$1.2 billion each: The hidden cost of people complexity to the top 200

Siân Harrington, 06 Sep 2011

As companies grow, so they get more complicated, right? Wrong. There's good and bad complexity and the latter can cost you, both in people and money terms. So, reduce the bureaucracy and liberate yourself from the maze…

One hundred and forty-five billion pounds. That is, 145, followed by nine zeros. In dollars, $237 billion. Not quite as large as the US deficit, but only just shy of the UK general government net borrowing of £148.9 billion for 2010. What in business could possibly equate to this huge figure? Well, according to a groundbreaking study from Warwick Business School, it is the amount the 200 biggest companies in the world waste each year, due to failure to cope with increasing business complexity.

These Forbes Global 200 firms are losing 10.2% of their profit each year, according to the Global Simplicity Index, based on joint research conducted by Simon Collinson, professor of international business at Warwick Business School, and advisory firm the Simplicity Partnership, which helps companies identify and remove complexity. This equates to each of the 200 firms throwing away £735 million ($1.2 billion) of profit annually. And, given all complexity is ultimately caused by the decisions and actions of people, the shocking fact is that businesses are losing more than a tenth of their profits primarily because of human behaviour.

Complexity is on the rise, as companies expand into new markets, create new products and processes, embrace new technologies and add new people and strategies into the business. Factor in economic interdependence, regulations and social change and it is no surprise that once-great companies are on the defensive. Large, complex organisations are slow to react to economic, competitive or social changes. Just look at Nokia. Once the darling of shareholders and analysts, a decade later its profits had collapsed, as it failed to react quickly enough to smartphone rivals. It is no coincidence that Nokia rates as one of the most complex firms on the Warwick/Simplicity Global Simplicity Index (see right).

Even the smaller companies are getting more complex, with email overload, a plethora of tick-box policies and numerous meetings. Complexity is systemic, creeping into strategy, organisational design, processes and behaviours.
"If companies learn how to simplify the way they do things, their structures and strategies, they will reduce these losses," says Collinson. "We looked at the people issues underpinning costly complexity and narrowed them down to a number of behaviours and processes that are costing money but not adding to productivity or profitability."

One example Collinson has identifed is the number of management layers in a company.

"The route to decision-making is so convuluted that people find it hugely complicated to steer around these layers of management to either have a decision made or have an input into decision making. Both processes and procedures are hindering people adding value or understanding what is the stategy they are supposed to be adding value to."

Melvin Jay, founder of Simplicity Partnership, believes the root of the problem is that humans appear to be hardwired to improve themselves and their surroundings, even if this creates damage. A good example is the employee who spends time working on new ideas and projects at the expense of the core job, to appear 'innovative'.

"To survive in this turbulent and competitive job market, people think they need to look clever. They over-engineer everything to justify their existence," Jay says, "leading to a tendency to over-complicate business. Left alone, humans keep changing what they do, adding new tick-boxes to forms, way beyond the point where they are getting any value. All organisations show this tendency to push things beyond the point of improvement to the point of damage. But complex organisations are frustrating and demotivating places for people to work. Dealing with complexity every day means it is hard for managers to drive their businesses forward."

Warwick/Simplicity's research with 500 managers from large firms across Europe unearths some horrifying findings. One in 10 managers believes 30% of productivity losses in their business are due to complexity. A sixth are coping with more than 16 strategic initiatives at any one time. One in five have more than 16 levels of management in their firms. Some 11% of managers say they have more than 11 stages in their capital expenditure sign-off process. Six in 10 firms take four weeks or more for annual budget planning, but an astonishing 10% say their company takes more than 16 weeks for annual budget planning. That means for four months out of 12, 10% of managers are focusing on planning budgets rather than on making money.
It goes on. Some 13% of managers deal with 16 different kinds of IT systems. For a quarter of managers, dealing with emails consumes a third of their time. So complexity is one of the major business challenges of today, but few organisations have woken up to it - despite the big prize to be won - and even fewer are doing something about it. The problem is, they think it is too difficult to tackle. Given Collinson has found 100 complexity drivers, this is hardly surprising. But Jay dismisses this as an excuse, saying people simply do not want to confront the issue. The result? They spend less than 50% of their time on value drivers, as they navigate their way through the corporate treacle that is complexity. Or, as Jay succinctly puts it, organisations are full of "busy fools filling their day running fast in the wrong direction".

"People avoid doing things they know they should be doing, as it is too difficult to get done. But clever people know where they are and where they want to be. To get from A to B, they are thwarted by complexity," he adds.

"Removing this corporate treacle benefits staff and the business as a whole. Harmful complexity means staff spending their time doing things that don't drive value. By stripping out unnecessary complexity, you free them to concentrate on high-value activities or to improve their work-life balance."
Rob Murray, marketing director of Wickes, is one of the few working to remove bad complexity, in this case from the DIY retailer's marketing department. He says getting buy-in can be a problem. "Many companies do not have the time or inclination to press 'pause' and think about how they are working. My battle has been getting the team to believe it could free up 10%-15% of capacity. It has taken a year just to get them to a place where they believe in it. The problem is juniors doing a lot of things they always do, but no-one asking, 'is this adding value?'

"I suspect that if you looked at every single job in an organisation and challenged whether it was adding value, you would be really shocked with the outcome," said Murray.

Jürg Hauswirth, head of change program office for General Insurance at Zurich Insurance Company, which began a simplicity programme this year, agrees complexity in business has increased, but points out that not all is bad. "Our capabilities to handle complexity have improved and some complexity even adds value," he says. "For example, we can bear a higher risk globally than we can locally because of risk diversification, so we can therefore provide worldwide insurance to customers. In HR, we can offer global career opportunities to our talent. So the challenge is to find the right level of complexity, to achieve the right balance."
Simplicity and Warwick have correlated Collinson's complexity drivers with seven business performance dimensions to create a complexity curve, to understand this balance. As a business grows, it naturally adds complexity and this 'good' complexity helps business performance. As businesses carry on adding complexity, it can result in over- complication, slowing the business down, costing money and making work feel harder than it should. This is bad complexity.

Knowing where you are on the complexity curve and where the tipping point lies for your business is the key to doing this. But it is like quicksand - you don't know you are in it until you start sinking.

"The problem is, there is no way of knowing where you are on the curve until you are past it. Beyond the tipping point, you lose agility. Profitability and employee motivation are harmed, but it is hard to wiggle out," says Jay. "It's like a relationship between two people that gets bad before they start talking about what is going wrong. We are trying to see if we can find a way to project the trajectory of the curve in organisations."

So how can companies identify complexity? Zurich's simplicity programme is driving General Insurance's strategy over the next three years. General Insurance does business in 170 countries, has 35,000 employees and generates gross premiums of $33 billion.

For Hauswirth, the starting point is to systematically analyse where you are in terms of complexity and simplicity. "Our customers expect a wider choice, better information, the ability to compare products online and tailored solutions to specific needs. They have high expectations. Our overriding goal is to drive simplicity for the sake of focusing on our customers," he adds. Zurich assessed where complexity added value and where it did not. For example, were the layers between top and bottom hindering communication and effective execution of strategy? Were its Powerpoint presentations to customers too long, hindering, not helping? Were there any reports or reporting structures that didn't add value?

"What surprised us was that it was not only processes, but that we needed to work on the values and behaviour of people," Hauswirth says. "We have now defined some simplicity principles and ensured there is awareness among our people that simplicity is a topic and that they see it is an important value. When they are doing any reporting, they now have to consider whether it adds value."

Over at Wickes, the business model is low-cost and simple, but the market in which the company plays - retail - is becoming more complex, with customers expecting a multi-channel offer and the big battleground being delivery, in particular, next-day delivery.

"Every step we take strategically to remain competitive and meet customer need is by definition adding complexity," says Murray, "and in an environment where the pressure is cost. It is trying to get a quart into a pint pot." The catalyst for Murray's programme to strip out complexity was developmental work. "When I wanted to do something new, everyone was too busy. I have 93 in the team, so there should be resource to do anything. But the complexity is such that all these staff are needed just to keep the lights on."

When analysing causes of this complexity, Murray found it was not only a question of systems, but how people operated. There was much working around things that did not function properly and the accumulation of various ways of working over many years.

"We have a sophisticated pricing system, but you wouldn't know it because most is done by different spreadsheets. We have built in complexity," he says. "On the one hand, we have hot-housing, with a few people working on a problem, solving it then moving to the next. This should be efficient. But the opposite happens. We have lots of people doing little bits and it is unproductive."

This type of people complexity is multiplied when businesses grow internationally, as telecoms giant Vodafone discovered when CEO Vittorio Colao joined three years ago and did an internal audit. It was not that the business itself was too complex, but that the way of working was getting more complex.

"There was information overload and lots of different sources of information," explains Colao's right-hand woman, group chief of staff and director of internal communications, Raja Al-Khatib.

"The result was that decisions were being made slower, the delivery time to market for products and services was longer and the execution of decisions was taking longer."

According to Al-Khatib, the main issue was people. "We had more people involved in decisions, but there was not the clarity of responsibility and - even when there was - people still wanted to involve other people to share the risk. It was a case of a lot of involvement and not much accountability."
And it was not just complexity in difficult areas. Vodafone found complexity in everyday work - for example, too many people copied into emails, too many meetings and a lengthy and complicated financial planning process. It set about tackling this by creating the 'Vodafone Way' - a consistent way of working through speed, simplicity and trust and described by Al-Khatib as a "cultural" programme, not a values and visions one.

Practical steps have included simplifying organisational design. There are five levels between the frontline and CEO, compared to 15-20 previously. The company also audited its formal governance meetings to find out how many people were involved and who was making decisions. Only two decision-making bodies now exist: executive and operational.

"Before, if a decision had to be made for a project, it would go through commercial groups, technology groups and regional teams before it got to group operations committee. Now we have quick decisions and communicate them to all senior leaders after the meeting," Al-Khatib explains.
There has been a 10% reduction in meetings and all senior leaders have taken a 'Leading the Vodafone Way' workshop, which shows how the concept works day to day. The firm has created a community of senior leaders to identify what more can be done to further embed the approach into the business.

Other practices include simplifying its planning process and reducing the volume of reporting, as well as adopting a strategy of red-tape removal, where employees can give processes that are not working the red card. Top of the pile of red cards? HR and IT.

"HR is prone to complexity," says Simplicity's Jay. "What is a relatively straightforward and easy process becomes too sophisticated and gets in the way of achieving the endgame of hiring the best people and talent. HR is increasingly removed from people. It starts being about whether you are filling in the right form with the right ink. In all the intricate, bureaucratic processes, you can lose sight of the ultimate objectives of HR."

Jay points to one global food company that asked middle management HR employees to monitor how much time they devoted over a four-week period to generating real value to the business. The answer was less than 45%. The

majority of time was spent on activities that did not improve the outcomes in HR; for example, chasing to make sure performance-review forms were filled. Another company required 16 signatures to approve a new hire, at a time when it was trying to grow. The result was a new employee got a verbal offer and then had to wait four weeks to get an official letter offering the job.
And there is the firm where a third of senior HR managers' time was spent on recruitment and development in a small start-up, focusing on something that was not adding value and taking them from activities that did.
Jay says HR needs to streamline processes, focusing on value drivers and ensuring data is stored in order to be effective. It needs to understand which tools/processes are genuinely adding value to performance, to remove over-engineered systems and get a clearer line of sight on what is adding value to the business.

Al-Khatib at Vodafone says the company has streamlined processes such as induction. "It was taking too much time to get name badges and training when new employees started. Now, people start already operationally effective," she says.

At Wickes, Murray has found cases where the absolute basics are missing. "One team was always the busiest, always stressed, with no capacity. All colleagues could see was a wall of work. By putting in simple people-management techniques, such as workload planning and greater clarity, they had capacity almost overnight."

But there is a bigger role for HR here and that is addressing the behavioural issue. With Warwick's research identifying management practices as a key cause of harmful behaviour and two-thirds of respondents saying it was the cause of more than 5% lost productivity, there is a chance for HR to be actively engaged with, if not leading, this issue.

"HR is critically important," says Collinson. "These are the people who can change complexity not just at the detailed level, in terms of recruitment, mentoring, appraisals and KPIs for other procedures they are responsible for, but also in terms of the bigger picture stuff, such as helping to shape the organsation and behaviours. What is important is for HR people to know how to identify costly complexity."

This month, Zurich turns its focus to work on behaviours, including showing people how behaviour influences complexity and how they can help reduce internal complexity to focus more on the customer. It is also taking a novel approach to ensuring this programme permeates the company.
"In a large organisation such as Zurich, it is difficult to run a programme from the centre and top-down. So we are trying to establish a network of simplicity ambassadors in different countries to drive understanding of the values and mindset," explains Hauswirth.

Hauswirth, Murray and Al-Khatib say they are reaping the benefits of simplicity programmes through quicker decision-making, greater clarity and better communication. Vodafone, which is the most advanced at 18 months down the line, is not putting specific measures around the programme but senior leaders have been given customer-facing projects to own and deliver. These will be tracked, so Vodafone can see how long it takes to deliver the projects and the benefits achieved. "The group HRO and CEO see it as everyone working in a much better way, rather than a financial business case. It is about being more efficient and productive - and Vodafone being a better place to work," says Al-Khatib.

Wickes also hopes the programme will help make the retailer a better place to work. "We are now doing the diagnosis piece and there are a lot of small things we need to crack - and no silver bullet. The board has just started to talk about complexity [last month], to challenge some of the strategic decision-making," says Murray. "For me a successful outcome will be to create a couple of new teams within the existing headcount without other things falling over, getting engagement scores up and genuinely adding value."
With the pace of change in business increasing every year and companies needing to react quicker and with more agility, complexity is here to stay. Investing in a major complexity-reduction programme will help in the short term, but new complexity will creep back in, unless people change their way of working and their thinking.

Simplicity index
The *Global Simplicity Index* finds a statistical relationship between profit and complexity, illustrated through a complexity curve model. This shows firms eventually reach a tipping point where increasing complexity adds cost and slows them down. Some 500 managers from large firms across Europe also took part in a survey from December 2010 to February 2011.

Match individual capability with organisational need
If your business strategy has changed, there is a good chance your workforce doesn't know it - and won't be ready. Research by Simon Collinson on business complexity, presented at the July *HR* Leaders Club, supported this. Collinson found that the majority of top factors creating the most complexity for employees to adequately do their job were linked to business strategy changes.

Shifting business models, increased regulation, M&As, joint ventures, divestitures, expansion - and contraction - are all the part of the 'new normal'. And today's business climate generously rewards operational scalability, elasticity and endurance - all of which can only be achieved by having the right people and a deep focus on continuous workforce alignment and optimisation.

Yet there's a huge problem: the widely adopted talent management best practices many HR organisations have in place are woefully inadequate.
For example, many organisations implement a performance-management process that involves annual goal-setting with an end-of-year review. In more advanced organisations, performance results might impact on or drive merit-based compensation plans. This 'event' approach is not very agile and makes the highly unlikely assumption that the business plan as defined in the

beginning remained static. Furthermore, little or no focus is placed on valuing the skills and capabilities needed in the future, while goal-setting and rewards often lack the context of the true cost associated with delivering actual work. HR organisations and people managers can and should do better for the business. To truly optimise your workforce, make sure you have the right people.

My long-standing favourite definition of talent management is 'matching individual capabilities with organisational need'. And that allows for 'need' to be ever-changing, which is exactly how businesses operate. If you subscribe to this definition, you will undoubtedly make innovative design choices. Talent practices and enabling technologies would be designed for business leaders to communicate the real and up-to-date, strategic and operational needs. HR needs to provide workers with opportunities to showcase, and update, their skills, experience, interests, projects, performance, goals etc.

With alignment practices in place, businesses can get credible insights into making the most of talent to support business objectives. They need to ask:
• Are my top talent working on my most important initiatives?
• What is the return on value for each initiative?How well are we doing?
• Are there addressable issues with laggards or redundancies?
• Do we reward our talent for adapting quickly?
• Are we enriching our talent pools for future growth?

It is critical organisations consider whether they're focused on checking the boxes for certain talent processes, or on facilitating practices that keep their workforce tightly aligned to what is really happening in the business. It's an important question to answer. The difference between the two is having woefully inadequate talent management and demonstrating your organisation is prepared to change with the times.

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