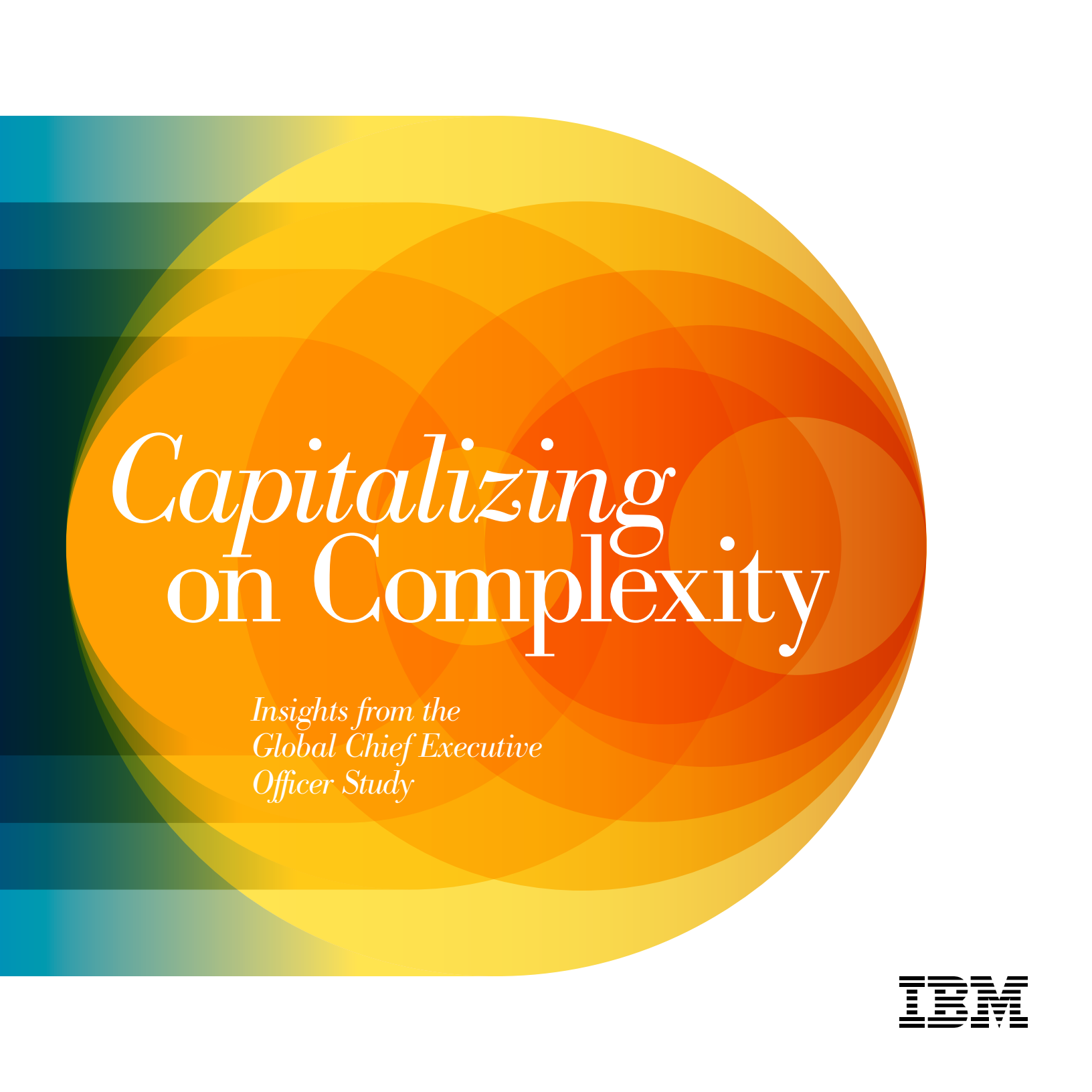




Capitalizing on Complexity

*Insights from the
Global Chief Executive
Officer Study*

IBM

This study is based on face-to-face conversations with more than 1,500 chief executive officers worldwide.



Samuel J. Palmisano
Chairman, President and Chief Executive Officer
IBM Corporation

A note to fellow CEOs

In the first chapter of this report on dealing with complexity, the CEO of an industrial products company calls the economic environment of 2009 “a wake-up call.”

I agree. I’d only add that it was just the latest in a series of alerts that sounded during the first decade of this new century. In a very short time, we’ve become aware of global climate change; of the geopolitical issues surrounding energy and water supplies; of the vulnerabilities of supply chains for food, medicine and even talent; and of sobering threats to global security.

The common denominator? The realities — and challenges — of global integration.

We occupy a world that is connected on multiple dimensions, and at a deep level — a global system of systems. That means, among other things, that it is subject to systems-level failures, which require systems-level thinking about the effectiveness of its physical and digital infrastructures.

It is this unprecedented level of interconnection and interdependency that underpins the most important findings contained in this report. Inside this revealing view into the agendas of global business and public sector leaders, three widely shared perspectives stand in relief.

- 1) The world’s private and public sector leaders believe that a rapid escalation of “complexity” is the biggest challenge confronting them. They expect it to continue — indeed, to accelerate — in the coming years.
- 2) They are equally clear that their enterprises today are not equipped to cope effectively with this complexity in the global environment.
- 3) Finally, they identify “creativity” as the single most important leadership competency for enterprises seeking a path through this complexity.

What we heard through the course of these in-depth discussions (my own interview took place on December 2, 2009) is that events, threats and opportunities aren't just coming at us faster or with less predictability; they are converging and influencing each other to create entirely unique situations. These firsts-of-their-kind developments require unprecedented degrees of creativity—which has become a more important leadership quality than attributes like management discipline, rigor or operational acumen.

As always, our biennial examination of the priorities of CEOs around the world provides terrific insight into both the world as they see it, and ultimately, what sets the highest-performing enterprises apart. For me personally, I find one fact especially fascinating. Over the course of more than 1,500 face-to-face interviews with CEOs and other leaders, not a single question contained the term “Smarter Planet”—and yet the conversations yielded primary findings that speak directly to exactly what IBM has been saying about the challenges and opportunities of this fundamental shift in the way the world works.

It is our pleasure to bring you this report: *Capitalizing on Complexity*.

A handwritten signature in black ink, reading "Samuel J. Palmisano". The signature is fluid and cursive, with a long horizontal stroke at the end.

Samuel J. Palmisano
Chairman, President and Chief Executive Officer
IBM Corporation

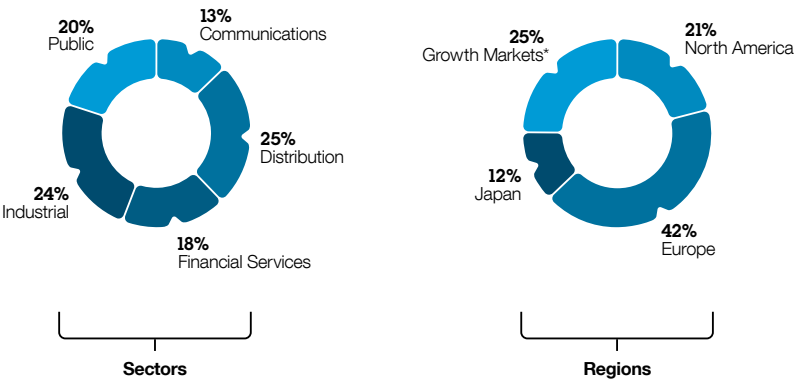
	How our research was conducted	6
	Executive summary	8
Introduction	<i>Stand out in a complex world</i>	13
Chapter One	<i>Embody creative leadership</i>	23
Chapter Two	<i>Reinvent customer relationships</i>	37
Chapter Three	<i>Build operating dexterity</i>	51
The CEO Agenda	<i>How to capitalize on complexity</i>	63
	For further information	71

How our research was conducted

This study is the fourth edition of our biennial Global CEO Study series, led by the IBM Institute for Business Value and IBM Strategy & Change.

To better understand the challenges and goals of today's CEOs, we met face-to-face with the largest-known sample of these senior executives. Between September 2009 and January 2010, we interviewed 1,541 CEOs, general managers and senior public sector leaders who represent different sizes of organizations in 60 countries and 33 industries.

Figure 1 **About our research**
More than 1,500 CEOs worldwide participated in this study.



**Growth markets include Latin America, Asia Pacific (excluding Japan), Middle East and Africa.*

For this report, we did extensive analysis to compare current results to the findings of our 2004, 2006 and 2008 Global CEO Studies. As part of our 2010 research, we also sought to understand differences between financial standouts and other organizations. Our performance analysis was based on both long-term (four years) and short-term (one year) performance relative to peers, where available.

Long-term performance included four-year operating margin compound annual growth rate from 2003 to 2008.¹ Short-term performance included one-year operating margin growth rate from 2008 to 2009.² This allowed us to identify “Standout” organizations that were able to improve operating margins both long term and short term.

In addition to our CEO interviews, we asked a subset of our CEO Study questions to 3,619 students from more than 100 major universities around the world. This first IBM Student Study provides insight into the views of future leaders. Students in undergraduate and graduate programs were invited to participate by faculty and administrators from October 2009 to January 2010.

Forty-six percent of surveyed students were pursuing MBA and other graduate degrees, with 3 percent of those in Ph.D. programs. The remaining 54 percent were enrolled in a wide range of undergraduate programs.

Both the CEO and student response samples were weighted based on actual regional Gross Domestic Product (GDP) for 2008.³

“Complexity should not be viewed as a burden to be avoided; we see it as a catalyst and an accelerator to create innovation and new ways of delivering value.”

Juan Ramon Alaix, President,
Pfizer Animal Health

Executive summary

How are leaders responding to a competitive and economic environment unlike anything that has come before? To find out, we conducted face-to-face interviews with 1,541 CEOs, general managers and senior public sector leaders around the world.⁴ Those conversations, in combination with our statistical and financial analyses, offer insight into the agendas and actions of global leaders.

In our past three global CEO studies, CEOs consistently said that coping with change was their most pressing challenge. In 2010, our conversations identified a new primary challenge: complexity. CEOs told us they operate in a world that is substantially more volatile, uncertain and complex. Many shared the view that incremental changes are no longer sufficient in a world that is operating in fundamentally different ways. Four primary findings arose from our conversations:

Today’s complexity is only expected to rise, and more than half of CEOs doubt their ability to manage it. Seventy-nine percent of CEOs anticipate even greater complexity ahead. However, one set of organizations—we call them “Standouts”—has turned increased complexity into financial advantage over the past five years.

Creativity is the most important leadership quality, according to CEOs. Standouts practice and encourage experimentation and innovation throughout their organizations. Creative leaders expect to make deeper business model changes to realize their strategies. To succeed, they take more calculated risks, find new ideas, and keep innovating in how they lead and communicate.

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

They are adopting new channels to engage and stay in tune with customers. By drawing more insight from the available data, successful CEOs make customer intimacy their number-one priority.

Better performers manage complexity on behalf of their organizations, customers and partners. They do so by simplifying operations and products, and increasing dexterity to change the way they work, access resources and enter markets around the world. Compared to other CEOs, dexterous leaders expect 20 percent more future revenue to come from new sources.

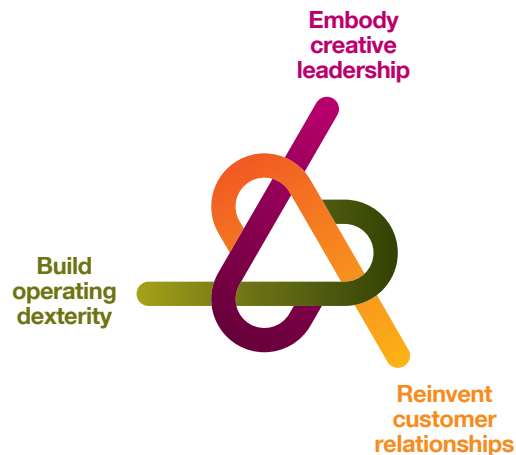
How CEOs can capitalize on complexity

The effects of rising complexity call for CEOs and their teams to lead with bold creativity, connect with customers in imaginative ways and design their operations for speed and flexibility to position their organizations for twenty-first century success.

Student perspectives

Throughout this report, “Student perspectives” sidebars will highlight some of the most striking findings and quotations from the IBM Student Study.

The responses of over 3,600 students offer insight into how the opinions and expectations of future leaders compare to the views of CEOs.



“Insight and foresight are linked with leadership. It’s insight that helps to capture opportunity.”

Zhou Ming, Executive Vice President and Secretary General, China Council for International Investment Promotion

So, how are these objectives different than CEOs’ past aspirations, now that they’ve identified escalating complexity as their greatest challenge in the new economic environment? Previously, CEOs recognized the need for business model innovation, but today they are struggling to find the requisite creative leadership to produce such innovation. In the past, they told us they needed to be closer to customers; today they need to go much further and bring customers inside their organizations. And, while global integration is not a brand new goal, CEOs are realizing they must take it a step further and think in terms of increasing overall operating dexterity. To capitalize on complexity, CEOs:

Embody creative leadership

Facing a world becoming dramatically more complex, it is interesting that CEOs selected creativity as the most important leadership attribute. Creative leaders invite disruptive innovation, encourage others to drop outdated approaches and take balanced risks. They are open-minded and inventive in expanding their management and communication styles, particularly to engage with a new generation of employees, partners and customers.

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.

Build operating dexterity

CEOs are revamping their operations to stay ready to act when opportunities or challenges arise. They simplify and sometimes mask complexity that is within their control and help customers do the same. Flexible cost structures and partnering capabilities allow them to rapidly scale up or down.

To
capitalize on
complexity...



Stand out in a complex world

Most CEOs seriously doubt their ability to cope with rapidly escalating complexity. Yet one set of organizations has consistently performed well. How do these Standouts mitigate complexity and even convert it into opportunity?

*“You feel ready,
but ready for what?”*

Andreas Coumnas, Managing Director
Europe, Baltimore Aircoil

A drastically different world

Increasingly interconnected economies, enterprises, societies and governments have given rise to vast new opportunities. But a surprising number of CEOs told us they feel ill-prepared for today's more complex environment. Increased connectivity has also created strong — and too often unknown — interdependencies. For this reason, the ultimate consequence of any decision has often been poorly understood.

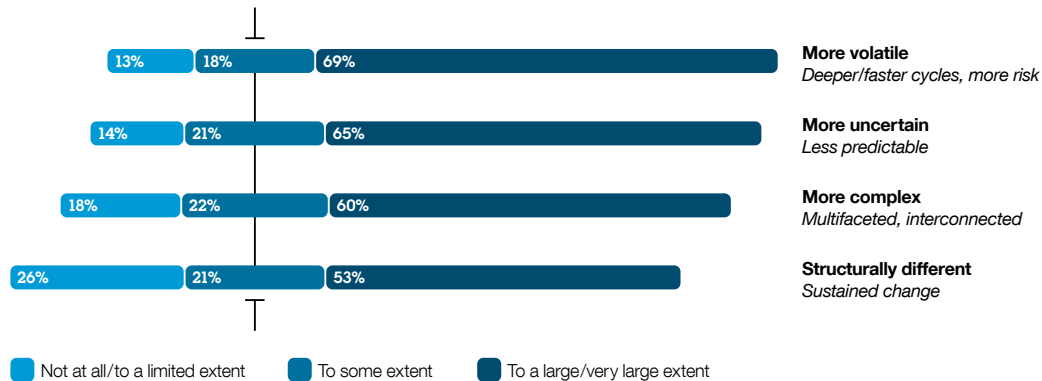
Still, decisions must be made. As CEOs turn their attention to growth, a significant number said their success depends on doubling their revenue from new sources over the next five years. A Telecommunications CEO in Brazil predicted, “The services that account for 80 percent of our revenue today will only be our second-largest source of revenue in five years.” Finding these new categories of growth is not easy in an environment characterized by an untold number of discrete markets, proliferating product and service categories, and ever-individualized customer segments.

This means CEOs must shake up their portfolios, business models, old ways of working and long-held assumptions. They have to address what customers now care about and reassess how value is generated.

With few exceptions, CEOs expect continued disruption in one form or another. The new economic environment, they agree, is substantially more volatile, much more uncertain, increasingly complex and structurally different. An Industrial Products CEO in the Netherlands summed up the sentiments of many when he described last year as “a wake-up call,” adding that “it felt like looking into the dark with no light at the end of the tunnel.”

Figure 2 Organizations are experiencing significant upheaval

Changes in the new economic environment are large-scale, substantial and drastically different.



Today, as organizations emerge—or prepare to emerge—from a confidence-draining global recession, many leaders admit they really don't know what to expect next. Nevertheless, in our conversations with CEOs, we gained insight about the path forward. It will require entirely new leadership styles, new approaches to better understanding customers, and new and flexible structures for their businesses.

Global shifts compound complexity

CEOs told us that the current trend toward globalization would not let up. They anticipate shifting of economic power to rapidly developing markets, and foresee bigger government and heavier regulation ahead. These shifts are unyielding and contribute to the sense of a world growing more uncertain, volatile and complex.

“This economic downturn was far more than just business cycle fluctuations. We view it as a true paradigm shift that is revolutionizing not only business, but global social structures as well.”

Fumiyuki Akikusa, President and CEO, Mitsubishi UFJ Morgan Stanley Securities Co., Ltd.

Interestingly, views on the strength and impact of these shifts differ by vantage point. In North America, which faced a financial crisis that led to governments becoming major stakeholders in private enterprise, CEOs are more wary of “big government” than CEOs elsewhere. A full 87 percent anticipate greater government intervention and regulation over the next five years, compounding their sense of uncertainty.

In Japan, 74 percent of CEOs expect the shift of economic power from mature to rapidly developing markets to have a major impact on their organizations. By contrast, the European Union is less concerned about this shift, with only 43 percent of CEOs expecting to be impacted.

China proved more resilient than most other nations during the economic downturn. CEOs there are less concerned about volatility than CEOs in other regions and they are more focused on developing a new generation of leaders who bring global thinking.

Understanding these and other sharp differences emerging by region becomes more significant in a world where economies and societies are closely linked. Organizations confront these differences as they increasingly operate across boundaries and across different regions.

Technology continues to rise

Every two years since 2004, we have asked CEOs to name the three external forces which will have the biggest impact on their organizations. *Market factors* has consistently topped the list while *technological factors* has risen in relative importance and now holds second place.

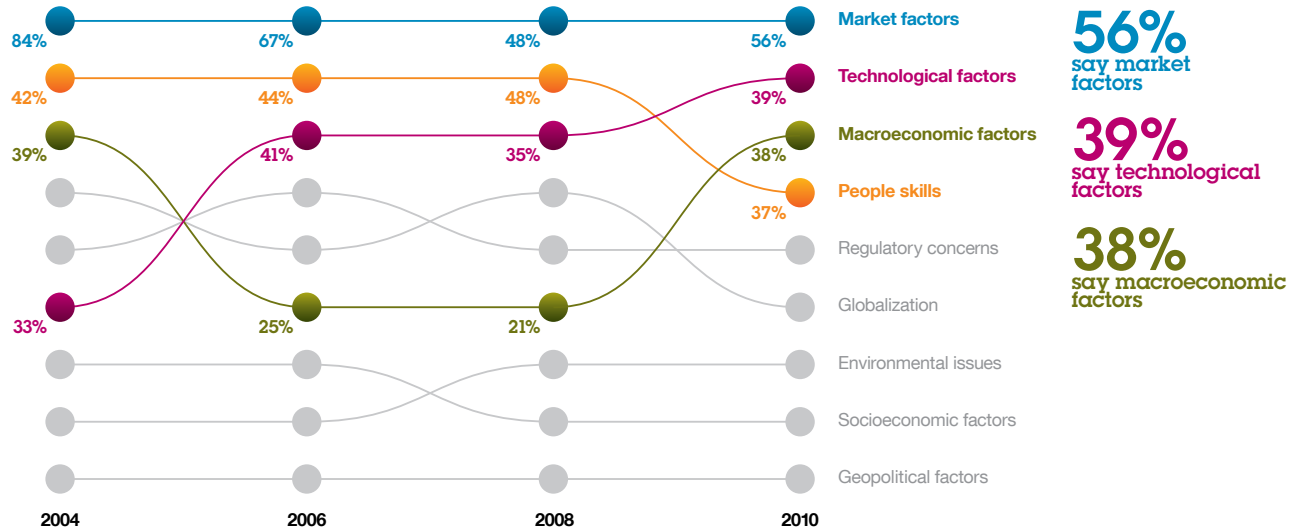
Technology is also contributing to growing complexity — creating a world that is massively interconnected, with broad-based convergence of systems of all kinds, both man-made systems like supply chains or cities; and natural systems like weather patterns or natural disasters.

“The next generation, as natives of the digital world, 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

Figure 3 Top external factors

The relative impact of technology as an external factor rises year on year.



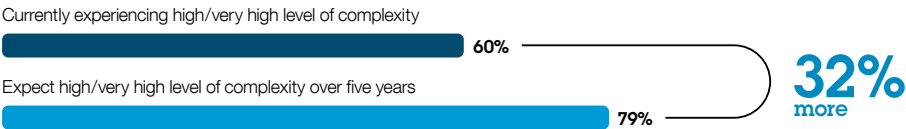
Our world is increasingly subject to failures that require systems-level and cross-systems-level thinking and approaches. The consequences of any decision can ripple with unprecedented speed across business ecosystems the way the recent economic crisis has impacted nearly every market.

It is no longer sufficient, or even possible, to view the world within the confines of an industry, or a discipline, or a process, or even a nation. Yet the emergence of advanced technologies like business analytics can help uncover previously hidden correlations and patterns, and provide greater clarity and certainty when making many business decisions.

Deepening complexity

One major surprise may be the speed with which complexity has permeated leaders' thinking. Six out of ten CEOs told us that the new economic environment is significantly more complex. Looking ahead to the next five years, eight of ten leaders expect the level of complexity to increase. They say they have never faced a learning curve so steep.

Figure 4 Expected level of complexity
CEOs agree complexity will only continue to rise.



Student perspectives

In a world where economic, social and physical systems are all interconnected, students are acutely aware of the complexity they will face in their careers. More students see high impact on organizations from complexity than CEOs—70 percent compared to 60 percent. And among MBAs, 78 percent see high impact from complexity.

“My generation has a completely different view and understanding of unbounded, unlimited social connectivity, science and technology, and cultural conglomeration, that leads to more open, interconnected ambitions.”

Student, United States

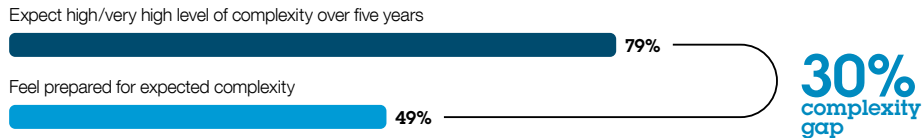
A critical aspect of their learning will be to determine which elements of complexity—for example, overcomplicated internal processes or inflexible customer interactions—are unnecessary or hinder value creation. Likewise, they will need to identify which aspects can be harnessed for greater efficiency, innovation or growth. To do so, a Consumer Products CEO in Belgium said his organization works to truly understand and manage complexity: “Our organization is well-prepared to handle complexity, but it should be demystified and standardized.”

Wrestling with uneasiness: The “complexity gap”

Two years ago, public and private sector leaders framed the major challenge they faced as “change.” They pointed to what we called the “change gap”—the difference between the change they expected and their ability to handle it. Today, CEOs feel more confident about dealing with change, but they have identified an entirely new dilemma.

Figure 5 The complexity gap

While eight out of ten CEOs anticipate significant complexity ahead, less than half feel prepared to handle it.



Our interviews revealed that CEOs are now confronted with a “complexity gap” that poses a bigger challenge than any factor we’ve measured in eight years of CEO research. Eight in ten CEOs expect their environment to grow significantly more complex, and fewer than half believe they know how to deal with it successfully.

When asked how prepared they felt for the complexity ahead, some, like an Insurance CEO in Germany, were guardedly optimistic, “In relation to others, we are well prepared. But in absolute terms, it will be difficult.” Others admitted bluntly they were not up for the challenge, like an Energy and Utilities CEO in the United States who said, “Most people are looking backward, wishing it was still like it always was.”

Learning from top performers

Certain organizations have historically delivered solid business results even in the recent economic downturn. These Standout organizations come from every industry and every part of the world. And importantly, they feel much more prepared for complexity.

“Really, I am not afraid of complexity at all. On the contrary, this just motivates me.”

Jacques Pellas, Secrétaire Général,
Dassault Aviation

“We are entering an era of ten to twenty years of new significant investment. There is opportunity and uncertainty that we have not seen before.”

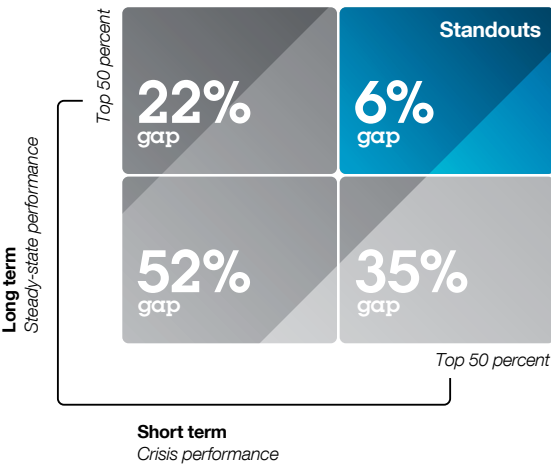
Tom King, President, National Grid U.S.

We analyzed performance relative to industry peers both short term during the economic crisis and long term pre-crisis. Long-term performance included four-year operating margin compound annual growth rate from 2003 to 2008. Short-term performance included one-year operating margin growth rate from 2008 to 2009.

Standouts: Navigating complexity superbly

Compared to their industry peers, Standouts had higher increases in year-to-year operating margin. Even more striking, during the economic crisis, Standouts’ revenue growth was six times higher than the rest of the sample. So, what is this group doing to thrive?

Figure 6 Standouts are better prepared to manage the expected complexity
Complexity gap: Difference between expected complexity and the extent to which CEOs feel prepared to manage complexity.



Standouts expect high complexity ahead, but have a complexity gap of just 6 percent. This is in stark contrast to other CEOs. This substantial disparity reflects the Standouts' confidence in their own capabilities to prosper from complexity. Standouts extol the value of making decisions quickly, testing them in the market, and then making required course corrections.

Based on our extensive analysis of how Standouts are unique and different, we found that CEOs who are capitalizing on complexity have focused their attention on three areas:

- **Embodying creative leadership**—Creative leaders consider previously unheard-of ways to drastically change the enterprise for the better, setting the stage for innovation that helps them engage more effectively with today's customers, partners and employees.
- **Reinventing customer relationships**—With the Internet, new channels and globalizing customers, organizations have to rethink approaches to better understand, interact with and serve their customers and citizens.
- **Building operating dexterity**—While rising complexity may sound threatening at first, reframing that initial reaction is fundamentally important. Successful CEOs refashion their organizations, making them faster, more flexible and capable of using complexity to their advantage.

*“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



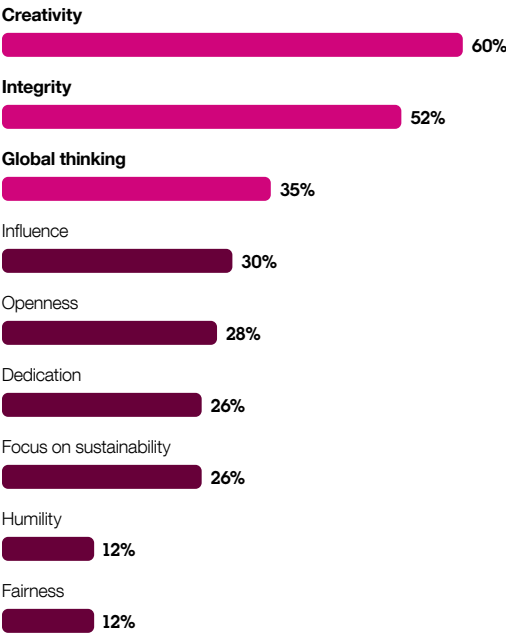
Embody creative leadership

CEOs now realize that creativity trumps other leadership characteristics. Creative leaders are comfortable with ambiguity and experimentation. To connect with and inspire a new generation, they lead and interact in entirely new ways.

Defy complexity with creativity

The degree of difficulty CEOs anticipate, based on the swirl of complexity, has brought them to an inflection point. Asked to prioritize the three most important leadership qualities in the new economic environment, creativity was the one they selected more than any other choice.

Figure 7 Top leadership qualities
CEOs cited creativity as the most important leadership quality over the next five years.



Student perspectives

Like CEOs, six out of ten students rated creativity among the top three leadership qualities, more than any other quality. However, areas of difference are striking. Students included global thinking 43 percent more than CEOs, and included a focus on sustainability 36 percent more.

“Global thinking is a must for leaders, but it should be associated with focus on sustainability and integrity; otherwise businesses will be short lived.”

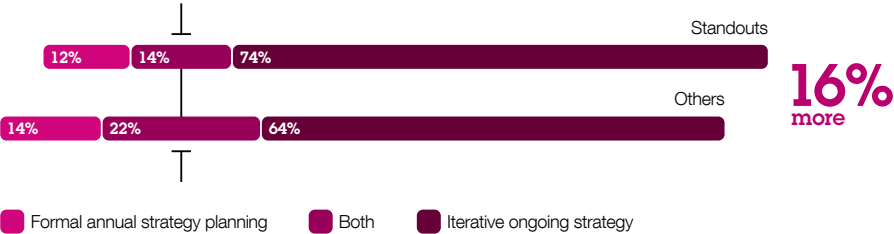
Student, Japan

CEOs recognize that leading creatively will require them to shed some long-held beliefs. Their approaches need to be original, rather than traditional. They must be distinct and, at times, radical in their conception and execution, not just marginally better than existing models or methods. Or, as one Telecommunications CEO in India put it: “Creativity in everything.”

Commit to upsetting the *status quo*

Standout CEOs expressed little fear of re-examining their own creations or proven strategic approaches. In fact, 74 percent of them took an iterative approach to strategy, compared to 64 percent of other CEOs. Standouts rely more on continuously re-conceiving their strategy versus an approach based on formal, annual planning.

Figure 9 Strategy process
Standouts pursue iterative, ongoing strategy development more than other organizations.



It's not that CEOs are just now becoming aware of the importance of creativity—they have long been aware of the need to innovate their products, their processes and their customers' experiences. Even in 2004, CEOs were telling us that “CEOs the world over were refocused on growth, and they viewed innovation as the way to get there.”⁶ But today, creativity itself has been elevated to a leadership style. Traditional approaches to managing organizations need fresh ideas—ideas that are intended to disrupt the *status quo*.

CEOs told us that the new mandate is immediacy. It is no longer sufficient to think, manage or delegate based on traditional time horizons or strategic planning cycles. Both new threats and emerging opportunities require an ability to see around corners, predict outcomes where possible, act despite some uncertainty, and then start all over again.

Act despite uncertainty

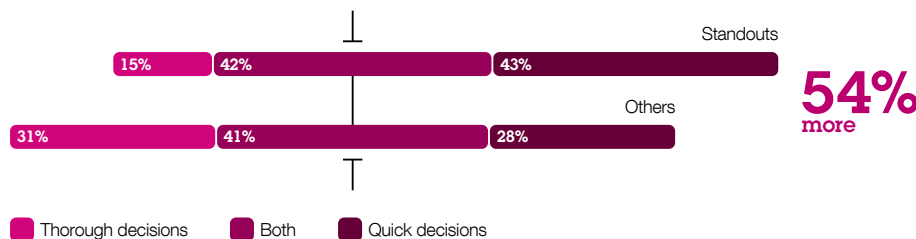
In an environment in which margins for error are shrinking to near nil, CEOs recognize that they can no longer afford the luxury of protracted study and review before making choices. In our conversations, CEOs said they are learning to respond swiftly with new ideas to address the deep changes affecting their organizations.

Standouts master this dilemma by finding ways to push past uncertainty. They were 54 percent more likely to rely on quick decisions rather than thorough study. Of course, no one advocated making ill-considered judgments, but avoiding unnecessary delays was a recurring ambition. “The world is spinning faster,” said a Government CEO in Australia. “We need to keep pace.”

“The management environment is rapidly becoming more complex. In these uncertain times, the need for effective and swift decision making is more important than ever.”

Shuzo Sumi, President and Chief Executive Officer, Tokio Marine Holdings, Inc.

Figure 10 **Decision style**
Standouts focus on quick decisions even when facing uncertainty.



Many CEOs admitted that they felt overwhelmed by data while still being short on insight. They believe a better handle on information and mastery of analytics to predict consequences of decisions could go a long way in reducing uncertainty and in forging answers that are both swift and right.

At the same time, leaders can't hesitate to act where certainty does not exist. And it is ultimately the leader who must take the stand against common wisdom, break through legacy inertia, and bring along the team. Those who hesitate know that more confident competitors are stepping in during ever-shrinking windows of opportunity.

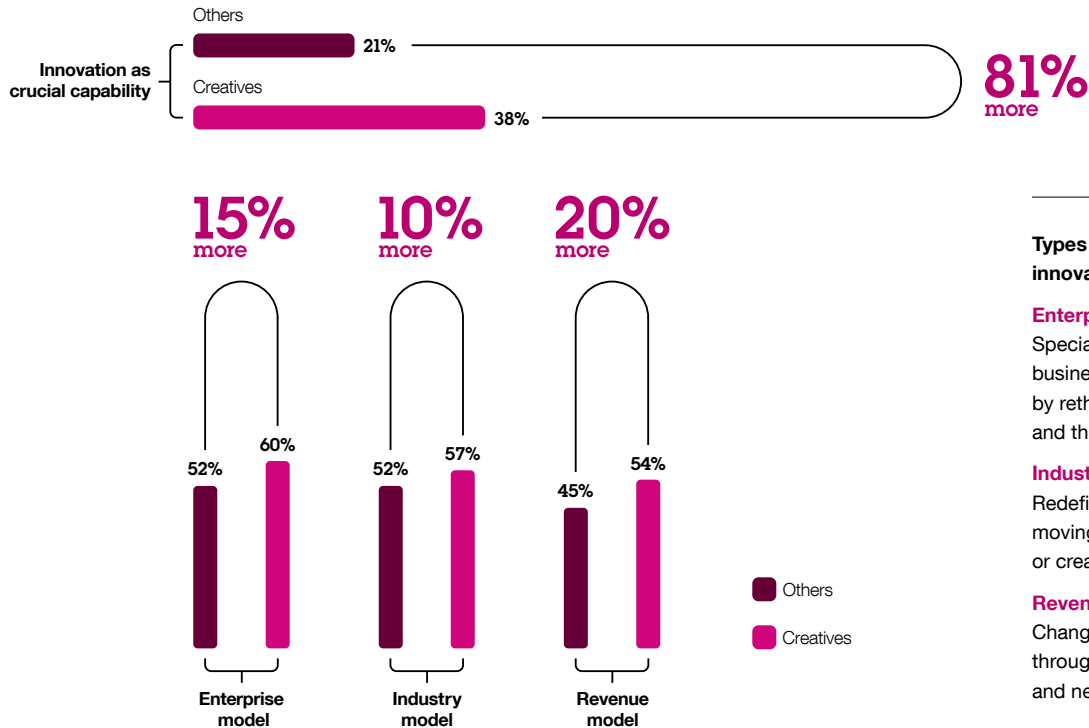
Break ground with new business models

To better understand creative leadership, we looked more closely at only those CEOs who selected creativity as one of three top leadership qualities. We found them to be much more prepared to innovate and between 10 and 20 percent more likely to pursue innovation through business model change.

Historically, business models have changed from time to time. But now these changes are occurring in rapid-fire succession. In the words of an Industrial Products CEO in Japan, "A business model is not absolute, but must adapt to environmental change."

CEOs must be able to test, tweak and redesign their core activities continually. Today, partnerships, revenue models and a host of core business decisions require modification in light of the fast-changing forces impacting their organizations. To operate more effectively in a volatile environment, creative leaders strongly encourage and experiment with all types of business model innovation.

Figure 11 Creative leaders experiment to improve the *status quo*
Creative leaders score much higher on innovation as a crucial capability and many more of them expect to change their business models.



Types of business model innovation considered:⁷

Enterprise model

Specializing and reconfiguring the business to deliver greater value by rethinking what is done in-house and through collaboration.

Industry model

Redefining an existing industry, moving into a new industry, or creating an entirely new one.

Revenue model

Changing how revenue is generated through new value propositions and new pricing models.

Continual business model innovation is similar to the way product designers keep improving their offerings based on ever-changing customer preferences. Driving this new fluidity of business design are profound shifts in both customer expectations and competitive activity that simply don't

“You must be a part of, and not apart from, the society in which you operate and this requires humility. The day of the business tycoon is gone. Managers are appointed; leaders are elected. It’s not a question of people following you — they need to be a part of you.”

Ian Tyler, CEO, Balfour Beatty Plc

adhere to yearly planning schedules. Frequent business model experimentation brings about innovation — including new kinds of relationships and partnerships — based upon what’s happening in the marketplace, not the conference room.

Craft the creative organization

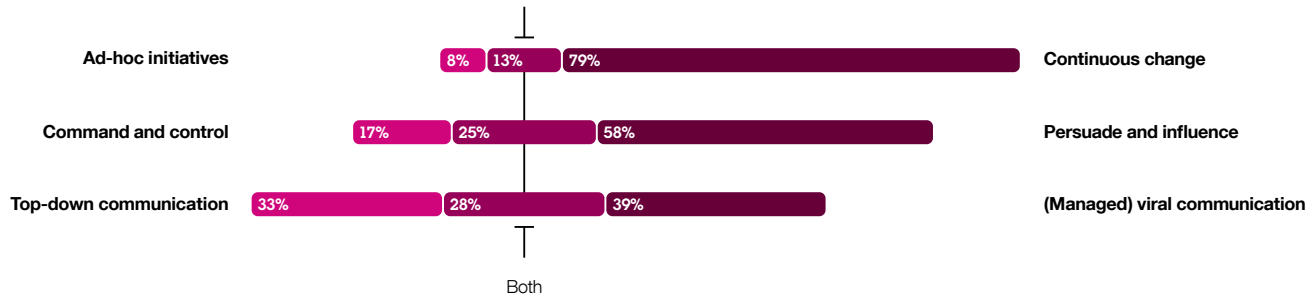
Standouts recognize that continuous change is the norm. And it’s not sufficient to be prepared for it personally. They must equip their entire organization to be a catalyst for creativity. For most leadership teams, this requires an entirely new set of capabilities. A Media and Entertainment CEO in the United States said, “We need to find, recognize and reward creativity.”

CEOs saw the need to seed creativity across their organizations rather than set apart “creative types” in siloed departments like product design. To benefit from the diversity of ideas each employee can contribute, Standouts encourage a new mindset of questioning. They invite employees at all levels to challenge assumptions based on past experiences and scrutinize “the way we’ve always done things.” An Insurance CEO in the United States admitted that his organization has not always managed complexity very well and added, “I am excited about our next generation of leadership and the new level of energy it brings.”

To enact continuous change, Standouts avoid the old command and control style of leadership. Fifty-eight percent prefer to persuade and influence compared to just 17 percent that tend toward command and control. An Electronics CEO in Switzerland told us, “The world does not function top-down as in the army. Today’s leader needs to exercise collaborative influence and demonstrate strong team leadership.”

Figure 12 How Standouts will enact change

To change continuously, Standouts will use new leadership styles and balanced communication approaches.



In addition to leading differently, CEOs and their teams are communicating differently. To communicate with customers and employees, they are experimenting with and assessing the results of using many newer types of digital media and social networking channels.

Standouts reported a better balance of communication approaches. They acknowledge the continued importance of communications “from the top,” especially to establish clarity of purpose and company values. But they also are embracing “viral” forms of communication to engage those inside and outside their organizations.

Breaking from the past, CEOs made a bold choice in naming creativity their premier leadership quality. Traditionally, leaders were most admired for other qualities, like operational excellence, strategic vision or engineering big deals. Our sense is that CEOs are embarking on a significant shift, both personally and for their organizations as a whole. Committing to creativity, they understand the need to challenge their most basic assumptions, and reconceive what it takes to be successful.

“For flight crews, we need a virtual communication environment to pull them into the internal community. With our younger workforce, there is a complete delta in how they expect to communicate. We need to build a multi-generational communication strategy to weave our diverse workforce together.”

David Cush, President and CEO,
Virgin America Airlines

Recommendations

Today's CEOs know that creativity is an essential asset and that it must permeate the enterprise. Creative leaders—which include CEOs and their teams—are courageous and visionary enough to make decisions that alter the status quo. In addition, they increasingly deploy a broad range of innovative communication tools to engage with a new generation.

Embrace ambiguity

Reach beyond silos. Pull creative elements of your organization out of compartments and integrate them into the mainstream. Transcend the obvious to form unconventional partnerships. Proactively exchange knowledge and cooperate with internal and external stakeholders, eliminating every communication barrier to improve your ability to handle the unknown.

Exemplify breakthrough thinking. Practice and encourage experimentation at all levels of the business. Forge ahead with rule-breaking innovation that sets your organization apart from the crowd. Study and question what others do—scour technology and customer trends. Build scenarios to plan responses to a range of possible futures.

Act despite uncertainty. Fight the natural urge to wait for clarity and stability; taking calculated risks—while others hesitate—can pay off. Find a creative way to turn complexity into an advantage. Rely on deeply felt values and a well-defined vision to provide the confidence and conviction to exploit narrow windows of opportunity.

Take risks that disrupt legacy business models

Pilot radical innovations. Stimulate the extended management team to break the mold of existing business models. Think “green field”—what would you do if you were a new entrant with no legacy burden? Question industry practices that seem obvious. When you think you have the answer, ask “why?” again.

Continually tweak your models. Push tailoring to the extreme. Perpetually reassess your enterprise, industry and revenue models to find out what works best. Always look ahead and be prepared to scale up or down, as needed. Promote a mindset of never being satisfied with “good enough.”

Borrow from other industries’ successes. Learn from and be inspired by creative achievements from outside your industry. Regularly discuss case examples from other industries in your management team meetings. Stay abreast of customer and technology trends that are transforming other sectors and consider how you could apply them.

Leapfrog beyond “tried-and-true” management styles

Strengthen your ability to persuade and influence. Even if it feels uncomfortable, lead by working together toward a shared vision. Dare to relinquish some control in favor of building more mutual trust throughout the organization. Don’t present your logic; discover logic with your team.

Coach other leaders. Spark the imagination of others. Instill the pursuit of creativity into your organizational mission through informal and formal training. Challenge every team to prioritize creativity, and support and reward employees who step outside their comfort zones to innovate.

Use a wide range of communication approaches. More than before, supplement top-down organizational communication with less formal, more innovative channels. Accept that for customers and employees alike, blogs, Internet presence, instant messaging and social networking are more credible—and often faster—than traditional top-down communication. Be more open in giving stakeholders access to you.

Case study

Axiata Group

Writing the future

Axiata Group is one of the largest Asian telecommunication companies, with operations in ten countries, 25,000 employees and 120 million subscribers. Axiata's vision is to be a regional champion by 2015, by piecing together the best throughout the region in affordable connectivity, innovative technology and developing talent, and uniting them toward a single goal and greater purpose: advancing Asia.⁸

Over the past two years, Axiata has made major progress toward that goal. It began when Jamaludin Ibrahim emerged from retirement to take over as CEO in March 2008. Ibrahim was formerly head of Maxis Communications and, under his leadership, the company's revenues grew more than twenty-fold to US\$ 2.3 billion—an accomplishment that earned him the accolade of Malaysia's "CEO of the Year" in 2009.⁹

Ibrahim's first order of business at Axiata was to innovatively forge one team, bringing together the operating companies that made up the group to work in unison toward a shared vision. He invited key stakeholders to a leadership summit in Tokyo. But, rather than concentrating on organizational issues, he asked each participant to pretend they had his job and write a fictional press release dated in the future explaining how they had accomplished the group's growth objectives. This creative approach forced them to rethink the *status quo* and admit that they could never do so alone, paving the way for cooperation on various fronts.

Ibrahim's collaborative approach to building a common vision and fostering creativity is delivering results. Axiata recently posted stellar financial results, with net profits tripling to RM 1.7 billion (about US\$ 495 million) from just RM 498 million in 2008.¹⁰



Are you leading creatively?

How will you develop the critical capabilities to enhance creativity among your leadership team?

In what ways can you explore, reward and globally integrate diverse and unconventional points of view?

What is your approach to challenge every element of your business model to get the most from currently untapped opportunities?

How will you leverage new communication styles, technologies and tools, both to lead a new generation of talent and encourage breakthrough thinking?

Reinvent customer relationships

Customers have never had so much information or so many options. CEOs are making “getting connected” to customers their highest priority to better predict and provide customers with what they really want.

“Our products need to anticipate need, rather than respond to a request.”

Michael D’Ascenzo, Commissioner of Taxation, Australian Taxation Office

Rethink customer relationships

Customers keep getting connected — but are they connecting with you? In a dynamic and more complex environment, more enterprises feel customers pulling away instead of getting closer, as new social networking channels capture a greater share of customer attention.¹¹

It’s not just customer attention that has wandered. Interactions have changed too. For example, even the best-designed retail Web sites can’t control the shopping experience, as more and more sales take place through auction and affiliate sites, location-based sites and a multiplicity of new channels.

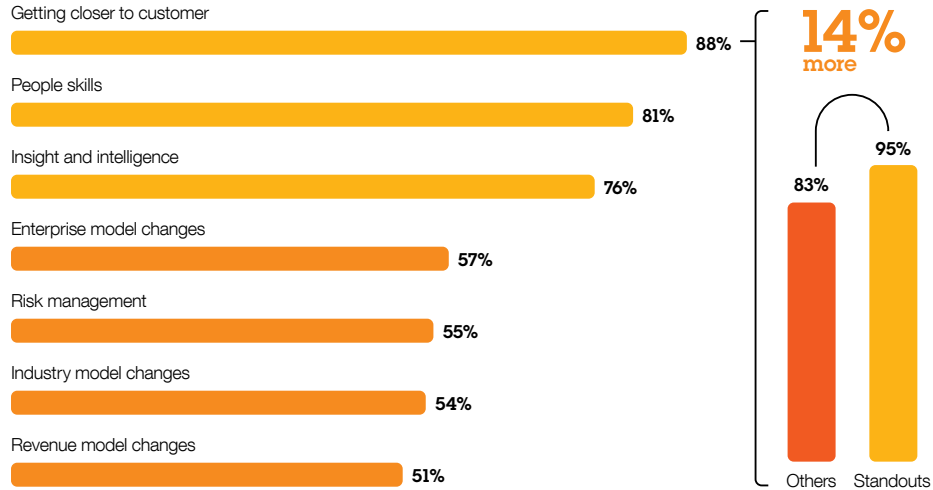
Customers encountering new products, services and experiences on what seems like a daily basis are growing less loyal to their brands and even their own habits. Reputations can be built and burned by opinions shared online, “texted” and “tweeted” by friends, bloggers and advocacy groups. CEOs told us they need to re-ignite customer interest and loyalty, or risk losing ground to competitors.

Get even closer to the customer

Customer intimacy is foremost on CEOs’ minds. Eighty-eight percent of all CEOs, and an astounding 95 percent of Standouts, picked *getting closer to the customer* as the most important dimension to realize their strategy in the next five years. These CEOs are convinced they must not only stay connected (or reconnect) with customers, but keep on learning how to strengthen those bonds.

Figure 13 Top focus areas in next five years

Above all other priorities, CEOs plan to focus on getting closer to customers to realize their strategy.



A Telecommunications CEO in the Czech Republic acknowledged it is no trivial task. “As a major player in our market, customer intimacy is most important to us, but this is easier to say than do.” Like just about everything else in this more complex environment, getting closer to the customer will require both new approaches and a new mindset.

In our conversations with leaders, we sensed CEOs were more committed than ever to taking personal responsibility for being customer driven.

Decisions need to be guided primarily by customer needs—“even on the CEO level,” affirmed a Banking CEO in Hungary.

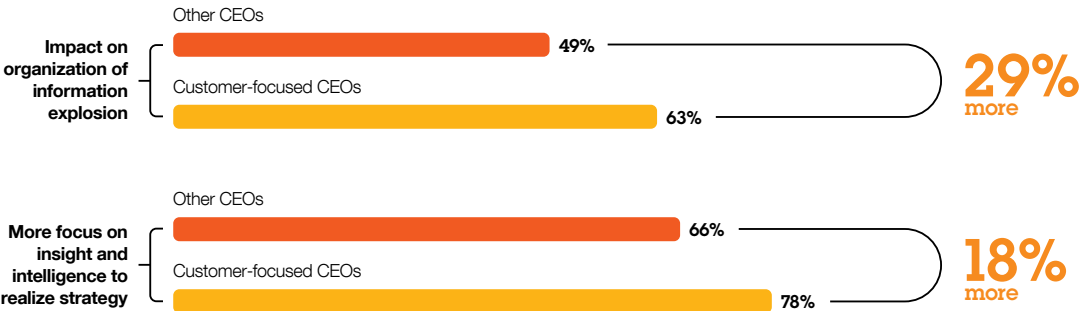
“To surprise customers requires unexpected ideas through interactions of people with diverse perspectives. It is urgent for us to develop a system to manage this unexpectedness.”

Shukuo Ishikawa, President and CEO, Representative Director, NAMCO BANDAI Holdings, Inc.

Turn the data explosion into insight

To better understand what differentiates customer-focused leaders, we took a closer look at CEOs whose top priority is getting closer to the customer. This group was 29 percent more likely to expect the information explosion to impact their organizations to a very large extent in the next five years. They also focused 18 percent more on insight and intelligence to achieve strategy.

Figure 14 Leveraging the information explosion
Customer-focused CEOs will use insight and intelligence to better serve customer needs.



A staggering number of CEOs described their organizations as data rich, but insight poor. Many voiced frustration at not being able to transform available data into feasible action plans, let alone to detect emerging opportunities. “We seem to have more data, but our information is worse,” said an Electronics CEO in Canada. “It is more difficult to sift out what is most important.”

In what seems a growing fog of data, CEOs have never expressed a greater need to obliterate their blind spots. Too often, they say, information based on customer interactions is trapped in organizational silos. Or insights are derived only from the most easily culled information. Organizations that are able to combine, or layer, many kinds of information from different customer channels—with frequency—are best positioned to succeed.¹² An Education CEO in Canada cited the problem of poor data quality: “Information is not well validated. The problem is a ‘misinformation explosion.’”

Today, unstructured information—comments on Web sites or blogs, for example—can be analyzed as readily as statistical data from multiple-choice questionnaires. Much of this unstructured information, however, is outside an organization’s own control—on the Internet, for example, or in a partner’s contact center, making enhanced and purposeful collaboration with customers, partners and others a necessity.

Generate trust to generate insight

When asked how their customers’ expectations of them would change in the next five years, 82 percent of CEOs expect that customers—and in the case of government, citizens—will demand a better understanding of their needs. Seventy percent said that customers would expect new and different services, closely followed by more collaboration and information sharing.

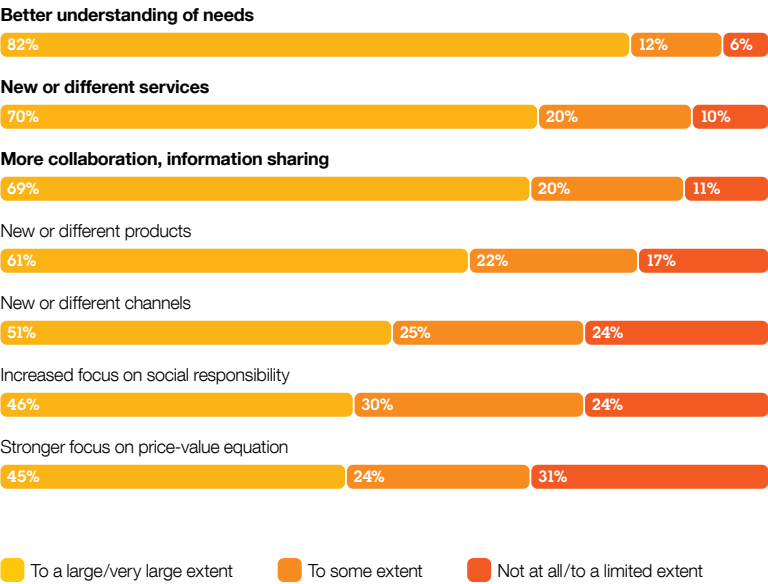
Improved collaboration—both inside and outside the organization—has long been a high CEO priority. In our last CEO Study, CEOs indicated that knowing more about customers led to better innovation on their behalf.¹³ But just two years later, social networking has exponentially increased the degree of interaction customers and citizens expect of organizations. It isn’t enough just to collaborate anymore. Today, the watchword is “co-create.”

“Technology is already impacting our clients’ behavior. Currently, clients are price checking over four continents using today’s technology.”

Michael Ward, Chief Executive, Harrods

In fact, unprecedented levels of customer collaboration are becoming a reality. A recent IBM study found that a remarkably high 78 percent of consumers surveyed worldwide would be willing to collaborate with retailers to develop products and services.¹⁴

Figure 15 CEOs predict what customers will expect
Above all, CEOs think customers want organizations to better understand their needs.



“We are heavily focused on audiences (products, services and markets). Historically, we ran our business somewhat like a utility. Going forward, we are segmenting our products and services for specific audiences.”

Glenn Britt, Chairman,
President and Chief Executive
Officer, Time Warner Cable

Today, the real reward of customer connectivity is the intelligence to be gained from customers who trust that organizations will put the information they share to mutual advantage—for them, others like them

and the organization. A person who takes medication for chronic conditions may be more likely to share information about relevant symptoms with medical researchers when he joins a patient-oriented social networking site, for example.

Since we talked to CEOs two years ago about customer loyalty, one of the bigger changes has been the massive growth in social networking. Twitter grew 1,928 percent from June 2008 to June 2009, and today has more than 21 million unique visitors each month.¹⁵ In a single year, from January 2009 to December 2009, Facebook grew from 150 million to 350 million.¹⁶ If Facebook were a country, it would be the third-largest country in the world.¹⁷ These and the scores of sites rapidly emerging where consumers and citizens share likes and dislikes will require an entirely new approach.

“Social networks are at the heart of collaboration and information sharing,” according to a Telecommunications CEO in the United States. “It will drive differentiation.” A Utility CEO in the United Kingdom acknowledged, “There is a whole new generation of customers we must learn to engage with; they’re all ‘twittering’ and we’re not.”

Question the price-value equation

As suppliers and competitors get more global, and communications more viral, new trends and innovations leap quickly to and from far-flung regions. Customer preferences change as quickly as they are captured. CEOs understand that to stay abreast of rapidly evolving changes by region and segment requires continuous engagement that feeds new sources of insight.

Student perspectives

While students foresee changing customer expectations of new products and services at the same level as CEOs, 24 percent more students expect significantly greater customer demand for new or different channels.

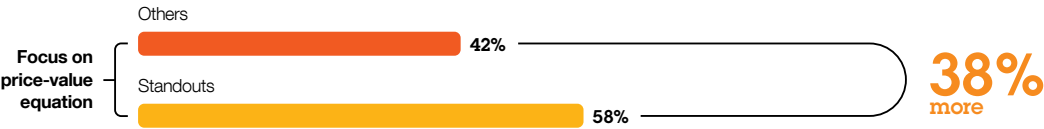
“Understanding needs is a very important factor. But it’s important to understand that this must be on a personal level—not simply a ‘buying behavior’ level.”

Student, United States

Few trends may be as important as better understanding changing customer preferences about both price and quality. Naturally, the economic downturn has elevated price consciousness. At the same time, new consumer groups are emerging in rapidly developing markets. Their attitudes about price and value are largely unknown, especially by organizations outside the region.

The Standout organizations we met with understand the importance of getting this right. They are 38 percent more likely than all others to focus on the price-value equation as part of their future strategies.

Figure 16 Standouts are more focused on the price-value equation
Organizations recognize the need to better understand customers’ price-value trade offs.



Design the customer experience

Organizations are finding new ways to better understand evolving needs. In addition, they are designing better customer experiences for all their interactions.

More and more, organizations are working to synchronize processes with the desired customer experience, and shift their metrics to measure that experience. “We will lead with the customer experience,” a Telecommunications CEO in the United States explained.

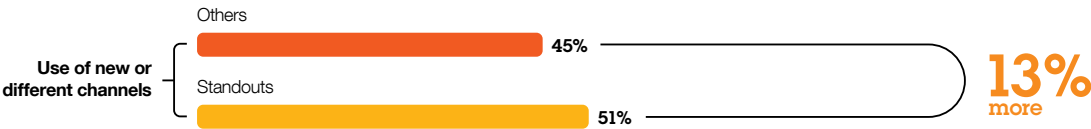
Increasingly, organizations will need to “follow the customer” as customers communicate with or about them through all possible channels. It is no surprise, therefore, that Standouts were 13 percent more likely than others to be focused on developing new and different channels. This also opens up new ways to engage with customers to harness their creativity and co-innovate to develop new products and service models.

The CEOs we spoke with showed a new determination to put the customer first. As a Life Sciences CEO in the United States put it, “Our industry model will change to drive getting closer to the customer.”

“Our customers want personalization of services and products. It is all about the market of one.”

Tony Tyler, CEO, Cathay Pacific Airways

Figure 17 More Standouts seek new paths to customers
Finding new channels to exchange information with customers is fundamental to providing desired customer experiences.



Recommendations

A new approach to customer intimacy is critical in the new economic environment and this necessitates a stronger commitment than ever before. Organizations that are best at extracting previously undiscovered insights from vast amounts of customer information have a huge advantage in deepening existing connections and creating new relationships.

Honor your customers above all else

Establish an unprecedented level of focus. Starting with the CEO, every employee in the organization must be hyper-focused on customers. Make customer value your number one value. Ensure every employee is responsible for and assessed annually on a customer satisfaction or customer value metric.

Heighten customer exposure. Make it easy for customers to connect with the right person in your organization. Every employee must have the information needed to engage with customers appropriately and effectively. All employees must understand the link between the work they do and the value it brings to customers.

Measure what customers value. Genuinely know what motivates current and potential customers to choose your product or service. Surpass today's standards to proactively verify that you are providing what customers want and delivering it in ways that matter to them. Understand your customers' business goals and help them succeed.

Use two-way communication to stay in sync with customers

Make customers part of your team. Enhance customer relationships by finding new ways to communicate, new roles they can play, new questions to ask them, new ways you can listen, new ways to evaluate their feedback and new ways to leverage what you learn. Make — and deliver on — commitments to your customers.

Solicit customer wants. Engender loyalty by directly involving customers in defining emerging needs. Constantly tune offerings to their rapidly changing preferences. Make sure you are providing what customers want tomorrow, instead of what they wanted yesterday.

Co-innovate and interact with customers in new ways. Collaborate across different channels to create new products and services. Maintain a running dialogue that includes face-to-face and social networking interaction. Involve your customers before and beyond the sale, including care and service.

Deliver true process transparency. Ask your customers which processes work well and what should be done to fix the ones that don't. Remember to ask what they want to know about your processes, products, services and organization.

Profit from the information explosion

Tap the value of limitless data. Identify and prioritize hidden opportunities by managing and using information better. Find new ways to extract value from unstructured, non-numeric (and often short-lived) data. Switch from merely collecting data to connecting it—help internal and external stakeholders integrate facts in a meaningful way.

Translate data into insight into action that creates business results. Make the right data accessible for the right people at the right time. Remove blind spots that hinder informed decision making by providing contextual analytics and insight. Perform analysis that allows you and your employees to “predict and act,” not just “sense and respond.”

Share information freely to build trust and improve customer relationships. Confirm you are providing the information that customers want and how they want it. Improve the effectiveness—not just the efficiency—of information exchanges to avoid the trap of speeding up delivery of what they don't even need.

Case study

CenterPoint Energy and Oncor

Smart meters putting power in the hands of customers

Customers traditionally left all the decisions about energy supply to their providers, as long as the energy flowed when they needed it. But times have changed. Texas-based electricity distributors CenterPoint Energy and Oncor are responding to customers' changing needs and now give them more control over their power usage.

Both companies are part of a consortium that has launched a new service Web site where consumers with smart meters can monitor their daily electricity consumption.¹⁸ CenterPoint Energy started rolling out its advanced metering system in March 2009. It has installed 267,000 smart meters and plans to install over 2 million by 2014.¹⁹ Meanwhile, Oncor has installed over 800,000 smart meters and aims to replace all three million-plus meters in its system by 2012.²⁰ Oncor's deployment includes providing retail electric providers the ability to directly control thermostats and other interruptible loads, send pricing signals and provide tiered pricing information to consumers' ZigBee-enabled in-home devices.

Smart meters are the link between customers and the smart grids many electricity companies are now building. And the grids themselves are a perfect example of how technology can be used not just to control complexity but to exploit it. They draw on sophisticated sensors and software to route power as effectively as possible, given the prevailing conditions.

These initiatives will give consumers access to near-realtime usage data — a major step toward helping consumers make smart energy decisions. They will also enable retail electric providers — the companies selling energy directly to consumers — to support retail offerings such as energy analysis tools, time-of-use rates and prepaid service that will help customers better manage their electricity expenditures.²¹

Are you reinventing relationships with customers?

How will you engage customers in new ways that increase interest and loyalty to generate new demand and revenue sources?

How can you involve customers more effectively and directly in product and service development?

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



Build operating dexterity

CEOs are mastering complexity in countless ways. They are redesigning operating strategies for ultimate speed and flexibility. They embed valued complexity in elegantly simple products, services and customer interactions.

“Simplification and standardization are key strategies that we have been using for several years to reduce existing and future complexity.”

Brenda Barnes,
Chairman and CEO, Sara Lee

Get ready for growth

Today’s CEOs face grueling conditions. Buffeted by volatility, they have come to expect the unpredictable. But they know that the return to growth will require more than resilience or sure footing. They need to spring forward with the vigor of Olympic-caliber athletes. Not only are new opportunities emerging in rapidly developing markets, new customer segments are differentiating themselves in mature markets. Organizations unprepared to act immediately on these new opportunities may watch them slip away from their grasp almost as quickly as they emerge.

Adding to the pressure is rapid fragmentation. The world may be flat, but it is now made up of discrete markets, proliferating product and service categories and ever-individualized customer segments. Such diversity and splintering adds greatly to the complexity that private and public sector leaders are experiencing.

At the same time, the CEOs we met with talked of adopting a new approach to planning — iterating their business strategies with greater frequency and instituting continuous change through business model innovation. This calls for operating models designed for extreme flexibility and the surety to act with speed.

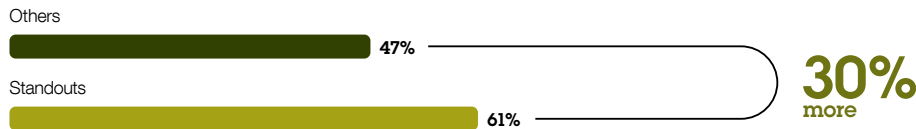
Simplify for speed

Complex operating structures too often degrade to an overly and unnecessarily complicated state. Over the years, design flaws crop up in even the best operating models.

An inefficient process becomes linked to a critical one, for example, and slows down the whole organization. Mergers and acquisitions introduce redundant systems, and create wide-open gaps. Objectives change, and old processes are no longer adding value, but they stay embedded. Eventually the process “spaghetti” makes it hard to judge which connections are adding value and which are introducing untenable dependencies.

Figure 18 The majority of Standouts intend to simplify operations

Fewer than half of other CEOs will emphasize simplification to better manage complexity.



In response, many CEOs expressed the need to simplify their operating strategies in order to better manage complexity. Standouts were 30 percent more likely than others to be focused on simplification. “Simplifying our products and processes is our response to the extended complexity in the world,” one Banking CEO in the Netherlands told us.

Mask complexity for your advantage

The CEOs we spoke with expressed a need for simplification that extends beyond lean processes and easier-to-use products to more useful and streamlined interactions with their customers, employees and partners.

CEOs weren’t advocating stripping their operating structure or product lines of all complexity. Rather, they were focused on optimizing their operating models for specific objectives. For many, the primary purpose is the speed and flexibility to go after new revenue sources. For others, it is to get closer to customers by creating better customer experiences.

It goes without saying that even the most complex products should have intuitive—and easy-to-use—interfaces. The same is true of every interaction with a customer, patient or citizen. A Government CEO in New Zealand summed up planned changes to his operating strategy: “We will manage complexity on the business side, but simplify the customer experience.”

“When things look very simple, you need to look for a competitive edge. When things are complex, you simplify to get the competitive advantage.”

Graeme Liebelt, Managing Director and CEO, Orica Limited

“The world is non-linear; so the ability to cut through complexity relies on processing a large amount of information quickly and extracting nuggets to make quick decisions. Building advantage will be an outcome of dealing with complexity better than our competitors.”

Julian Segal, Managing Director and CEO, Caltex Australia Limited

The trick is keeping complexity “behind the curtains,” making it easy for customers, as well as employees whose productivity is thwarted by unwieldy systems and processes. In a world of sweeping complexity, the ability to mask it becomes a competitive advantage in critical areas like the ease of doing business and customer service.

Benefit from complexity

To lead in the marketplace, complexity also has to be mastered. Complexity, in the form of increasing interconnectedness, won’t go away, nor should it. The tsunami of data released from the Internet of people and things, coupled with new technologies and analytics, has already led to industry-disrupting innovations, such as e-books, Internet retailing and digital music, and massive improvements to the way the world works, such as intelligent “farm to fork” systems.

In China, 84 percent of the consumers surveyed by the IBM Institute for Business Value say their concern about food safety has increased, and 65 percent don’t trust food manufacturers.²² This is not just a problem in China. In the United States, it took authorities two months to identify the source of a deadly salmonella outbreak.

In Norway, Canada and elsewhere, stockyards, feed suppliers, processing plants, truckers and retailers are working together to build systems to track meat, poultry and even wheat from farm to fork, to keep it in optimal conditions throughout the supply chain.²³ Data is collected and analyzed to trace every aspect of a piece of food for safety, quality and other considerations. In many cases, consumers can now access information on Web sites to determine the specific origin of the individual food item they just purchased.²⁴ The same systems and data collected to track food can be used by producers to increase efficiencies and cut costs — even optimize for carbon output — across the supply chain.

A Healthcare provider in the United States described complexity as opportunity: “The more complex, the more interesting it is. I never believed the good old days were good. Never a better time to be in healthcare. Not easier, but more rewarding.”

Design for dexterity

To create a profile of dexterous organizations, we grouped those CEOs who recognized the value of fast decisions, an iterative approach to strategy and the ability to execute with speed. These are the basic organizational constructs for quick, effective action in a changing and complex environment. An Aerospace and Defense CEO in the United States concisely stated the need for operating dexterity: “You can be good at everything, but if you can’t adapt, you are dead.”

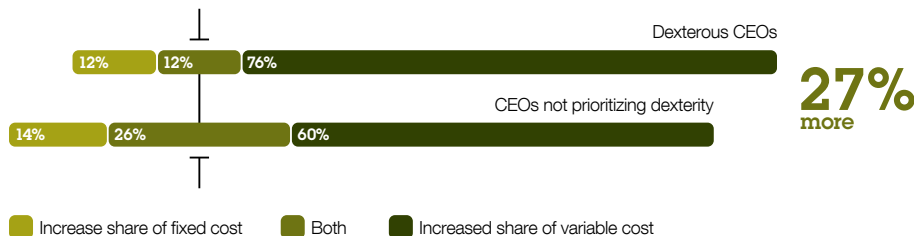
Notably, we discovered that this dexterous group was 19 percent more likely to view creativity as a top leadership quality. They have other objectives in common. They are more likely to avoid fixed costs wherever possible. Three-fourths of CEOs who are keenly focused on operational dexterity plan to change their operations to increase cost variability.

“We are looking at a vast transformation in how we use our existing assets.”

Dr. Stephen Duckett, President and CEO, Alberta Health Services

Figure 19 Replacing fixed costs with variable costs

The most dexterous CEOs focus much more on variable cost structures so they can scale up and down more quickly.



Student perspectives

Students expect organizations to be flat and flexible. They were 90 percent more likely than CEOs to select adaptability as one of three top capabilities that organizations should build into their operating strategies.

“An adaptable organization can deal with anything that comes its way, so this is a good skill for any organization at any time. Today, the markets change constantly, so it is even more important. Being able to see what is coming reduces the risk of entering into business and can be easily done to help an organization plan.”

Student, France

By adopting a service model approach, outsourcing and partnering more extensively, they are able to tap into skills and can scale their businesses as required. This gives them more flexibility to pursue targeted pockets of growth.²⁵ They standardize processes where possible, and take advantage of shared service models across key functions, such as Human Resource and Finance operations. This frees them up to put more emphasis on activities that customers or citizens value.

Rebalance global and local

Dexterous organizations also carefully consider when to utilize global advantage and where to optimize for local impact. Modular approaches, using standardized components in areas like product development and manufacturing, help organizations be globally efficient and locally attuned. This increased focus on finding the right balance builds on the findings of our last CEO Study: in 2008, CEOs were starting to voice the need for both global integration and local relevance.²⁶

The decision on how to balance global and local is similar to the debate regarding decentralization. It's rarely an either/or proposition. As one Electronics CEO in Switzerland told us, “It's not about centralized versus decentralized. It's about deciding on the best fit for each business unit or element in the value chain.”

The dexterous group was 23 percent more intent than all others on achieving an optimal balance between global and local markets. They prioritized the analysis of which operational elements work best on a global level versus those that are better addressed at local levels. CEOs admitted that finding the best mix is not easy and that they too often fall back on doing what is familiar. An Industrial Products CEO in the United Kingdom recounted that for his organization, centralization was the common default. “There is always pressure to centralize our way out of issues,” he said, “and it is always the wrong answer.”

Target new growth

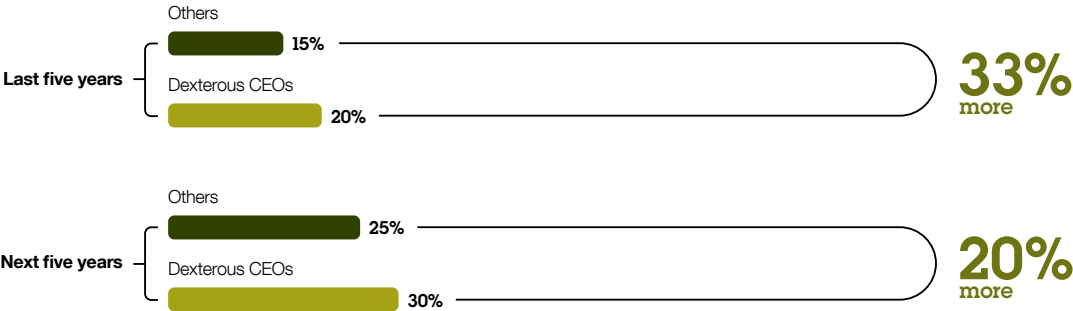
A Life Sciences CEO in the United Kingdom shared a concern common to many we spoke with: “I am worried that we have missed opportunities by being too insular.” By contrast, dexterous organizations have confidence in their ability to spot and exploit these potential spikes of growth, and expect 20 percent more revenue to come from new sources over the next five years than other CEOs.

Organizations that can flex, recalibrate and optimize their organizations to pursue specific objectives are best situated to go after any opportunity or respond to any event that comes their way. Driven by the urgent need for business recovery—even as the pace of change continues to accelerate—operational dexterity has become central to the return to growth.

“The challenge is the short window of time that exists to take advantage of a situation or strategic opportunity.”

Norman Gerber, CEO,
Versicherung der Schweizer
Ärzte Genossenschaft

Figure 20 Revenue generated from new sources
CEOs with greater speed and dexterity expect 20 percent more revenue from new sources in the next five years.



Recommendations

Operational dexterity enables CEOs to pursue growth opportunities and address challenges with speed. With fast and flexible operations, they can also become experts at finding advantages in complexity—for both their customers and themselves.

Simplify whenever possible

Simplify interactions with customers. Be ultra-easy for customers to do business with. Eliminate unnecessary complexity so that customer-related policies and procedures, and access to products and services, are effortless from the customer's point of view. Keep the focus on being intuitive.

Simplify products and services by masking complexity. Deliver rich functionality to customers through simple interfaces. Provide deeply valuable products and services that are easy for end users despite the necessary and desirable underlying complexity. Understand which features customers want to influence and when they prefer not to have to make choices.

Simplify for the organization and partners. Be absolutely clear in communicating organizational priorities and what is expected from whom. Eliminate bureaucracy and implement lean processes. Integrate functions to create empowered teams and enable faster decisions.

Manage systemic complexity

Put complexity to work for your stakeholders. Refuse to allow global complexity to encumber your supply chain—instead, extract value from the existence of more options to make it more efficient and effective. With improved insight into customers, processes and business patterns, drive better realtime decisions and actions throughout the enterprise. Consider adding value by managing more complexity on behalf of your customers.

Take advantage of the benefits of analytics. Identify, quantify and reduce systemic inefficiencies. Elevate analysis from a back-office activity limited to a handful of experts to an approach that can empower everyone in the organization in context of the current situation.

Promote a mindset of being fast and flexible

Act quickly. Be audacious — make decisions when you “know enough” and resist the urge to wait until you “know it all.” Rely on a strategic vision to provide clarity in a nebulous environment.

Push execution speed. Streamline processes to enable rapid decision making and execution. Remove procedural or policy roadblocks by empowering employees at appropriate levels to act. Recognize and reward when flexibility generates value.

Course-correct as needed. Align a few clear metrics with objectives to identify success patterns, then regularly track results as part of a continual feedback loop. Modify actions based on what is learned.

Be “glocal”²⁷

Find the right mix of global and local. Be global where possible, local where necessary. Gain an in-depth understanding of what really needs to be localized. Allow for cultural differences and don’t assume what works for one country or market will work in another. Identify new growth opportunities around the world constantly.

Leverage the world through partners. Being nimble often means not doing it alone. Know where the best opportunities lie at any given time, and pursue them. Strengthen partnering skills to replace fixed costs with variable costs, and take advantage of geographic expertise and cost advantages as much as possible.

Case study

The Volkswagen Group

Working the world

The Volkswagen Group is one of the world's leading automobile manufacturers and Europe's biggest carmaker, with revenues of over €105 billion (about US\$ 140 billion).²⁸ The Group aims to become the world leader by 2018.²⁹ And, given sluggish demand for new vehicles in the developed economies, it wanted to boost its presence in emerging markets. The key question was: how could it compete and still be profitable?

The Volkswagen Group's solution was to build an operating model that balances global and local. The Group is made up of nine brands from seven European countries. Each brand has its own character and operates as an independent entity. The entire Group has a global vision, replicates best practices and exploits economies of scale. Starting by 2012, a "modular" manufacturing strategy will further optimize production and costs across brands and regions.³⁰ This will enable the Group to reduce its unit costs and lead times, while increasing its flexibility.

The Volkswagen Group also adapts its vehicles for local customers and has localized key elements of the value chain, with the support of regional R&D teams, local sourcing and local marketing. Local materials and suppliers account for 80 to 90 percent of the value of all vehicles made in Brazil, for example. The Group is now developing local dealer networks and financing facilities, in collaboration with local banks.³¹

Thanks to this "glocal" approach, the Volkswagen Group enjoyed year-on-year EBIT growth between 2004 and 2008. And in 2009, it sold more vehicles in China than in Germany—proof of its foresight in being one of the first Western carmakers to set up operations there.³²



Are you building operating dexterity?

In what ways can you simplify processes
and develop the agility required to execute rapidly?

How can your organization benefit from taking on
more complexity on behalf of customers or citizens?

How will you integrate and analyze timely information
to gain insight, make quick decisions and enable
dynamic course correction?

Have you implemented asset and cost flexibility,
and defined partnering strategies to compete in your
chosen markets?



How to capitalize on complexity

Looking ahead, the possibilities for capitalizing on complexity are expanding rapidly. We learned from over 1,500 CEOs how they are making the most of unprecedented opportunities and addressing new challenges.

“The complexity our organization will have to master over the next five years is off the charts — a 100 on your scale from 1 to 5.”

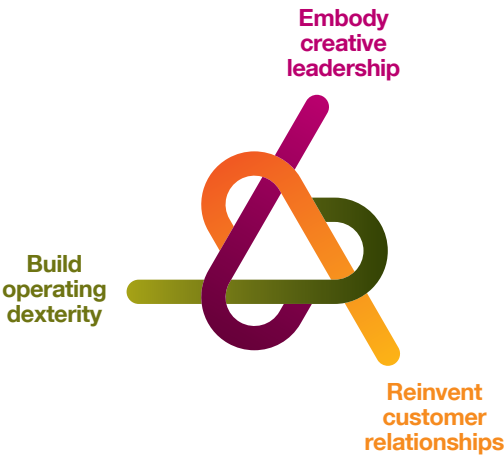
Edward Lonergan,
President and CEO, Diversey, Inc.

Act on the CEO agenda

Even though complexity seems to be at an all-time high, it’s still rising. Each day, business processes are becoming more global, interconnected and collaborative. But the complexity that comes from involving more people, more organizations and more information also brings fresh perspectives, deeper insight, more innovation.

In managing, masking or eliminating complexity, creative leaders will invent new business models based on entirely different assumptions. Benefits are to be had for those who create new products, services, delivery methods and channels that hide intricacies and make things simple in the eyes of consumers and citizens.

For 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 responsiveness, overwhelms employees and customers, or threatens profits? Or do they have the creative leadership, customer relationships and operating dexterity to turn it into a true advantage?



In summary, the combined insight from our 1,541 interviews calls for CEOs and their teams to:

Embody creative leadership	Reinvent customer relationships	Build operating dexterity
• Embrace ambiguity • Take risks that disrupt legacy business models • Leapfrog beyond “tried-and-true” management styles	• Honor your customers above all else • Use two-way communications to sync with customers • Profit from the information explosion	• Simplify whenever possible • Manage systemic complexity • Promote a mindset of being fast and flexible • Be “glocal”

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 it. As your organization explores many options to capitalize on complexity, we look forward to working with you.

Continue the conversation at ibm.com/capitalizingoncomplexity

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The right partner for a changing world

At IBM, we collaborate with our clients, bringing together business insight, advanced research and technology to give them a distinct advantage in today's rapidly changing environment. Through our integrated approach to business design and execution, we help turn strategies into action. And with expertise in 17 industries and global capabilities that span 170 countries, we can help clients anticipate change and profit from new opportunities.

About IBM Global Business Services Strategy & Change

IBM Global Business Services offers one of the largest Strategy & Change organizations in the world, with over 3,250 strategy professionals. IBM Strategy & Change practitioners help clients develop, align and implement their vision and business strategies to drive growth and innovation.

About the IBM Institute for Business Value

The IBM Institute for Business Value, part of IBM Global Business Services, develops fact-based strategic insights for senior business executives around critical industry-specific and cross-industry issues. This Global Chief Executive Officer Study is part of our ongoing C-Suite Study Series.

Notes and sources

- 1 The period for long-term performance analysis of four-year operating compound annual growth rate was from 2H2003/1H2004 to 2H2007/1H2008.
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For further information

For more information about this study, please contact one of the IBM leaders below. Or, visit **ibm.com/capitalizingoncomplexity** or send an e-mail to the IBM Institute for Business Value at **iibv@us.ibm.com**.

<i>Americas</i>	Saul Berman	saul.berman@us.ibm.com
<i>Asia Pacific</i>	Grace Chopard	grace.chopard@au1.ibm.com
<i>Japan</i>	Ryuichi Kanemaki	kanemaki@jp.ibm.com
<i>Northern Europe</i>	Sara Longworth	saralongworth@uk.ibm.com
<i>Southern Europe</i>	Michel Vlasselaer	michel.vlasselaer@be.ibm.com
<i>IBM Institute for Business Value</i>	Peter Korsten	peter.korsten@nl.ibm.com



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Route 100
Somers, NY 10589
U.S.A.

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