

# Embracing Complexity & Innovation to Deliver Business Growth

David Palmer



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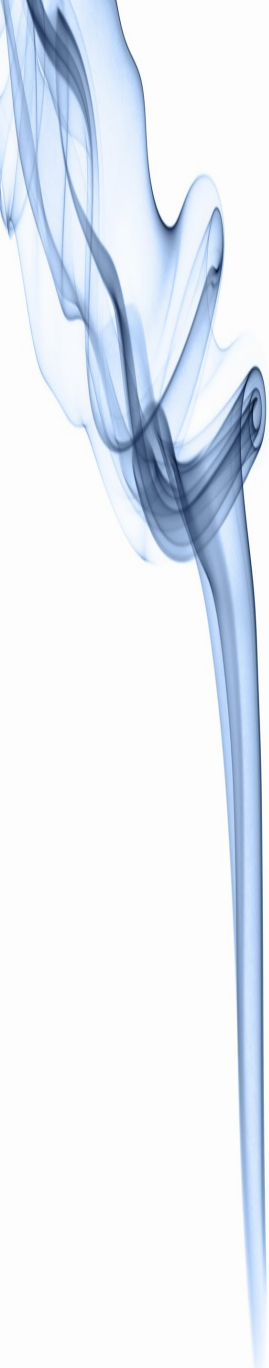
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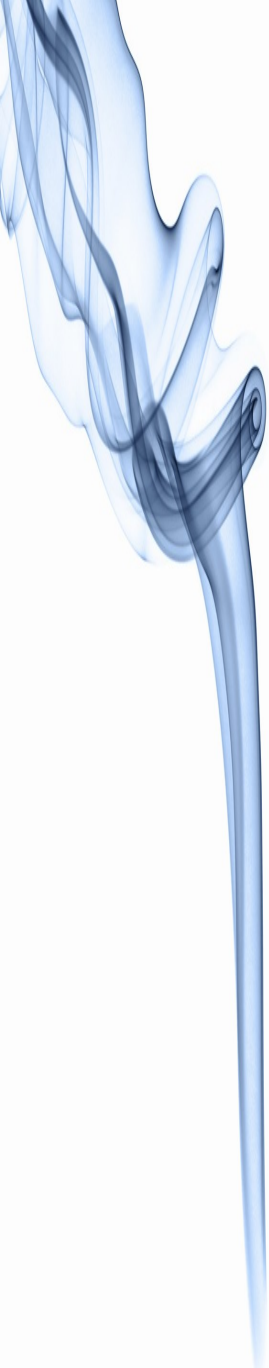
# Nature of Business Complexity



# Complexity: is it an issue?

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- Complexity has always existed in business:
    - The interactions between organizational components and staff.
    - Problems with lines of communication, internally and externally.
    - Process conflicts.
    - Resource availability.
  - This is primarily an instinctive knowledge based on experience:
    - Communication problems.
    - Decision problems.
    - Customer dissatisfaction.
  - It is rarely modeled or quantified beyond attempts to identify specific problem areas.
  - However, it's significance is increasingly being recognized as one of the key drivers for success:
    - Kraft Foods are evaluating a plan to halve their supply chain of some 30,000 businesses to achieve savings of \$300M p.a. An example of complexity introduced by takeovers of competitor brands.

# Standard Reactions

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- ▶ Most organizations try to deal with the problems complexity issues throw up:
    - Simplify the business operations.
  - ▶ Relatively few engage it effectively to realize the opportunities it presents:
    - Often on a business unit basis and not across the enterprise.
    - Dependent on a few visionaries and fails when they move.
  - ▶ Most responses are often:
    - reactive rather than proactive
    - Fragmented and unplanned.
    - Counter productive, creating even more complexity.

# Drivers



# External Environments

- The pace of change in the markets is frantic and will only get faster as the new economies become stronger:
  - As an example the US car market used a centralized push approach for new models which resulted in complex supply chains and organizations that could not cope with rapid market shifts.
- These changes impose the requirement for equally fast responses from the suppliers to these markets.
- There are always changes and additions to regulatory conditions.
  - additional geo-demographic regulations creates and additional layer of complexities in a global marketplace.
- The complexities of the IT systems used for advertising and B2B transactions.
  - In a survey by Cranfield School of Management 46% of SME's felt the use of the Internet had made their business more complex.

# Internal Environments

➡ The structure of a business creates levels of management and operation:

- Functional structures
- Overlaid management layers.

➡ Communications and knowledge transfer:

- Managers being protective of local knowledge.
- Communications processes based on reporting.
- Incapable of supporting open knowledge transfer.

➡ Internal processes:

- Complex and slow approval processes.

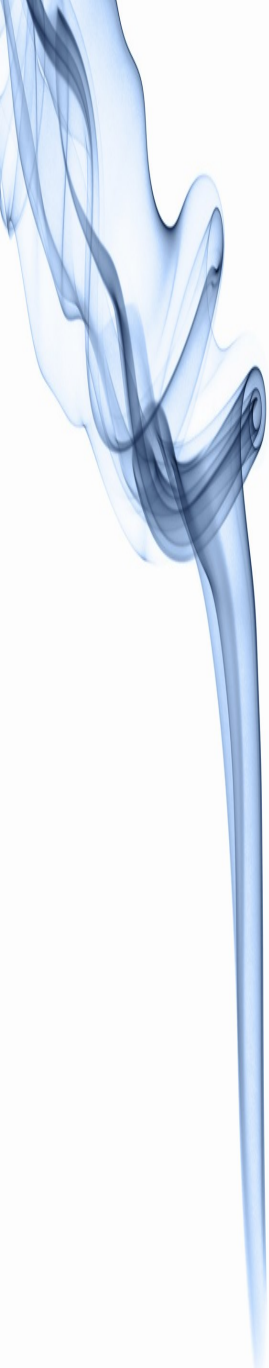
➡ Internal IT systems and tools:

- Imposed reporting structures.
- Inflexible to changing needs.
- Incapable of supporting open knowledge transfer.

QuickTime and a decompressor are needed to see this picture.



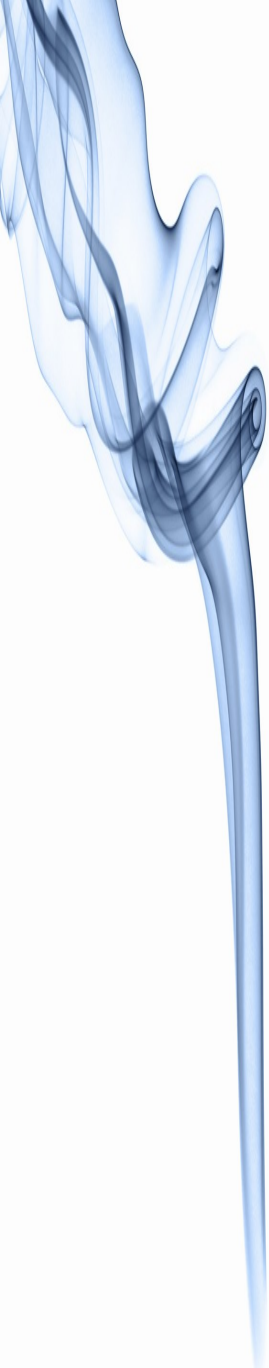
# Leadership and Culture

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- The level of recognition of the complexity issue by the business leaders:
    - Remaining at the instinctive level of understanding.
    - Holding to traditional business models that have worked in the past.
  - The level of desire to embrace solutions:
    - Failing to take a proactive stance.
    - Lack of understanding of the consequences inaction.
  - The inconsistent vision and strategy across an organization:
    - Creating vision and strategy that is open to local interpretations in different components and levels.
  - The engagement of the people within the total business environment:
    - Persistence of closed and guarded cultures.

# Impacts



# Impacts

- 
- ▶▶▶ Creating inefficiencies within a business:
    - Costly product development
    - Wasted resources
  - ▶▶▶ Uncompetitive in the marketplace:
    - The inability to respond to the increased pace of market requirements can lead to reduced market share and increased need for revenue cutting methods such as discounting.
  - ▶▶▶ Decision processes are too slow:
    - The risks associated with the complex global markets can mean that the internal decision process becomes gridlocked.
  - ▶▶▶ Unfocused innovation leading to:
    - Fragmented products
    - Wasted investment
    - Failure to achieve market position
    - Failure to develop new markets.

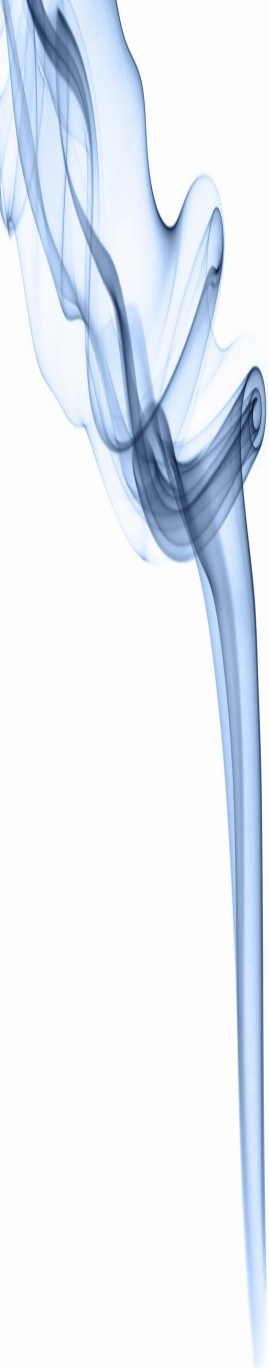
# Impacts

- Incompatible skills matrix resulting in poor staff performance and burnout:
  - Staff are required to take on roles and activities for which they lack skills or talents.
  - This creates high levels of stress resulting in performance degradation and increased levels of absence.
- Inefficient product portfolios where market trends result in multitudes of products, sometimes with no component commonalities:
  - New niche products get developed in response to new requirements and trends, often from scratch because existing products were developed without adaptation and reconfiguration built in.
  - This creates problems for both the business with higher development and operational costs and for the customer with confusing product portfolios.

# Benefits and Opportunities



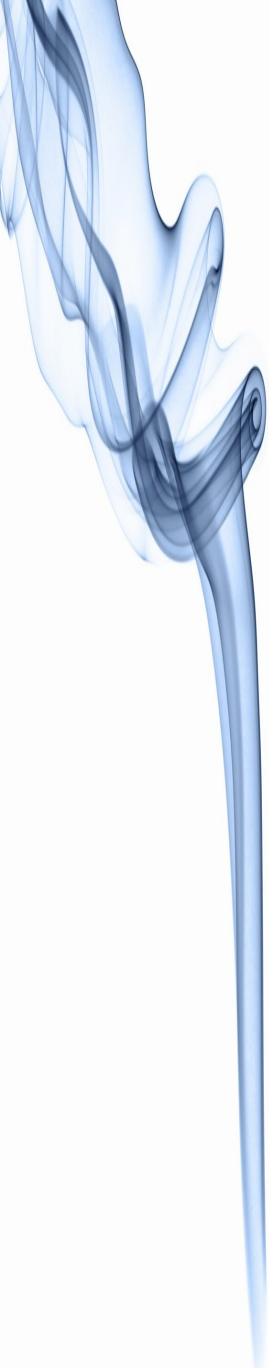
# Benefits and Opportunities

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- Better focused products with lower through life production costs resulting in sustained margins:
    - Reduction in operational costs.
    - Better control of supply costs.
    - Better market value and return on investment
    - Reduction in discounting to sell sub-optimal products and services.
  - Innovative cultures that produce higher value products:
    - More responsive to market changes.
    - More adaptive in the use of technology changes to deliver value.
  - More effective understanding and control of inbound resources:
    - Effective use of global resource pools for cost control.
    - Understanding and management of risks.
    - Improved accuracy in cost and margin forecasts.

# Benefits and Opportunities

## ➡ Better use of resources:

- More adaptive cultures with evolving skills and more flexible deployment models.



# Solution Areas





# Solution Areas

## ➡ Cohesion of vision and strategy across the organization:

- A vision for the business that doesn't lose cohesion as it promulgates throughout the organization.
- Delivering the vision through effective strategies.



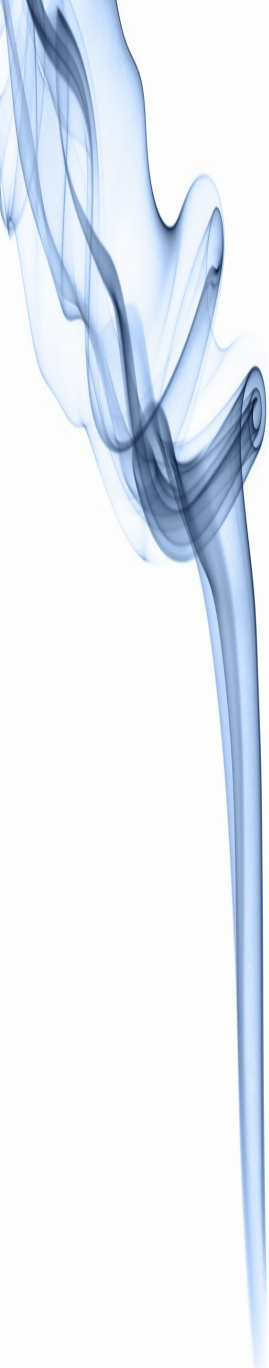
## ➡ Dynamic and adaptive cultures:

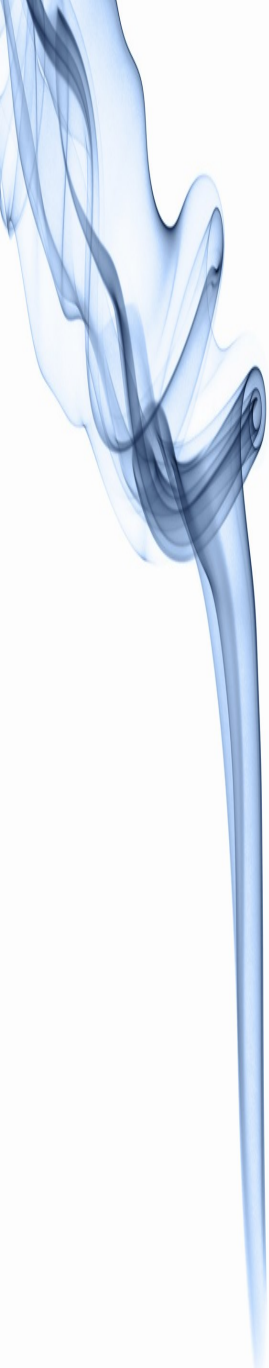
- Change oriented.
- Evolving capabilities.
- Shared knowledge.

## ➡ Fast pace of innovation and development:

- Resourced to match the pace of market changes.
- Focused pragmatic innovation.
- Clear and complete information on markets and customers.

# Solution Areas

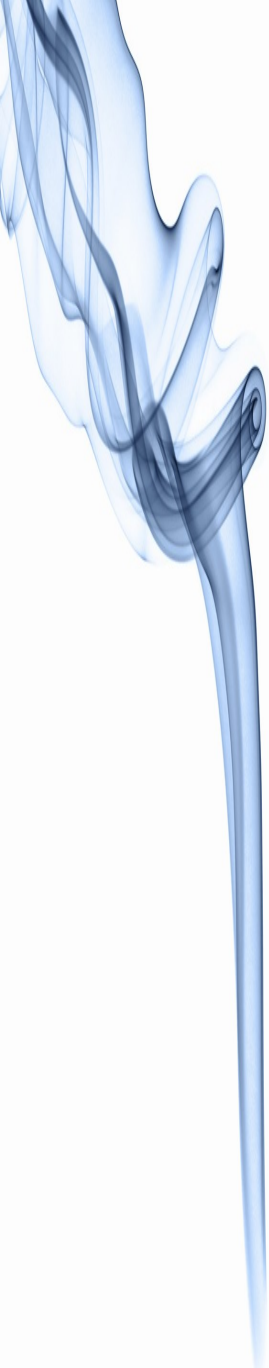
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- Change oriented environment and supportive organizational culture:
    - Removal of protective domain practices.
    - Supportive environments providing personal security.
    - Accommodation of social factors.
  - Control the external factors that cause complexity:
    - Supply chain.
    - Market intelligence.



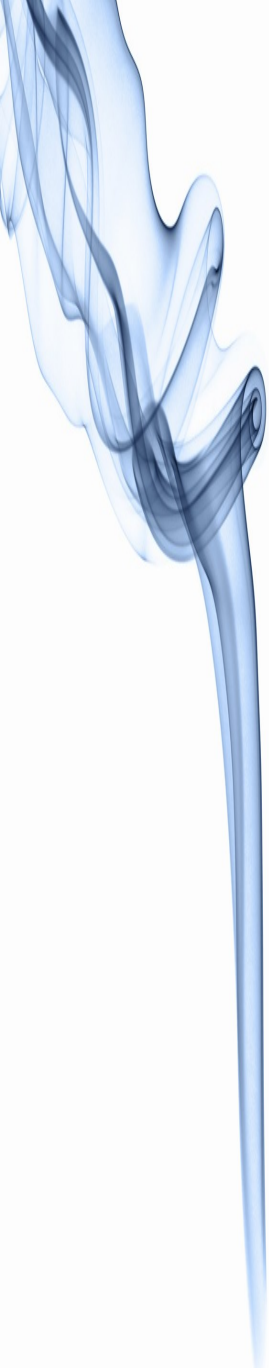
# Challenges to the Business Practitioner



# Challenges to the Business Practitioner

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- ▶ Creating effective vision and strategy within the business
    - Ensuring the vision remains cohesive and effective across organizational components and layers.
    - Creating effective strategies to deliver the vision.
  - ▶ Identifying and managing issues of complexity.
    - Having an instinctive feel for complexity isn't enough.
    - A business must sustain efforts to identify complexity issues. This requires specialist skills and in some cases tools.
    - Complexity is dynamic and requires analysis to identify when to simplify and when to accommodate for benefit.
    - Clear and effective management processes are required to mount a planned response for mitigating negative effects and embracing the beneficial opportunities.
  - ▶ Managing skills development and deployment
    - Skills development is always difficult, especially under an economic cloud.
    - Effective deployment of skills requires embracing more flexible structure models.

# Challenges to the Business Practitioner

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- Creating a culture of effective innovation and change throughout the organization.
    - Removing and preventing defensive cultures.
    - Developing business models that encourage and accommodate open and adaptive behaviors.
    - Creating confidence in these models that provide less “tribal” security.
    - Keeping the innovation focused and pragmatic.
  - Ensuring effective knowledge transfer and information flows across the organization
    - optimized to support innovation and development,
    - especially knowledge propagation.
  - Effective processes
    - Preventing decision holdups while ensuring due diligence.

# Challenges to the Business Practitioner

- ▶ Handling the dynamic external forces that impact the business, particularly in the supply chain.
  - Market and customer intelligence
  - True costs of supply.
  - Geo-demographic issues including regulation and culture.
- ▶ Understanding that complexity is an organization wide issue and needs an organization wide solution.
- ▶ Recognition that simplification is not necessarily the optimum solution to complexity issues and that complexity is not always a bad thing.
- ▶ Ensuring that these measures are implemented together to provide a complete and effective strategy for delivering in the modern global economy.