

# Managerial Complexity

## A different perspective

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# Outline

- Basic premise
- Background
- Symptoms & implications
- Root causes
- Eliminating complexity
- Implications for mangement education

# Basic premise

- Managers are creating needless complexity
- This creates *significant* additional costs
- Several root causes, one underlying theme

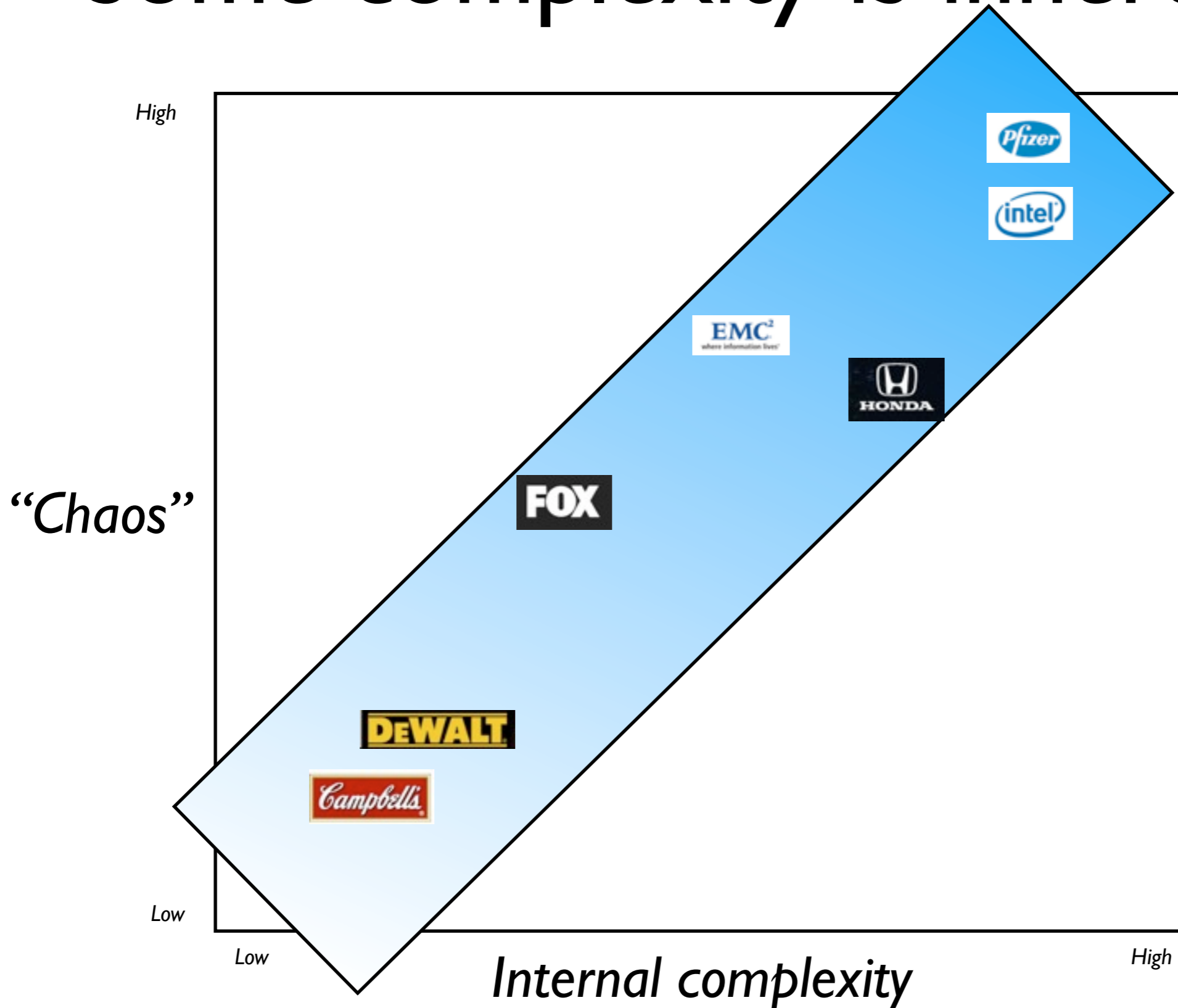
*Emphasize analytics, discount intuition, experience*

- Reducing complexity requires re-thinking this balance
- Major implications for management education

# Management complexity increasing

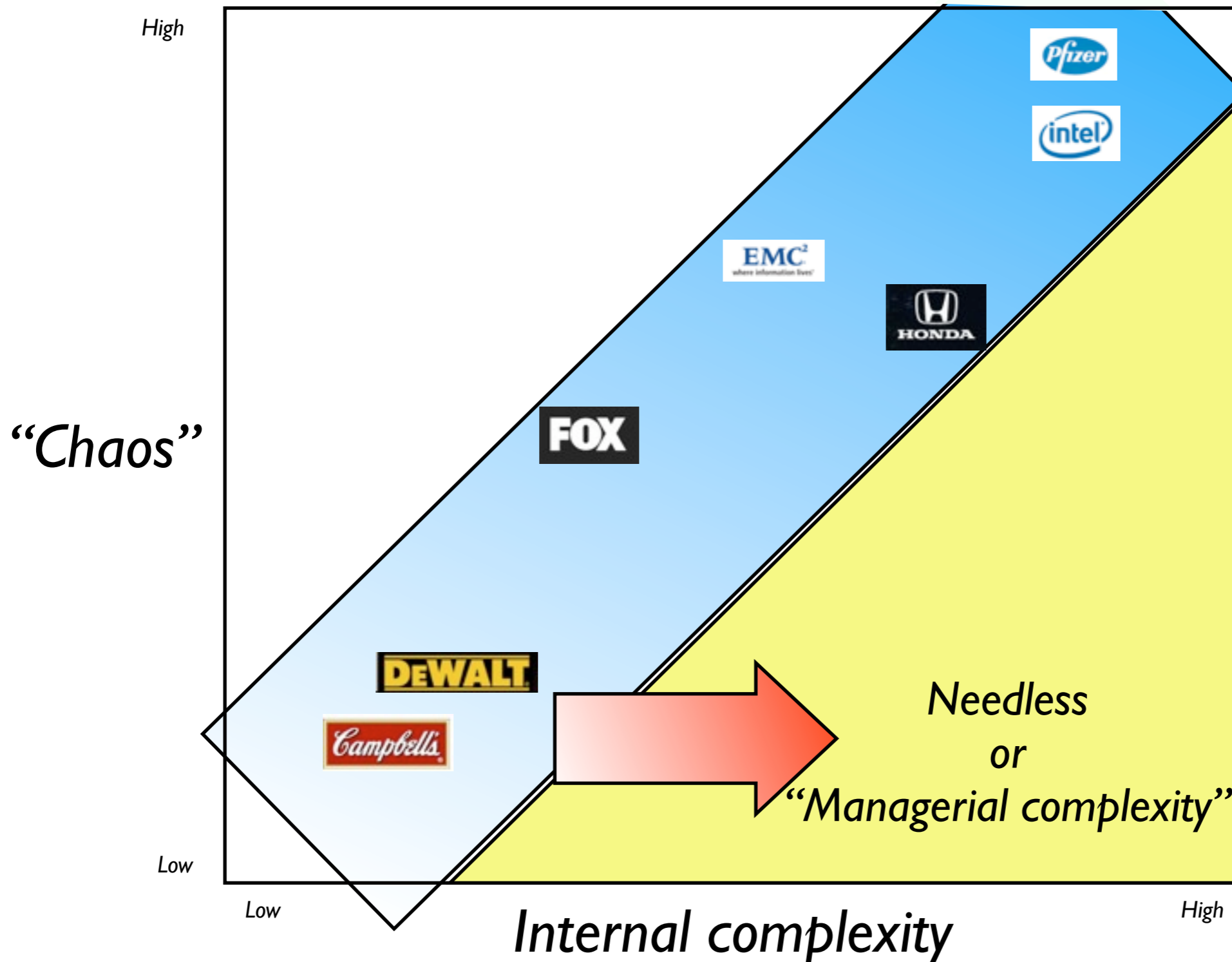
- *External* factors
  - Globalization of supply chains, capital markets
  - Demographic shifts in customers
  - Rapid technological change etc., etc.
- *Internal* (or company, industry-specific) factors
  - Size, scale of operations
  - Underlying technology, capital requirements
  - Diversity of product/markets, etc., etc.

# Some complexity is inherent...



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...but managers create needless  
*additional complexity*



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# Man·a·ge·ri·al Com·plex·i·ty

- *Definition:* Structures, systems, processes & practices greatly in excess of requirements
  - *E.g. Capital budgeting for a corner grocery*
- Symptoms both
  - *External* (visible to outsiders), and
  - *Internal* (obvious to insiders)
- Significant operating & opportunity costs

# External symptoms

- Micro-segmentation & excessive product proliferation

- Myriad flavors of vanilla yogurt
- BlackBerry Curve, Storm, Bold, 8900, 8800,...vs iPhone

- Apple:

*Pre-Jobs II*

*Quadra*

*Performa*

*Power Mac*

*Powerbook*

*Newton*

*eMate*

*Post-Jobs II*

*iMac, iBook*

*PowerBook, Pro*

- Pricing & promotional complexity, confusion



# Internal symptoms

- Excessively elaborate, complex systems
  - CRM for a simple B2B business
  - DRP in a commodity detergents business
- Multiple, conflicting (meaningless?) metrics
- “One-size fits all” metrics for a diverse portfolio
  - ROCE for manufacturing & service businesses
-

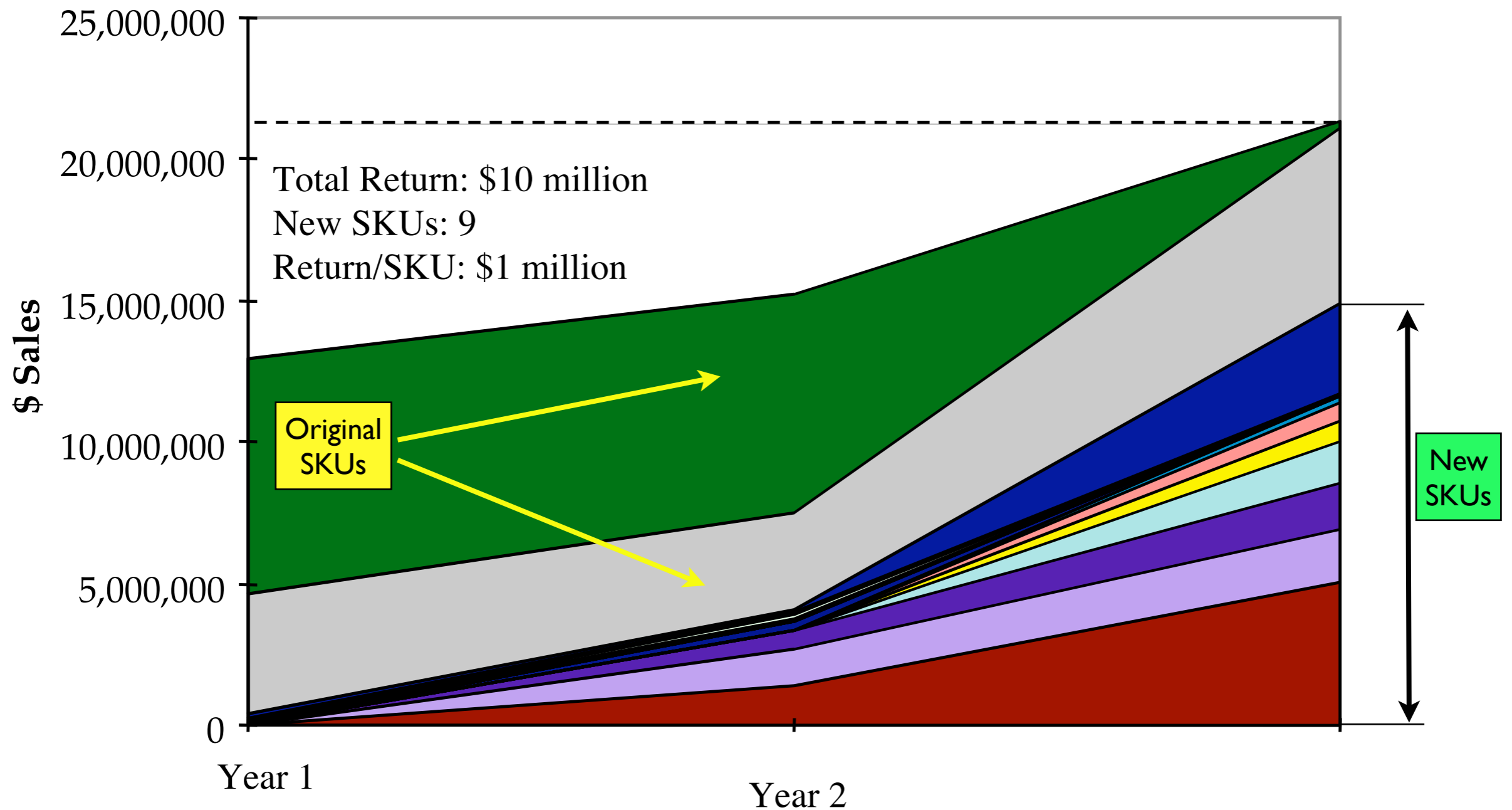
# Significant additional costs

- Managerial complexity can add *significantly* to costs
- *Direct costs* — 1% to 3% of revenues
  - Additional reporting, distraction of operating managers' time, energy
  - Sub-optimal operation
- *Opportunity costs* — *Much larger*
  - Strategic myopia, or why Maxwell House passed on Starbucks and Hertz, Avis overlooked Enterprise Rent-A-Car

# Soap Co.

- Major baby products producer
- To grow top-line management
  - Quadrupled number of SKUs
  - Tripled promotional budget
- Net result:
  - Modest top-line growth
  - Significant cannibalization

# Soap Co: Complexity



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# Soap Co: Added Cost

- Promotional budget grew to  $> \$ 40\text{MM}$ 
  - \$10 per baby born in United States
  - 90% of all media spend in category
  - Average category sales/baby  $\approx \$ 80 - \$ 100$
  - No change in market share
- Costs of complexity  $\approx \$25 \text{ MM}$  or 40% of net income

# Root causes

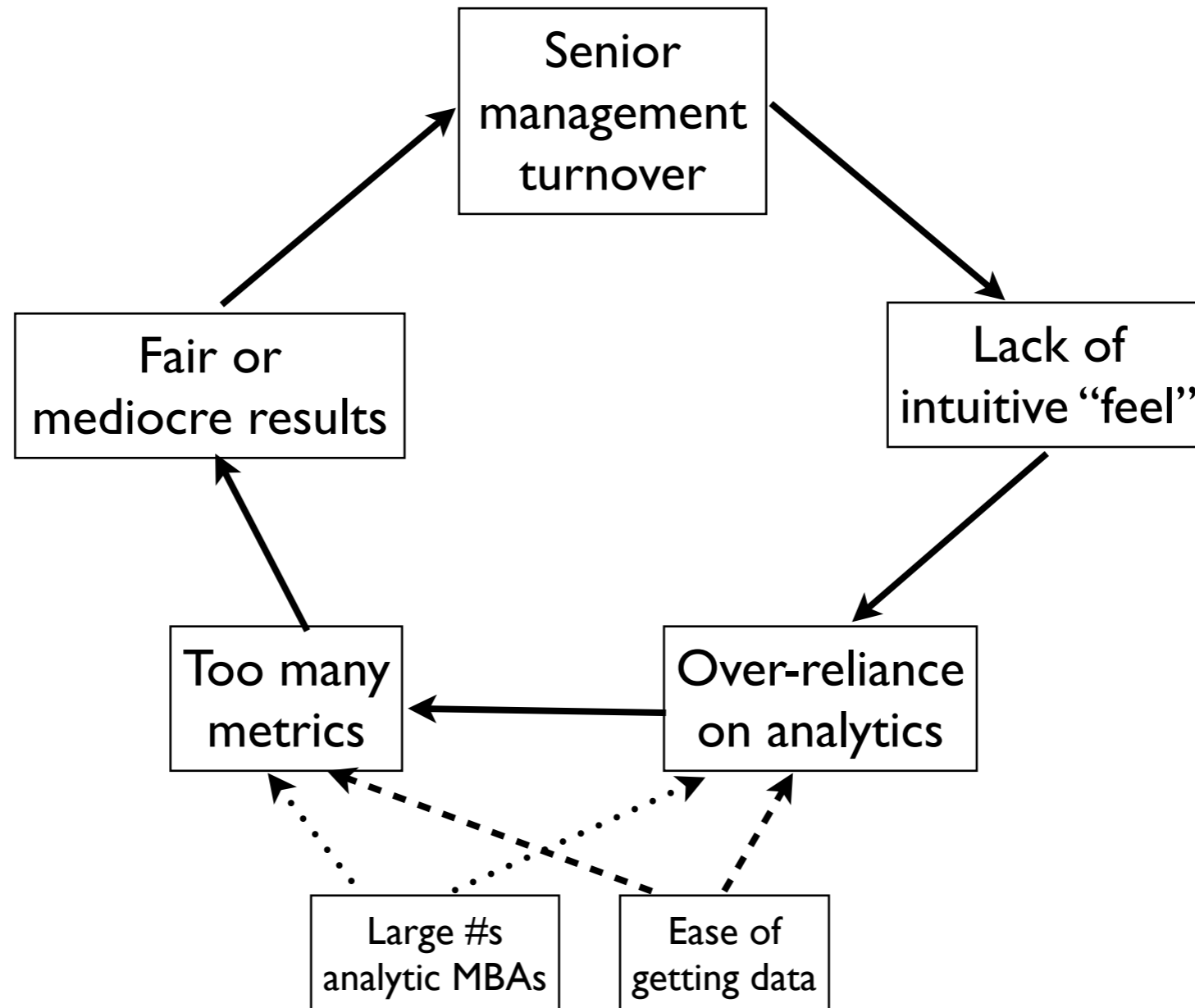
- Rapid turnover of senior management
  - Little/no intuitive “feel” for the business
  - Unrealistic expectations ➡ tremendous short term pressure
- Emphasis on analytics vs. intuition in decisions
  - Mulally vs. Nardelli; Jobs II vs. Sculley, Spindler, Amelio
- Squadrons of analytically trained MBAs
- Ease of obtaining data (vs. information)
- Overabundance of metrics & scorecards

*Analytics, numbers vs. intuition, common sense*

# Case examples

- ***Construction Materials Mfrer:***
  - 10+ product cost metrics, little/no focus on energy costs
- ***Surgical Supplies Company CEO:***
  - “We have lots of MBAs, detailed strategic plans ...but no top line growth!!”
- ***Hindustan Lever Limited***
  - Ready to spend \$\$\$ on a complex DRP system
  - Saved \$\$ by implementing simple “two-toilet roll” system
- ***Agricultural chemicals company***
  - Channel shipments up 20%, end sales up 7%, working capital...

# Vicious circle





# “Back to Basics”

- Boil the business down to its fundamentals
  - Why was the business profitable? Why will it *be* profitable?
  - What is our 10-word elevator speech?
- Do a “3 x 5 card” exercise
- Identify changes to staffing, style, systems