



# *Capitalising on Complexity*

*Insights from the  
Global Chief Executive  
Officer Study*

*Executive Summary for United Kingdom and Ireland*

**IBM**

# 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 66 respondents from the United Kingdom and Ireland.<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. Organisations that performed well during both good and bad economic conditions – we call them “Standouts” – approach complexity differently from those that performed less robustly. Figure 1 illustrates how Standout organisations 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.

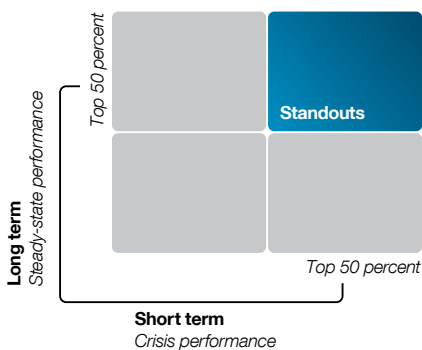
The most successful organisations are using entirely new approaches to tap new opportunities and overcome the challenges to growth. Four primary findings arose from our conversations:

**The vast majority of CEOs anticipate even greater complexity in the future, and more than half doubt their ability to manage it.**

However, 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**

Standouts represent organisations from different industries and from all geographies.



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

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

**The most successful organisations 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 relationships their number-one priority.

**Better performers manage complexity on behalf of their organisations, 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**

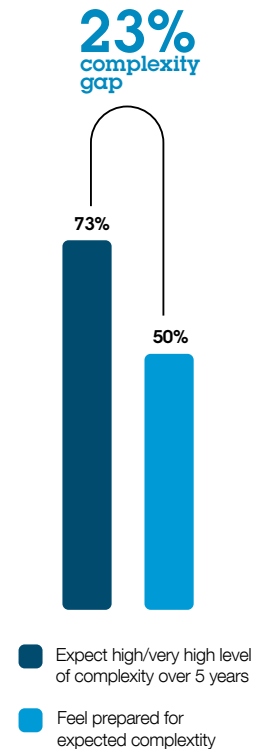
Increasingly interconnected economies, enterprises, societies and governments have given rise to vast new opportunities. However, greater connectivity has also created strong – and too often unknown – interdependencies. The new economic environment, CEOs agree, is substantially more volatile, much more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

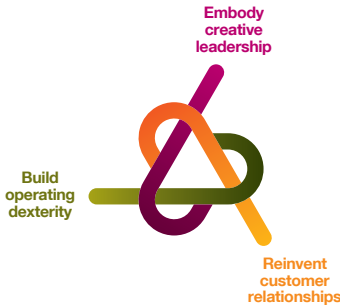
Understanding the sharp differences emerging by region becomes more significant in a world where economies and societies are closely linked. Organisations confront these variations as they increasingly operate across boundaries and across different regions.

A surprising number of CEOs told us they feel ill-equipped to cope with this drastically different world. Seventy-three percent of UK and Ireland CEOs 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, CEOs face a “complexity gap” that poses a bigger challenge than any we have measured in the eight years we have been conducting such research.

*Figure 2*

**The complexity gap**  
CEOs in the UK and Ireland anticipate much more complexity than they feel confident about handling.





### Seizing the opportunities

Yet certain organisations 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 capitalising on complexity embody creative leadership, reinvent customer relationships and build operating dexterity.

## Embody creative leadership

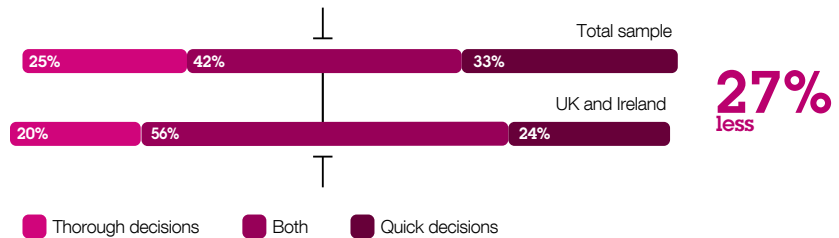
In an uncertain and volatile world, CEOs around the world realise that creativity trumps other leadership characteristics. Creative leaders are comfortable with ambiguity and experiment to create new business models. They invite disruptive innovation, encourage others to drop outdated approaches and take balanced risks. They are open-minded and inventive in expanding their management and communication styles, in order to engage with a new generation of employees, partners and customers.

CEOs in the UK and Ireland are unusual in putting integrity before creative leadership. Nevertheless, they are adept at dealing with ambiguity; 65 percent use iterative strategic planning processes as distinct from formal annual strategy reviews, although only 24 percent favour quick decisions – compared with a global average of 33 percent. UK and Ireland CEOs also rely less on the old hierarchical style of leadership: 65 percent tend to persuade and influence rather than to command and control; and 39 percent prefer managed, viral approaches to communications rather than more traditional, top-down methods.

Figure 3

#### Decision style

CEOs in the UK and Ireland are less comfortable making quick decisions than CEOs in most other regions.



*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?*

*“The new economic environment is truly different. There are lots of things going on that fall into the category of ‘this has never happened before.’”*

**Chemicals and Petroleum CEO,**  
United Kingdom

## Reinvent customer relationships

In a massively interconnected world, CEOs prioritise customer intimacy as never before. Globalisation, combined with dramatic increases in the availability of information, has exponentially expanded 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.

CEOs in the UK and Ireland are particularly determined to put customers – or citizens, in the case of public sector leaders – front and centre. “Getting connected”, using multiple channels to better understand, predict and give customers what they really want, is the top priority for 89 percent. The 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 organisations over the next five years, and 18 percent more likely to be using insight and intelligence to realise their strategy.

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

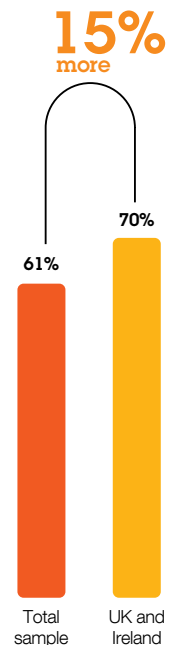
*How can you involve customers more effectively and directly in product and service development?*

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

**Figure 4**

**The information explosion is an opportunity to develop deep customer insights**

UK and Ireland CEOs place ‘Information Explosion’ as the top factor impacting their organisation over the next 5 years.

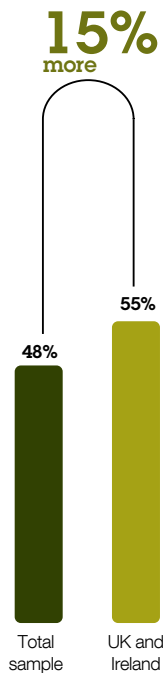


## Build operating dexterity

**Figure 5**

### Plans for simplification

CEOs in the UK and Ireland are among those most eager to simplify their products and processes to manage complexity more effectively.



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.

UK and Ireland CEOs are no exception; 55 percent are focusing on simplifying their products and operations to better manage complexity. The most dexterous CEOs in our total sample 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 you simplify processes and develop the agility required to execute rapidly?*

*How can your organisation benefit from taking on more complexity on behalf of customers and citizens?*

*How will you integrate and analyse 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 capitalise on complexity

For UK and Ireland CEOs and their organisations, 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><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>• Respect 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>
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*“We are now very adaptive, distilling strategy into a few core objectives to drive organisational decision making and actions. Our decisions need to be quick and thoughtful. Rather than being overly analytical, we need to put more weight on experience.”*

**Consumer Products CEO, United Kingdom**

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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. We look forward to working with you as your organisation explores the many options to capitalise on complexity.

## For further information

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

<i>United Kingdom</i>	<b>Howard Tollit</b>	<a href="mailto:howard.tollit@uk.ibm.com">howard.tollit@uk.ibm.com</a>
<i>United Kingdom</i>	<b>Des Smith</b>	<a href="mailto:des.smith@uk.ibm.com">des.smith@uk.ibm.com</a>
<i>United Kingdom</i>	<b>Ian Bradbury</b>	<a href="mailto:ian.c.bradbury@uk.ibm.com">ian.c.bradbury@uk.ibm.com</a>
<i>Ireland</i>	<b>Paul Farrell</b>	<a href="mailto:pfarrell@ie.ibm.com">pfarrell@ie.ibm.com</a>
<i>IBM Institute for Business Value</i>	<b>Peter Korsten</b>	<a href="mailto:peter.korsten@nl.ibm.com">peter.korsten@nl.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 organisations 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>2</sup>

We also analysed the differences between financial standouts and other organisations, 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” organisations that were able to improve their operating margins in both the long and short term.

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## 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.

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Somers, NY 10589  
U.S.A.

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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>