



Capitalizing on Complexity

*Insights from the
Global Chief Executive
Officer Study*

Introduction

How are leaders responding to an increasingly interconnected – indeed interdependent – and uncertain 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 329 respondents from public sector organizations based in 22 countries.¹ Our public sector sample includes governmental and non-governmental (non-profit) organizations operating at multiple jurisdictional levels, including central or federal; regional, state or provincial; local or municipal; and multilateral. Our conversations with these respondents offer valuable insight into the agendas and actions of global leaders.

In our past three global CEO studies, CEOs consistently said that coping with and managing 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, multi-faceted and structurally different. 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 private sector CEOs based on financial performance. Those private sector 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.

While we recognize that this lens cannot be applied to the public sector, there is value in seeing how Standouts’ responses compared to those of the public sector. 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:

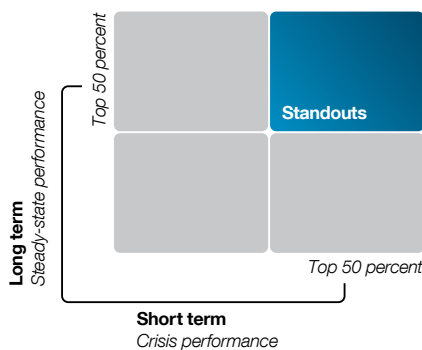
The vast majority of CEOs anticipate even greater complexity in the future, and more than half doubt their ability to manage it.

Public sector CEOs too are experiencing and anticipating greater complexity and do not feel well prepared to manage it, leading to a significant “complexity gap,” which is greater than the one faced by CEOs in the private sector.

Figure 1

Performance analysis framework

Standouts represent private sector 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 changes to the way they work to realize their strategies, take more calculated risks and keep innovating in how they lead and communicate. The majority of all leaders, including those in the public sector, view this as the top leadership quality.

The most successful organizations co-create products and services with customers, and integrate customers into core processes.

Standouts engage and stay in tune with customers using new channels and glean more intelligence from the barrage of available data to make customer intimacy their number-one priority. Public sector leaders responded in a similar fashion, rating getting closer to the customer as the most important dimension to focus on over the next five years. Public sector CEOs also rate insight and intelligence as particularly important, more so than private sector CEOs.

Better performers create advantage out of complexity on behalf of their organizations, customers and partners. The Standouts do so by simplifying operations and products and increasing dexterity to change the way they work, access resources and enter markets around the world. Public sector CEOs' responses indicate they are a long way behind the Standouts, particularly relating to simplification, execution speed and increasing flexibility by moving to a variable cost model.

A drastically different world

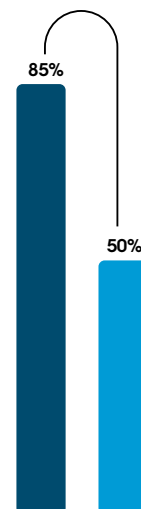
Increasingly interconnected societies, economies, governments and enterprises have given rise to vast new opportunities. But greater connectedness has also created strong – and too often unknown – interdependencies. The new economic environment, CEOs agree, is increasingly complex. CEOs across all parts of the public sector face particularly strong external forces. In North America and Europe, the most important include shrinking budgets, demands for improved services, difficulties attracting and retaining staff, and managing the opportunities provided by new technologies. In fast-developing countries, public sector CEOs are more preoccupied with how the public sector will develop, the need to manage the consequences of rapid growth and evolving relationships with the private sector.

It is particularly striking that while almost half of all CEOs recognize the shifting boundaries between public and private sectors, 60 percent of public sector leaders believe those shifting boundaries will significantly impact their organization's operations over the next five years, compared with just 32 percent of private sector CEOs. Similarly 73 percent of public sector CEOs highlight the impact of the information explosion,

Figure 2

The complexity gap
Public Sector CEOs anticipate much more complexity than they feel confident handling.

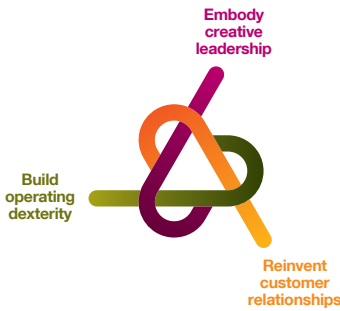
35%
complexity gap



- Expect high/very high level of complexity over 5 years
- Feel prepared for expected complexity

compared with 59 percent of private sector CEOs. These impacts could be viewed as positive, as they offer resources public sector CEOs can use to better manage complexity.

A surprising number of public sector leaders told us they feel ill-equipped to cope with today’s drastically different world. A full 85 percent expect the level of complexity to grow significantly over the next five years, but only 50 percent believe they know how to deal with it successfully. In short, public sector 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.



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. There are many parallels to draw with the public sector.

Embody creative leadership

In an uncertain and volatile world, CEOs realize that creativity trumps other leadership characteristics. Creative leaders are comfortable with ambiguity, experiment with new ways of working, and change and/or 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.

Public sector leaders, like private sector CEOs, believe creativity is the most important leadership attribute. They are willing to embrace new management and communication styles; 77 percent plan to move to managing continuous change versus ad-hoc initiatives; 65 percent prefer to persuade and influence than to command and control; and 41 percent are favoring more networked communications approaches.

Figure 3

Management style

Fifty-three percent of public sector CEOs plan to apply more iterative strategy planning approaches to augment their annual strategic planning process.



Are you looking at the existing decision landscape differently and asking, “Why?” or, “Why not?”

How will you encourage new ways of looking at and addressing challenges in practical ways (for example, “micro” strategies)?

In what ways can you model creativity and enhance it among your leadership team?

In what ways can you explore and integrate diverse, unconventional and external points of view ...and reward others for doing so?

“The young population is technically adept. The next generation will have revolutionary implications for politics, the public sector and the way we do business. The citizen will drive change and bring social revolution, not evolution.”

Peter Gilroy, CEO, Kent County Council, United Kingdom

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.

The public sector parallel for this characteristic is quite profound: *rebuild citizen and stakeholder relationships*. Doing so could not only enable public sector organizations to predict, define, focus, and deliver services that matter, but also inform leaders as to what’s important and how their missions have already changed – or might have to change.

The majority of all CEOs believe that “getting closer” to customers, citizens and stakeholders is a top priority. Public sector CEOs also cite “getting closer” as their top priority, though not at as high a level as Standout CEOs (see Figure 4). In addition, public sector leaders place much more weight on using insight and intelligence and are exploring new or different channels to reach their citizens. At local levels, public sector CEOs expect to collaborate and use new channels even more with citizens.

How will you engage citizens and stakeholders in new ways that increase confidence?

How can you involve citizens and stakeholders more effectively and directly in the development of new services, including integrating external views into the process?

Can you hear the voice of citizens through the vast amount of data? Can you understand and act upon the information?

Figure 4

Dimension to focus on over the next 5 years: Getting closer to the customer
Getting closer to the citizens and stakeholders they serve is a lower priority for Public Sector CEOs than for Standout CEOs.

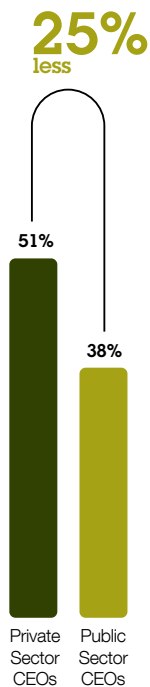


Build operating dexterity

Figure 5

Plans for simplification

Public sector CEOs are much less likely to simplify their operations than their private sector counterparts, especially when contrasted with the 61 percent of Standout organizations that are making it a priority.



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.

Many public sector leaders are grappling with the pressures of expanded (and expanding) missions amid growing budget constraints; increasingly they are feeling the need for greater speed and flexibility, or operating dexterity.

However, public sector CEOs were relatively split between managing existing operational complexity (37 percent) versus simplifying it (35 percent), as compared to their counterparts who lead Standout organizations – 22 percent and 61 percent, respectively. Public sector CEOs are also investing less on improving the organizational ability to act rapidly, with only 18 percent prioritizing execution speed (against 40 percent of Standouts) and 22 percent prioritizing quick decision making (versus 43 percent of Standouts).

Just over half (51 percent) of public sector CEOs anticipate increasing the share of variable costs, which is low compared with 76 percent of “Dextrous CEOs” (those that also prioritized iterative strategies, quick decisions and executing with speed). It is also low given the interest of many of the respondents in initiatives such as cloud computing and outsourcing – initiatives that promise increased efficiency and variability of costs.

In what ways can you simplify processes and become more agile?

How might your organization benefit from taking on more complexity on behalf of the citizens you serve?

How will you obtain, analyze and integrate the right information to gain insights and make quick, yet informed, decisions (“micro” strategies)? How will you enable dynamic course corrections?

How will you achieve asset and cost visibility and variability and partner strategically to increase efficiency, responsiveness and effectiveness?

How to capitalize on complexity

For public sector 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 and inhibits responsiveness; overwhelms employees, citizens and stakeholders; and threatens the confidence so crucial to governing? 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:

Embody creative leadership	Rebuild citizen and stakeholder relationships	Increase operating dexterity
<ul style="list-style-type: none"> • Embrace ambiguity • Take risks that disrupt the status quo and challenge legacy business models and ways of working • Leapfrog beyond “tried-and-true” management styles 	<ul style="list-style-type: none"> • Meaningfully engage constituents – customers, citizens, stakeholders • Use two-way communications to sync with your constituents and incorporate external views into decisions • Exploit the information explosion 	<ul style="list-style-type: none"> • Simplify wherever possible • Define practical “micro” strategies that are transformative • Manage systemic complexity • Promote a mindset of outcomes, responsiveness and flexibility

“There isn’t the luxury of time. We used to say, ‘Wait until this crisis is over and we get back to normal,’ but that never happens. We have to be ‘change animals.’”

Michele McKenzie, President and CEO, Canadian Tourism Commission

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 them. 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 the IBM leader 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.

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>