BREAKING THROUGH THE COMPLEXITY BARRIER

By Maximilian Thomiak
In today’s fast-paced digital era, the ability to manage organizational complexity can provide companies with a significant competitive advantage.

This is supported by Accenture Strategy research in which more than 80 percent of CEOs agreed that the ability to manage organizational complexity can enable them to rapidly respond to changing market conditions and the overall business environment.

However, our research also showed that the vast majority of CEOs admitted that their organizations had significant room to improve the efficiency and effectiveness of how they managed complexity—and that the cost of complexity is rising faster than the value generated from growth.

Yet, a small, elite group of traditional companies are already breaking through the complexity barrier by building new, integrated operating models that improve complexity management and deliver improved business outcomes while releasing capital to help accelerate their investments into new digital capabilities.

80% of CEOs say the ability to manage organizational complexity can enable rapid response to changing market conditions, yet the vast majority admit that their organizations have significant room to improve.
In our study, nearly 80 percent of CEOs acknowledged that internal complexity inhibited their organization’s ability to be as effective and efficient as it could—irrespective of whether it was operating a financial, strategic, operational or integrated group management model. Furthermore, many companies’ endeavors to address these challenges have largely been ineffective. Our analysis indicates that one major reason for this is the fragmented, function-driven nature of these transformation efforts.

To be clear, these functional transformation programs within divisional, regional or global “silos” have led to some performance gains, such as reducing organizational complexity by 50 percent. However, the underlying customer, supplier and employee challenges are rarely addressed.
Integrated operating models break down functional silos by focusing on business model-specific prime value chains. In doing so, they help clarify the roles of the corporate center, regions, business units, centers of skill and scale in executing the change. What seems like a common sense approach in fact represents a dramatic challenge to the primacy of functional reporting lines by realigning the operating model around customer, supplier or employee value perspectives.

Implementing an integrated operating model is a major transformational effort. However, the benefits far outweigh the investments. Successful companies have demonstrated that business model prime value chain-led transformations can reduce internal complexity dramatically. Companies with integrated operating models can reduce the number of enterprise-wide prime value chains to 53 per billion dollars in revenue, compared to companies organized around functional process standards, which operate 1,333 processes per billion dollars in revenue. This highly favorable complexity ratio of approximately 1:25 is centered around business models that focus on the realization of strategic and operational business value—which is three times that of traditional function programs.
THE DIGITAL ERA DEMANDS AN INTEGRATED APPROACH TO MANAGING COMPLEXITY

New digital business models and technologies are themselves enabled by the integration of capabilities.

Discrete industries are evolving into integrated ecosystems, discrete products are being transformed into “everything-as-a-service” business models, and most companies have begun building new ventures outside their existing structures—all adding even more layers of business complexity.
Integrated operating models allow for organizational ambidexterity, where organizations are able to more efficiently manage today’s business needs and adapt to the new capabilities required by tomorrow. Companies with integrated operating models reduce complexity in legacy business models by breaking down functional silos in favor of business-led prime value chains, and challenge historical budgets in favor of zero-based spend budgets and organization-sizing.

These budgets can then be reinvested into ventures that build customer, supplier or employee value chains on digital platforms. In so doing, they can operate like the Silicon Valley tech giants that intentionally build thousands of variances into their services, analyzing service performance in real time, and retiring low-performing ones within weeks or months.
TRANSFORMING ORGANIZATIONAL COMPLEXITY INTO COMPETITIVE ADVANTAGE

For complexity management to become a source of competitive advantage, traditional companies will need to transform their operations. Four key actions can help position them to seize these opportunities:

1. **Define key enterprise-wide customer, supplier and employee “prime value chains” across businesses and functions.** This requires balancing the focus of legacy and new business models on integrated, business-led value chains versus functions.

2. **Refine the roles of central, regional and divisional functions and establish a new integrated business services capability that can rapidly scale analytics and digital technology capabilities for prime value chains.** For most general and administration (G&A) functions, 50 to 75 percent of the headcount can be transferred into new capabilities or be contracted to third-party providers. For example, a European life sciences company transitioned nearly half of its G&A workforce into an integrated business services model to accelerate the development of critical mass in digital capabilities. In doing so, it allowed its business units to rapidly scale new health ecosystem business models across the group.

3. **Shift functional leadership to emphasize its role in enterprise value.** CEOs are vital to the transition and must invest in reshaping functional leadership priorities. Efforts could include encouraging the CFO to challenge the status-quo resource allocation by adopting a zero-based budgeting approach, or challenging the CIO to adopt a new IT model to accelerate the shift to new digital capabilities. The CEO at one global industrial and consumer products company personally led the challenge to develop an integrated operating model over a period of 24 months by making it a dedicated agenda item on the bi-weekly management board meetings, and linked its successful implementation to each divisional and functional board member’s compensation. By doing this, the organization generated hundreds of millions of dollars of benefits—including savings that could be reinvested into strategic growth efforts.

4. **Make transformation a business priority in order to balance disruption and business benefits.** Based on company culture, urgency and cash flow, each organization will need to develop its own implementation roadmap toward the digital enterprise. However, care must be taken in selecting an appropriate strategy. One global industrial conglomerate chose to adopt a gradual evolutionary approach without a deadline that focused on building new prime value chains based on business models by function. Conversely, another consumer goods group selected a top-down, zero-based budgeting approach to deploy it across the enterprise within 24 months. While there is no one-size-fits-all model, taking too long could result in an organization being overtaken by faster, more agile competitors and peers.
Companies that have aggressively managed organizational complexity appear to be the best poised to handle the future demands of a changing business environment.

In the Accenture Strategy survey, 60 percent of CEOs who addressed their enterprise complexity in an integrated business services approach do not believe that digital technologies will add further complexity to their organization.

This is in contrast to the more than 30 percent of CEOs who have tried to address their enterprise complexity using traditional functional or regional approaches.

As new digital business models, technologies and market demands further increase organizational complexity, a new approach is needed, integrating silos into customer, supplier and employee services. To break through the complexity barrier, organizations must ruthlessly challenge the status quo to build new, integrated operating models.

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REFERENCES

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2 Accenture Strategy client experience.