



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 254 respondents who head “midmarket” enterprises – defined as companies that employ fewer than 1,000 people – based in 44 countries.¹ 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.

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. The majority of Midmarket CEOs believe substantial changes are needed to react to the increasingly diverse external factors facing their organizations.

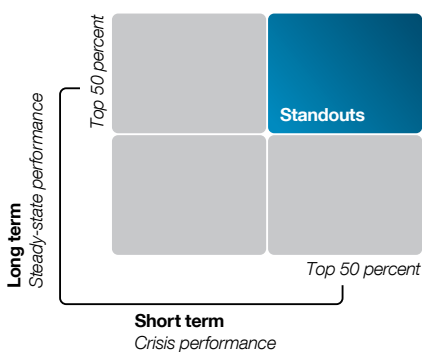
CEOs believe creativity is the most important leadership quality. Creative leaders encourage experimentation throughout their organizations. They also plan to make deeper business model changes to realize their strategies, take more calculated risks and keep innovating in how they lead and communicate.

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.

Figure 1

Performance analysis framework

Standouts represent organizations from different industries and from all geographies.



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.

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 how 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.

A drastically different world

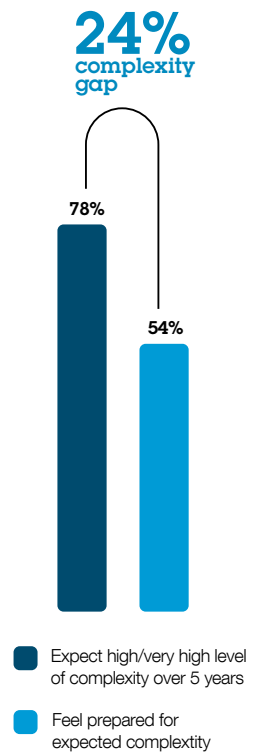
Increasingly interconnected economies, enterprises, societies and governments have given rise to vast new opportunities. But greater connectivity has also created strong – and too often unknown – interdependencies. The new economic environment, CEOs agree, is substantially more volatile, much more uncertain,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

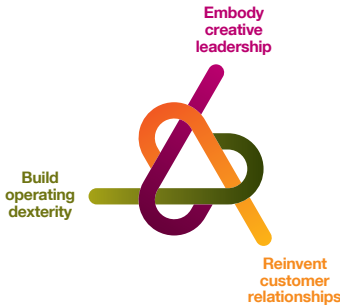
Understanding the sharp differences emerging by region becomes more significant in a world where economies and societies are closely linked. Organizations confront these variations as they increasingly operate across boundaries and across different regions.

A surprising number of Midmarket CEOs told us they feel ill-equipped to cope with this drastically different world. A full 78 percent expect the level of complexity to grow significantly over the next five years, but only 54 percent believe they know how to deal with it successfully. In short, Midmarket 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
Midmarket 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. Our extensive analysis shows that CEOs who are capitalizing on complexity embody creative leadership, reinvent customer relationships and build operating dexterity.

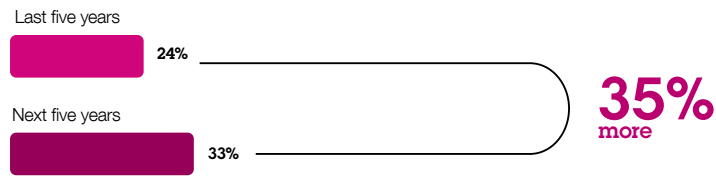
Embody creative leadership

In an uncertain and volatile world, CEOs realize that creativity trumps other leadership characteristics. 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. They are open-minded and inventive in expanding their management and communications styles, in order to engage with a new generation of employees, partners and customers.

Midmarket CEOs see more opportunity over the next five years to generate revenue from new sources, such as new products, services or markets, than in the past. Midmarket CEOs also rely less on the old hierarchical style of leadership; 61 percent tend to persuade and influence rather than to command and control; and 40 percent prefer managed viral communication to top-down communication.

Figure 3

New revenue sources
More Midmarket CEOs expect to generate revenue from new sources over the next five years than in the past.



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

In what ways can you explore, reward and globally 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?

“Organizational leadership is about agility – be fast on your feet and persevere.”

John Morgan, CEO, National Institute of Water and Atmospheric Research, New Zealand

Reinvent customer relationships

In a massively interconnected world, CEOs are prioritizing customer centricity as never before. Globalization, combined with dramatic increases in the availability of information, has exponentially expanded customers’ options. CEOs know that ongoing engagement and co-creation with customers produce differentiation. They consider the information explosion immensely valuable in developing deep customer insights.

Midmarket CEOs are especially determined to put customers front and center. “Getting connected” to better understand, predict and give customers what they really want is the top priority for 90 percent. CEOs in our total sample who put getting closer to customers first on their agendas are also 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?

Can you bear the voice of your customers through the vast amount of data?
Can you understand and act upon the information?

Figure 4

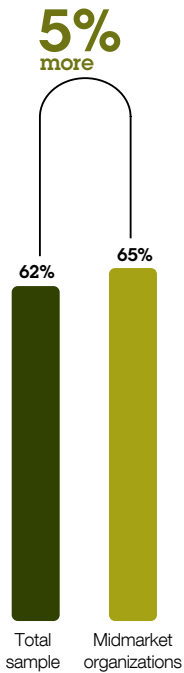
Focus on customer intimacy

Almost all Midmarket CEOs put getting closer to customers at the top of their agendas.



Figure 5

Creating cost flexibility
Midmarket CEOs intend to increase variable costs so they can invest in areas that will help them to better manage complexity.



Build operating dexterity

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. And they are carefully considering how best to take advantage of global efficiencies while addressing local needs.

Midmarket CEOs are no exception; 52 percent are focusing on changing their business models to manage complexity more effectively. The most dexterous CEOs are also much more intent on reducing their fixed costs and increasing their variable costs, so that they can rapidly scale up or down. Midmarket CEOs cite investments in technology and strategic partnerships as ways to enhance their operational dexterity.

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 customers and citizens?

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

Have you implemented asset and cost flexibility and defined partnering strategies to compete in your chosen markets?

How to capitalize on complexity

For Midmarket 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 employees 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>Embody creative leadership</p> <ul style="list-style-type: none">• Embrace ambiguity• Take risks that disrupt legacy business models• Leapfrog beyond "tried-and-true" management styles	<p>Reinvent customer relationships</p> <ul style="list-style-type: none">• Honor your customers above all else• Use two-way communications to sync with customers• Profit from the information explosion	<p>Build operating dexterity</p> <ul style="list-style-type: none">• Simplify whenever possible• Manage systemic complexity• Promote a mindset of being fast and flexible• Be "glocal"
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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 the IBM leader below. Or, visit ibm.com/capitalizingoncomplexity or send an e-mail to the IBM Institute for Business Value at iibv@us.ibm.com.

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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 2008.²

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.

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Notes and sources

- 1 For readability, we have referred to this collective group as “CEOs.”
- 2 IMF World Economic Outlook Database. “2008 Actual Regional GDP.” October 2009. . <http://www.imf.org/external/pubs/ft/weo/2009/02/weodata/index.aspx>