# McKinsey Quarterly

ORGANIZATION PRACTICE

Putting organizational complexity in its place

Not all complexity is bad for business—but executives don't always know what kind their company has. They should understand what creates complexity for most employees, remove what doesn't add value, and channel the rest to employees who can handle it effectively.

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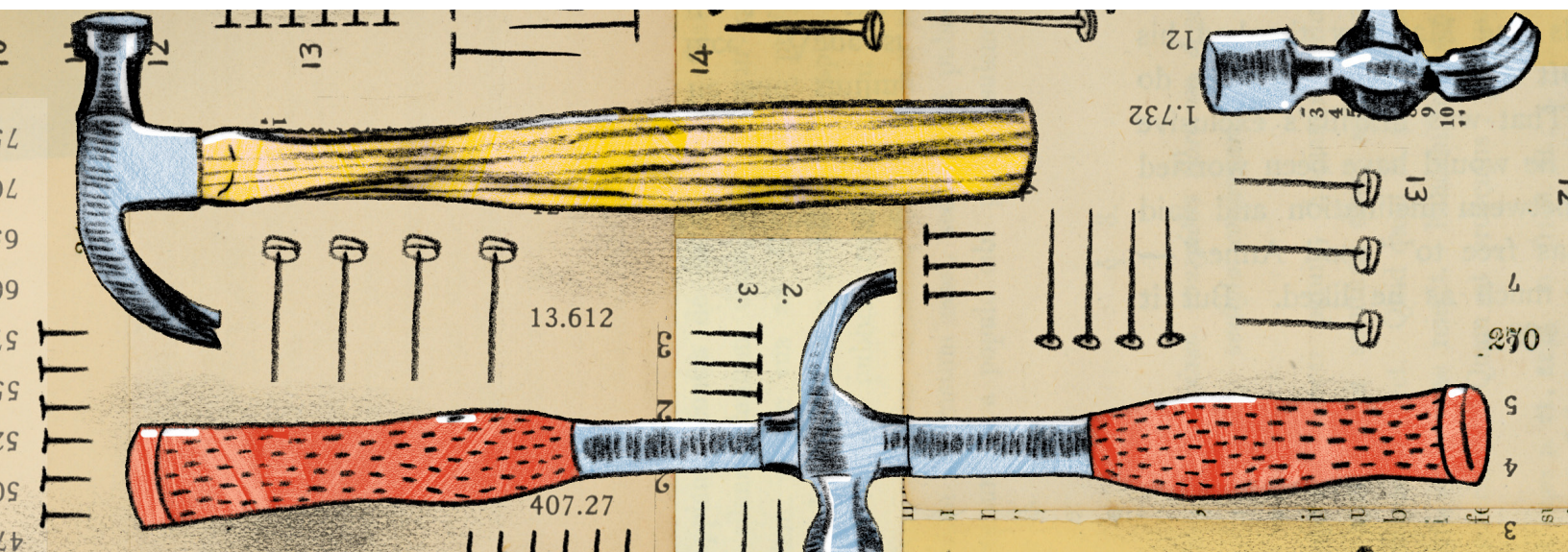
Despite widespread agreement that organizational complexity creates big problems by making it hard to get things done, few executives have a realistic understanding of how complexity actually affects their own companies. When pressed, many leaders cite the *institutional* manifestations of complexity they personally experience: the number of countries the company operates in, for instance, or the number of brands or people they manage. By contrast, relatively few executives consider the forms of *individual* complexity that the vast majority of their employees face—for example poor processes, confusing role definitions, or unclear accountabilities.

This is not a trivial difference in perception. Our experience suggests that such a disconnect highlights a blind spot many executives have when it comes to managing complexity effectively. A focus on institutional complexity at the expense of the individual kind can lead to wasted effort or even organizational damage. What's more, failing to tackle complexity as most people experience it can, as we've shown before, be financially costly.[1]

Once senior executives recognize that employees typically see complexity very differently than they do, they can begin to take straightforward steps to pinpoint where in their organizations complexity hinders productivity and why. The goal? To identify where institutional complexity is an issue, where complexity caused by factors such as a lack of role clarity or poor processes is a problem, and what's responsible for the complexity in each area. Companies can then boost organizational effectiveness through a combination of two things: removing complexity that doesn't add value and channeling what's left to employees who can either handle it naturally or be trained to cope with it.

In this article, we review the experience of a multinational consumer goods manufacturer that applied this approach in several regions and functions and consequently halved the time it needed to make decisions in critical processes. This, in turn, helped it bring products to market faster in response to changing customer needs. Such payoffs aren't unusual. Our work with companies in the banking, mining, retail, and other sectors suggests that managing complexity more effectively helps remove unnecessary costs and organizational friction and can even lead to new sources of profit and competitive advantage by boosting a company's resilience and its ability to adapt quickly.

Executives at the manufacturer knew they had a problem with complexity. Rapid growth in the company's Australasia region was requiring significant management attention and travel time and, consequently, was making it difficult for the senior team to manage effectively there and across the company's two other regions (Europe and the United States).

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[1] We found that companies reporting low levels of individual complexity had the highest returns on capital employed and returns on invested capital. For more, see Suzanne Heywood, Jessica Spungin, and David Turnbull, "Cracking the complexity code," mckinseyquarterly.com, May 2007.

For most employees, however, such institutional complexity didn't matter. They struggled instead with forms of individual complexity—for example, processes that had initially been effective but over time had become increasingly bureaucratic. Many employees, for instance, were frustrated both with how long it took for decisions to filter through to the front line and the amount of work required to implement them (new-product development, for example, took more than a year and required numerous consultations across the company). Duplicated roles (the regions replicated activities performed by the corporate center) and unclear role definitions, which left several groups accountable for sales forecasting and other key activities, only exacerbated the problems. The result was too much time spent on managing internal processes and not enough on understanding customers' needs.

Survey the scene

To take stock of the situation, the manufacturer launched a survey that asked employees about the clarity of roles and accountabilities across the company, whether systems and processes were linked effectively, how much coordination individual jobs required and how predictable they were, and, very simply, how hard it was for individuals to get things done and to make decisions.

Although surveys like this are a relatively straightforward way to collect useful information, structured interviews or focus groups are also effective for gathering quantitative data about the intensity of complexity and qualitative information on what drives it. Companies can also make a first assessment simply by looking at their own organization charts with fresh eyes. If, for example, employees report that role duplication is a problem, executives can examine job descriptions and org charts to better determine the likely extent of duplication and follow up with the appropriate managers to learn more.

Likewise, companies can uncover hidden pockets of complexity by interviewing employees to understand the key activities, data, and handoffs involved in various business processes. Whatever the method of data collection, companies must avoid sampling subsets—say, a single business unit—and assuming that these views are representative.
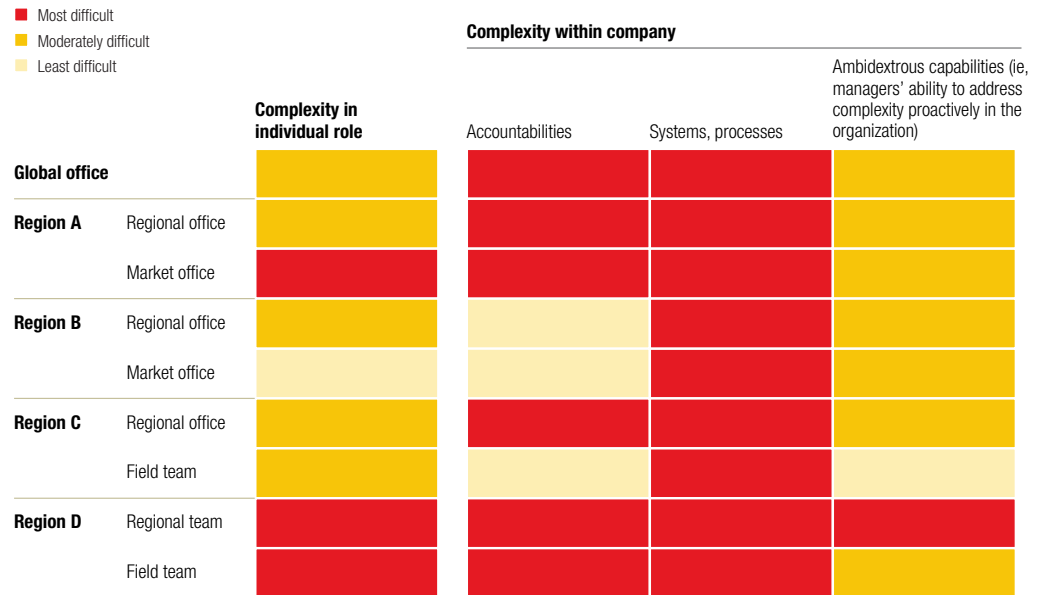
Draw a map of what's really going on

Armed with the survey data, the manufacturer constructed several "heat maps" to help senior managers pinpoint where, and why, complexity was causing trouble for employees. Each map showed a particular breakdown—a region or function, for example—and how much complexity of various kinds was occurring there, as well as the level of coping skills employees possessed. The manufacturer's maps helped identify several problems that executives had previously been unaware of.

Exhibit 1

The hot spots of complexity

Sample regional complexity heat map, based on amalgam of employees' responses to a number of questions

- ■ Most difficult
- ■ Moderately difficult
- ■ Least difficult

Complexity within company

		Complexity in individual role	Accountabilities	Systems, processes	Ambidextrous capabilities (ie, managers' ability to address complexity proactively in the organization)
Global office		Moderately difficult	Most difficult	Most difficult	Moderately difficult
Region A	Regional office	Moderately difficult	Most difficult	Most difficult	Moderately difficult
	Market office	Most difficult	Most difficult	Most difficult	Moderately difficult
Region B	Regional office	Moderately difficult	Least difficult	Most difficult	Moderately difficult
	Market office	Least difficult	Least difficult	Most difficult	Moderately difficult
Region C	Regional office	Moderately difficult	Most difficult	Most difficult	Moderately difficult
	Field team	Moderately difficult	Least difficult	Most difficult	Least difficult
Region D	Regional team	Most difficult	Most difficult	Most difficult	Most difficult
	Field team	Most difficult	Most difficult	Most difficult	Moderately difficult

- A regional map, reproduced here (Exhibit 1), highlighted confusion over accountability between the company's headquarters and a country office in the same region. The country's head of operations found it difficult to get things done because some of the roles in her group were shared with headquarters—her marketing function, for example, also worked for headquarters, while the corporate HR function worked, in part, for her country office. Moreover, the same map showed that employees in Region B found it markedly easier to do their work than employees in Region D did, despite having similar mandates and processes and selling, essentially, the same products. The reason? Region B's employees had far fewer interactions with headquarters than did their colleagues in Region D.

- Another map showed how the manufacturer's supply chain employees were struggling with duplication that stemmed from confusing sales forecasting and from ordering processes that required decisions to pass through multiple loops (including time-consuming iterations with regional offices) prior to approval. What's worse, a closer look found that the additional checks and inputs weren't improving the accuracy of the forecasts—these efforts were wasted.

• Meanwhile, executives learned that midlevel managers in all the regions were not using the company's performance-management system effectively. This meant both that the performance information collected was not as accurate as it could be and (more important) that the system was being used only for tracking performance against targets and not for coaching or for conducting developmental discussions on skill gaps and how to close them. Poor data, in turn, made it hard to align employees' skills with the manufacturer's overall strategic needs.

Building a better bank

When it comes to managing complexity, a company's first option will always be to look for ways to reduce it. Nonetheless, executives should be mindful that removing complexity in one area might raise it in others. They must therefore ensure that employees who will inherit more complicated roles are adequately prepared for them.

A multinational bank found this out the hard way when its new CEO removed an enormous amount of institutional complexity by splitting the bank into business silos (such as commercial banking and retail banking) instead of into geographic silos that focused on all areas of business in a given region. While the move sharply reduced his own and many other employees' experience of complexity, the new business units soon began struggling to offer the integrated global products their customers wanted. In response, the bank created a limited number of new roles in the corporate center to link the businesses together—but didn't anticipate how challenging these positions would be.

In fact, these individuals had to deal with up to five business units (each offering multiple products) while coordinating activities with finance, HR, IT, and other functions. Moreover, the new organizational structure set accountabilities at the business-unit level, not at the corporate level, so the units never put a high priority on getting products approved for use by other units. The bank had stymied itself with its own improvements.

In response, the CEO launched a program designed to enhance the new managers' entrepreneurial skills and their ability to work across the businesses through influence and persuasion—essentially, increasing their ability to absorb complexity rather than displace it onto other employees. The training included teaching the managers how to map their internal networks and to build and maintain relationships across organizational silos. The result was a much lower level of complexity across the company, since most people no longer had to deal with the interactions between the different business areas. The linking roles tied

the organization together well enough to deliver integrated products because the people in those jobs had been provided with the skills necessary to operate in a very complex environment. Consequently, the bank moved from having what it saw as unsustainable costs, driven by a complex business structure, to a structure in which the bank's cost-to-income ratio was substantially decreased and complexity reduced (and what was left was well managed). As a result, customer satisfaction increased.

Reduce—and redirect—complexity

Once senior managers have a clear picture of where complexity hampers effectiveness, they can begin to remove any complexity that doesn't add value and channel what's left to people who can handle it. Of course, managers must be mindful that not all complexity is equally manageable, and proceed accordingly (Exhibit 2).

For example, to tackle the confusion that had arisen between company headquarters and the country office, the manufacturer redrew its functional boundaries so that marketing and other groups served either the country office or corporate headquarters—but not both. This simplified the jobs of the majority of employees and funneled the necessary interactions between the country office and headquarters to the country managers.

Exhibit 2

How manageable is your complexity?

Types of complexity

Imposed complexity includes laws, industry regulations, and interventions by nongovernmental organizations. It is not typically manageable by companies.

Inherent complexity is intrinsic to the business and can only be jettisoned by exiting a portion of the business.

Designed complexity results from choices about where the business operates, what it sells, to whom, and how. Companies can remove it, but this could mean simplifying valuable wrinkles in their business model.

Unnecessary complexity arises from growing misalignment between the needs of the organization and the processes supporting it. Once identified, it is easily managed.

To improve sales and forecasting processes, the manufacturer zeroed in on the information its marketing employees needed most: insights on likely sales volumes given customer needs and the competitive situation. Some insights, it turned out, could be converted into forecasts relatively easily by using data from prior sales periods; others required very specific local input. To provide it, the manufacturer created small teams based in—and focused on—each geographic area. Team members' job descriptions were standardized, and each member was given clear accountabilities for working with headquarters on forecasting, pricing, and promotions. This allowed the manufacturer to remove all unnecessary inputs to the processes, focus local efforts where they were most valuable, and cut the number of rounds of consultations in half.

Institutional vs. individual complexity

Comparing an airport with a road system illuminates nicely the significance of individual as opposed to institutional complexity. A road system is far more complex than an airport: more directions for vehicles to travel, more vehicles, more intersections. In a road system, however, no one person has to deal with all this complexity; it is distributed among all road users, so the degree of individual complexity for any one of them is relatively low. An airport, by contrast, is far simpler at an institutional level, with few runways and even fewer ways to use them. But the degree of complexity that air traffic controllers experience is elevated because all of the complexity is concentrated in a small number of highly expert people and roles.

To read more about managing complexity to create value, read "Cracking the complexity code," on mckinseyquarterly.com.

Meanwhile, the company simplified the sign-off process by building it into its regular business-planning activities, thereby providing more regularity and clarity around the timing of decisions. While these actions added complexity for some workers, the overall level of complexity for most employees dropped markedly, reducing wasted time and frustration while generating forecasts that were just as good as the old ones. Equally important, to prevent unnecessary complexity from returning, the new job descriptions were agreed to globally, and the right to change them was retained by the executive team. Finally, to tackle the HR problems, the manufacturer put in place a consistent talent review process across the business that focused much more on performance-management conversations and developmental discussions.

Bolster skills where needed

Of course, whenever executives consciously funnel complexity into new locations or "design in" new elements that create added complexity for added reward, they must ensure that the employees in the positions affected are prepared. In many cases, companies will see a need to improve key capabilities in HR and other functional areas.

This was true for the manufacturer, which began addressing its long-term skill gaps by focusing on the recruitment and training of HR employees. At the same time, however, the manufacturer's senior team was careful to provide immediate training to those HR employees who needed help mastering the company's revamped talent review process and rolled out training for all line managers across the business on how they should use this new process to coach and develop staff members—and not just to measure staff performance passively against targets.

Such experiences are common. Whenever companies tackle complexity, they will ultimately find some individuals who seem less troubled by it than others. This is not surprising. People are different: some freeze like deer in the headlights in the face of ambiguity, uncertainty, complex roles, and unclear accountabilities; others are able to get their work done regardless. Companies need to locate the pockets of individual strength and weakness in order to respond intelligently. Although some people can deal with complexity innately, we now know that others can be trained to develop what we call "ambidextrous" capabilities—the ability to tolerate ambiguity and actively manage complexity. Such skills will enable employees to create and use networks within organizations to build relationships and help overcome poor processes, bridge organizational silos, or manage whatever value-creating pockets of complexity their companies decide to maintain (see sidebar, "Building a better bank").

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Organizations aren't uniformly complex, and most employees don't experience complexity the way executives do. To better manage complexity, senior leaders must recognize how

employees at all levels see it, and then learn what's driving it. By doing so, companies can retain the kinds of complexity that add value, remove the kinds that don't, and channel the rest to employees, at any level, who can be trained to handle it effectively. ○