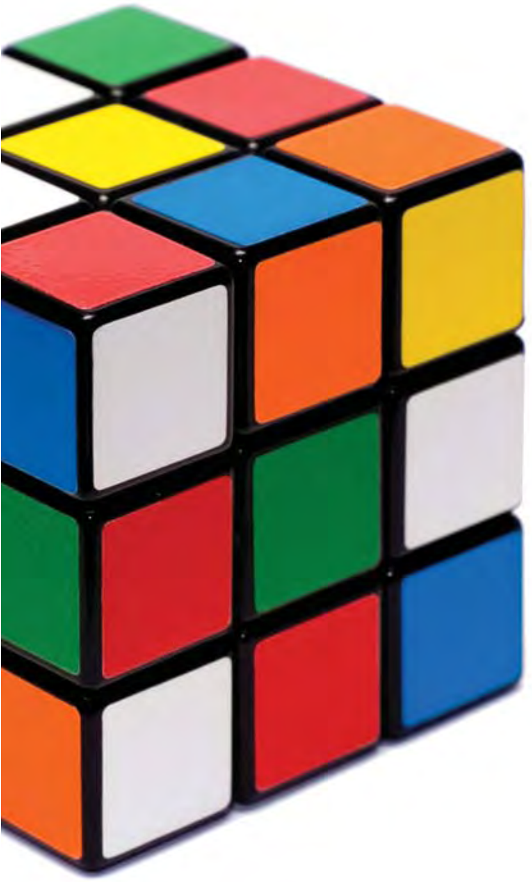

COMPLEXITY:

Managed with skill and foresight it can create real competitive advantage.

Companies have two options in today's complex environment, says Doug Newman, Senior Vice President at Celerant Consulting Americas. They can scramble to change strategy on every new development, or accept that some complexity is unavoidable - and some is even desirable.

Making smart decisions about what to seize and what to embrace can be the difference between taking a lead position and losing a handle on long term success. One prime example is Honda's investigation into alternative fuel usage at a prospective UK power plant. Factoring in predictions of country-wide electricity shortages that could limit industrial power, regulatory pressure on carbon emissions and an auto industry turned on its head, the company carefully chose which elements of complexity to roll with and which to tackle head on.

Its most innovative move, according to the Wall Street Journal[1], is an effort to supplement traditional power sources with miscanthus grass. *'The company has offered farmers 15-year growing contracts and could eventually require between 5,000 and 15,000 hectares of farmland. Honda officials say a miscanthus-fueled power station, along with wind turbines and the use of solar panels could, in theory, satisfy all its factory's electricity needs.'*
Now that's managing complexity to create a real competitive advantage.

Internal agility to navigate external developments
Forward thinking leaders worldwide recognise that by reducing operational complexity to maximise existing strengths, they can create a company agile enough to navigate externally propelled market developments. Food sellers are seeing such difficulties by the barrel. Kraft is no stranger to this. The company has high visibility due to its dominating presence in so many markets, but along with that comes exposure to cross border complexities. *'We're concerned about potential new government regulations that may expand the use of corn ethanol.'* CEO Irene Rosenthal told Forbes magazine[2]. *'These proposals may displace a small amount of foreign oil, but create unintended consequences, including higher food prices, both for consumers and manufacturers.'*

The Wall Street Journal[3] also touched on the outside factors impacting food prices: *'Costs are being driven by growing demand for meat in China, India and other emerging markets. That's driven up grain prices, which in turn boost the cost of chicken, steak, bread and pasta.'* These complexities hit every point in the supply chain and beg the question for the food industry: where can complexity throughout the organisation and supply chain be managed to yield an advantage instead of a pain point?

Knowing where to focus energy and where to let the market play its hand takes discipline, foresight, and a keen grasp on how to steer an adaptable organisation. Executives should guide their operational strategy using 4 keys to complexity:

1. Accept unmanageable complexity
Not everything is part of the business plan, a point driven home by the obstacles faced by the industries above. The question for CEOs is when to challenge the market on its own terms, and when to look inward to determine how to best adapt? Which course of action will lead to the most competitive advantage? To stay ahead of the storm, businesses must align their internal systems and processes to meet the demands of external complexities while remaining profitable. At the same time, these processes must be designed to assist executives in making one decision over another, and then to gauge the success of that decision after the fact.

This is one of the most critical elements of managing complexity - without a clear view that aids decision making, there's no way to make a real determination of which path leads to the desired result. When considering external developments or internal strategy, leaders should develop a full understanding of their business' end-to-end processes, which will provide a picture of where complexity can be simplified or even eliminated.

2. Create a nimble organisation to manage Internal Complexity
With visibility in place, choosing which organisational complexities to focus on becomes an exciting exercise. Leaders can combine their understanding of outward facing issues with internal capabilities, allowing them to position people, processes and systems in such a way as to capture the benefits and avoid the pitfalls.

For example, CEOs and their teams will see when market movements are changing customer preferences. The organisation may not be able to impact that change, but it can make a firm stand on which segment it sells to. Making an adjustment means tweaking operations throughout the supply chain, product development, and marketing channels. Not an easy task, unless the organisation is already primed to make quick adjustments. That means being tuned into suppliers, vendors, and of course each area of internal operations.

3. Get the most value out of operations
Navigating through this complexity requires a different way of thinking, acting, and organising than the typical control mentality. Passion and emotion should be removed from the equation, and each choice should be guided by what the data indicates is the best option. Choosing several key performance indicators as metrics is absolutely necessary, and care should be taken that enough KPIs are leading, and not lagging, indicators. An executive should be focused on looking through the windshield - not in the rear view mirror.

One key metric is the amount of time employees spend on activities that add value to the final product or service. A recent Celerant study[4] found that across most major industries, as much as half of the time employees are at work is spent on non-value-adding activities (NVA). Much of this NVA time is impactable, and it should be redirected towards activities that have a positive impact on the bottom line.

4. Changes in behaviour from people, processes and systems bring lasting results
A culture of creativity, innovation, and data-based decision making must be fostered all through the management ranks. A crucial element in managing complexity is ensuring that those ranks are well organised and working towards the same goal. Each employee should have at most a few items of concern, and each with supervisory duties should have only a few direct reports beneath him. Every employee should also know where they fit in the structure and how their actions affect the company as a whole.

Embedded in this organisational framework must be a clearly distributed system of responsibilities and accountability that is understood by all. When variance occurs, a CEO should be able to easily follow the path - to the individual operator if necessary - to find the cause. When the pain point is identified, the responsible employee should be held accountable in a manner that both improves their future work and advances the company.

Jumping a plateau
Maintaining a focus on people, systems, and processes can bring about enduring changes in behaviour that vault a business to new levels of productivity. In turn, new revenues and decreases in expenses, combined with measurable successes on the human and operational levels, can yield increased and sustainable profitability.

Honda's pursuit of alternative fuel taps an inventive solution, but keeps the management of the solution close to home by enlisting farmers near its planned power plant. Creative leaders can take such difficult situations and, by leveraging a nimble organisation, generate momentum in a direction that rides the wave of unmanageable complexity, accelerates growth, and enables the company to jump a plateau. ■

'Without a clear view that aids decision making, there's no way to make a real determination of which path leads to the desired result.'

1 Honda Looks to Grass to Resolve Its Power Needs: Michael Weir, Wall Street Journal, November 8, 2010

2 Kraft's CEO Clears The Air About Cadbury And Buffett: Alexandra Zendrian, Forbes.com, October 28, 2010

3 Food Sellers Grit Teeth, Raise Prices: Julie Jargon and Ilan Brat, Wall Street Journal, November 4, 2010

4 Saved Time, Saved Value: Impacting Employee Contributions Across the Organisation. Celerant Consulting, 2010