Killing Complexity Before Complexity Kills Growth

How to restore a Founder's Mentality, including intolerance for bureaucracy

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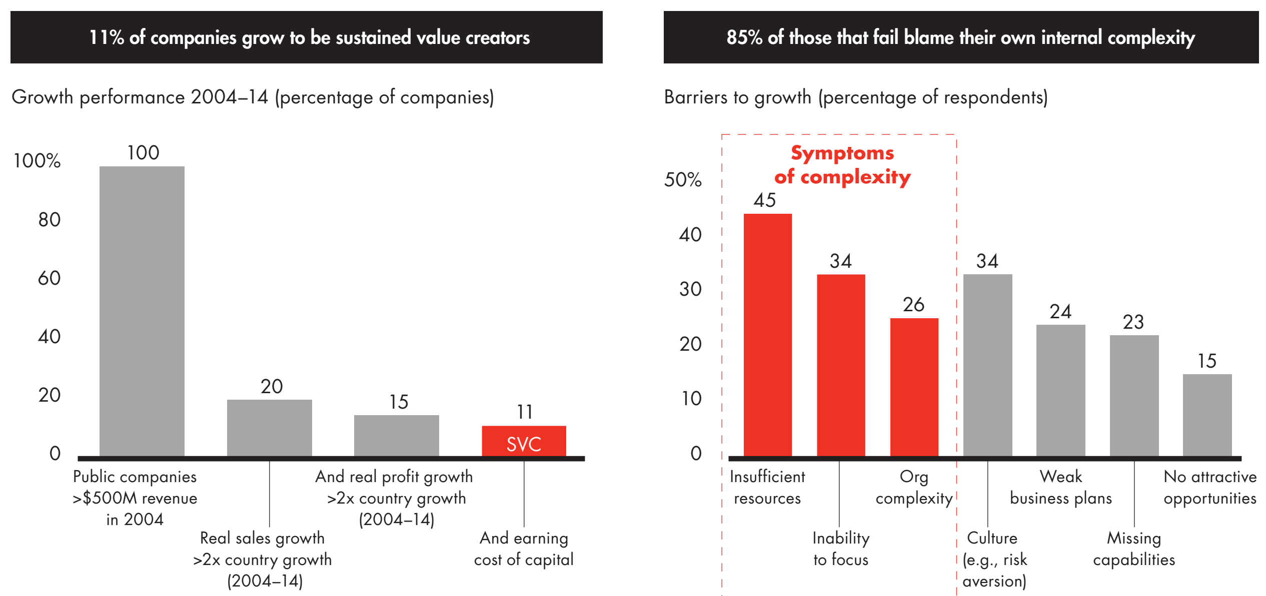
Why do so many companies lose their way? When companies are just starting out, they have no problem identifying the path before them. The founders know where they're headed, who their customers are and how they hope to succeed. Often, they see themselves as insurgents—on a mission to fill customer needs that incumbents have overlooked or ignored. Founders obsess over the details. They abhor bureaucracy and personally keep tabs on what is happening on the front line to make sure they're still on top of their markets. Employees take their cues from the founders and keep finding new ways to please customers, do their jobs better and increase sales.

The problem is that most companies lose the Founder's Mentality® as they grow. But size itself is not really the problem—some corporations (a lucky few) manage to maintain the founder's mentality, even as they grow into major multinationals. What really hurts the founder's mentality and hamstrings large organizations is complexity. Complexity is the "silent killer" of growth, creeping in unnoticed as companies expand into new geographies and lines of business. Layers, ranks and titles build up, and the connection to the front line is severed. Instead of keeping up with customers, management spends most of its time on process.

In many cases, what comes next is stall-out: a precipitous drop in sales, from which it is very difficult to recover. The company that has lost the founder's mentality has morphed into the sluggish incumbent that the upstarts can beat. Indeed, only 11% of large companies (public companies with more than $500 million in sales) become sustained value creators. Two-thirds stall out, fail or are acquired. In a Bain & Company survey, 85% of CEOs in companies that have ceased to be value creators blame internal factors such as complexity, not external factors, for their woes (see Figure 1). Complexity kills, but companies don't need to succumb. Leaders who recognize the threat can intervene and simplify their organizations before it's too late. Done correctly, organizational simplification enables a company to

Figure 1: Only one in nine companies grow sustainably—most fail due to internal complexity



Notes: Growth benchmark is more than two times a country's real GDP growth (i.e., after correction for inflation) with a minimum of 5.5%; earning cost of capital is defined as above average total shareholder return; analysis of 3,000-plus companies in 43 advanced and developing economies
Sources: Capital IQ; a survey of 377 executives in North America, Western Europe and Asia conducted jointly by Bain & Company and EIU, March 2011; Bain analysis

build a new operating model that restores the speed and focus of the founder's mentality and reenergizes its people. And, unlike reorganizations aimed primarily at cost—which, by the way, rarely stick because they deal mostly with symptoms—an organizational simplification can deliver sustained performance improvement because it addresses unneeded complexity that drives cost and limits responsiveness.

Organizational simplification does not mean just redrawing the org chart. It also requires streamlining processes through changes in accountabilities, governance and ways of working. Without all these elements, organizational simplification won't deliver lasting results; before long, complexity will creep back in *(see Figure 2)*. In practice, organizational simplification is often performed in tandem with business simplification, which might include shedding less productive geographies and lines of business to regain strategic focus.

The restructuring itself involves dramatically delayering the organization and eliminating unnecessary nodes. Nodes are intersections in the corporate matrix where an executive or manager sits, where decisions are made or where financial reporting takes place. Critical interactions needed to keep the company going take place at nodes, but companies tend to build up unnecessary nodes, which slow down decision making, reduce responsiveness and can inhibit change and innovation. Nodes can be viewed as a proxy for complexity; having too many is a danger sign.

To understand what effective organizational simplification looks like in practice, consider the turnaround at a major insurance company. The company had gone through a major reorganization after the global financial crisis, but seven years later it was still suffering from the effects of complexity. For example, its core insurance business had extensive country and product organizations, as well as functional units (finance,

Figure 2: A model for ensuring that organizational simplification actually sticks

Operating Model	
Structure Eliminate noncritical decision nodes Delayer to collapse distance between C-suite and front line	**Accountabilities** Clarify decision roles and individual KPIs
Governance Gear decision-making forums and enterprise processes for speed	**Ways of working** Adopt entrepreneurial norms in meetings and communications Strengthen performance orientation and engagement

Source: Bain & Company

etc.). This created redundancies and thousands of unnecessary nodes since the matrix extended six or seven levels deep in the organization.

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But what hurt the business—and created the urgency to change—was the loss of customer-centric focus that this complexity caused. A sharp focus on customers and markets had been an enduring legacy of the founder and had helped to keep the company an industry leader. In recent years, however, the focus had turned inward. Functions were managed to avoid risk, and managers strove to deliver on internal performance metrics, rather than to provide the best products and services to drive growth. Service began to lag and the company was having trouble keeping up with changes in the market. It took three times longer to issue a policy than other insurers. Customers received multiple bills from different parts of the company, whereas competitors offered a "unified" experience.

Competitors seized the advantage. When one rival launched a successful online channel in an important country's market, local leaders knew they were in trouble. But the company was slow to respond because authorization and funding decisions required multiple approvals. Similar scenarios played out across the company, as hundreds of decisions—big and small—were bogged down because they had to pass through too many nodes. Adding to the urgency for change, the company was having little success in its attempts to reduce its cost base and shareholders were clamoring for better results.

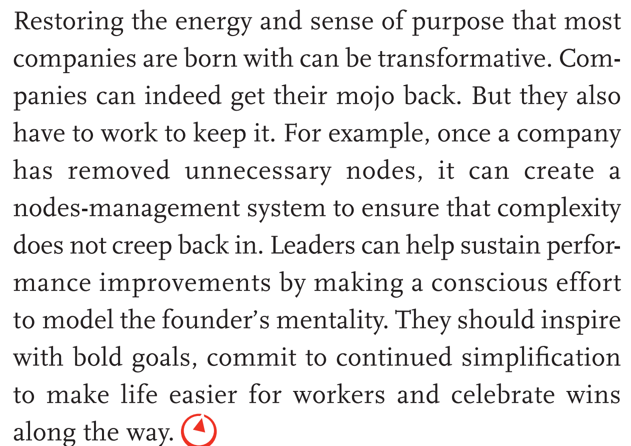
Leadership realized that it would take a sweeping organizational simplification effort to address these problems. In 2015, it organized a team to lead the effort to restore a customer-centric focus, speed up decision making, redirect talent and energy to driving growth, and reduce personnel costs by 10%. The group began with a diagnostic, which included input from customers as well as benchmarking against industry peers. Then, through a series of workshops, they sketched out the "future state" for how the company would function. Working backward from there, they began to draw the organizational structure and reporting relationships to make that future a reality. The team also identified the most critical activities for the future state and those that were nonessential.

To restore customer focus, the team pushed decision making closer to the customer for key decisions (i.e., into the countries) but also made the country organizations subservient to the product houses and eliminated the regional infrastructure. This resulted in clear ownership for decisions, gave the product houses "end-to-end" responsibility for the customer experience and reduced the three-dimensional matrix to a two-dimensional matrix. The net effect: a more direct connection between the front line and leadership. The reorganization eliminated nodes below the level of relatively senior executives so that the vast majority of people would have only one boss. This dramatically reduced the number of matrix reporting relationships.

Implementation began in 2016 and included a significant change-management program to build commitment to the new way of doing things. Employees would assume new roles and responsibilities and have to adopt new ways of working to reclaim lost responsiveness and speed. The company clarified decision roles and assigned accountability for hundreds of decisions. To reinforce the behaviors needed in the redesigned organization, the company rolled out new performance metrics

that focused on critical factors needed for growth and better customer outcomes. The company also reworked governance models to focus more sharply on critical areas such as limiting cost growth, and eliminated oversight that stood in the way of speedy execution.

Most important, everyone from the front line to the C-suite had to embrace a new way of working. Where there had been bureaucratic wheel-spinning and risk avoidance, the company wanted to see collaboration and entrepreneurism. The company would no longer tolerate "energy vampires" who cranked out templates, scheduled meetings, avoided ownership of decisions or stopped action with requests for one more round of analysis.

In the first year, the organizational simplification removed hundreds of millions of dollars from the cost base and enabled the company to start moving faster. For example, in the old organization, country managers, 
regional leads and multiple levels of product management provided input into product decisions. But because of uncertainty about decision rights, too many issues were elevated to a very senior level, slowing responsiveness. The new model balances the need for frontline decision making with global guidelines. Responsiveness to customer needs has improved dramatically.

Restoring the energy and sense of purpose that most companies are born with can be transformative. Companies can indeed get their mojo back. But they also have to work to keep it. For example, once a company has removed unnecessary nodes, it can create a nodes-management system to ensure that complexity does not creep back in. Leaders can help sustain performance improvements by making a conscious effort to model the founder's mentality. They should inspire with bold goals, commit to continued simplification to make life easier for workers and celebrate wins along the way.

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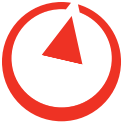

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