



# *Capitalizing on Complexity*

*Insights from the  
Global Chief Executive  
Officer Study*

# Introduction

How are leaders responding to a competitive and economic environment unlike anything that has come before? To find out, we held face-to-face interviews with 1,541 chief executive officers, general managers and senior public sector leaders, including 60 Energy and Utilities respondents from 20 countries.<sup>1</sup> These conversations offer valuable insight into the agendas and actions of global leaders.

In our past three global CEO studies, CEOs consistently said that coping with change was their most pressing challenge. In 2010, we identified a new primary challenge: complexity. CEOs told us they operate in a world that is increasingly volatile, uncertain and complex. Many shared the view that incremental changes are no longer sufficient.

We carried out extensive statistical and financial analyses, including a comparison of responses from CEOs based on financial performance. Organizations that performed well during both good and bad economic conditions – we call them “Standouts” – approach complexity differently than those that performed less robustly. Figure 1 illustrates that Standout organizations ranked in the top 50 percent for both the long-term period of 2003 to 2008 and the short-term period of 2008 to 2009.

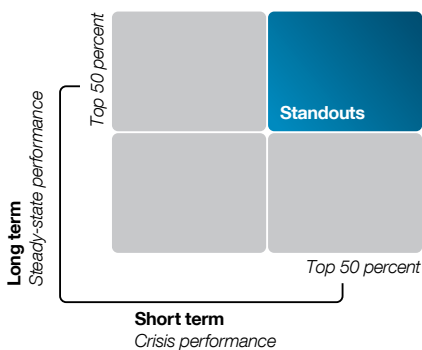
The most successful organizations are using entirely new approaches to tap new opportunities and overcome the challenges to growth. Four primary findings arose from our conversations:

**The vast majority of CEOs anticipate even greater complexity in the future, and more than half doubt their ability to manage it.** But there is a huge disparity between the overall sample and the Standouts, who have turned increasing complexity into financial advantage over the past five years.

**Figure 1**

**Performance analysis framework**

Standouts represent organizations from different industries and from all geographies.



### CEOs believe creativity is the most important leadership quality.

Creative leaders encourage experimentation throughout their organizations. They also plan to make deeper business model changes to realize their strategies, take more calculated risks and keep innovating in how they lead and communicate.

### The most successful organizations co-create products and services with customers, and integrate customers into core processes.

They adopt new channels to engage and stay in tune with customers, and glean more intelligence from the barrage of available data to make customer intimacy their number-one priority.

### Better performers manage complexity on behalf of their organizations, customers and partners.

They do so by simplifying operations and products, and increasing dexterity to change the way they work, access resources and enter markets around the world. Dexterous leaders expect to generate 20 percent more of their future revenues from new sources than other CEOs.

### A drastically different world

Increasingly interconnected economies, enterprises, societies and governments have given rise to vast new opportunities. But greater connectivity has also created strong – and too often unknown – interdependencies. The new economic environment, CEOs agree, is substantially more volatile, much more uncertain, and increasingly complex. Interestingly, views on the strength and impact of these shifts differ by vantage point.

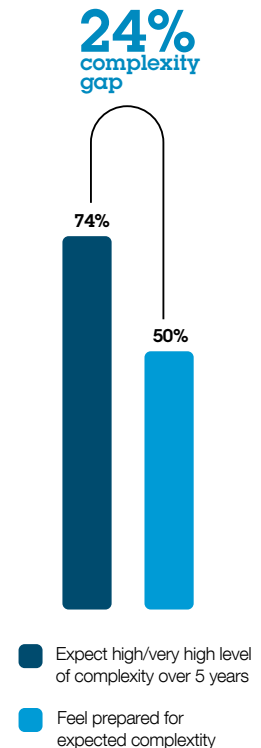
Understanding the sharp differences emerging by region becomes more significant in a world where economies and societies are closely linked. Organizations confront these variations as they increasingly operate across boundaries and across different regions.

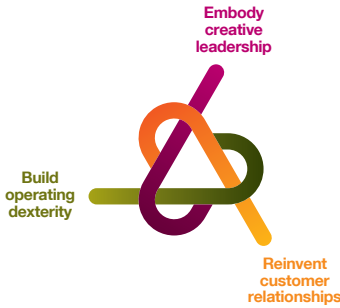
A surprising number of Energy and Utilities CEOs told us they feel ill-equipped to cope with this drastically different world. A full 74 percent expect the level of complexity to grow significantly over the next five years, but only 50 percent believe they know how to deal with it successfully. In short, Energy and Utilities CEOs face a “complexity gap” that poses a bigger challenge than any we’ve measured in the eight years we’ve been conducting such research.

Figure 2

#### The complexity gap

Energy and Utilities CEOs anticipate much more complexity than they feel confident about handling.





### Seizing the opportunities

Yet certain organizations have delivered solid business results even in the recent economic downturn – and the people who lead them feel much more prepared for complexity. So, what are these Standouts doing to thrive? Our extensive analysis shows that CEOs who are capitalizing on complexity embody creative leadership, reinvent customer relationships and build operating dexterity.

## Embody creative leadership

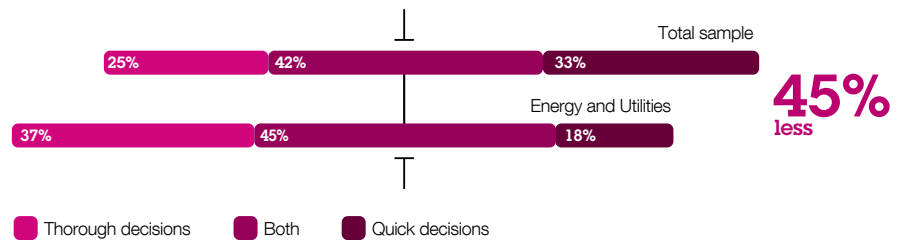
In an uncertain and volatile world, CEOs realize that creativity is a critical leadership characteristic. Creative leaders are comfortable with ambiguity and experiment to create new business models. They invite disruptive innovation, encourage others to drop outdated approaches and take balanced risks. To succeed in this new environment, industry model innovators will develop fresh business models, as well as the infrastructure, rules and standards to facilitate not only traditional energy generation and delivery, but also emerging products and services enabled by new technologies.<sup>2</sup>

Energy and Utilities CEOs are adept at dealing with ambiguity; 69 percent use iterative strategic planning processes as distinct from formal annual strategy reviews. The historical tendency to have long investment horizons – and hence longer planning and budgeting cycles – still strongly influences Energy and Utilities CEOs; almost twice as many rely on thorough decision processes than on quick decision making, a contrast with the total sample (see Figure 3). They also rely less on the old hierarchical style of leadership; 70 percent tend to persuade and influence rather than to command and control.

Figure 3

#### Decision style

Energy and Utilities CEOs rely more on thorough decisions than quick decisions, unlike CEOs in many other industries.



*How will you develop the critical capabilities to enhance creativity among your leadership team?*

*In what ways can you explore, reward and integrate diverse and unconventional points of view?*

*How are you challenging every element of your business model to get the most from untapped opportunities?*

*How will you leverage new communications styles, technologies and tools to lead a new generation of talent and encourage breakthrough thinking?*

*“We are entering an era of ten to twenty years of new significant investment. There is opportunity and uncertainty that we have not seen before.”*

**Tom King**, President, National Grid, U.S.

## Reinvent customer relationships

In a massively interconnected world, CEOs prioritize customer intimacy as never before. New technologies and dramatic increases in the availability of information are poised to exponentially expand customers’ options. CEOs said that ongoing engagement and co-creation with customers produce differentiation. They consider the information explosion to be their greatest opportunity in developing deep customer insights.

Nearly three in four Energy and Utilities CEOs regard better understanding, predicting and giving customers what they really want as their top priority, only slightly smaller than the total sample (see Figure 4). This suggests that Energy and Utilities CEOs are getting ready to capitalize on the customer data they will be collecting over new Smart Grid infrastructure. This is consistent with cross-industry trends; CEOs in our total sample who put getting closer to customers first on their agendas are 29 percent more likely than other CEOs to anticipate that the information explosion will have a major impact on their organizations over the next five years, and 18 percent more likely to be using insight and intelligence to realize their strategy.

*How will you engage customers in new ways that increase interest and loyalty to generate new demand and revenue sources?*

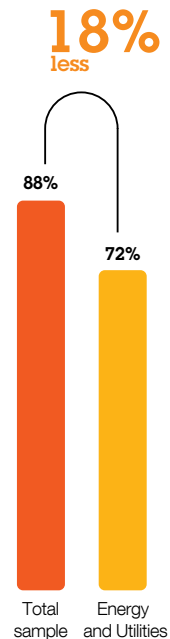
*How can you involve customers more effectively and directly in product and service development?*

*Will you be able to hear the voice of your customers through the vast amount of data that will be generated, and act upon the information?*

**Figure 4**

**Focus on customer intimacy**

Three in four Energy and Utilities CEOs put getting closer to customers at the top of their agendas.

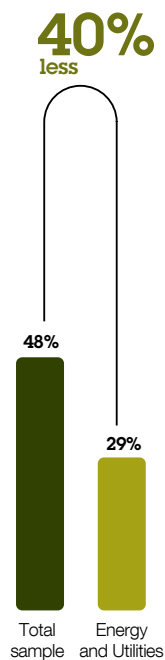


## Build operating dexterity

**Figure 5**

### Plans for simplification

Energy and Utilities CEOs put less weight than other CEOs on simplifying their products and processes to better manage complexity.



In an increasingly complex world, CEOs are learning to master complexity in countless ways. They are redesigning operating strategies for ultimate speed and flexibility. They are embedding valued complexity in elegantly simple products, services and customer interactions.

Currently, this is a lower priority for Energy and Utilities CEOs than it is for CEOs in many other industries; only 29 percent are focusing on simplifying products and operations to manage complexity more effectively. However, in the near future, Energy and Utilities CEOs will need to increase their organizations' speed and dexterity to cope with rapid regulatory, technical and customer change, and capture revenue growth from new business models.

*In what ways can you simplify processes and develop the agility required to execute rapidly?*

*How can your organization benefit from taking on more complexity on behalf of energy customers?*

*How will you integrate and analyze timely information to gain insight, make quick decisions and enable dynamic course correction?*

*Have you implemented strategic flexibility and defined the roles of the company in the new energy ecosystem to compete in your chosen markets?*

## How to capitalize on complexity

For Energy and Utilities CEOs and their organizations, avoiding complexity is not an option – the choice comes in how they respond to it. Will they allow complexity to become a stifling force that slows responsiveness, overwhelms workers and customers or threatens profits? Or do they have the creative leadership, customer relationships and operating dexterity to turn complexity into a true advantage?

The combined insight from our 1,541 interviews calls for CEOs and their teams to:

<p><b>Embody creative leadership</b></p> <ul style="list-style-type: none"> <li>• Embrace ambiguity</li> <li>• Take risks that disrupt legacy business models</li> <li>• Leapfrog beyond “tried-and-true” management styles</li> </ul>	<p><b>Reinvent customer relationships</b></p> <ul style="list-style-type: none"> <li>• Honor your customers above all else</li> <li>• Use two-way communications to sync with customers</li> <li>• Profit from the information explosion</li> </ul>	<p><b>Build operating dexterity</b></p> <ul style="list-style-type: none"> <li>• Simplify whenever possible</li> <li>• Manage systemic complexity</li> <li>• Promote a mindset of being fast and flexible</li> <li>• Be “glocal”</li> </ul>
--	---	---

---

*“We want to be as close as possible to our stakeholders, even one step ahead of their expectations. In such a turbulent environment, we must make sure we know what they want.”*

**Antonio Larden**, Chairman and CEO, Enagas

---

We invite senior leaders to use this latest Global CEO Study to spur ongoing discussions about how to navigate the hurdles of complexity and how to prosper because of it. As your organization explores many options to capitalize on complexity, we look forward to working with you.

## For further information

For more information about this study, please contact one of the IBM leaders below. Or, visit [ibm.com/capitalizingoncomplexity](http://ibm.com/capitalizingoncomplexity) or send an e-mail to the IBM Institute for Business Value at [iibv@us.ibm.com](mailto:iibv@us.ibm.com).

<i>Global</i>	<b>Michael Valocchi</b>	<a href="mailto:mvalocchi@us.ibm.com">mvalocchi@us.ibm.com</a>
<i>North America and Latin America</i>	<b>Bob Vallee</b>	<a href="mailto:bob.vallee@us.ibm.com">bob.vallee@us.ibm.com</a>
<i>Northern Europe</i>	<b>Phil Spring</b>	<a href="mailto:phil.a.spring@uk.ibm.com">phil.a.spring@uk.ibm.com</a>
<i>Southern Europe</i>	<b>Ricardo Klatovsky</b>	<a href="mailto:ricardo.klatovsky@es.ibm.com">ricardo.klatovsky@es.ibm.com</a>
<i>Asia Pacific</i>	<b>Nick Gurney</b>	<a href="mailto:nick@au1.ibm.com">nick@au1.ibm.com</a>
<i>Japan</i>	<b>Chiyuki Nezu</b>	<a href="mailto:E19153@jp.ibm.com">E19153@jp.ibm.com</a>
<i>IBM Institute for Business Value</i>	<b>John Juliano</b>	<a href="mailto:juliano@us.ibm.com">juliano@us.ibm.com</a>



## How our research was conducted

Between September 2009 and January 2010, we met face-to-face with 1,541 CEOs, general managers and senior public sector leaders representing organizations of all sizes in 60 countries and 33 industries, to better understand their challenges and goals. Our response sample in each region has been weighted according to actual regional Gross Domestic Product (GDP) for 2008.<sup>3</sup>

We also analyzed the differences between financial standouts and other organizations, based on their long- and short-term performance relative to their peers, where this information was available. We used four-year operating margin compound annual growth rates from 2003 to 2008 to measure long-term performance; and one-year operating margin growth rates from 2008 to 2009 to measure short-term performance. This enabled us to identify the “Standout” organizations that were able to improve their operating margins in both the long and short term.

## About IBM Global Business Services Strategy & Change

IBM Global Business Services offers one of the largest Strategy & Change organizations in the world, with over 3,250 strategy professionals. IBM Strategy & Change practitioners help clients develop, align and implement their vision and business strategies to drive growth and innovation.

## About the IBM Institute for Business Value

The IBM Institute for Business Value, part of IBM Global Business Services, develops fact-based strategic insights for senior business executives around critical industry-specific and cross-industry issues. This Global Chief Executive Officer Study is part of our ongoing C-Suite Study Series.

© Copyright IBM Corporation 2010

IBM Global Business Services  
Route 100  
Somers, NY 10589  
U.S.A.

Produced in the United States of America  
May 2010  
All Rights Reserved

IBM, the IBM logo and [ibm.com](http://ibm.com) are trademarks or registered trademarks of International Business Machines Corporation in the United States, other countries, or both. If these and other IBM trademarked terms are marked on their first occurrence in this information with a trademark symbol (® or ™), these symbols indicate U.S. registered or common law trademarks owned by IBM at the time this information was published. Such trademarks may also be registered or common law trademarks in other countries. A current list of IBM trademarks is available on the Web at “Copyright and trademark information” at [ibm.com/legal/copytrade.shtml](http://ibm.com/legal/copytrade.shtml)

Other company, product and service names may be trademarks or service marks of others.

References in this publication to IBM products and services do not imply that IBM intends to make them available in all countries in which IBM operates.

### Notes and sources

- 1 For readability, we have referred to this collective group as “CEOs.”
- 2 For more details on this, see Valocchi, Michael, John Juliano and Allan Schurr. “Switching perspectives: Creating new business models for a changing world of energy.” IBM Institute for Business Value. 2010. <http://www.ibm.com/services/gbs/switchingperspectives>
- 3 IMF World Economic Outlook Database. “2008 Actual Regional GDP.” October 2009. . <http://www.imf.org/external/pubs/ft/weo/2009/02/weodata/index.aspx>