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Simplicity-Minded Management

Key ideas from the Harvard Business Review article By Ron Ashkenas

The Idea in Brief

Big companies have always been complex. But to cope with new challenges such as globalization, they've increased their complexity--with proliferating products, tangled reporting relationships, and duplicated processes.

They've become unwieldy, ungovernable, and underperforming. And nobody likes it. Customers complain about not having a single face to a company. Employees bemoan poor communication and competition among units. Analysts demand clearer numbers. Investors decry duplication of functions.

To combat performance-sapping complexity in your organization, first declare simplicity a hard business objective, advises Ashkenas. Then attack the major sources of complexity, including accumulated changes in organizational structure, endless new-product launches, undisciplined processes, and managerial habits such as time-wasting meetings. For example, periodically audit your product portfolio, retiring offerings that have run their course and are no longer profitable.

Reducing complexity pays off handsomely. At Nortel, for instance, a companywide simplification drive generated 900 ideas that ultimately saved $14 million.

The Idea in Practice

Ashkenas recommends combating complexity along four dimensions:

Organizational Structure

Symptoms of extreme complexity in this dimension include more than seven reporting layers between the CEO and front-line workers, more than five committees or councils that review or make significant business decisions, and redundancy in support functions.

To simplify: Periodically adjust structures to ensure they serve your business strategy and market needs and are as simple as possible.

At ConAgra, a spate of acquisitions had generated success while worsening complexity. Each business unit contained its own support functions, and the company had no common method for tracking, reporting, or analyzing units' results. The CEO consolidated support functions (such as HR, IT, and legal) into units that served the whole enterprise.

Products/Services

Signs of excess complexity in this dimension include constant package-design tweaks, proliferating product features, and mounting SKUs--which all require changes in manufacturing, marketing, and other activities.

To simplify: Periodically audit your portfolio, asking, "Which offerings are profitable? Which have the greatest growth potential? Which have run their course? Which no longer match customers' needs?"

ConAgra had 100+ brands that competed for marketing and investment dollars, making resource allocations free-for-alls. It sorted its brands into three categories: "growth" (give priority for investment), "manage for cash" (maintain), and "potential for divestment" (put up for sale).

Processes

Business processes--budgeting, performance management, customer relationship management--evolve as companies' circumstances (new leadership, new regulations) change. If processes develop too much variability (for example, business units each have their own approach to budgeting), they become inefficient.

To simplify: Rewire or eliminate processes as needed to introduce discipline.

ConAgra's newly united finance function couldn't analyze unit sales because brands had different units of sale. The company established a reporting protocol for units of measure (such as pounds or kilograms), product units (e.g., cans or cartons), and organizational units (division, brand, or sub-brand). With standardization, ConAgra could build a companywide reporting system.

Managerial Habits

Some managerial habits--poor meeting management, information requests that trigger a cascade of reports--further worsen complexity.

To simplify: Encourage managers to identify how their behavior patterns complicate matters. Commit to simplification yourself.

ConAgra's CEO asked his senior team to suggest ways he could manage more simply and effectively. They suggested that when he raised a cross-unit issue, he specify who should take the lead to resolve it, thus avoiding confusion caused by his occasional failure to assign responsibility.

- Purchase the full-length Harvard Business Review article here.
- Visit Harvard Business Online.
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Further Reading

Articles

Deep Change: How Operational Innovation Can Transform Your Company

Harvard Business Review

April 2004

by Michael Hammer

This article focuses on how to streamline your company's operational processes not only to produce new efficiencies but also to create competitive advantage. To simplify your operational processes, experiment with changing *what results* are to be produced in your department, *who* should perform the necessary activities, *where* they should be performed, in what *sequence*, or *how thoroughly* each activity must be performed. For example, Shell Lubricants reconsidered who needed to participate in its order fulfillment process. By replacing a group of seven people who each handled different parts of the order with one person who does it all, Shell cut cycle time by 75%, reduced operating expenses by 45%, and boosted customer satisfaction by 105%.

The Superefficient Company

Harvard Business Review

September 2001

by Michael Hammer

You can gain further efficiencies through simplifying the business processes your company shares with other organizations. Start with your supply chain, and you gain big, immediate payoffs. To make your supply chain superefficient, view business processes as chains of activities performed by a series of different--but connected--companies. For example, at IBM, a sales rep used to handle each incoming order--costing the company $233 every time. By integrating its fulfillment process with customers' procurement processes, IBM eliminated the sales-rep role. Now customers enter their own orders and check order status. The payoff? Convenience, fewer mistakes, time and money savings for IBM and its customers, and increased customer loyalty.

Innovation Versus Complexity: What Is Too Much of a Good Thing?

Harvard Business Review

November 2005

by Mark Gottfredson and Keith Aspinall

The authors provide additional suggestions for reducing product proliferation. For instance, stem "complexity creep" by raising the bar for adding new products. If you formerly required managers to show a 15% return before introducing a new SKU, up the number to 25%--which probably reflects added complexity costs more accurately. In addition, postpone complexity. Design products that don't get customized until the last step in assembly or distribution. You'll reduce complexity by enabling manufacturers to source materials and components from anywhere and assemble products close to the point of sale. Home Depot, for example, designs and installs custom kitchens by combining affordable stock items from varied manufacturers.

About the Author

Ron Ashkenas is a managing partner of the Stamford, Connecticut, consulting firm Robert H. Schaffer & Associates. He is a coauthor of four previous articles in *Harvard Business Review*, most recently "Why Good Projects Fail Anyway" (with Nadim F. Matta, September 2003). He is also a coauthor of *The Boundaryless Organization* (Jossey-Bass, 2002), *The GE Work-Out* (McGraw-Hill, 2002), and *Rapid Results!* (Jossey-Bass, 2005).