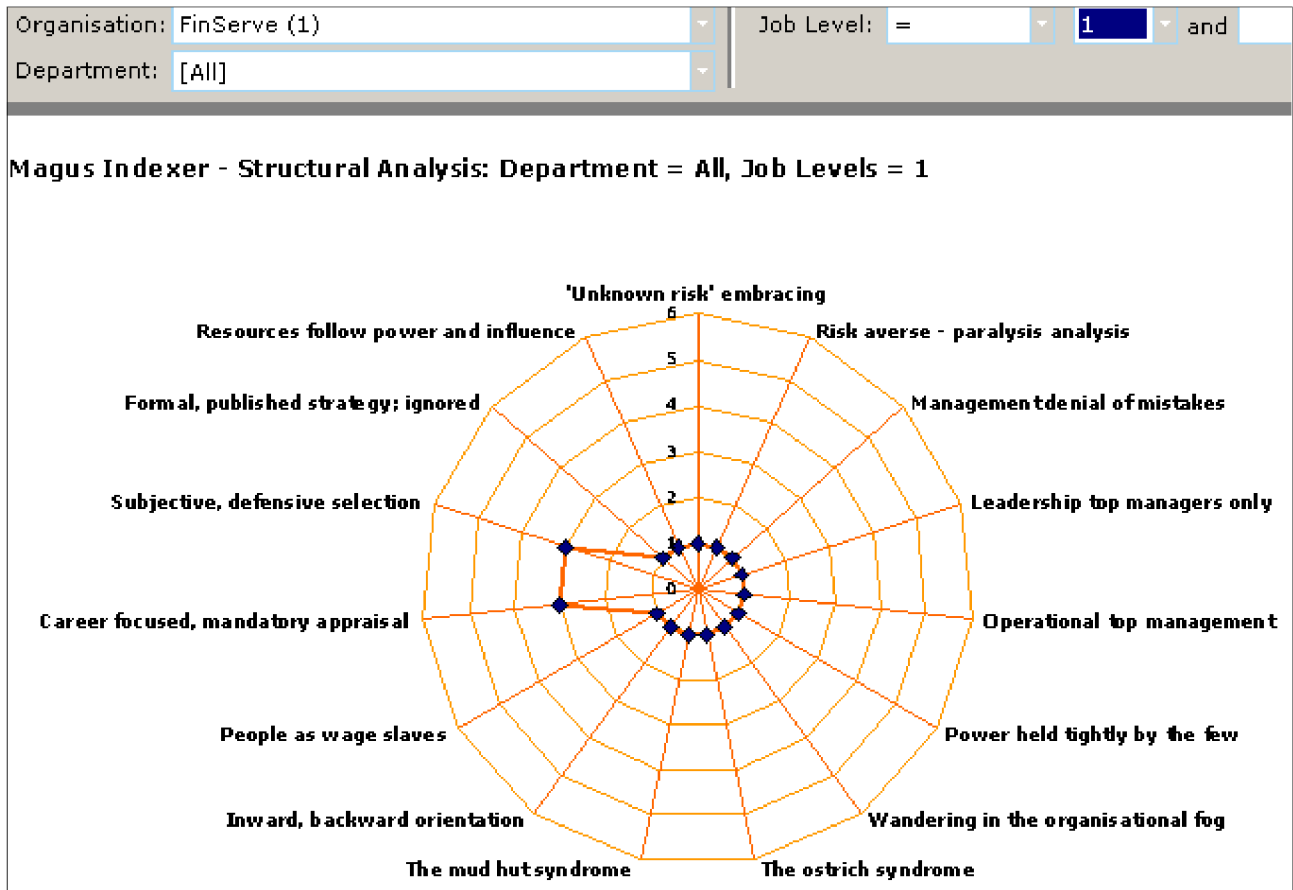
FinServe results (A more complete set of charts is in the associated presentation)

Magus Indexer provides a 'report form' of the main outputs, using a table similar to the one on the previous page. On many PC screens, there is too little space to show this without the need for scrolling up and down to check all the results. Generally, the radar-chart form of report is preferred, as it suffers less from this space restriction. This report is illustrated below. The 15 criteria are represented in their negative versions, with an abbreviated set of words – again to save space. The significance of the issues is indicated by the distance of the points in the radar chart from the centre of the chart – the greater the distance, the more significant the issue. The database can be queried in many different ways.

The chart shown here is for all departments and all levels in the FinServe sample. It should be remembered that there were large differences in the Index of Resilience when calculated for different levels. The differences in input data will have the effect of 'smoothing' the output report chart, and will mask some key issues when the Magus Indexer querying tool is used to filter the data. Having said that, it is interesting to note here that both 'risk' outputs have the minimum possible score. The outputs with high scores are two HR-related issues (selection and appraisal) and one relating to the distribution of power and another to a sense of lack of direction.



The two output charts below illustrate the results for level 1 and level 5.



While the difference between the two sets of outputs is dramatic, it may be noticed that the output relating to unknown risks remains low, confirming the view of the conservative nature of the organisation.

One conventional way of interpreting this result would be that of lack of communications between senior management and operational people. On this occasion, the evidence is that there are frequent and largely informal contacts between the two groups, which suggests that a different explanation needs to be found. The issue becomes not one of lack of communications but the nature and content of those communications.

The clue is given by insights from two sources. The first is in the accepted (historical) lack of any perceived need for the management team to spend much time on strategic issues. This links with the high score in the chart for 'Operational top management'. The second is the great technical knowledge and industry experience of the directors. In almost classic fashion, this 'greatest strength' has become their 'greatest weakness'.

The reality, as experienced by operational people, is that most of those workplace contacts with senior people are focused heavily on individual customer issues, mainly with the large manufacturers, and short term results. The high level of very good personal contacts with senior people in key accounts has also become a key focus of the organisation, with theoretically accountable people being bypassed with some frequency. Customers have become educated in the idea that decisions can be procured directly from senior managers, often along with attractive concessions. This is often a habit that is difficult to stop.

A few moments reflection will probably suggest that some of the other outputs in the chart above can be linked logically with the observations noted above. The lack of focus on strategy would link with 'ignored strategy' output, as well as the 'wandering in the organisational fog' output. The high score for 'operational top management' links neatly with 'leadership for top managers only' and 'power held tightly by the few'.

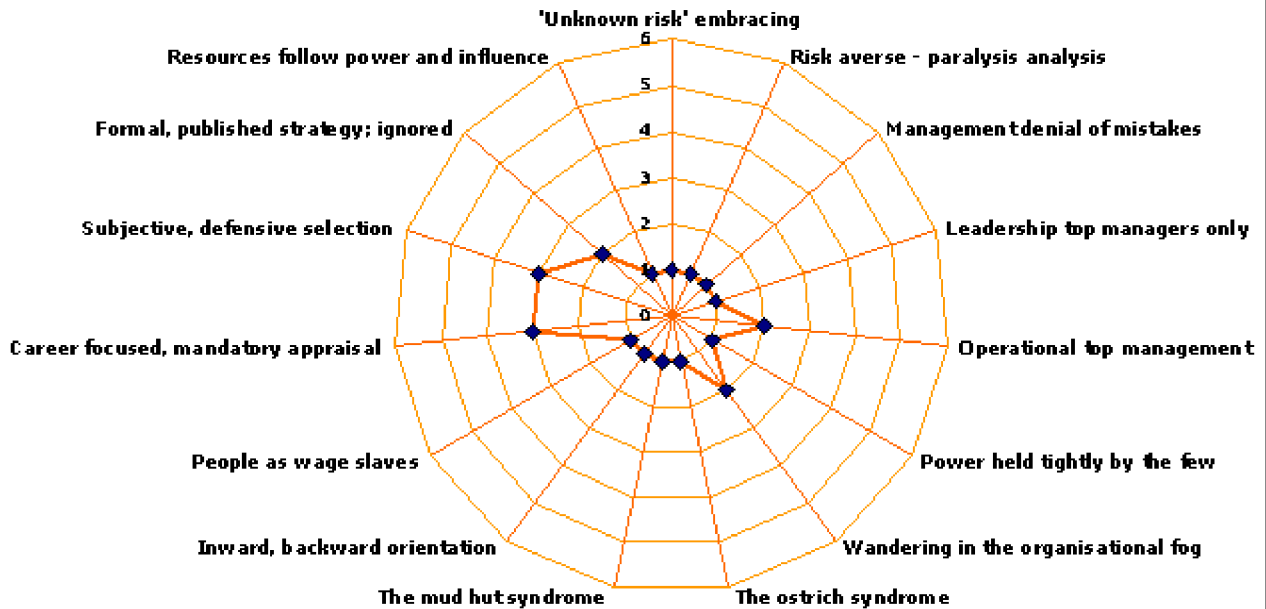
Finally, whenever there is high pressure on achieving short term results, whether or not that pressure is intended or a by-product of the sort of (often innocent) questions asked by managers, the result is often divisive – in Indexer this is tagged as the 'mud hut syndrome'. When, as in this case, results are tied to individual incentives, the difficulties can be extreme.

Some of the most interesting insights generated by Magus Indexer come from comparing different departments. Here are the charts for two operational groups:

Organisation: Job Level: and

Department:

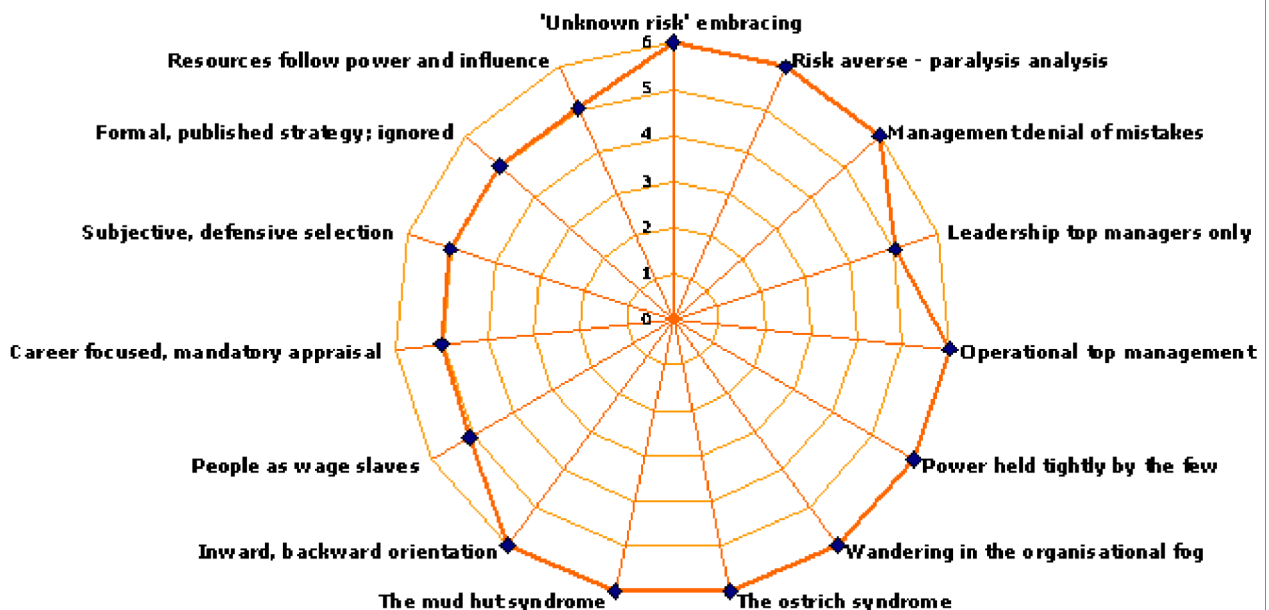
Magus Indexer - Structural Analysis: Department = EU Manufacturers, Job Levels = All



Organisation: Job Level: and

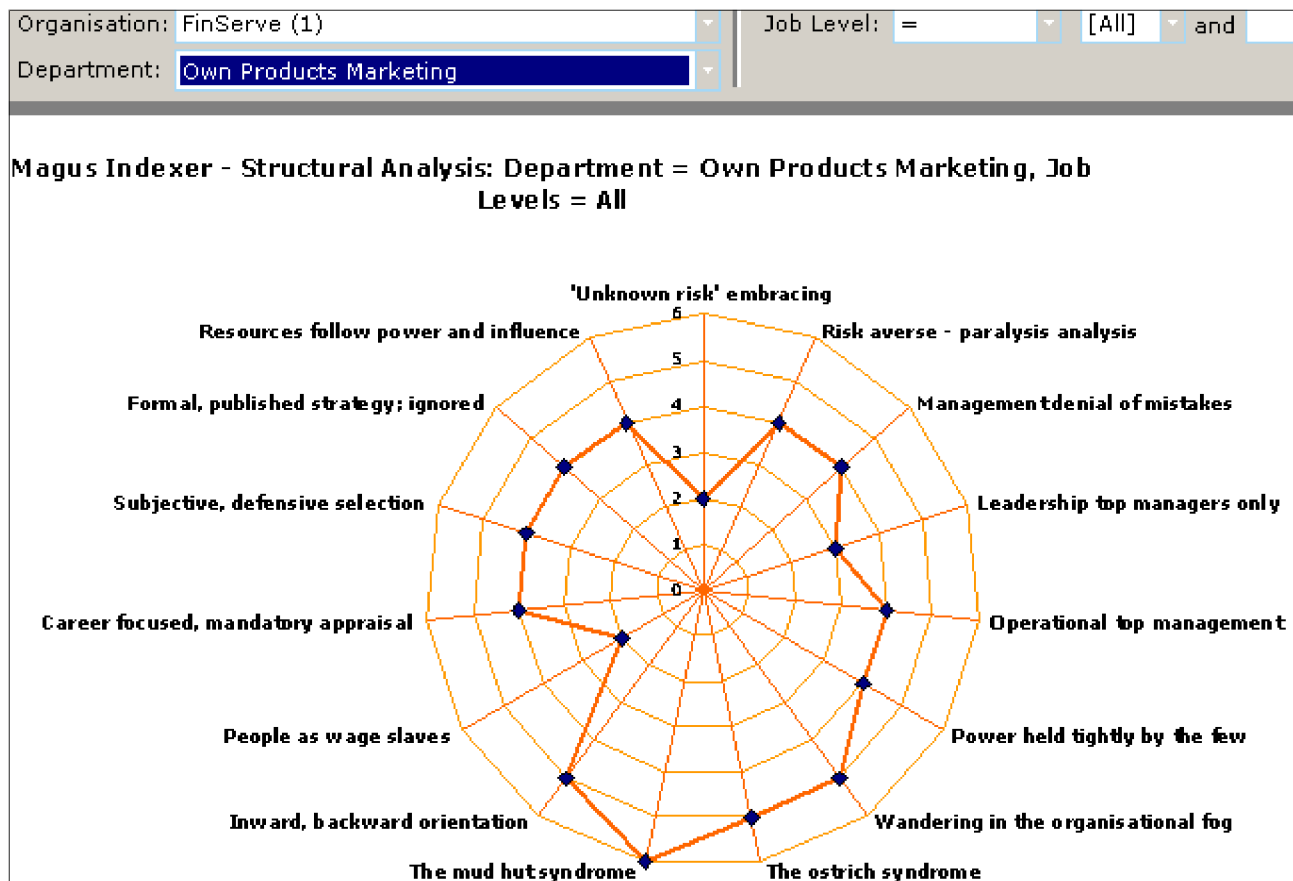
Department:

Magus Indexer - Structural Analysis: Department = UK Manufacturers, Job Levels = All



The interesting point here is that these two sets of results are generated from the data provided by two groups of operational people, doing more or less the same job, in an open office, more or less next to each other.

The last of the radar charts shown here covers the results for the only marketing department in FinServe – the one that looked after the 'small dealers, agents and brokers' sector of the market.



While the results are not as extreme as those for the operational people looking after UK manufacturers, there are some interesting points arising. There is a cluster of high (negative) scores in the lower part of the chart. The cluster comprises:

- Inward, backward orientation
- The mud hut syndrome
- The ostrich syndrome
- Wandering in the organisational fog

This is the result from the small department that, over time, has failed to get real support on the need for change, given the changing nature of the market. The manager has tried to persuade senior managers (focused on short term numbers) to think more strategically, and has still got the short straw time and again on product development needs. Marketing is located in a corner of an open office, but, as described, the department could be in a separate building, given the way it feels to be at work.

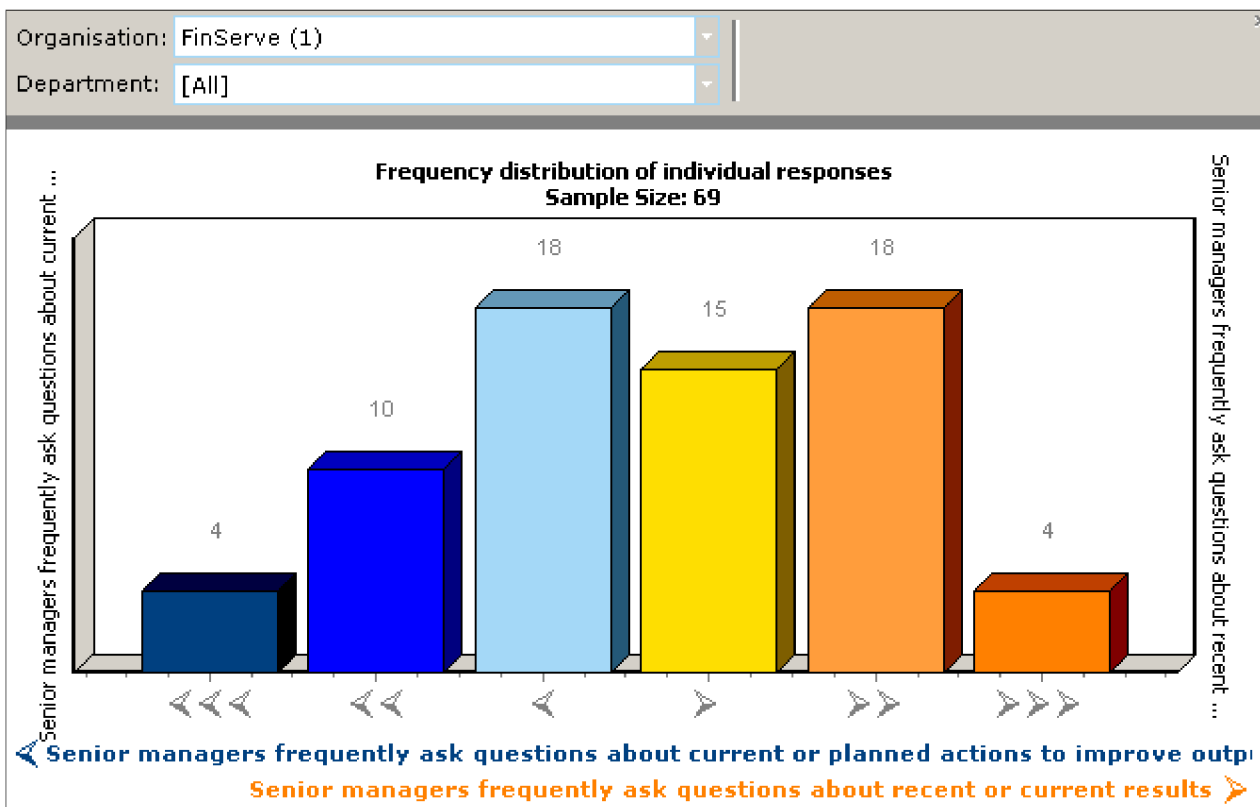
Magus Indexer can produce also produce charts illustrating what respondents have

directly reported. These charts show the actual responses given to the questionnaire.

There are several reasons for using the type of indirect, non-judgemental, observational questions as used with Magus Indexer. The avoidance of data contamination is the main reason - non-judgemental questions do not generate responses that are distorted by personal experiences or a felt need to behave 'politically'. A second is that, by the very nature of observational questions, the answers record some of the actual processes and practices used within the organisation, together with some key aspects of management behaviour. A third is that while the interpreted results can be challenged, the 'input reports' comprise raw data. (Again, only a small selection of charts has been used here.)

Where clusters of responses are discovered, located within department, levels or levels-within-departments, then these can lead directly to insights about which might need to be different. This is illustrated in the charts shown below:

This first chart reflects the sort of questions asked by managers. The distribution is roughly normal, but with rather more questions directed to recent or current results, than to developmental actions. (39 focused on results; 32 focused on developmental actions).

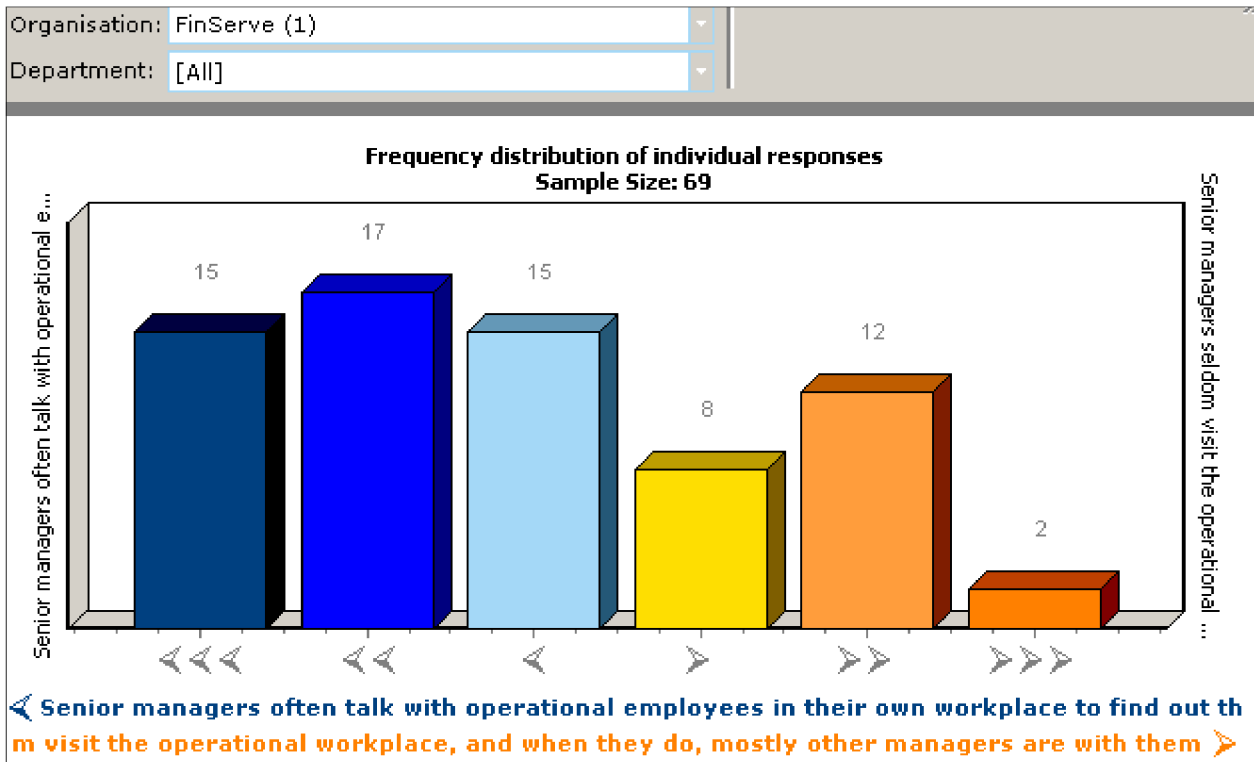


The interesting question is about which groups of people are on the receiving end of the 'short-term results' focused questions. Running the same query, by department and then by level, it turns out that the senior managers generally ask results-focused questions across the organisation, but mainly targeting people in the two most junior levels – in the sample, levels 4 and 5. (Not illustrated in the charts shown).

Given the high level of 'plates-spinning-on-sticks' activity, perhaps this result is not very surprising. The lack of developmental activity among these groups is both a cause and an effect. Lots of senior manager questions on short-term results means that people will

focus on those results; spinning all those plates on sticks means that there is no time or energy left for developmental activity; no developmental activity means that the state of the spinning plates is commonly precarious, leading to more activity to keep them spinning.

The pattern around the way senior managers visit employees in their workplace is, however, very different.



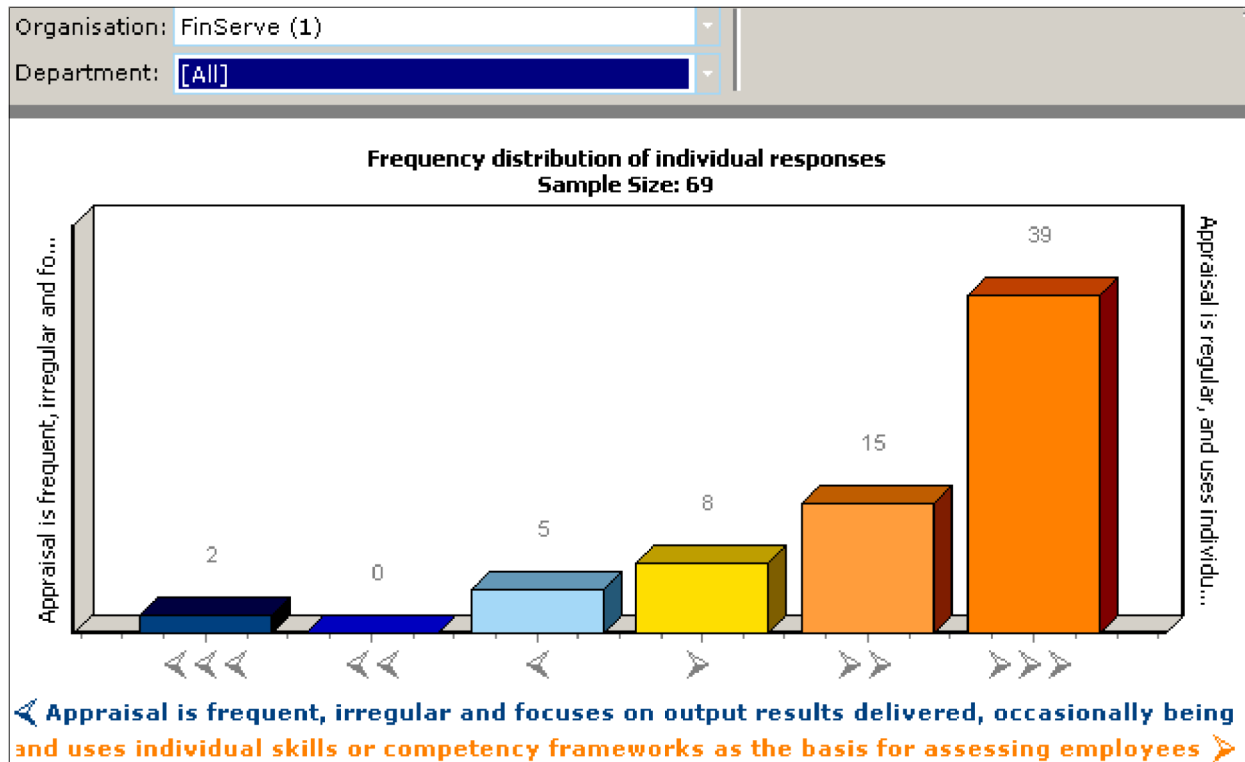
(These images are reduced in size, to enable them to be reproduced on an A4 page, without loss of quality.)

In this case, the distribution is skewed to the left – 47 responses compared with 22. The implication is of an informal management style, with senior managers often talking to employees, **in their own workplace**, and accessing the views of employees. We know from the previously discussed question what a common topic of those questions is. In this case, the interesting insights are generated less by querying the database by level, but more by department.

The three departments who seem to be most excluded from this informal style of accessing employees' views are Own Products Marketing, European Sales, and HR. When looking at the polar charts of outputs for these departments, all show a high (negative) score for the mud hut syndrome, with two – the marketing and sales functions – collecting the highest possible (negative) score of 6. (Not illustrated here).

It might be considered that the behaviour pattern described above could be connected with the feeling of being 'sort-of-sidelined' – that is, not within the mainstream part of the business. In practice, the European Sales people reported by anecdote much the same sort of experience as Own Products Marketing – trying to get strategic changes and other issues on to the agenda, but not having much success.

The last chart – shown below – has a different pattern again:



This time the distribution is skewed heavily to the right – 7 plays 62.

There is a (not uncommon) paradox here that in a company where so much attention is paid to 'getting the numbers' the formal appraisal system totally ignores the question of results and focus on skills or competencies instead. The relationship, (on this occasion identified through information collected via workshops), is that little has been done to define either departmental or individual accountabilities. This makes any sort of performance-based appraisal effectively impossible. Certainly, with the huge downward pressure on short-term numbers, any sort of appraisal with a sensible balance of maintenance standards and development goals and activities is quite out of the question.

Summary of headline issues identified

These were developed partly through a direct analysis of the Indexer database, and partly through workshops where respondents were invited to consider the reported results using the Magus Indexer Diagnostic Tool. This is designed to help people work through from issues to causes, root causes and actions.

- A high level of customer focus and excellent service is a good underpinning of success-to-date, but will not underpin future success.
- The general approach to change is excellent, but has been focused on managing a market sector that will not support ongoing growth. There is, by contrast, little internal change insofar as processes and practices are involved.
- Excess focus on achieving short-term numbers, mainly focused on the 'large manufacturers' sector of the market.

- The high level of short-term-focused 'busyness' means that many operational people go home very tired at the end of the week, if exhilarated by getting through another week, having solved all the problems. This means there is little energy left over for improving the way processes and practices operate. The talent that exists is not being fully used.
- Top management too operational - distorts the priorities and actions of operational people. A sub-set of this is that too many individual recruitment and compensation decisions are taken by top management.
- Lack of clear accountability for results, partially driven and / or a driver of a performance management system that lacks any direct focus on performance. This is especially true for first line supervisors, who should be the 'performance management champions'.
- The style of performance appraisal is fine, as it is open and based on a shared accountability / negotiating approach; but the focus lacks a developmental dimension.
- The approach to failures is mixed, but any failure to achieve short-term numbers brings a management intervention, which is more about fixing the immediate shortfall and less about fixing causes.
- Much the same is true when short-term profit targets are not met.
- Excess focus on unquestioning acceptance of the need to provide what customers asked for – 'commitments to deliver' made before what is possible is checked with the people who have to 'make it work'.
- Almost total lack of optimisation of the existing systems – the human system is full of 'heroes' making broken systems work.
- the new-product, new-account system is completely inappropriate to handle the demands of a numerically large market sector composed of small individual outlets.
- Far too many operational decisions are being 'kicked upstairs', with senior managers too ready to take the decisions on, and do the work of more junior people.
- The IT department not playing on corporate strategy at all – a very odd position for a financial services company.
- The two major growth opportunities open to FinServe effectively sidelined as far as any strategic thinking is concerned.
- 'Across-the-board' lack of strategic direction, resulting in often contradictory 'strategies' being pursued by departments within the organisation.

The developmental actions required

- Appoint a senior manager to lead a cross-boundary, multi-level project to define a new strategy for the business. This includes Own Products Marketing and European Sales. Given the criticality of IT for a financial services company, it is suggested that this might be the IT Director. This move would ensure that the Director becomes more involved in strategy and strategic decisions, and that IT technical issues inform the strategy.
- The new strategy should be of the 'roughly west' variety, that is a direction more than a long range plan. Implement an informal system, (mainly by asking questions), to ensure that operational people who are in touch with the external world are constantly listening for 'change signals' and feeding these back into an ongoing refreshing of the strategic direction, through opportunistic decisions.
- Develop a 'menu system' for defining products to meet customer needs. This work should be done by a mixture of sales people, from all three market sectors – large producers, small outlets and European sales – and by the operational people who have the task of getting new products up and running on the system.
- Implement a project by Own Products Marketing to segment the 'small outlets' market, to identify the best opportunities for growth with 'standard products' off the menu.
- Create a (very) small support team, staffed from existing operational people, for the 'own products' sales team. This office should field inquiries, provide information where requested, and book appointments for field sales people. When not processing incoming calls, they should pro-actively contact the defined 'best opportunity' targets to set up sales appointments.
- Scrap all development projects in IT that could be subsumed into the new DBMS on its way. Replace these by high priority projects, defined by operational people, to increase the flexibility in the new product, new account part of the system, to reduce the number of reactive, problem-solving decisions that need to be made.
- Define a new account management system, with very clear accountability for account managers. One aim is to remove senior managers from the system of account management, except as resources for account managers to use. Implement the rule that whomever makes decisions about individual accounts becomes the account manager - for ever. Also implement the rule that whomever tries to impose targets on account managers must themselves be prepared to demonstrate by their own actions that these are achievable - without the exercise of senior level power and authority.
- Clarify job contributions and performance accountabilities for all roles. Do this through an interaction with job holders, and ensure that there is a 'should be' element as well as the 'is'. Once the new job role is agreed, ensure that there is an implementation plan agreed between job holder and manager that includes developmental actions by both.

- De-link the appraisal from annual salary increases or other forms of incentive. Replace the system with one that focuses on the two-way nature of accountability for performance between manager and direct report. Ensure that the new system has a balance of attention on maintenance standards and development activities. Ideally, it should run on an ad hoc basis, with time frames driven by business priorities and developmental programmes, and not fixed intervals linked with the budget year.
- Alongside the new, formal system, create and operate informal forums to review all developmental decisions, pilots and 'tries' to ensure that all are a source of learning for all involved, including senior management.
- Replace senior management interventions in operational problems with a 'Well, what are you going to do about it' response when problems are reported up.
- Follow on the practice established through the workshops, with informal forums for employees to provide feedback to and ask questions of top management, with the latter attending as ordinary delegates.
- Shift the focus of questions asked by senior managers from backward-facing, short-term numbers to forward- and outward-facing developmental opportunities and challenges.

Two big issues and actions

There is a major, paradoxical risk associated with sorting out the systems so that there is much less fire fighting. Currently, this is both a source of frustration for operational people and a source of satisfaction. Instinctively, they know that the work should not run that way, but getting through another week and 'keeping all the plates spinning on their sticks' is a cause for celebration - often expressed as a 'quick drink at the pub' together on Friday evening.

When this source of motivation is removed, there is a risk of a different kind of disengagement with the job and the company. The elements of the recommendations above that include a bigger, ongoing developmental role for operational people, and the informal contacts that go with it, is critical if this risk is to be avoided. Much the same is true for other recommendations such as the changes in the performance management system.

The change-over period from old system to new, including the DBMS, is going to be critical. It is doubted that this will be accomplished without serious problems if the period is characterised by the usual 'this is what we have agreed, now all you have to do is make it work' type of interactions between the people selling to the big manufacturers and the operational people running the system.

A big, bold decision is needed that no new product / variations on existing product sales orders will be processed for the period of the change-over. This period is probably going to be about three months. A plan is needed that will allow the sales people involved to manage the client interface and protect the loyalty of key accounts.