



Capitalizing on Complexity

*Insights from the
Global Chief Executive
Officer Study*

*Executive Summary for Croatia, the Czech Republic,
Egypt, Hungary, Poland, Saudi Arabia, Slovakia,
Slovenia, Turkey and the United Arab Emirates*

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 62 respondents from ten countries in Central and Eastern Europe, Middle East and Africa (CEEMEA).¹ Specific countries are Croatia, Czech Republic, Egypt, Hungary, Poland, Saudi Arabia, Slovakia, Slovenia, Turkey and the United Arab Emirates. These conversations offered valuable insight into the agendas and actions of CEEMEA 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 against CEOs in our global sample 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 well. 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.

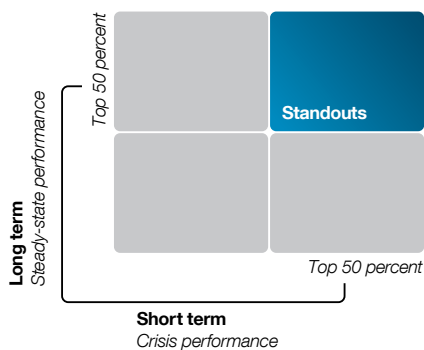
Four primary findings arose from our conversations:

1. The vast majority of CEOs in CEEMEA anticipate even greater complexity in the future, and more than half doubt their ability to manage it. Standouts, who have turned increasing complexity into financial advantage over the past five years feel mostly prepared for the future.

Figure 1

Performance analysis framework

Standouts represent organizations from different industries and from all geographies.



2. 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.

3. 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.

4. Better performers simplify operations and follow iterative strategies rather than complying with annual plans. They make quick decisions and execute with speed despite uncertainty. They focus on increasing their cost variability, integrating global resources and exploiting partnering to increase agility. 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.

A surprising number of CEEMEA CEOs told us they feel ill-equipped to cope with this drastically different world. A full 80 percent expect the level of complexity to grow significantly over the next five years, but only 49 percent believe they know how to deal with it successfully. In short, CEEMEA 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.

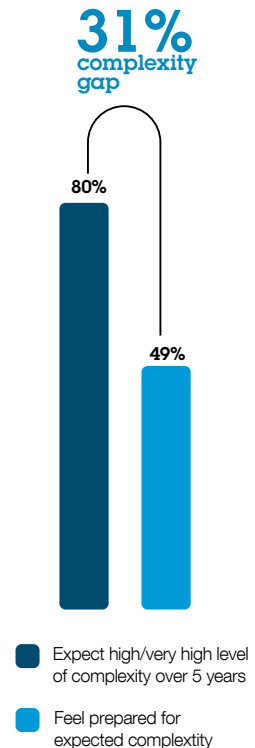
Shorter time cycles, industry transformation and information explosion present the biggest challenges for CEOs in CEEMEA over the next five years. Surprisingly, they do not see talent shortages as a problem as much as global leaders do.

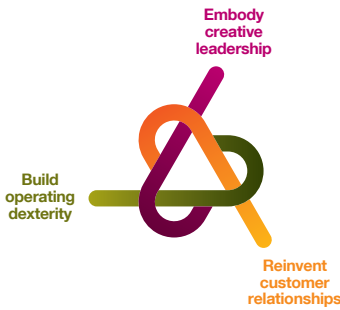
“Focus more on innovation and be more aggressive in investment, no fear from economic downturn.”

Communications and Information Technology CEO, Egypt

Figure 2

The complexity gap
CEEMEA CEOs anticipate much more complexity than they feel confident in handling.





CEEMEA CEOs also perceive market factors and regulatory concerns as the most important external factors over the next 3 years. They also expect to be impacted by regulatory concerns much more than the rise of technology – this contrasts with other regions, where technological factors are seen as the second most important external factor.

Seizing the opportunities

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

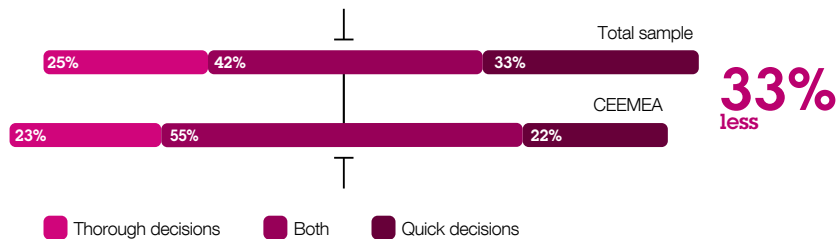
In an uncertain and volatile world, CEOs realize that creativity trumps other leadership characteristics. Creative leaders are comfortable with ambiguity and they experiment to create new business models. They invite disruptive innovation, encourage others to drop outdated approaches and take balanced 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.

CEEMEA CEOs believe creativity is the most important leadership attribute. Besides creativity, they pay importance to integrity, openness and global thinking. Openness is significantly more valued by leaders in CEEMEA than other regions – indicating a greater need to conduct business in an open and transparent way.

Sixty percent of CEOs use iterative strategic planning processes as distinct from formal annual strategy reviews but very few (22 percent) feel comfortable making fast decisions, potentially due to the volume of information and less mature processes.

Figure 3

Decision style
CEEMEA CEOs are much less likely to rely on quick decisions than CEOs in other regions.



It is not surprising to see most of the changes are expected to be related to processes. In CEEMEA, processes are less refined than in mature markets, restricting CEOs' ability to make decisions quickly. By comparison, Standout organizations have more refined processes, and hence skills and capabilities are their primary focus

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 aim is adaptability, the tool is execution speed.”

Dr. Faruk Yarman, General Manager,
Havelsan, Turkish Armed Forces
Foundation

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 produce differentiation. They consider the information explosion to be their greatest opportunity in developing deep customer insights.

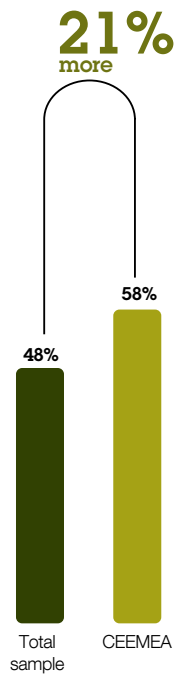
“Getting connected” to better understand, predict and give customers what they really want is the top priority for 86 percent of the CEOs in CEEMEA. This is encouraging particularly as CEOs in our total sample who put getting closer to customers first on their agendas are 18 percent more likely to be using insight and intelligence to realize their strategy.

In mature markets, there is a huge shift to collaborating with customers, which CEEMEA CEOs need to adopt. Customers are more engaged in the buying process, and in the design of their products/services. Standouts have adopted this way of working to reinvent customer relationships.

Figure 4

Plans for simplification

CEEMEA CEOs are among those most committed to simplifying their products and processes to better manage complexity.



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?

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.

CEEMEA CEOs are no exception; 58 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.

CEOs in CEEMEA also plan to lead the market by innovating in tune with global trends, but they focus more on centralizing operations. Across the standout companies, CEOs are more focused on strategic changes like optimizing globally and partnering extensively.

CEOs in CEEMEA should focus more on execution speed as a crucial capability for succeeding in this environment.

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 CEEMEA 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?

“We do everything to simplify our business, but at the same time need to manage increasing external complexity - for example, with our customers and partners.”

CEO, Public Sector, Czech Republic

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

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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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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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>