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Business Simplification 2015: The Unmet Strategic Imperative

Based on the 'Simplifying the Future of Work Survey'

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Based on the 'Simplifying the Future of Work Survey' by Knowledge@Wharton and SAP

Business simplification is a strategic imperative for today's companies if they wish to unlock innovation and position themselves for future success in an increasingly complex world. Yet, many corporations are not aligning their actions more effectively with their stated goals of simplifying business processes, decision-making and IT functions — and as such risk falling behind nimbler competitors, according to the "Simplifying the Future of Work Study," a survey conducted by Knowledge@Wharton and SAP.

Corporate inertia, lack of clear prioritization from top management and under-utilized technology solutions are some reasons why there is a jarring disconnect between what companies say and what they actually do about business simplification, the survey showed. Denise Broady, chief operating officer of industry cloud at SAP, said

companies have struggled with simplifying their businesses for years as they battle everything from a corporate culture resistant to change to managers finding little time for implementation. "It is always a challenge and the larger the company, the more complex it is."

"Business simplification is necessary, and perhaps more so now than in the past."

— Morris Cohen, Wharton
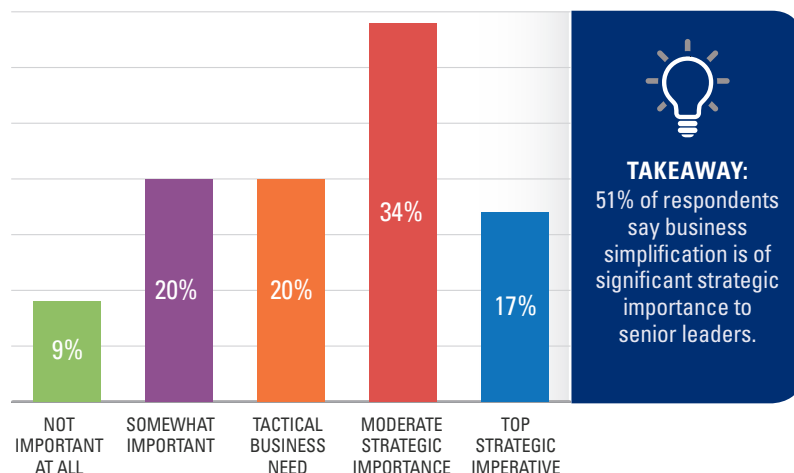
Top management is well aware of the value of business simplification. In the survey, 51% of about 700* mainly business leaders said simplification carries significant strategic importance for their enterprise. They also expect the importance of business simplification to increase in three years — 67% of respondents said the issue will become even more

Need for Simplification – Today

TAKEAWAY: 51% of respondents say business simplification is of significant strategic importance to senior leaders.

NOT IMPORTANT AT ALL	SOMEWHAT IMPORTANT	TACTICAL BUSINESS NEED	MODERATE STRATEGIC IMPORTANCE	TOP STRATEGIC IMPERATIVE
9%	20%	20%	34%	17%

Number of respondents: 692

strategically significant. But when asked whether the actions of top management support the companies' simplification efforts today, only 27% said that day-to-day actions are strongly aligned. Business leaders are talking the talk on simplification, but they are not walking the walk.

Yet, the need for business simplification has never been more urgent. "Business simplification is necessary, and perhaps more so now than in the past," said Morris Cohen, Wharton professor of operations and information management and co-director of the Fishman-Davidson Center for Service and Operations Management. "As firms have become more global, outsourced and technology driven, the complexity of their operations has increased. Thus the need for simplification has become greater."

The arrival of digital business adds layers of complexity to enterprises, as companies must adapt to serve the evolving demands of customers on a variety of channels. Companies that have run bricks-and-mortar stores for generations now need to become multichannel experts or risk giving up market share to online competitors. Websites that thrived in the PC era have to become adept in the art of selling through mobile devices. And with the advent of business networks such as Alibaba, businesses of all sizes find themselves selling to customers around the globe as the definition of a multinational company expands. Then, throw in the usual swirl of international regulations, foreign currencies and linguistic and cultural challenges, and companies can quickly find themselves bogged down by process. In order to meet the demands for change in the digital environment, enterprises must be simpler.

Layers of Business Processes

To handle this complexity, the first tendency of companies is to tack on new business processes. For example, a company that just opened an office in South Africa would need to get its human resources department up to speed on that nation's labor laws and benefits requirements. Multiply those additional duties exponentially if the company decides to continue expanding worldwide. Suddenly, a task that takes a few hours to complete becomes a few days as employees and clients meander through complex business processes.

"As organizations get pulled in different ways, whether through different technological platforms, pulled geographically or pulled trying to serve diverse market demand, there's a natural inclination that causes them to accumulate more complex processes," said Daniel A. Levinthal, a Wharton management professor whose research interests include organizational learning and technological competition. "You often see an ebb and flow of where external factors pull them and create this relatively high level of complexity and there is a subsequent retrenchment."

The reason companies are adding these processes is often to get a benefit in the near term, such as a sales team snagging a lucrative contract in a market it will enter for the first time. "Why would you want to forgo that sale or activity? That's a natural inclination," said Levinthal, who is also the chair of Wharton's management department. But focusing on short-term results could take a toll on the business in the long run. "The cost to the system in terms of forgone efficiencies, forgone rationalization of our
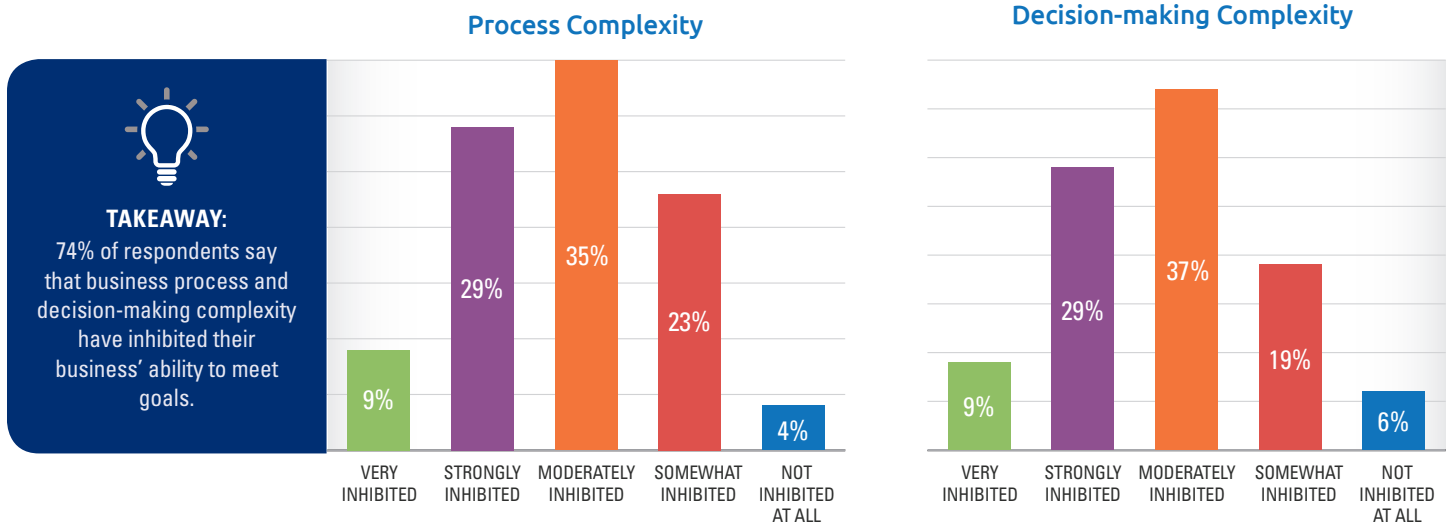
"As organizations get pulled in different ways… there's a natural inclination that causes them to accumulate more complex processes."

— Daniel A. Levinthal, Wharton

processes — those are going to be deferred. It's a natural set-up for this to be a recurring challenge."

But once processes pile up to a point where conducting business slows down,

also plans to simplify its menu by reducing the number of items offered and make room for custom-made, local specialties. The change comes as McDonald's seeks to reverse a continuing slump in sales. "There

Process Complexity

TAKEAWAY:
74% of respondents say that business process and decision-making complexity have inhibited their business' ability to meet goals.

9%	29%	35%	23%	4%
VERY INHIBITED	STRONGLY INHIBITED	MODERATELY INHIBITED	SOMEWHAT INHIBITED	NOT INHIBITED AT ALL

Decision-making Complexity

9%	29%	37%	19%	6%
VERY INHIBITED	STRONGLY INHIBITED	MODERATELY INHIBITED	SOMEWHAT INHIBITED	NOT INHIBITED AT ALL

Number of respondents: 692

unraveling them seems to be much harder. Why? One reason is because businesses typically do not act until something goes wrong or they face an immediate and tangible reason to prompt a change. "It's natural to always look at what's broken or which business processes can be enhanced," Broady said. "When things are working, we leave it alone." Moreover, most employees are too busy "fighting fires as well as doing their daily routines" to pay meaningful attention to business simplification.

Sometimes it takes a strong wake-up call to motivate a company to simplify. Levinthal noted that McDonald's Corp. is currently undergoing the process. In October 2014, the burger chain said it would reorganize into a "flatter more nimble" organization. It

are multiple dimensions of simplification," Levinthal said. "A classic, long-standing issue is the cost of product variety. What does it cost us to offer this variety and does greater focus make sense? McDonald's is trying to revisit that."

Like McDonald's, many companies have looked at business simplification, however, the problem is that

Business complexity inhibits the ability of the enterprise to achieve its goals.

they are unable to act fast enough to keep up with the pace of change. "Companies are investing in and applying simplification methods, but the rate of change is outpacing their ability to keep up," said Mary Haskins, vice president of leadership experience at SAP.

Business complexity is costly because it will use up more resources than necessary to achieve the company's goals — capital that could be diverted more efficiently elsewhere. Complexity also slows down processes due to bureaucracy and red tape. Such tie-ups often frustrate clients, vendors and partners, who could choose to do business elsewhere. If accomplishing a goal within the company becomes too difficult, it could lead to a brain drain of top-performing talent. In the survey, an average 74% of respondents said complexity in business processes and decision-making has strongly inhibited their companies' ability to meet goals. Only 5% believed complexity had no impact.

On the flip side, simplification brings many perks. "The benefits of business simplification are actually quite significant: better customer experience, higher profitability, reduced costs and an increase in employee engagement and retention," Haskins said. "It minimizes redundancy, and improves efficiency, customer satisfaction and retention." With cumbersome layers of processes removed,

companies can react more quickly to market changes, respond faster to client needs and ease the workload of employees. Innovative ideas can more readily float to the top and speed-to-market improves.

The survey results reflect this: 62% said simplification would improve business productivity and performance at their companies. Haskins added that simplification could also help leaders make decisions more quickly because it peels away layers of complications that can lead to paralysis. "Given complex situations, indecision is just as bad as a bad decision."

Jumpstarting Simplification

Simplification efforts will vary by company, but they all start with self-diagnosis. Levinthal said companies should gather more specific micro-data to inform management where there is "excessive complexity in our system and let that data drive those decisions." Sources of complexity include complicated business processes adopted from an acquired company, a proliferation of products and

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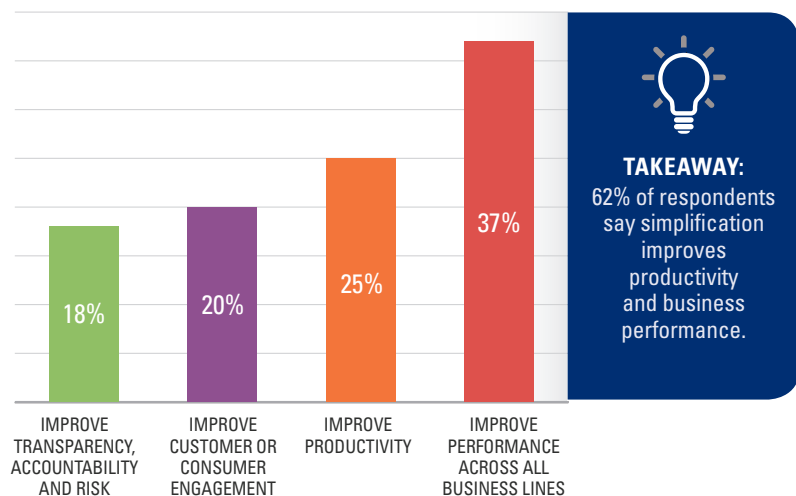
— **Mary Haskins, SAP**

services that arose as clients demanded more customized solutions, organizational changes and others, Haskins said.

But efforts to change must be driven by senior management. "You need this to be a strategic project that starts at the CEO level and gets support from the bottom, as well as representation

Benefits of Business Simplification

Bar	Value
IMPROVE TRANSPARENCY, ACCOUNTABILITY AND RISK	18%
IMPROVE CUSTOMER OR CONSUMER ENGAGEMENT	20%
IMPROVE PRODUCTIVITY	25%
IMPROVE PERFORMANCE ACROSS ALL BUSINESS LINES	37%

TAKEAWAY: 62% of respondents say simplification improves productivity and business performance.

Number of respondents: 692

from all different areas," Broady said. Survey participants agreed. Some of the ideas they had for senior leaders included the following: "Walk the talk," "Take this effort seriously," "Realize this is a business enabler, not just the current buzzword," "Make it a C level priority," "Lead by example," "Measure ROI," "Listen and learn from employees and clients," "Make it part of the culture," "Let ideas bubble up," "Set clear and measurable goals," "Make it part of our key performance indicators," "Focus" and "Reward it."

Cohen said management must make sure it can change the behavior of people from the bottom up. "This requires strong leadership and clear cut goals, metrics and incentives tied to performance," he said. "Starting this process requires upfront commitment of resources and a very public view of the entire process." For example, setting a three-year target to simplify efforts could be a start, said Haskins. Also, it is important that companies do not take on a simplification project that is overly broad in scope, Broady

said. Instead, focus efforts strategically. Pick one or two areas to target initially and assign people dedicated to managing it full-time instead of part-time.

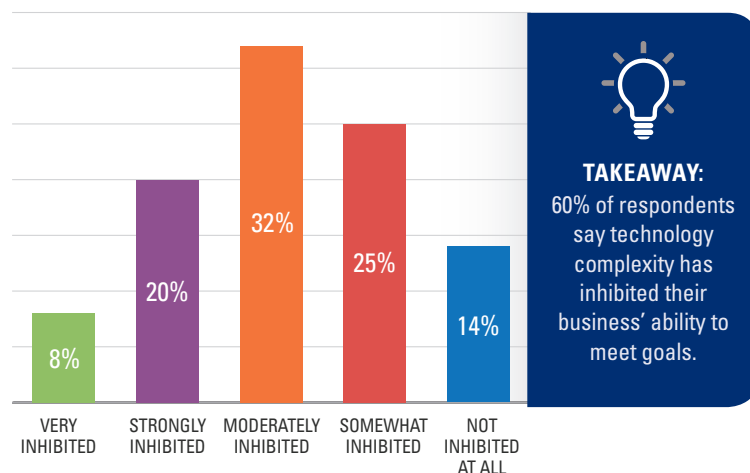Management also should provide regular project updates to employees to keep them involved, "not 'we'll let you know in two or three years,' " Broady said. Clear communication will engender trust within the company and build support of the initiative from different levels of personnel, Levinthal explained. If people think that business simplification means they will lose their jobs in the name of efficiency, they will be less likely to cooperate. "There could be career consequences for certain folks in the organization," he added. "If you're not mindful of those factors, you're going to get a lot of resistance." Make sure employees understand that business simplification is not a guise to cut jobs. "If people don't de-couple that, that could be a shock."

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Technology can help in business simplification. For one, it lets companies cut down complexity by providing the right data at the right time about the right person so they can better target market. Levinthal said that is why companies like getting access to Big Data — the voluminous amount of

To what degree has technology complexity inhibited your business' ability to meet its goals?

VERY INHIBITED	STRONGLY INHIBITED	MODERATELY INHIBITED	SOMEWHAT INHIBITED	NOT INHIBITED AT ALL
8%	20%	32%	25%	14%

TAKEAWAY: 60% of respondents say technology complexity has inhibited their business' ability to meet goals.

Number of respondents: 692

information culled from websites, social media, mobile devices and other sources — about their customers. "Part of the enthusiasm around Big Data is to get a better sense of who their customers are, where they are making money and how they should focus their efforts," he said.

Technology can also do such things as automate the process of applying the laws of different countries on various business processes, such as payroll, according to Haskins. "Technology can significantly simplify that process and manage it for you."

When it comes to getting data about their own companies, though, only 17% of top management currently has access to self-service tools to support quicker decision-making, according to the survey. That means most senior leaders still need to reach out to IT or HR for some or most requests for data critical to helping them lead their companies. This added step can waste time and effort. But the situation is expected to improve in three years as more companies leverage the benefits of technology: 45% of senior leaders are projected to have access to self-service tools.

Technology can also play an important role in developing and retaining business leaders. Nearly four out of 10 respondents said companies must have more effective talent management and performance tools to identify, develop and promote leaders. About a third put the same importance on using data analytics to drive deeper insights and assess the impact of leadership development initiatives on operations, sales, financials, promotions and performance.

But Levinthal cautioned against being overly focused on simplification that the business becomes too lean. "It may squash innovativeness. If I get too focused on this particular set of metrics, ultimately they're going to get some dysfunctional byproducts of that." While business simplification is clearly important, a company must not forget to always keep an eye on the health of the whole business. "In the enthusiasm around being lean and business simplification, that sensibility can be lost."

However, Broady believes a company will not lose its way if it always remembers its mission: "We don't exist except to serve our customers. In the end, if you put the customer at the center, the simplification process makes it easy."

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— **Denise Broady, SAP**

A New Approach Is Needed
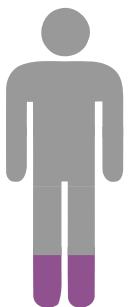
17%
Simplification is strongly effective today.

67%
Simplification will be of strategic importance to their company in 3 years.

42%
However, only 42% say simplification will be strongly effective by then.

Number of respondents: 692

*This survey was conducted jointly by SAP and Knowledge@Wharton in late 2014. Results were provided by 692 respondents from small, medium and large organizations across a variety of industries, geographies and employee roles, including from many top executives.

This article was produced by Knowledge@Wharton, the online business journal of The Wharton School of the University of Pennsylvania. The project was sponsored by SAP.

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