

Complex Organizations. Some Management Theory.

When the troops fail the general, its not always clear who's to blame. But when different divisions fail each other, the blame is crystal clear. Generals are to blame.

Large organizations are often difficult to manage. Large organizations with multiple objectives are even harder to manage.

Executives who plough on heedless are storing up disaster. Some organizations can wheeze on for years or decades while executives drive forward without addressing the problems associated with complexity.

Each type of business has its own specific problems, so it is hard to generalize. However, there are a small number of principles which apply mostly generally.

1. It is easier to build from scratch than to fix what's broken. This is self evident from a constrained optimization perspective since there will be more constraints than need be when fixing an existing problem.

2. Do less, but do it better. Every new objective compounds the complexity problem. For the executive, focus is all important. By diluting their attention and resources, executives do not risk, they guarantee, at best mediocrity and at worst correlated, cross objective failure.

3. Identify and prioritize. If one aims to do less and achieve more, prioritization is all important.

4. Related to point 1 is the concept of not mixing old with

new. It is tempting to retain old resources for continuity. The implication of points 1 and 2 above is that continuity can and often should be sacrificed.

5. Identify structural strengths and develop them. Attempting to develop structural weaknesses is a mission for fallen heroes.

7. In the set of structural strengths, focus and invest in the weakest. Such areas have no right to be weaknesses.

8. Conglomeration is a financial dream and an operational nightmare. Don't forget the operational aspects of integrating businesses. Even related businesses can be operationally very different. These differences only surface during the integration.

9. Having focused and achieved, it is time to diversify and destroy value. This is the imperative of ambition. True ambition means never ever focusing and thus leaving a trail of disaster behind. The secret to operating under this model is to push ahead even faster so that the trail of disaster is left further and further behind. While disastrous for the organization, this strategy can be successful for the individual executive. That said, shareholders are becoming more aware and less tolerant of such strategies.

10. There are exceptions to the limitations of complexity. They are few and far between but everyone believes, almost without exception, that they are the exception. This introduces a cyclicalality that in some cases, the astute investor can bet on, or against, depending on your point of view.