Practitioner Article

The meta-challenge of complexity for global companies

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ABSTRACT If there was any further need to prove the interconnectedness of our global economy, the biggest financial and economic crisis since the Great Depression has delivered it. In previous crises, a variety of boundaries – in the housing, banking and industry sectors, as well as between nations, or at least regions – confined and limited the impact of actions and decisions to a defined space. This is no longer the case. As companies are forced to operate across borders, the complexity they need to manage escalates dramatically – as does the opportunity to get overwhelmed. But how can business leaders effectively manage complexity without being overwhelmed? This article outlines four key drivers of complexity and crucial simplifiers to adequately address the meta-challenge of complexity.

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AN EVER MORE COMPLEX WORLD

The interconnectedness of our global economy has once again been evidenced – this time by the biggest financial and economic crisis since the Great Depression. Granted, global economic crises have happened before. But the amazing speed of the current political and

economic changes is unprecedented. Previous crises were slower and more limited owing to a variety of boundaries. The latter separated industries and nations, or at least regions, much more than in our current integrated world. Although these developments over the past years have not created institutions' complexity, they have certainly increased it. Smart managers do

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not regard the current developments fatalistically, as something to merely accept and that offers no chance to act. Although it is true that some businesses and managers are frequently overwhelmed by this increased complexity, others find ways of identifying the relevant complexity drivers in their particular business environments, build or enhance the right skills to manage them and, finally, outperform others. However, through our research and coaching, we have – unfortunately – also discovered that there is no panacea to help those determined to overcome complexity. We openly admit that some managers and businesses simply got lucky and we do not really know what they did correctly to contribute to their success. However, most successful business managers have worked rigorously to understand the factors shaping their business, have kept the company's values in mind when defining clear strategies that everyone can understand, have fully focused on executing their main projects carefully, and have also taken bold steps when these were required. We thus invite the reader on a journey of discovery. Allow us to share what really drives complexity.

FOUR CRUCIAL DRIVERS OF COMPLEXITY

In our executive education seminars and research,¹ we have identified four fundamental drivers of complexity that are of relevance to a broad variety of industries and career paths as shown in Figure 1. Although we describe them sequentially, you must remember that they are often interrelated and 'strike' simultaneously.

1. *Diversity* is the first driver of complexity. Especially internationally active companies face challenges owing to the diversity in their internal and external environments. Diversity can best be understood as a plurality of elements, that is, a high number of relevant factors in a system

Figure 1: Drivers of complexity.
Sources: Nedopil *et al.*¹ and Steger *et al.*⁴

that also show noteworthy amounts of dissimilarity. The following example illustrates what we mean. Diversity in firms can materialise in the following way:

- On the corporate goal level, many companies have an expanding goal system. Fortunately, many firms now aim to achieve environmental and social goals beyond mere financial ones. Unfortunately, however, many companies have tremendous problems achieving positive financial results on an ongoing basis. Achieving one goal – a pure financial one – is difficult enough. How can one achieve two or more goals and do so continuously?
- On the stakeholder level, complexity includes the multiplicity and dissimilarity of the stakeholders, for example, employees, customers, suppliers, investors, competitors and other organisations (for example, NGOs or regulators) with interests in the company's operations. You will need to find – increasingly as you climb the career ladder – ways to handle the different demands from these stakeholders, which are also expressed in various and changing ways.

- On the market level, reflect on the differences in customer tastes in the dozens of markets in which a company is usually active. Bear in mind that no past success, either yours or that of your employer, guarantees immediate success in the future. Too frequently, the logic of business models and value-generation modes changes in the markets.
 - With regard to HR systems, think about the vast differences between traditions around the globe. From a (vanishing) tradition of life-long employment to 'hire-and-fire-at-will' – just one example – we see everything.
2. *Interdependence* is the second driver of complexity. Interdependencies are primarily caused by scarcity of resources and market boundaries disappearing. Companies aiming to integrate activities in different countries for synergy reasons are especially affected. Reflect on how a politically motivated lax loan system for housing the American poor paralysed economies and companies in geographically distant areas owing to sudden capital restrictions (scarcity of resources) and exposure and interconnectedness to new players.
 3. *Ambiguity* is our third driver. Ambiguity describes the realities in companies where clear cause-and-effect relationships are lacking. Is your company profitable because it is innovative, or is it profitable and therefore innovative? Does market share lead to profitability or the other way around? What are your true levers for operating the business machine? Or are the times when businesses and markets could be understood and controlled like machines long gone? The Shell scenarios of 2001 are a sad, spot-on example of ambiguity. At that time, oil company Shell had the most experienced, biggest and most expensive scenario development team on the planet. In 2001, the experts proudly presented two major scenarios about the future of globalisation.

The major problem was that none of them foresaw what was to happen only a few months later. Neither the tremendous corporate governance scandals nor the terrorist attacks of 9-11, or their far-reaching consequences, were anticipated in the presented scenarios. When the best experts working on scenarios for the future overlooked not one, but two major developments in the short term, let alone the financial and economic crises that were to follow only shortly after, this is perhaps telling of the uncertainty in our business environments.

4. *Fast flux* is the fourth driver of complexity. It depicts a reality in which not only the overall speed of change is accelerating, but the number of directions and areas in which we see change is multiplying. Fast flux materialises in increasingly shorter product life-cycles. In the automobile industry, for example, product life-cycles and, thus, windows of opportunities to amortise increasing development costs have been cut in half over the last 10 years. In the mobile phone market, the main cycles are less than a year. Apple had only a few weeks in which to be the only provider of iPad-style tablet PCs. Fast flux is the meanest drivers of complexity. Even if you have figured out an answer to dealing with diversity, interdependence and ambiguity, these solutions may be outdated the next day. There is an old saying that applies to almost every market: some make things happen, some watch what happens, some wonder what happened.

MANAGING COMPLEXITY IN REAL LIFE

Accepting fast flux, embracing it, possibly learning how to proactively trigger fast flux for competitors will be key for a rapid and healthy career advancement – and most certainly for survival. Such activities indicate the superiority of a mental stance,

which merely exploring what can be done about complexity does not. With very few exceptions, such as the undertaker business, all jobs and firms have seen complexity increasing. Many firms cannot cope with this increase. Across all industries, industry consolidation, which occurs sooner or later, wiped out 80 per cent of the independently operating companies. In the wind power industry, which has only really taken off over the last 5 years, this consolidation is already in full swing. Embracing this reality is the first step to coping with it.

The second key element is aiming to relocate complexity to areas where either the company draws exceptional benefits from it or customers enjoy the best advantages possible. Think about the low-cost carrier easyJet. Its business model was built on simplicity: only one type of airplane to make maintenance cheaper and pilots' jobs easier, only point-to-point flights to keep operations simple, and as much online work by customers as possible to decrease costs further. If easyJet had any complexity whatsoever in its system, it was in the airport negotiation teams. Perfectly trained specialists were let loose on secondary sites to negotiate the best deal – an uneven distribution of power. Only after smartly investing in perfecting its business model and in eliminating any inefficiency for years did easyJet start with lounge access, different booking classes or loyalty programmes and so on. It clearly saw that the benefits of consciously adding more complexity to some fields would over-compensate for the drawbacks. Few companies can claim that they have avoided complexity as smartly as easyJet did, which is why we add simplifying to our generic strategies.

Looking now at the ways to truly manage complexity, we identify four simplifiers. The first of these is to set *common goals and behaviours*. Take the example of many a company that emerged from mergers and acquisitions to find

themselves running different sub-cultures in different departments. It is therefore of the utmost necessity to explore common goals and behaviours. Which are the sets of goals and behaviours that are easily understandable and applicable to your business and that can help in today's hectic environments? How can we create transparency about our guiding compass although all our schedules tend to be too full? Ninety-five per cent of managers in mid-sized to large companies do not know the specific part of the overall company strategy that is relevant for them. The current crises and possible changes in the ownership structures add further complications and 'flux'. From our exploration of highly successfully individuals and well-managed companies, we have learned that they rarely have more than four key fundamental values. In turn, more poorly managed and underperforming companies often have laundry lists that could easily serve as bingo for managers.

We suggest a clear *focus* as the next simplifier. Bruch and Ghoshal² found that only 10 per cent of individual managers in mid-sized to larger companies actually have sufficient positive energy for and a strong enough focus on the very few projects that could increase their teams' and their company's performance. Management guru Peter Drucker³ reminds us that 'if what looks like an opportunity does not advance the strategic goal of the institution, it is not an opportunity. It is a distraction'. Employees and managers should focus their work on the actions they can learn and do. We too often promote people to their level of incompetence. We strive towards the next level, fancier titles, higher pay and more responsibilities – opportunities to amortise our investments in our education and careers. We may thus even drive our promotion to our level of incompetence and, thus, cause failure. No doctor in a hospital is naturally a good hospital leader, and no great engineer will necessarily

excel after being promoted to white-collar management tasks where different types of abstract numbers and people have to be managed. Hence, in line with our opening chapters on personal development focusing on our strengths, we encourage you to reflect on what you are best at, what skill gaps might emerge while climbing the career ladder. Bear in mind that members of Generation Y are not unlikely to have had 14 different jobs by age 38. Beyond this personal level, contemplate the possibilities of proactively focusing your business projects, new initiatives and overall company on the few ideas that will have an above-average impact.

Decentralisation is a third generic strategy that also indicates how focused projects should be managed. Are you empowering those with the most information who are actually interacting with the customers to implement the 'big picture' strategy? Are you generating opportunities for growth and new motivation by means of decentralisation? Would you rather have more decentralisation – for the sake of the overall company performance – than you have now? According to our experience, receiving more freedom to design answers and implement them leads to above-average motivation and employee loyalty. In mid-sized to larger companies, 75 per cent of employees suffer from inner withdrawal – a lack of real care about the company. Decentralisation can help to keep your colleagues more motivated. Learning how to decentralise smartly also allows for more opportunities to reflect on bigger developments and risks as it frees time and energy capacities.

Standardisation of core processes can help you, as a fourth way, to simplify complexity in your teams and organisations. But it is crucial to first understand what really can and should count as a core process. Each company and industry may have its own opportunities for core processes. Think of one accepted way of capturing and sharing knowledge in management consulting companies. Different standards lead to unacceptable inefficiencies. Usually, the unbearable feeling of having to reinvent the wheel time and again can be a good indicator of where to start looking for the possibilities to implement core processes.

CONCLUSION

As you know, it is reflection on experience that builds competence. Experience alone often only leads to (frequently unfounded) confidence. Unhappy stakeholders then pay the price of this unfounded confidence. We have outlined what drives complexity and where we can build skills to manage it. Complexity, too, can easily overwhelm, and precaution and proactive action must be taken. Reflection on experience comes in two forms – after the main event or beforehand.

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