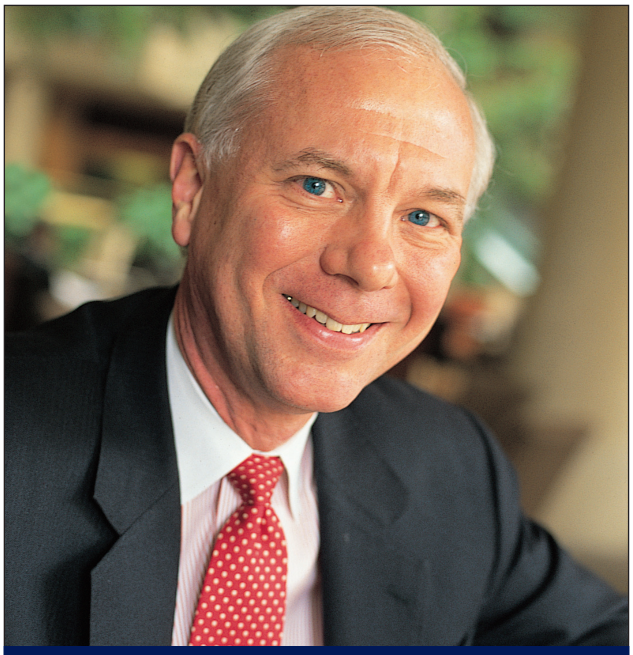
The risk of inertia, and of change

‘Embrace change or die’, we are told. Clearly slavish resistance to change will end badly. David Rowe argues, however, that embracing change for its own sake can be equally disastrous



David Rowe is group executive vice-president for risk management at SunGard Financial Systems – Europe. Email: david.rowe@risk.sungard.com

It is hard to believe that it has been 35 years since Alvin Toffler coined a phrase for the disorientation caused by living in a world characterised by bewilderingly rapid change. In fact, however, the first edition of *Future Shock* appeared in 1970, before the first and second oil shocks, before the invention of the PC, before the collapse of the Soviet Union, before the advent of the internet and the dotcom boom and bust, and before 9/11. Yes, the integrated circuit had been invented and slide rules were rapidly going the way of the dinosaurs, but in retrospect 1970 seems like a bastion of calm compared with the past 15 years.

My dim recollection of Toffler’s advice was that we should relinquish the past and its traditions and embrace change in all its forms. In effect, he argued that we should ‘go with the flow’ or risk being left behind. I remember being vaguely uneasy with this advice at the time, and my uneasiness continues to this day.

Lampedusa’s Razor

Certainly, blind resistance to all forms of change is a recipe for disaster. There is no way to hide from the impact of a world that seems to be changing at an accelerating rate. Nevertheless, there is a sensible middle ground. Peter de Jager is a Canadian consultant who characterises his practice as dealing with “rational assimilation of the future”. He is adamant that the mantra “change is good and resistance is bad” represents overwhelmingly poor advice. In opposition to this view, de Jager advances what he calls Lampedusa’s Razor.[1] It is named after Giuseppe de Lampedusa, a twentieth century cosmopolitan heir to a largely defunct Italian principality, who stated that: “If things are to remain the same, things will have to change.”

De Jager unpicks this rather enigmatic quip by distinguishing between the two occurrences of ‘things’. The first, in his view, refers to those things that are central to our mission or our value system, while the second refers to secondary circumstances. Often we become so attached to this second class of ‘things’ that we fail to appreciate their secondary character. Clarifying this distinction, de Jager argues, is an essential prerequisite to coping successfully with the ‘future shock’ that bombards us. He paraphrases Lampedusa (with some loss in poetic elegance) by saying: “To embrace what we value, we must release what we don’t.”

Organisations are biological

The wisdom of de Jager’s balanced approach is reinforced by the realisation that organisations are inherently biological rather than mechanical. To be sure, change is not inherently bad for biological organisms. Indeed, change is an inherent aspect of growth and, to quote John Henry Cardinal Newman: “Growth is the only evidence of life.”

Nevertheless, organisms have a limited tolerance for the breadth and pace of change, and excessive change can be injurious or even fatal. The same is true of organisations. A sequence of constant upheavals, reorganisations and strategic redirections will, at a minimum, sap enthusiasm and efficiency. A wholesale organisational restructuring may result in a framework totally unsuited to effective performance by the current staff, and the resulting turnover can sacrifice essential “institutional memory”.

Other supporting evidence comes from the work of Jim Collins, in his book *Good to Great*.[2] He and his colleagues found that those companies that made a successful transition from good to great performance were far more consistent in their core strategy than the corresponding companies that were similar at one point but failed to make the transition. Indeed, the histories of these latter companies were often littered with abrupt strategic revisions, often triggered by a change in top management.

Implication for risk managers

The implication of all this for risk managers is clear in principle but difficult in practice. Standing in the road and trying to block every innovation is not only futile but unwise. A static business strategy will not produce security but rather will assure an institution’s slow demise. More to the point, insisting on such a strategy is more likely to lead to a risk manager’s downfall. Nevertheless, some changes are positively dangerous and unnecessary. These are the ones that need to be resisted vigorously, often at some professional risk to the resister. De Jager quotes Viscount Falkland to the effect that: “When it is not necessary to change, it is necessary not to change.” The trick, of course, is having the wisdom to tell the difference.

A more positive implication for risk managers may well be to ensure that their organisations focus sufficiently on major structural threats. Too often we concentrate so much on the minutiae of daily risk control that we fail to notice a veritable tidal wave capable of striking at the very heart of an organisation’s competitive position. These are cases where it clearly is necessary to change. In some cases, management has a vague sense of the threat but finds it more comfortable to ignore the ‘elephant in the corner’. Forcing recognition of the threat may also be a difficult and unpopular task, but it too is an essential risk management responsibility. Next month’s column will address some ideas on how to recognise such threats. ■

[1] *See* www.technobility.com/docs/article056.htm

[2] *Collins, Jim,* Good to Great, *HarperCollins Publishers, New York, 2001*