

# *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 38 Aerospace and Defense respondents from eight 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 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.

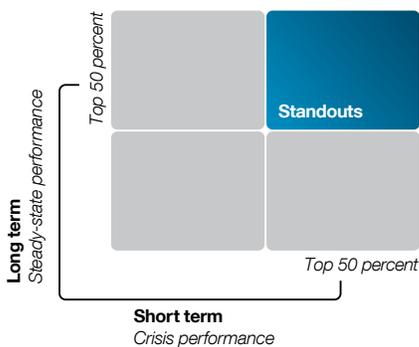
The most successful organizations are using entirely new approaches to tap new opportunities and overcome the challenges to growth. Four primary findings arose from our conversations:

**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.

### **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.

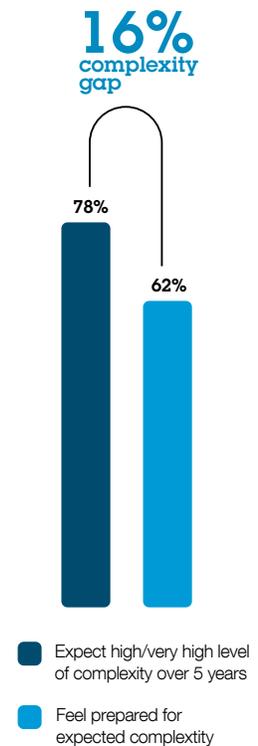
Understanding the sharp differences emerging by region becomes more significant in a world where economies and societies are closely linked. Organizations confront these variations as they increasingly operate across boundaries and across different regions.

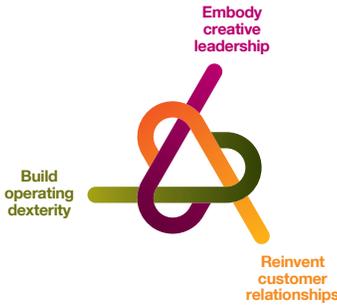
A surprising number of Aerospace and Defense CEOs told us they feel ill-equipped to cope with this drastically different world, although they are more confident than many of their peers in other industries. A full 78 percent expect the level of complexity to grow significantly over the next five years, and only 62 percent believe they know how to deal with it successfully. In short, Aerospace and Defense 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**

Aerospace and Defense CEOs anticipate considerably 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.

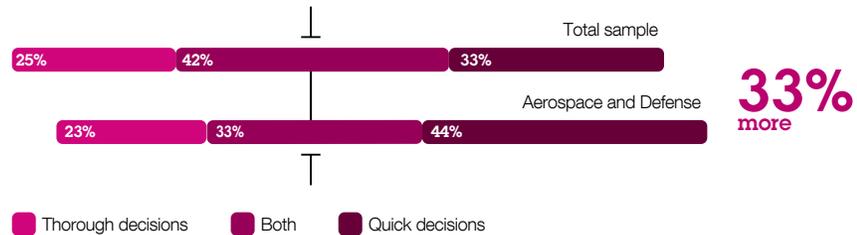
## Embody creative leadership

In an uncertain and volatile world, CEOs realize that creativity 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.

While more of our total sample chose creativity as the top leadership characteristic, Aerospace and Defense CEOs instead had integrity at the top of the list. In their industry context, creativity can be somewhat less important due to a well-understood customer set that has relatively well-defined requirements. In contrast with the continuously changing consumer products industry and its amorphous audience, for example, Aerospace and Defense products and markets often develop slowly.

Nevertheless, Aerospace and Defense CEOs are adept at dealing with ambiguity; 50 percent use iterative strategic planning processes as distinct from formal strategy reviews, while 44 percent favor quick decisions. Aerospace and Defense CEOs told us they rely less on the hold hierarchical style of leadership – however, most organizations tend to revert to hierarchical organizational and communications structures in practice, largely due to deep ex-military presence and government influence.

**Figure 3**  
**Decision style**  
 Aerospace and Defense CEOs are more likely than most other CEOs to rely on quick decisions.



*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?*

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*“Really, I am not afraid of complexity at all. On the contrary, this just motivates me.”*

**Jacques Pellas**, Secrétaire Générale,  
Dassault Aviation

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## 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.

Here, however, Aerospace and Defense CEOs differ substantially from most other CEOs. With an already high understanding of their customers’ needs, their top priority is developing “people skills,” to fill organizational skill gaps that can then further strengthen their relationships with customers. Only 72 percent regard getting closer to government and commercial customers as a key goal for the next five years, compared to 88 percent of our total sample that cited “getting closer to customers” as the number-one priority. Consistent with their objectives, Aerospace and Defense CEOs also place less weight on leveraging the information explosion and using insight and intelligence than CEOs in other industries. Instead Aerospace and Defense companies tend to work directly with customers to define requirements and don’t feel the need to leverage that type of information to the same extent as commercial companies.

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

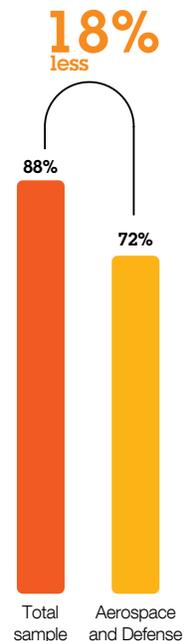
*How can you involve customers more effectively and directly in product and service development?*

*Can you hear the voice of your customers through the vast amount of data?*

*Can you understand and act upon the information?*

**Figure 4**

**Focus on customer intimacy**  
Aerospace and Defense CEOs rank getting closer to government and commercial customers relatively low on their agendas.

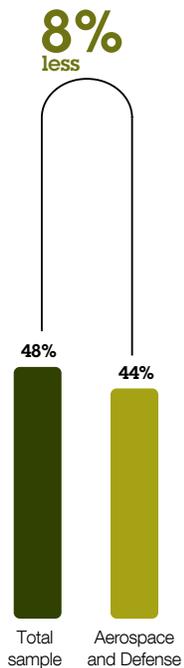


## Build operating dexterity

**Figure 5**

### Plans for simplification

Aerospace and Defense CEOs are slightly less engaged in simplifying their products and processes to better manage complexity than other CEOs.



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.

Aerospace and Defense CEOs are no exception; 44 percent are focusing on simplifying their products and operations to manage complexity more effectively, although this is marginally less than the global average. 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 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?*

*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 Aerospace and Defense 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><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>
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*“You can be good at everything, but if you can’t adapt, you are dead.”*

**Larry Kittelberger**, Senior Vice  
President of Operations and Technology,  
Honeywell

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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 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).

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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.<sup>2</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.

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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>