



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 37 Transportation respondents from 22 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.

We carried out financial analyses, including a comparison of responses from CEOs based on financial performance. We also compared responses to identify patterns that might apply to Transportation. The overall study data indicate 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.

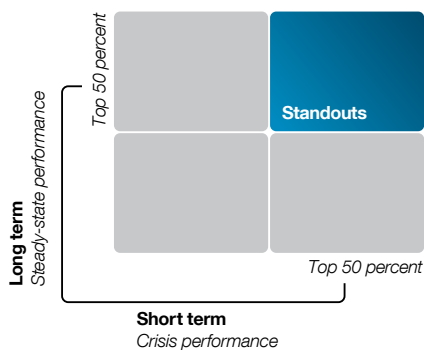
The most successful organizations are using entirely new approaches to tap new opportunities and overcome the challenges to growth. Four primary findings arose from our conversations:

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. Transportation CEOs share this perspective on creativity, but almost as many (51 percent) also feel that integrity is the single most important leadership quality in their organization.

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. Among transportation CEOs, 92 percent report that “getting closer to customers” is their top 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

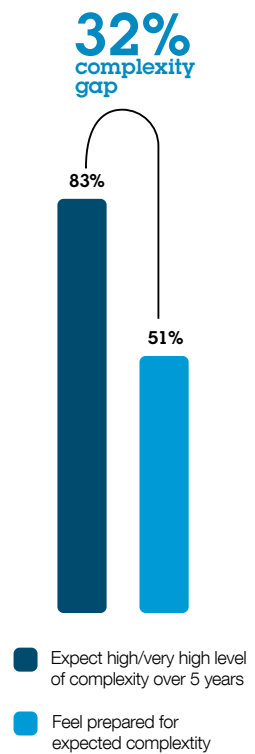
Increasingly interconnected economies, enterprises, societies and governments have given rise to vast new opportunities. But greater connectivity has also created strong – and too often unknown – interdependencies. The new economic environment, CEOs agree, is substantially more volatile, much more uncertain,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

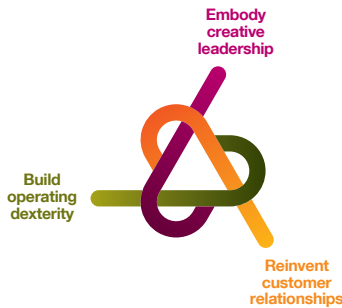
Perhaps driven by the turbulence of the past several years, Transportation CEOs have a unique view on complexity. While CEOs from most industries expect complexity to increase, few face as large a “complexity gap” as those in the Transportation industry. Just over 50 percent of Transportation CEOs feel they are facing high or very high levels of complexity today, but fully 83 percent of them expect to face a more complex future. Unfortunately, only 51 percent of Transportation CEOs feel that they are prepared for the increase in complexity that they expect to face.

Figure 2

The complexity gap

Although Transportation CEOs anticipate much more complexity, roughly half do not feel confident about handling it.





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 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.

Perhaps as a result of the fact that they manage time-sensitive operations that require decisions to be made without access to full information, Transportation CEOs are often adept at dealing with ambiguity. For example, 68 percent use iterative strategic planning processes as distinct from formal annual strategy reviews, and 43 percent favor quick decisions. Transportation CEOs also rely less on the old hierarchical style of leadership: 62 percent tend to persuade and influence rather than to command and control.

How can Transportation CEOs enhance creativity among their leadership teams?

In what ways can Transportation CEOs explore, reward and globally integrate diverse and unconventional points of view?

How are Transportation CEOs challenging every element of their business models to get the most from untapped opportunities?

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

Reinvent customer relationships

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

Transportation 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 92 percent of Transportation CEOs. In our total sample, CEOs 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 use insight and intelligence to realize their strategy.

How will Transportation CEOs engage customers in new ways to increase interest and loyalty to generate new demand?

How can Transportation CEOs involve customers more effectively and directly in product and service development?

What can customers teach Transportation CEOs about how to profitably leverage new and existing distribution channels?

Build operating dexterity

In an increasingly complex world, CEOs are learning to master complexity in countless ways. Transportation CEOs are no exception. 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.

“The work of leaders is making decisions, even when only 80 percent of the relevant information is known. It could take five times the amount of work to collect the remaining 20 percent.”

Travel and Transportation CEO, Japan

Figure 4

Focus on customer intimacy

Similar to Standouts from the overall study, almost all Transportation CEOs put getting close to customers at the top of their agenda.



“Our customers want personalization of services and products. It is all about the market of one.”

Travel and Transportation CEO,
Hong Kong

Fifty-nine percent of Transportation CEOs are focusing on simplifying their products and operations 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.

In what ways can Transportation CEOs simplify processes, without ignoring underlying complexity, and develop the agility required to execute?

How can Transportation CEOs take on more complexity on behalf of their customers?

How can Transportation CEOs integrate and analyze timely information to gain insight, make quick decisions and enable dynamic course correction?

How to capitalize on complexity

For Transportation 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:

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| Embody creative leadership | Reinvent customer relationships | Build operating dexterity |
| <ul style="list-style-type: none"> • Embrace ambiguity • Take risks that disrupt legacy business models • Leapfrog beyond “tried-and-true” management styles | <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 | <ul style="list-style-type: none"> • Simplify whenever possible • Manage systemic complexity • Promote a mindset of being fast and flexible • Be “glocal” |

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 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>