



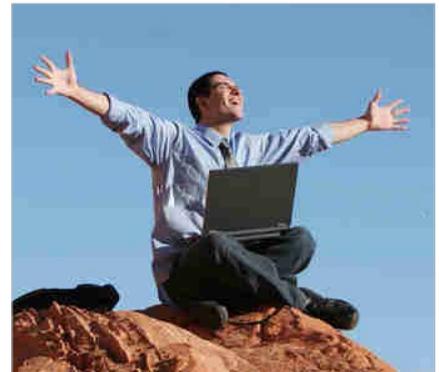
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Growth Focus: Complexity

CEO-Tip *of the Month*

by Guido Quelle

“That sounds pretty complex, boss” – So What?



How often do we hear that something is “pretty complex” or “too complex?” That certain things aren’t “simple,” but are instead “complex” and difficult to solve?

Here’s the news flash: today, most business processes are complex. But, even if the distinction sounds academic, things that are complex don’t have to be complicated. I’ve looked at this difference a bit more closely, because it wasn’t immediately obvious to me. Nevertheless, the distinction is both logical and sound.

Complex things are characterized by a large number of interdependencies. Since today we almost always have an interaction between various fields, departments, processes, systems, companies, and involved parties, business connections are almost always complex.

But these connections don’t necessarily have to be complicated; complicated means “difficult.”

Though the relationships in the world are complex, they are not always complicated. As CEO your priority must be to persuade your employees to warm up to these complexities, because things aren’t going to get any simpler. On the contrary; increasing interactions in all areas of life mean that things are only going to get more complex. Of course it makes sense to live by the “keep it simple” motto and always look for simpler ways of doing things.

Matrix organization, for example, can usually be replaced by more effective linear organization, or the number of interfaces in a network of relationships can be reduced. However, the statement that complexity tends to increase remains unchanged.

Employees’ reluctance to face complexity and to take on complex topics is often due to the fact that they don’t want to make mistakes. These looming mistakes are thought to be obvious, since the effects of our own actions are not always predictable.

Dealing with complexity is not just about techniques (concrete facts); it’s also about attitudes (emotions). We know that we first have to overcome emotional obstacles before we can tackle the objective obstacles, so we are wise to persuade our employees to take a positive attitude towards complexity. After all, it can be fun to master complex issues, ideally so that they don’t become complicated.

Which complex tasks can you tackle with your employees so that they run more smoothly? And where in your company do you hear – maybe between the lines – that things are too complex? Deal with these topics together with your team, and when you do, try and figure out if instead of complex they really mean complicated.

Strategy & Leadership

by Guido Quelle

Managing, Reducing or Making Complexity Useful – Three Practical Examples



If businesses want to expand profitably, they can't avoid confronting complexity professionally and strategically. This also has the benefit of making you known to your customers as a "complexity reducer," which in turn opens up new business opportunities. We'll come back to this later.

To make clear where complex topics can hide and how we can deal with them, we'll look at three examples from our consultancy practice. They show how our clients, together with us, have dealt differently with the complexities of a particular situation.

Example 1:

Accepting and managing complexity

One of our clients from the consumer goods sector again found that increased growth had brought with it a more complex organizational structure. Although – with our ongoing support – the business constantly strove (in the positive sense, not in the lip service sense) to keep its organizational structure lean, there's a difference between lean and emaciated.

Together we came up with a structure that gave the operative unit the greatest possible freedom while at the same time letting the head office pull all the (relevant) strings, thus initiating a company-wide learning process. What we wanted to – and were largely able to – avoid was a matrix organization, which our client was initially in favor of. Our decidedly bad experiences with the effici-

ency of matrix organizations meant that we had several arguments up our sleeves. The result was that almost all of the responsibilities remained linear, with just a few matrix functions connected.

Incidentally: I can almost hear the outcry from those in favor of the matrix, but I refuse to budge; there are always less complex ways of doing things. In 2009 businessweek.com hosted a virtual discussion on the pros and cons of the matrix between Dr. Jay Galbraith and myself that is worth looking into: http://www.businessweek.com/debateroom/archives/2009/08/matrix_is_the_ladder_to_success.html

One of the last comments was combined with a question that unfortunately remained unanswered by Jay Galbraith (and there is no good answer to it), namely why Cisco, which is always cited as the best example of matrix organization, was apparently unable to profit from it.

Example 2:

Reducing complexity

One of our mid-size client manufacturing companies in the health sector had, over the years – to put it bluntly – "piled up" a huge product range, making it impossible to get anything even close to an overview of it. Marketing, Research and Development and Sales were all unable to find an adequate way to plow through the range of products with the customer. The Sales department, it has to

be mentioned, wasn't particularly interested in doing so, since the large, confusing product range allowed them to cherry pick and the Sales staff could choose which products they wanted to sell without the head office noticing.

Together with our clients – and interestingly enough as part of a sales activation program – we put a stop to this extremely harmful activity. Clear rules for listing products were drawn up and implemented, much to the dismay of Sales.



Of course there were the “killer arguments” that the company would lose business as a result of this focusing – after all, customer XY always came back to product Z, which was now no longer available. We've heard all the arguments before.

The fact is, reducing the complexity led to certain products selling dramatically much better than before. A less complex product range also meant less upkeep and vastly improved transparency.

Example 3:

Making use of complexity

A wholesale company continually had to contend with other companies in the industry doing direct business with its customers and offering them lower prices.

Apart from the fact that the chief justification for wholesalers is that they essentially serve to reduce the level of complexity in the value creation chain (1,000 suppliers who deliver 100% to 10,000 customers equals 1,000 x 10,000, or 10 million business relations. 1,000 suppliers who do 100% of their business through wholesalers in order to reach 10,000 customers only equals 1,000 + 10,000, i.e., 11,000 business relations), this resulted in our client missing out on lucrative business; after all, direct business means directly lost revenues if they're not at least invoiced through the wholesaler.

Together we looked at it from the customer's point of view and saw a huge disadvantage: If a certain level of direct suppliers is reached, the personnel costs outweigh the profitability. Our client's customers didn't consider the personnel costs, because they're “there anyway,” but this offered the business an opportunity.

A campaign led to the company winning back numerous customers by showing them that high levels of complexity were the price they were paying for what was at first sight a lower purchase price. Customers who did the math understood this immediately.

Were we able to bring the proportion of direct suppliers down to zero? Of course not. But our client succeeded in making use of the complexity to make their own structure profitable. And that was exactly what we were aiming for.

Complex = complicated?

Of course there were a few tough nuts to crack in the examples above, but these topics weren't complicated in the first place; they were “just” complex. And it is this complexity that we have to face up to strategically and as leaders. And fortune favors those who do.

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