

## Insights into organization



# How do I manage the complexity in my organization?

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# Why is this important?

All companies must grow. It's an imperative that drives companies to create new products and services, enter new regions, and move into new businesses. As they expand, they inevitably become more complex. Their organizational structures develop layers upon layers, their reporting lines become tangled, and their people – from senior management through to the front line – find it harder to get work done. When time, energy, and resources are spent on activities and interactions that don't create value, complexity starts to damage a company's performance.

But complexity isn't always a bad thing. When we analyzed drivers of perceived value creation, we found that some of the most important tend to create complexity as well as value.<sup>1</sup> The number of customers you have; the number of products or services you deliver; the extent to which people cooperate and multi-task within your organization; the number of countries you operate in; and the number of people you employ all increase the level of complexity in your company as well as helping you to make more money. Handled well, this kind of complexity helps rather than hinders your company's performance.

On the other hand, some factors destroy value as well as adding complexity. The amount of regulation in your industry and how quickly it changes; the extent of duplication of activities, roles, and responsibilities in your organization; the frequency of change in your organization structure; and the rate of new entry and change of strategy by your competitors all tend to make your company less profitable and more complex. This is the kind of complexity that you may well want to tackle.

Managing complexity well can create three major benefits:

**Higher returns.** In research with 1,150 senior executives of major companies (each of which had at least 1,000 employees), we found that the companies reporting low levels of complexity (those where it was “easy to get things done”) had the highest returns on capital employed and the highest returns on invested capital.<sup>2</sup>

**Lower costs.** In our experience, four out of five organizations that reduce complexity also reduce their costs. Some have saved almost 20 percent of personnel costs by eliminating activities that create complexity but add little value.

<sup>1</sup>To gain a better understanding of when complexity causes problems for an organization, we interviewed executives from 900 companies.

<sup>2</sup>Suzanne Heywood, Jessica Spungin, and David Turnbull, “Cracking the complexity code,” *The McKinsey Quarterly*, May 2007.

**Improved employee satisfaction.** Reducing complexity removes barriers to getting things done. When one retailer managed to cut the time it took to develop and approve some new products by almost half, it also took care of the frustration experienced by product development and operational staff at the same time.

When we talk to executives, they recognize the scope for creating value from complexity, but they are equally aware of the problems it can cause: poor responsiveness to customers, weak risk management, inefficient processes, and confusion and stress among employees. Worse, they feel the problems are becoming more acute, fuelled by such factors as rising levels of M&A, product proliferation, increasing regulation, and greater emphasis on internal collaboration. What can we do, they ask, to manage our rising levels of complexity more effectively?

Our advice is simple: focus on the issues that make it hard for employees to get things done and develop their ability to cope with the complexity in their roles. For most employees, dealing with the complications arising from increased regulation and M&A activity is less critical than having clear roles, targets, and accountabilities within an organization that encourages initiative and cooperation.

# What do I need to know?

Leaders wanting to manage complexity well should be aware of a few insights that could make all the difference.

## **Not all complexity is bad**

Complexity isn't always harmful. There is often value in having multiple business units and operating on a global scale. Complexity can be part of a successful business plan, as Dell shows by custom-building computers at speed to meet individual orders. Similarly, broadening a product offering may bring benefits that far outweigh the costs. Other forms of complexity, such as those resulting from regulatory or trade union demands, may be imposed by the environment in which a firm operates. But there is no denying that complexity can also destroy value: witness the company that ends up being present in a long "tail" of countries that barely break even.

The answer is not to make an organization as simple as possible, but rather to eliminate the complexity that makes it hard to get things done and creates little value. If complexity can be seen not as a problem to be eliminated but as a challenge to be managed and even exploited, businesses can generate additional sources of profit and competitive advantage.

## **What leaders see as complexity isn't what the organization experiences as complexity**

When we asked top executives about the sources of complexity in their business, they focused on external and structural factors: the scale and scope of their company, the design of their organization, and new legislation. But when we talked to people two or three levels down – often key players in charge of clients, projects, or operational units – the story was very different. For them, complexity mainly resided in such things as unclear reporting lines, hazily defined accountabilities, and inefficient internal processes.

So why was there such a wide gap between the view from the top and the view at operational level? Our investigations led to an important insight: what matters most is the level of *experienced* complexity, or "how difficult it is to get work done." The *objective* complexity as seen by the CEO was irrelevant for most other people in the organization; it simply did not correlate with what managers and employees experienced in their work. It isn't that anyone was "right" or "wrong"; the point is that different forms of complexity manifest themselves at different points in an organization. That means that any company wanting to tackle complexity must start by looking at how it is experienced throughout the whole organization.

## **It's easy to mistake symptoms for causes**

Many organizations complain of problems such as excessive bureaucracy, proliferating meetings, and slow decision making. But treating these symptoms without treating their root cause leads to a short-term solution at best.

Employees at one major financial institution felt that they were spending too much of their time on unproductive work, particularly in meetings that didn't keep to the agenda or make decisions. Before addressing these symptoms, however, the company investigated likely causes and discovered that accountabilities within the organization were both unclear and duplicated between roles. To arrive at a lasting solution, it coupled measures to address the symptoms (such as creating new protocols to keep meetings on track) with work to address the causes (such as redefining which parts of the organization were responsible for what and building the new accountabilities into job descriptions).

### **Leaders are not created equal in their ability to manage complexity**

Our research indicates that the level of complexity an individual experiences doesn't always correlate with the formal complexity of his or her role. Part of the reason is that certain individuals are better at coping with complexity than others.

So what sort of capabilities does a manager need to tackle complexity effectively? We call them "ambidextrous" capabilities: the ability to keep the business ticking on a daily basis while looking for ways to expand and improve it.<sup>3</sup> Examples might include going out of our way to collaborate with others on cross-business projects; taking the initiative to pursue opportunities that lie beyond our formal role definition; keeping multiple projects going at the same time; and helping people from different areas to connect with one another. Organizations can build such capabilities through targeted training. Another helpful step is to identify particularly complex roles – those pivotal to strategy delivery – and then look for people with ambidextrous capabilities to fill them.

### **Carrying on as normal won't make complexity go away**

Organizations that report high levels of complexity are poor at creating value. This is not an issue that top management can afford to ignore or delegate to others. Leaving employees to struggle with complexity in the hope that they will eventually learn how to manage it wastes energy and resources. When people find it hard to get things done or decisions made, their morale suffers and frustration sets in.

To prevent this downward spiral taking hold, the top team needs to address the issues head on. If complexity is widespread, that might mean clarifying accountabilities and processes throughout the whole organization. More often, though, some areas have more complexity than others. Such cases may respond to a targeted approach: taking people out of a particular process to simplify it, reducing the number of people involved in making key decisions, or moving people with ambidextrous capabilities into complex roles. Changes like these can make all the difference, but they don't usually happen without active intervention from the top.

<sup>3</sup> See Julian Birkinshaw, "An even-handed response to an uncertain context," *Financial Times*, 6 April 2006.

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