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McKinsey Explainers

What is resilience?

Resilience is the ability to not only recover quickly from a crisis but to bounce back better—and even thrive.

January 2023

In the past decade, resilience has become a hot topic in wellness. Challenges in our health, work, and relationships are inevitable; it's now generally accepted that learning the skills to recover from adversity is one of the most important personal development journeys we can take.

But what about resilience in business? When it comes to our global socioeconomic outlook, you don't need a crystal ball to predict turbulent times ahead. McKinsey's September 2022 Global Survey on economic conditions reveals that geopolitical tensions, inflation, and a gloomy global economic forecast are top of mind for CEOs. In the face of this looming uncertainty, many leaders are thinking more than ever about building resilience.

But resilience is more than just the ability to recover quickly. In business, resilience means dealing with adversity and shocks, and continuously adapting for growth. Truly resilient organizations don't just bounce back better; they actually *thrive* in hostile environments. McKinsey research on the financial crisis of 2007–08 shows that resilient companies not only outperform their peers through a downturn and recovery—they also accelerate into the new reality, leaving peers further behind.

For more on what resilience looks like, and how to foster it in the face of a variety of challenges, read on.

How has the pandemic impacted corporate resilience?

McKinsey recently supported the Federation of European Risk Management Associations (FERMA) on a survey about COVID-19's impact on corporate resilience. More than 200 senior executives and risk and insurance professionals participated, reflecting a wide range of countries and industry sectors. The findings were conclusive: more than half of respondents believe the pandemic has made risk and resilience much more important to their organizations. In the past, executives report, their risk management was focused on a small number of well-defined risks, primarily financial risks. Now, risk includes public-health and environmental pressures, societal uncertainties, geopolitical tensions, on top of the same or worse financial volatilities they've always faced.

Here are some notable findings from the survey:

— Many organizations have been working diligently on resilience throughout the pandemic. Workplace safety and remote working has been a focus of many companies; more than 75 percent of respondents say implementation measures in these two areas are largely completed. Fifty-two percent of respondents say the most effective capabilities they have in place relate to managing financial resilience.

— Nearly two-thirds of responding companies say that resilience is central to their organizations' strategic progress, and that the most important resilience areas are digital, technology, finance, and operations.

— Foresight capabilities (scenario planning and stress testing) is the core area cited for improvement. Executives are split in their use of scenarios and stress-testing exercises: about half rarely or never use them in strategic decision making, and half use them often or always.

— Risk functions and executive teams play a much larger role than strategy teams in building resilient organizations. But well-functioning risk governance models are better than good risk managers at improving crisis management.

— To strengthen future resilience, 75 percent of risk managers believe that improving risk culture and strengthening the integration of resilience into the strategy process are the most important actions.

But what does good resilience really look like? Read on to find out.

What does agility have to do with resilience?

Agile is a way of working that seeks to harness the inevitability of change rather than work against it. As such, organizations that have fostered agile processes are better able to pivot when the situation demands it. Agility lets organizations respond in ways uniquely suited to each crisis, rather than apply one-size-fits-all, inflexible solutions. Here are the specific ways agility benefits organizations in times of crisis:

— *Dynamic decision making.* In times of crisis, any uncertainty about who has the final say can cause costly delays. To accelerate good decision making, leaders should distinguish between types of decisions and the level of risk that may be involved. One way to prepare for good decision making in a crisis is by practicing deliberate calm, an approach to learning and leading with awareness and intentional choice. You can learn more about Deliberate Calm: How to Learn and Lead in a Volatile World (HarperCollins, November 2022), a book on the topic by three McKinsey veterans, and to get tangible tips on how to cultivate strong leadership in a crisis.

— *Effective meetings and time management.* In the postpandemic era, when many organizations are emphasizing increased agility, one McKinsey survey found that 80 percent of executives are considering or already implementing changes in the content, structure, and cadence of business meetings. Meeting hygiene and personal time management practices should be reviewed at the beginning and end of every project.

How can organizations build geopolitical resilience in the postpandemic era?

To address the geopolitical risks of the present—and plan for the future—business leaders should focus their resilience-building efforts on six key dimensions.

1. Business model

To build business model resilience, an organization's board of directors first needs to understand which geopolitical factors stand to affect their organization. To ensure that relevant information from throughout the organization is delivered to the board, organizations should develop systematic delivery methods—including analytical products, briefings, or scenario exercises—to guide quick decision making and planning.

2. Reputation

Reputational resilience thrives on internal alignment around operations in geopolitically sensitive markets. Organizations need to know what they stand for—and what they stand against. Russia's invasion of Ukraine was relatively clear-cut, and many organizations have chosen to stop doing business in Russia as a result. For geopolitical situations that are less black-and-white, organizations can create market-specific "compacts" that combine risk management and corporate strategy. These compacts can be the foundation for a modern, coherent, values-driven narrative on why the organization does business in particular markets.

3. Organization

As external geopolitical pressures rise, organizations are feeling more internal pressures. Gone are the days when companies and executives felt borderless. Building organizational resilience, via fostering inclusive governance structures and open, honest dialogues, can contribute to sustaining cultural cohesion and a global ethos.

4. Operations

To safeguard and nurture operational resilience, organizations should focus on protecting and pivoting supply chains. This can be achieved by simulating and planning for extreme disruptions, and assessing the resilience of one's suppliers (and suppliers' suppliers). And any effort to diversify should factor in the political risks of entering a new market. One emerging technique that can help achieve long-term structural resilience is the use of "digital twins" that mirror critical parts of the supply chain and predict trouble ahead.

5. Technology

Technological resilience in the face of geopolitical fragmentation requires action in four areas. First, geopolitical tensions have caused the internet to begin splintering into regional variants and tech stacks. Companies may struggle to maintain consistent interregional connectivity and user experience. Data localization requirements pose a second challenge. Next, organizations need to manage data access to ensure appropriate compartmentalization. Finally, it's essential that organizations work to ensure resiliency against a variety of tech urgencies—from cyberattacks to rolling out new tech equipment across markets.

6. Finance

Financial risks, like foreign-exchange and sanctions risks, are evolving and should be monitored on an ongoing basis. As the global economy continues to weather shocks, challenges will continue to manifest over activities from moving funds to paying employees. Developing crisis protocols in advance of the crisis may help organizations weather a storm.

How can companies build IT resilience?

When it comes to technology systems, resilience is a critical, but often overlooked, aspect of overall business resilience. But business leaders typically don't view IT resilience as critical until there's already a problem. Building out a robust, hardy IT system can help organizations weather a variety of future storms. To achieve resiliency, McKinsey analysts recommend companies ground their efforts in seven beliefs that address both IT and business outcomes.

1. *Solve for journeys, not applications.* It's not about modernizing applications; it's about understanding how applications work with other tech components to create smooth customer journeys.
2. *Take a risk-based approach.* A two-pronged approach to risk—a top-down, business-driven approach and a bottom-up approach that calculates the risk profile of a specific tech component—can help companies understand the probability of failure, speed its detection, and minimize its impact.
3. *Put IT operations data to work.* Companies should use AI tech and other advanced capabilities to improve how they handle outages.
4. *Design for the storm, not blue skies.* Usually, companies design for traffic surges of perhaps 50 percent on top of normal volume. That doesn't help much when traffic surges 500 percent. Organizations should plan for these extremes and build in the ability to rapidly augment capacity in times of need.
5. *Adopt an engineering mindset.* By hiring new talent and upskilling the existing workforce in modern engineering practices, organizations can better identify and address IT issues.
6. *Avoid hero culture.* Don't confer the majority of responsibility on a few individuals. Sharing responsibility more equally fosters more resilient teams.
7. *Become proactive, not reactive.* Identify operational control failures before they spread systemwide.

These seven steps can help companies take a structured approach to resiliency, which can ultimately differentiate them from their competitors.

How have some European companies built resilience amid uncertainty?

In times of uncertainty and risk, businesses need new approaches to build resilience: they need a perceptive *response* to current challenges, *foresight* to anticipate the next round of disruptions, and capability for *adaptation* that will foster successful growth. Here's how some leading companies are already making resilience a reality:

— *Restructuring the balance sheet.* By creating a new capital structure, one automotive supplier made available an additional €3 billion in assets.

— *Reconfiguring the supply chain.* One global electronics manufacturer discovered that 25 percent of its spending was concentrated in a segment of one hundred high-risk suppliers. By reconfiguring the supply network, the company reduced its higher-risk spending by more than 40 percent.

— *Decarbonizing core assets.* By embedding ESG along its value chain, one global mining company embarked on a journey that will lead to large reductions in both capital and operating expenditures.

— *Derisking manufacturing analytics.* A global agricultural products leader emphasized derisking and safeguarding critical data as part of a transition to advanced analytics throughout its supply chain. In doing so, the company built confidence in its analytics and completed the transition with ease.

— *Next-generation scenario planning.* Through systematic scenario planning, a leading automotive company took several bold decisions, including diversifying geographically to mitigate the risk of relying too much on individual production locations.

— *Anticipating the future.* A utility with annual costs of $5 billion was facing rising prices from suppliers. It created an “inflation nerve center” to strategically address cost pressures, which helped the company interpret inflationary risks using a data-driven approach.

— *Turning crisis into a growth opportunity.* To address recent disruptions in healthcare supply chains and services, one global pharma company partnered with a start-up to create a home-delivery system for patients with rare diseases.

How have leaders in various industries built resilience?

In 2022, McKinsey hosted a virtual leaders summit on building resilience amid uncertainty. Here are lessons in resilience from three participating executives:

— Alain Bejjani is the CEO of Dubai-based Majid Al Futtaim, a shopping mall, retail, and leisure conglomerate with operations in 17 markets in the Middle East, Africa, and central Asia. Having launched businesses in these markets, which Bejjani says are “volatile by nature,” Majid Al Futtaim is thereby “hardwired to perform under conditions of uncertainty.” Even so, the pandemic was a crisis of unprecedented scale and scope. Bejjani’s biggest lesson from the pandemic? “Resilience matters,” he says. “In a normal operating environment, it’s difficult to justify prioritizing resilience over efficiency because it comes at a cost. CEOs and other business leaders need to become skilled at conveying to stakeholders the magnitude and long-term significance of resilience—and the consequences of failing to prioritize it.”

— Sarah Friar is the CEO of Nextdoor, a neighborhood-based community app operating in 11 countries and 285,000 neighborhoods. When the pandemic hit, Nextdoor saw a “massive spike in global daily active users,” says Friar. “Our numbers were doubling week over week.” The app sailed through the surge, she says, thanks to its “modern, scalable architecture.”

— Hiltrud Werner is a member of Volkswagen’s board of management who oversees the compliance and integrity teams, risk management, and legal affairs. Because Volkswagen has a large manufacturing footprint and more than 100,000 employees in China alone, it had a head start on preparing for disruptions in Europe and elsewhere. “That early-warning system benefited our human resource team, including health and safety and our legal and risk management teams,” she says.

Werner believes personal resilience and organizational resilience are cut from the same cloth, and diversity of perspectives and backgrounds is "paramount," she says. "Respecting the needs of diverse team members allows the group to see the subject from all angles—a hallmark of better decision making."

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