SIMPLISTIC ANSWERS CAN KILL IN COMPLEX SITUATIONS

TONY MANNING

Recent comment about the sharp fall in Dimension Data's share price highlight a trap that executives fall into time and again. Faced with obviously complex situations, they find simplistic answers that seem to tell the whole story. They use one-size-fits-all formulas to capture an apparently complete picture. Glibness prevails.

Of course, there are sometimes very clear reasons for trouble in a business. And yes, sometimes they can be explained quite easily. But more often, things are more complicated. Without real perspective, without a holistic diagnosis, and without an in-depth understanding of an organization, its industry and the external environment, it is hard to be sure where problems really lie – and harder still to be sure of future prospects.

Didata watchers have been quick to criticize the firm's asset intensity, to suggest it overpays for companies it buys and to pass caustic comment on chairman Jeremy Ord's jet or the golfing habits of he and his fellow directors. There have also been snarky questions about corporate governance. But while these might add up to something, none of them on its own tells the whole story.

Not long ago, South Africa's technology leader was the darling of investors. The factors now being held up as causes of its woes were all in place – and happily accepted. Ord and his top team were lauded for their clear strategy, their global ambition, their success in tough foreign markets – and let's not now forget it – for their love of sport.

Maybe Didata, like many other major companies now in the same boat, had its act pretty well together. Maybe its strategy was as right as strategy ever can be. Maybe, if business conditions had stayed as they were a year ago, the culture, the practices, the structure and all that other stuff would be delivering even better results than before.

But things never stay the same. Constant changes both inside and outside of companies make survival hard and consistent long-term growth mostly impossible.

When Michael Schumacher won the Monaco Grand Prix in May this year, he said, "First of all, you have to finish." And that's the challenge facing every business executive. First, you have to finish.

Schumacher has to drive with skill and courage. But he also has to hope that his car will keep going, that track conditions will be good and that his competitors will let him win. He can deliver the first two factors; the rest are beyond his control.

Managers, too, can bring some things to their quest for success. But not everything. And even if they do most things by the book, they may still fail. In fact, they are almost sure to fail.

It is a well-known fact that most companies last less than five years. Less well known is the fact that those that do become large will survive about 30 years – less than half the lifespan of a human. And for all the talk of "value delivery" and "sustainable growth", the unpleasant truth is that just about every company will, at best, experience mixed fortunes.

"I would wager you a very significant sum," says Warren Buffet, chairman of Berkshire Hathaway in his latest letter to shareholders, "that fewer than 10 of the 200 most profitable companies in 2000 will attain 15% annual growth in earnings per share over the next 20 years."

According to a recent issue of *Fortune*, "The ultimate, pragmatic reason for not aiming at targets like 15% is the sheer difficulty – indubitable for companies of size – of growing that fast over an extended period… During a 40-year period, from 1960 to 2000, after-tax corporate profits grew at an annual rate of just over 8%."

And in their book *Profit From the Core*, Chris Zook and James Allen report that "only about one company in eight, or 13 percent, achieved sustained and profitable growth (or could be classified as a sustained value creator) over a decade that many would rank as among the best for the world economy."

If the odds are against survival, and even worse when it comes to long-term performance, managing is clearly harder than it looks. So to trot out simple reasons for success or failure is daft. And for managers to seek solace in simplistic tools is stupider still.

That said, more executives would fare better – and for longer – if they saw that the apparently fine line between simplistic and simplicity is in fact a chasm.

To be simplistic is to start with too little information, to only partly understand a situation and to draw conclusions with too little thought or without the benefit of experience and skill. This is the way of amateurs, of armchair experts, of fools who are wise after the event.

Effective executives, on the other hand, know that *simplicity* is a powerful weapon in a complex world. They are able to muster facts from many sides, to see patterns where others see chaos and to make sense of things when those around them are confused.

It is tempting to guess where Didata will be in a year or two. But bank on this: if management buys the simplistic "solutions" that will doubtless be offered in coming months, the company will die. If, on the other hand, management is able to simplify – and thus clarify – what it is about, there's a new period of growth ahead.

Tony Manning is an independent consultant in competitive strategy and change management, and author of *Making Sense of Strategy* (Zebra Books 2001). He can be reached at 27 11 884-2635 or strategiy@tonymanning.com.