Why Companies Must Reduce Complexity

Neil Smith

A brokerage firm I worked with wanted to offer its customers the option of getting only electronic statements, rather than paper statements. Not only was this part of its "Going Green" initiative, it was estimated that the savings in terms of paper and postage would run into millions of dollars. The CEO of the company was excited when he learned that one-third of customers signed up to jettison their monthly paper statements. The company had already mastered putting those statements online in a secure way and now an easy, low-cost fix needed to be made by the technology department to stop printing statements and sending them to those customers.

Six months later, much to the CEO's surprise and dismay, he discovered that his costs for printing and postage had not gone down by a penny. How could that be? From his enquiries he learned that that the company was still printing out and mailing statements the customers did not want—but the statements were now being mailed to the company's own headquarters, rather than to the customers. The furious CEO demanded an explanation, and found out that the technology department had made this project a low priority—because it was such a simple, inexpensive one. "It is simple to do, so we'll tackle it later" was the flawed logic. As a temporary measure, the tech team changed the mailing address of all the e-statement customers to the bank's own headquarters. So, the company made no progress on its green initiative, saved no money, and actually incurred the additional work and expense of having to dispose of the unneeded statements.

Complexity Is Valued; Simplicity Is Scorned

What happened here was a result of a common misperception: too often, people in a company assume a positive correlation between value and complexity. The more difficult it is to do something, the more people involved in approving an action or the more technology involved in a solution, the more important that topic becomes. The best minds are put on it and it is moved higher up the corporate agenda. And conversely, what isn't complex is often devalued. Simple solutions often go to the bottom of the list of priorities and because they are so easy to do, their progress is often not tracked.

In the brokerage firm, the technology department placed too much emphasis on the size and complexity of a project and not enough on the value a project would bring to the company, which was not merely financial. Simple projects were pushed to the bottom of the pile because they were not considered important.

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Companies Cut Costs the Wrong Way:
The Key Is Reducing Complexity

For the last 20 years, I have worked with companies, many of them well-managed, highly successful ones, helping them to reduce complexity, and as a result boost profitability and increase efficiency. Complexity often masks inefficiency and is also an excuse for it. Done right, a good change process focuses on reducing complexity, which will automatically bring about greater efficiency and profitability and lead to lasting improvements.

Too often companies look at reducing expenses without even thinking about reducing complexity. These types of programs to increase profitability may be successful in the short term, but unless you look at how things get done, change won't be sustainable.

Here's why: first, if all a company wants to do is increase profits, they often cut costs in a mindless, uniform way. We've all seen the edicts: "Every department must reduce costs by 10%." There are numerous things wrong with this approach. I've always wondered why 10% is the magic number. Why not tell people to cut 8%, or 12%? And why is one number the right one for every department and budget? And why must every department sustain cuts? There very well may be ones that would benefit from having their budgets increased rather than decreased. Asking everyone to do the same thing may seem fair on the surface, but what's really fair is

for all departments to be evaluated on their opportunity—and, as you would expect, the opportunity differs by department.

And here are the other problems with across-the-board, uniform cuts. Give people a target, and that's what you will get. People won't feel compelled to look any further once they've figured out a way to hit the "magic" number. And if all you ask them to do is hit a specific number, many people will do it in a very pro-forma, thoughtless way rather than in a thoughtful fashion.

Finally, what happens if you make cuts but don't make simpler the work people do? Quite simply, the costs return. The 10% cut is not sustainable unless the nature of the work changes.

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Simplicity Improves Customer Service… and Morale

An insurance company I worked with changed from a "push" to a "pull" system in its claims resolution department. In a push system, each rep is allocated a certain number of claims a day. In a push system, claims are sent to reps regardless of whether they are ready to take on new ones. Some reps finished early as soon as their daily quota was hit. But when the reps were dealing with complicated claims, they were not always able to get to all of the ones in their queue, so there would be unresolved claims at the end of a shift. There was no way for claims to get "pushed" back into the system, so these claims went to a special "overflow" handling area, and their resolution was delayed.

When the department switched to a pull system, reps could "grab" a claim when they were free, with the result that claims got resolved more quickly. This cost nothing to implement and had the added benefit of giving people a sense of control over their own work.

Department morale improved measurably. The company still managed how much work people did, but it took a different approach to managing it—measuring the number of claims a month each rep completed. This idea saved some money because some employees now handled more claims rather than finishing early, but the financial impact was not significant. However, this less complex process was much better for both employees and customers, and it eliminated

the need for an overflow department. Companies can always find excuses for not undertaking change, but sooner or later every company has to figure out ways to reduce complexity. Companies that I have worked with have seen not only a marked improvement in customer service but have also on average seen a 25% improvement in profitability resulting from a drive to become less complex.

Hidden Gold That's Easy to Mine

How do you reduce complexity in a company? Ironically, many companies make the change process itself overly complicated, by bringing in vast teams of outsiders, forming numerous committees, and applying neither deadlines nor discipline. The basis of the same basic approach that I have used with minor variations for more than two decades is actually pretty simple: ask your employees how to make things simpler.

What always surprises people is the number of ideas that employees come up with—and how good they are. They will come flooding in as soon as employees believe you genuinely want to receive them. At one company, more than 150,000 ideas were generated in less than six weeks. My general rule of thumb is that there is one untapped idea for change per employee within a company. You can work out the opportunity for your company. Ideas come in different sizes, and they also come in different types, ranging from the very large strategic business ideas

to small ideas that change the way a process works. These smaller ideas are equally important as the large ones, and you cannot lose sight of them just because they are small. They contribute hugely to reducing complexity. They may be small by dollar amount—if their value is even measurable—but the ideas are not small to the people who suggest them, nor the customers who benefit from them, particularly if the ideas are going to change the way employees do their everyday jobs.

From a sheer financial perspective, delay in implementing these thousands of ideas for change within a company can be very costly. One measure I use is "the cost of a day's delay." If your company could gain the average 25 percent increase in profitability, then your delay is costing your company one of those percentage points every two weeks. For a large global company with $5 billion in opportunity, the cost of delay was $20 million per day!

But delay in reducing complexity is costing you in other ways as well. You are losing the opportunity to engage your workforce in an exciting initiative to improve both the employee and the customer experience. Employees become more engaged and enthusiastic about their work. An employee at one company we worked with looked at this in an extreme way, but what she said had the ring of truth: "It's like going to work for a new company without having to go looking for a new job!"

Reducing complexity improves the customer experience, which ultimately improves the bottom line. With the amount of choice consumers have for almost any product, service, or experience, service nearly always becomes a key point of differentiation and a basis for choice. I always try to argue that the real question a company should answer is not "why should you undertake a change project to reduce complexity" but: "why *wouldn't* you do it?"

Simple Solutions to Complex Problems

With rapid advances in technology, globalization and even in customer expectations, every business naturally faces far more complex challenges than ever before. In many companies the first reaction is to search for solutions based on improving technology. Can you imagine a company today, no matter the industry, without a technology department? But I encourage the companies I work with to search for the simplest solutions first—often ones that don't involve technology but do involve people.

In the late 1990's I spent some time working in Indiana helping a company to become less complex. I stayed for a few nights in the same hotel. More than a decade later I returned to the hotel and it had changed little, except the staff was new. After the passage of time I didn't expect the doorman to recognize me and indeed, he asked if I had stayed in the hotel before. "Not for a long time," I told him. But as I approached the front desk I was in for a big surprise. "Welcome

back, Mr. Smith. It's good to have you with us again," said the receptionist. What incredible customer service. I had only just crossed the threshold and the hotel had won my favor immediately. How could the stay be anything other than great after a warm welcome like this? I marveled at the complex systems that must have produced this result. They could record a visit more than 10 years ago and pull it up in such a way that the receptionist was able to recognize me by name. Did they have a photo of me too and if so, how did they get it? Imagine the cost of the system to do this—this is a system that any other hotel would be in envy of.

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The next day I asked the receptionist if I might see this obviously complex and expensive system. "What system?" she asked. "I knew you had stayed with us before because the doorman was walking behind you with his thumb up rather than his thumb down," she said. "But how did you know my name," I asked. "Oh, that's easy," she replied. "The doorman read it off the luggage tag on your bag and as he approached the front desk he mouthed your name to me."

As I have come to learn, complex challenges often have very simple solutions.

One CEO told me that if the simplicity we introduced hadn't saved his company any money, he would have been happy to have done it regardless. I wondered why that would be—after all, he and his team had approved ideas that would have a positive impact on the bottom line to the tune of $200 million a year.

"Why is that, Dave?" I asked, slightly bemused.

"It is all about simplicity," he replied. "We have approved more than 2,000 ideas, and most of them are about making us simpler—simpler to do business with for our customers and simpler for our associates to work with each other. You can already see what an effect that is having both on the customers and on the morale of our people. That is hard to put a value on."

He was right, you can't put an exact price on simplicity. But it was worth at least $200 million to one CEO. **What's it worth to you?** ⬚

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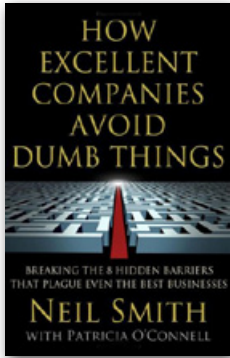
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ABOUT THE AUTHOR | Neil Smith, CEO of Promontory Growth and Innovation (PGI), has for the last 20 years focused on helping large corporations dramatically improve performance and profitability by growing revenues and innovatively reducing costs. Smith has led initiatives across a number of industries with some of the strongest companies in the United States, including Mellon Bank, Willis, and North American Van Lines. He recently spearheaded the highly visible initiative across Bank of America, and a firm he co-founded was responsible for projects at Heinz, Detroit Edison, and Blue Cross Blue Shield of Tennessee. His efforts have helped increase profits at top companies by 20 percent or more.

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