



The Simplification
Principle

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1. Executive summary

We have observed increasing complexity in our clients' business and operating models and identified simplification as a necessity from a business perspective, and something our clients need to consider.

The objectives of this paper are to: (1) discuss the essence of simplification; (2) share our experience and insights from what we see in the industry; and (3) uncover some underlying levers and how to apply them.

Simplicity is a principle

While your clients may ask for optionality, providing less choice is often a key to a simpler operating model, which allows for a smoother delivery. Taking an inside-out perspective, simplifying internal processes and structures will have positive impacts on the entire value creation capability of a company. There are plenty of examples that underpin these observations and we clearly see how the simplification principle has transformed entire sectors and reshaped the competitive landscape. We firmly believe that simplification should be applied as a guiding principle and be leveraged as a criterion for business decisions. Simplification allows us to challenge each process and approach to identify which is the most efficient and best suited for its particular purpose.

Applying the three levers: Rationalisation, standardisation, modularisation

Based on our research and experience in advising clients in solving complex business problems, we identified three levers towards simplification. These should be applied in the appropriate order to achieve the most effective results.

- **Rationalisation lever** – reduce to the maximum, taking unnecessary elements from your business and operating models so that they become less “clunky”.

- **Standardisation lever** – aim to achieve identical parts across different technical platforms or products. For instance, standardisation in IT infrastructure could stem from coding standards for one application to the standardisation of whole IT platforms, involving hundreds of applications and interfaces.
- **Modularisation lever** – allow an efficient reuse of the standardised building blocks and creates a modular system with a common structure. The goal is to decompose a complex structure into standardised modules, each of which can be easily replaced and reused.

Succeeding with simplification

We have developed an approach to identify and address the simplification potential in a four-step approach:

- **Blueprint:** Blueprinting the root cause of complexity
- **Identify:** Identification and prioritisation of simplification opportunities
- **Resolve:** Decreasing or resolving complexity
- **Optimise:** Optimising simplification benefits for the long run

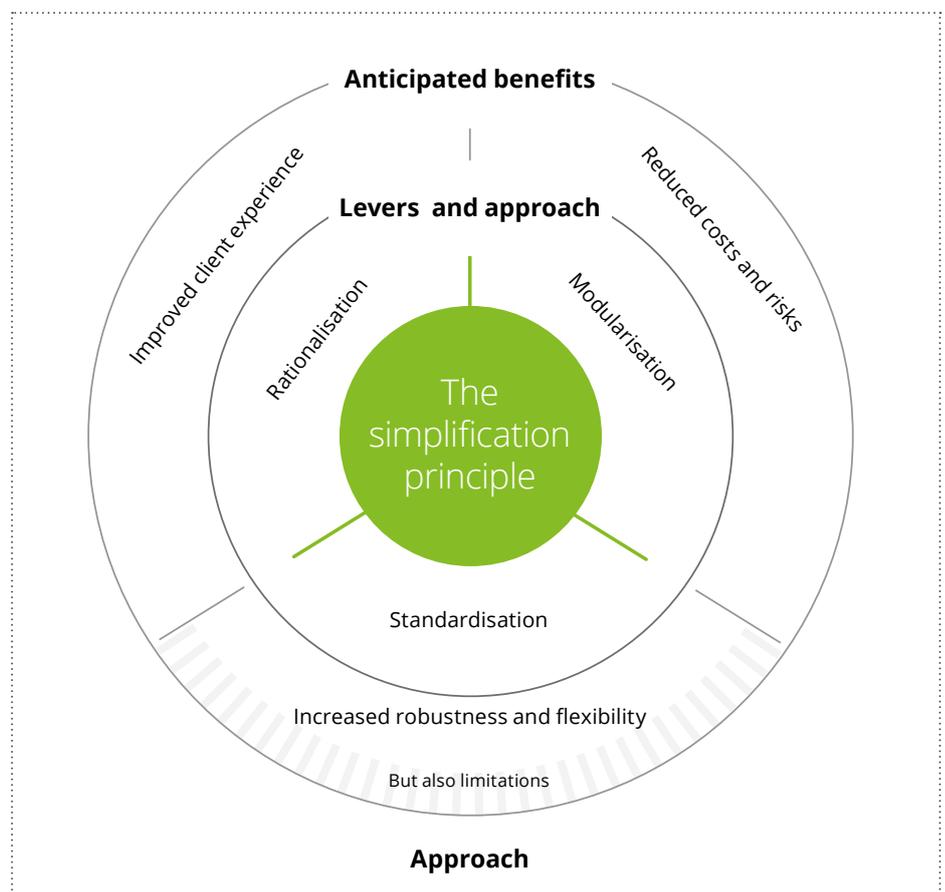


Figure 1 Overview of topics covered

2. Introduction

The rich existing literature on how we humans make decisions and the process behind our choices is continuously evolving. From dated controversial experiments conducted by curious minds to more widely accepted theories presented by Nobel prize winners¹, we generally accept that we do not yet fully understand the complexity of how our mind works.

Nevertheless, in many instances we are able to recognise patterns in people's decisions, or choices, whenever they are faced with a set of options. The ability to recognise these patterns is key in our daily lives, from taking the decision to launch a new product to choosing how to run a political campaign with the goal of attracting as many voters as possible.

Why do we like the Netflix features "suggested to you" or "trending now" when we want to watch a movie on a Friday evening? Why do we prefer menu cards in restaurants with a limited selection rather than endless pages of options? One can of course think of various reasons why we like the "suggested to you" feature – for example, that the algorithm behind the suggestion actually manages to capture your personal interests. Similarly, one might prefer a restaurant with a limited menu because it is perceived as difficult to deliver high quality food if the restaurant has everything from burgers to oysters on the menu. However, the two examples have one characteristic in common that contributes to the preference for certain features, namely simplicity.

...optionality does not always increase the psychological and emotional well-being.

The paradox of choice – why more is less by the American psychologist Barry Schwartz (2004) explains the paradoxical relationship between optionality and our happiness. As humanity seeks the freedom of choice, optionality does not always increase our psychological and emotional well-being. At Deloitte, we have increasingly observed complexity in our clients' organisations. We believe that by leveraging what we call the "simplification principle" businesses can adapt and overcome the threat of increasing complexity which is often the root cause of operational challenges and a factor that limits an organisation's success.

The simplification principle can be applied to a very straightforward example such as product range, whereby providing fewer options to the end client allows the firm to have a leaner internal organisation and associated processes. Increasing the number of variations for a product or service is often followed by increased complexity and may hinder smooth delivery to the client, and vice versa.

Complexity

Naturally, most companies that would like to stay competitive in today's business environment will have to give some optionality to their client in terms of offering a range of services and products. Even if an organisation at its inception only offers one product, an extension of the product offering and increased optionality through customer demand will eventually come as a consequence of growth, regulatory requirements or other triggers. Whatever the trigger may be, the organisation will be forced to implement new processes or adapt previously existing ones to be able to offer the increased optionality to their clients. To meet the expectations of both internal and external stakeholders, these changes are often implemented under tight time constraints and a high level of ambiguity, which can be detrimental to the outcome.

Simplicity is a principle, not a rule

We firmly believe that simplification should be applied as a guiding principle, rather than an ultimate goal or rule. The simplification principle should be leveraged and used as a criterion for business decisions as it will allow us to challenge each process and approach to identify which is the most efficient and best suited for its particular purpose. However, it is crucial to accept that the principle can be overruled under certain circumstances through a logical evaluation. For example, regulatory changes may force firms to accept less favourable partnerships (e.g. de-globalisation of the supply chain).

1 Such as Daniel Kahneman Psychologist and behavioural economist, well known for his work on cognitive biases, loss aversion and prospect theory – for which he received the Nobel prize in 2002. His book, *Thinking, Fast and Slow*, published in 2011, became an international bestseller explaining how humans make decisions using two modes of thinking, namely "System 1" and "System 2". <https://www.nytimes.com/2011/11/27/books/review/thinking-fast-and-slow-by-daniel-kahneman-book-review.html>

2 Ford Company: The T-Model – <https://corporate.ford.com/articles/history/the-model-t.html>

From the past to the future

Looking back at history, we clearly see how the simplification principle has transformed entire sectors and reshaped the competitive landscape. For example, Henry Ford's first moving assembly line in the early 20th century allowed him to redesign not only the entire automobile industry, but also many other industries. The efficiency gains in the production line and simplified vehicle construction allowed Ford to achieve his goal of producing a reliable and affordable car for the public. With the launch of the famous Model T in 1908, Ford shocked his competitors and gained 50 per cent market share of all globally registered cars by the 1920s².

We strongly believe that the simplification principle will continue to be a key factor for our clients going forward. The Fourth Industrial Revolution has brought with it an increasing level of complexity, with technology at its very centre. New regulatory requirements and technological advances are a common source of disruption to any organisation's stability. In fact, many companies turn to technology as the go-to solution and may face the temptation to apply a technology layer to something that is deeply flawed beneath. For example, we observe companies implementing front to back (F2B) remedies by applying robotic process automation (RPA) to enhance the efficiency of complex processes. This can, indeed, be a very efficient solution, but unless the underlying complexity issues have been resolved prior to applying a technology layer, making any changes through RPA can suddenly become a very difficult task, often associated with significant cost. Therefore, we need to ensure "simplicity".

The concept of "simplicity" refers to the idea that a model or structure can be simple and complex at the same time by applying a layer of simplicity on top of complexity. We believe that technology will indeed continue to help businesses to develop new customer experiences, enable F2B automation and significantly decrease costs, yet it will not be able to fully replace "true" simplification. As a result, this is where we will continue to direct our focus and create value for our clients.

What can the simplification principle do?

The following sections of this paper will provide more comprehensive insight into how we can apply the principle to organisations and processes, and what the anticipated benefits as well as drawbacks are. We provide a detailed strategy on how the simplification levers can be applied and offer deep dive examples on payments simplification, cloud simplification and legal entity simplification.

Lastly, we outline the approach to action the simplification principle within organisations and share the hypotheses arising from our observations.

We strongly believe that the simplification principle will continue to be a key factor for our clients going forward. The Fourth Industrial Revolution has brought with it an increasing level of complexity, with technology at its very centre.



3. Levers: Standardisation, modularisation, rationalisation

We advise our clients to apply a set of levers towards simplification: rationalisation, standardisation, and modularisation. These levers are most effective when applied in combination and in the appropriate order.

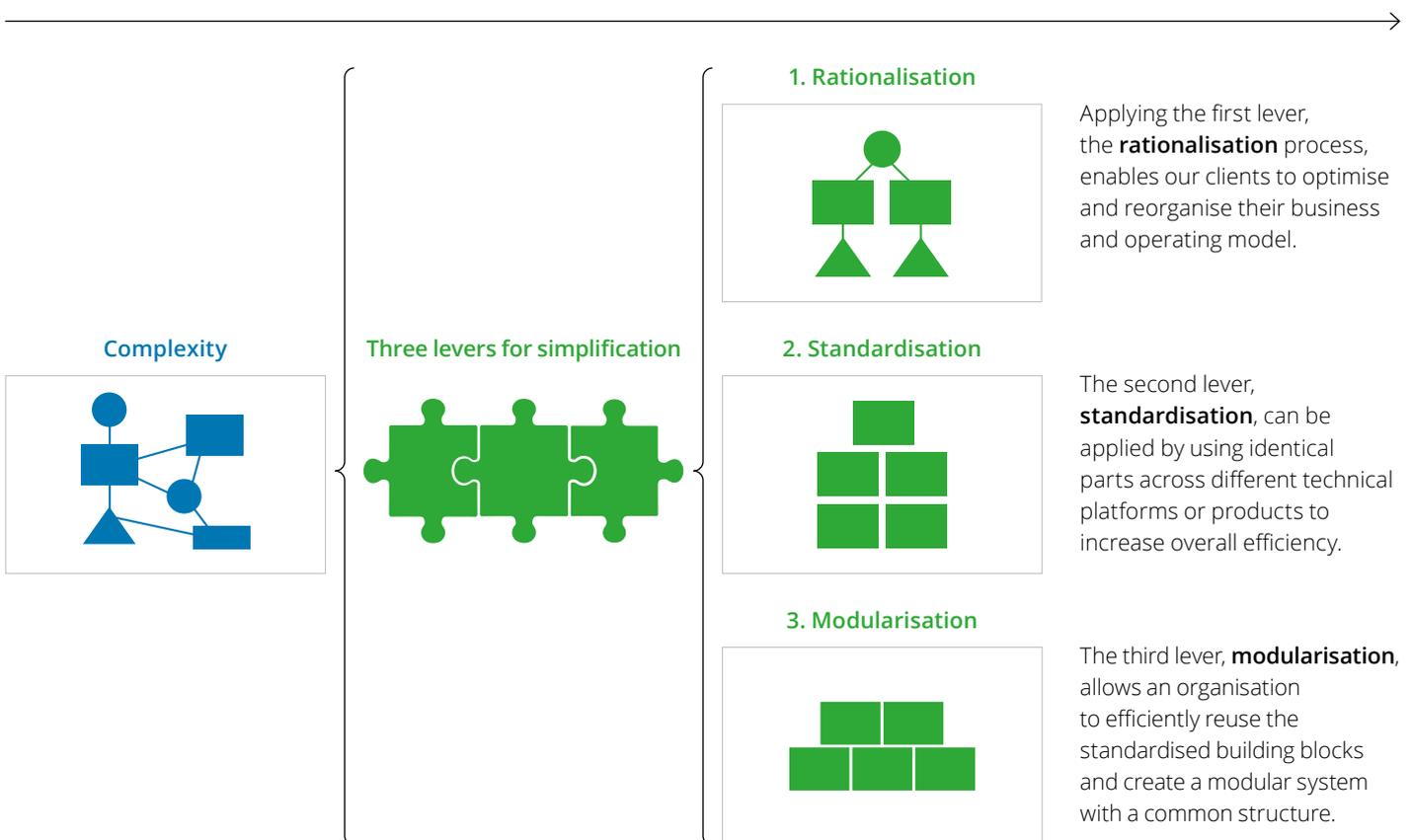


Figure 2 Overview of simplification levers



1. Rationalisation

Applying the first lever, the rationalisation process, enables our clients to

optimise and reorganise their business and operating model. This could include product and/or market strategy changes, structural and organisational changes or even an overall expansion or reduction of the size of the organisation. Throughout the rationalisation process the focus should be on improving the organisation's bottom line. A key pillar of rationalisation is discontinuation.

Historically, many companies have grown in size and functional specialties, which have resulted in increased organisational complexity. Nevertheless, discontinuation should not automatically be treated as divesting and spinning off market segments, product lines or organisational structures, but rather (re-)focusing on the organisation's core business and strengths⁴. Therefore, discontinuation lies within the wider context of the organisation's rationalisation process and builds the foundation of the organisation's simplification strategy.

In addition, analysing the portfolio impact of fixed costs from a discontinuation perspective is key when one aims to improve the bottom line.

A prime example in this context is the process of streamlining complex product catalogues. While there are plenty of examples of successful organisations that have substantially grown their product catalogue over time, we are observing increasing demand from our clients to support them with the complexity involved in maintaining their offering.

We apply the Deloitte Target Operating Model (TOM) framework for our clients, which helps to decompose the organisation in key layers across the value chain.

Similarly, this holds true for businesses that historically achieved growth through innovative custom-tailored services. Factors such as regulatory developments are driving the increased level of complexity around maintenance, marketing and production of different product catalogues.

There are more aspects of rationalisation, e.g. "delayering", which follows the goal of removing excess reporting layers through a detailed review of the reporting structures. By flattening the organisational pyramid, our clients were often able to eliminate duplication and redundancies and thus increase the efficiency of decision-making and managerial control. Incorporating business process and reporting standards also goes hand in hand with the second lever, namely standardisation.



2. Standardisation

The second lever, standardisation, can be applied by using identical

parts across different technical platforms or products to increase overall efficiency. For instance, standardisation in IT infrastructure could stem from coding standards for one application to the standardisation of whole IT platforms, involving hundreds of applications and interfaces.

As previously highlighted in the Henry Ford example of the moving assembly line, manufacturing processes clearly benefit from standardisation. In today's world, car manufacturers are benefiting from building various car models on the same chassis, and this holds true even across different brands. However, the benefits from standardisation span far beyond

manufacturing industry and in fact almost every activity within an organisation can be standardised. For example, we have also successfully supported our clients with the standardisation of supply chain, finance processes, HR payroll processes, workforce management and many more.



3. Modularisation

The third lever, modularisation, allows an organisation to efficiently

reuse the standardised building blocks and create a modular system with a common structure. In theory the main goal is to decompose a complex structure into multiple modules, each of which can be easily replaced and reused. This structure can serve the efficient development of new customer-focused products, systems, services and processes. The concept of modularisation is nothing new and has some prominent examples (e.g. Ford's Model T, USM modular furniture and LEGO) in the area of mass production customisation. Modularisation allows our clients to achieve product variety without creating further complexity.

The positive aspects of modularisation are plenty, both on an individual level and for organisations. For example, one can easily understand the potential efficiency and monetary gains that modularisation can bring to an organisation by being able to swiftly replace and reuse different elements in their business.

Taking the perspective of an individual, modularisation allows us to swiftly change the battery in our mobile phone, rather than buying a brand new one even though the rest of the phone is working. Bearing this in mind and putting on global glasses, modularisation can be viewed as an important pillar for sustainability. This is further confirmed by increasingly popular topics such as circular economy theory⁵, where ease of reusability and

replacement of modules is key to its success. The principle of modularisation is also important for business process engineering as well as software programming and development.

In order to better understand the application of the available levers and showcase the anticipated benefits, we apply the Deloitte Target Operating Model (TOM) framework for our clients, which helps to decompose the organisation in key layers across the value chain. In the following examples provided in the table, each lever is individually applied to a specific layer of the organisation to showcase a potential application.

Throughout the rationalisation process the focus should be on improving the organisation's bottom line. A key pillar of rationalisation is discontinuation.

4 See also Theodore Levitt's Marketing Myopia; he asks the question: what business is your company really in?, and explains how companies that fail to recognise their core strengths, what business they are in and what their customers really want, will eventually become obsolete.

5 Looking beyond the current take-make-waste extractive industrial model, a circular economy aims to redefine growth, focusing on positive society-wide benefits. It entails gradually decoupling economic activity from the consumption of finite resources and designing waste out of the system.

Overview of TOM layers and sample applications

TARGET OPERATING MODEL LAYER	LEVER	EXAMPLE APPLICATION
Customers		Re-design customer contracts pricing and delivery terms to reduce transaction costs and enable streamlined process to fulfil contractual obligations
Channels		Establish network of distribution partners to allow focus on core business while maintaining flexibility
Products and services		Modularise product and service catalogue to improve product and service usage and profitability model
Governance		Rationalize governance structures to design and implement a governance model that allows for transparency and accountability
Processes		Define standard operating procedures and guidelines to decrease error rates
Suppliers		Consolidate supplier/vendor base within a specific supply market to achieve favourable pricing conditions
Data		Introduce data model towards a single-client view
Organisation		Set-up shared service centres for support services (e.g. transaction oriented processes) to avoid duplication of work and achieve synergies
People		Reduce number of reporting lines (i.e. layers) to eliminate duplication and redundancies while increasing efficiency in decision-making
Technology		Source applications as SaaS to allow for a simpler, leaner and ultimately quicker deployment of the technology solution covering exactly what is needed
Location		Uniform workspaces to enhance process efficiency and shorten lead time

▶ Deep Dive 1: “Payments simplification”

Payments are the life and blood of businesses across any industry. Yet they also represent one of the highest risk areas in the operating model, subject to internal and external attacks. Therefore, simplification should be applied as the guiding principle to payments to achieve risk and cost reduction while simultaneously maintaining a high level of security.

Why are payments so relevant today?

The total value of cashless payments denominated in Swiss Francs increased by almost 20 percent to CHF 4.83 trillion between 2012 and 2019. The volume of cashless payments has increased even more dramatically, by over 65 per cent, from 1.64 to 2.75 billion transactions annually during the same period, which are serviced by over 250 payment service and instrument providers in Switzerland³. The increase in digital payments has simultaneously resulted in increased complexity in payment initiation options, and digitalisation of the front-to-back payments processes were already creating pressure on existing operating models.

As demonstrated in recent months, the COVID-19 pandemic has accelerated this effect through:

- Greater demand of digital adoption through omni-channel experiences and digital engagement with customers who need to circumvent physical presence activities, especially in client segments favouring traditional methods.
- A move toward real-time payments to accelerate movement of money, domestically and internationally.
- Investment in automation driven by artificial intelligence (AI) of back-office processes, focused on cost reduction or the prevention of financial crimes by “blocking” ahead of time rather than “discovering” fraud after it has happened.
- Evolution of the overall business operating model and disruption of existing business models with revenue and margin pressure driving innovation and adaptation.

Where does complexity come from?

The existing operating model rely on outdated payment processing methods which often require human input. Digitalisation can deliver straight-through processing, but often creates problems managing a multitude of flows, which in turn increases complexity as opposed to simplifying processes. Some examples are:

- **Governance** – policies and procedures based around human approvals and validations become ineffective, and ownership shifts from business to technology
- **Systems/architecture** – the IT landscape becomes overly engineered as payments processes are often connected to both old and new technologies with fixed integration and data dependencies, which can be difficult and expensive to change
- **Internal rules** – thresholds, authority and risk appetite are based around human expertise and oversight which need to be converted into electronic decision trees that can encapsulate all eventualities and external rule requirements
- **Controls** – maker-checker or 4-eyes checks are being replaced by automated blocks and rules engines that need to be enhanced, tested and aligned to the new threats
- **Monitoring and surveillance** – the shift from after-the-fact to before-the-fact requires consistent standards, quality and access to data across the front-back-process.

Payments are the life and blood of businesses across any industry. Yet they also represent one of the highest risk areas in the operating model, subject to internal and external attacks

³ Stats.bis.org. 2020. BIS – Payments and Financial Market Infrastructures. [online] Available at: <<https://stats.bis.org/statx/toc/CPMI.html>> [Accessed 22 November 2020].

Why is this a problem?

Complexity creates gaps and vulnerabilities that are best exploited by criminals (internal and external) who spend a lot of time developing ways to penetrate organisations' defences.

What can we do to fix this problem?

To effectively implement a secure and efficient payments system, simplification should be applied as the guiding principle to payments to achieve risk and cost reduction while simultaneously maintaining a high level of security. Figure 2 provides an overview of how a simplified payments architecture could look throughout the payments process. The key levers of rationalisation, standardisation and modularisation can be applied to simplify payments across the board:

- **Rationalisation:** reorganisation through structural and technological changes of the payments system across the entire process from instruction to reporting, including the implementation of modern payments solutions and automation
- **Standardisation:** streamlined processes across different departments and units as well as the entire IT architecture (legacy payment systems may require particular attention), where simple, centralised governance facilitates payment flows
- **Modularisation:** efficient application of payments modules and technology across all payment stages, following a unified structure to reduce complexity and block fraud attacks in advance

Why is it crucial to act now?

No action means increasing vulnerability and increasing costs, limiting potential for digitalisation and only pushing the problem into the future. Therefore, it is essential to act swiftly.

Simplification of the payments process is essential to get started on the road to address these concerns and take a big step towards the future. Some of the key benefits include:

- **Increased robustness and security:** block fraud attacks before they even occur and protect your own as well as your customers' payments through streamlined processes
- **Positive financial implications:** streamlining and effectively managing payments processes can lessen the demand for resources and improve your bottom line in the long term
- **Higher speed to adjust to market trends:** payment markets are undergoing a significant adjustment (prompted by COVID-19, among other factors) and lower levels of complexity allow for increased strategic flexibility
- **Reduction of risks:** digitalisation and automation can support you in replacing manual tasks while simultaneously reducing the room for errors and overall payments risks

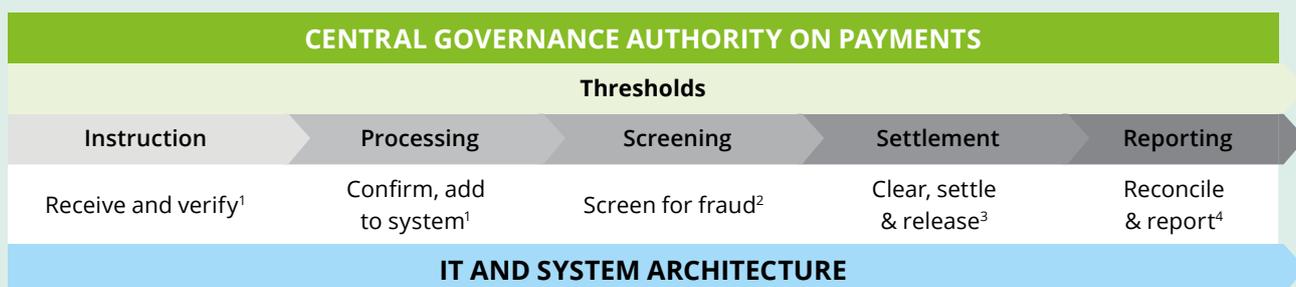


Figure 3 Payments simplification architecture

1 Automate and simplify to reduce manual entries
2 Block fraudsters in advance

3 Payments technology to support efficient clearing processes
4 Automatically compile metrics across different systems

4. Anticipated benefits and limitations

Based on previously applied frameworks in the work done for our clients and insights across various industries, we see the following examples of benefits stemming from the simplification principle.

Selected examples of benefits stemming from the simplification principle:

SAMPLE DIMENSION	AMBITION	HIGH LEVEL, ILLUSTRATIVE EXAMPLES OF AN EXPECTED OUTCOME
Product portfolio	Improve customer experience	A simplified product shelf is easier for the customer to understand and choose from, and triggers less complaints
	Reduce portfolio management effort	Portfolio managers, and also sales and customer care agents, spend less administrative and management effort on a less complex product and services portfolio
Cost	Reduction of operational costs	Simple workflows require less re-working, and allow for higher levels of automation
	Reduction of risks	Repetition of monotonous tasks reduces the risk of errors; a simpler organisation provides more transparency, reducing risks of omitting regulatory requirements
	Positive financial implications	A simple, leaner operating model allows for increased financial transparency, better cash management and strengthened accountability
Organisation and operations	Increased robustness	If operations are interrupted, a simple operating model allows an organisation to understand and quickly identify the problem and efficiently fix it
	Increase speed to adjust to new market trends/allow for strategic flexibility	A simple business and operating model should include simple and quick decision-making processes as well as a fully modularised process and IT landscape, which should remain flexible and allow quick adjustments

Simplification also has its limits. Here are some examples where the concept that “simplification is a principle, not a rule” should be carefully taken into consideration.

Local culture implications

Simplified – and thus often standardised – organisations and operating models across different countries and regions might not cater for local and regional cultural differences. What works in one geography might not work in another due to different social behaviour and established norms. To overcome this, simplification should be limited to aspects that do not interfere with cultural and social norms and differences.

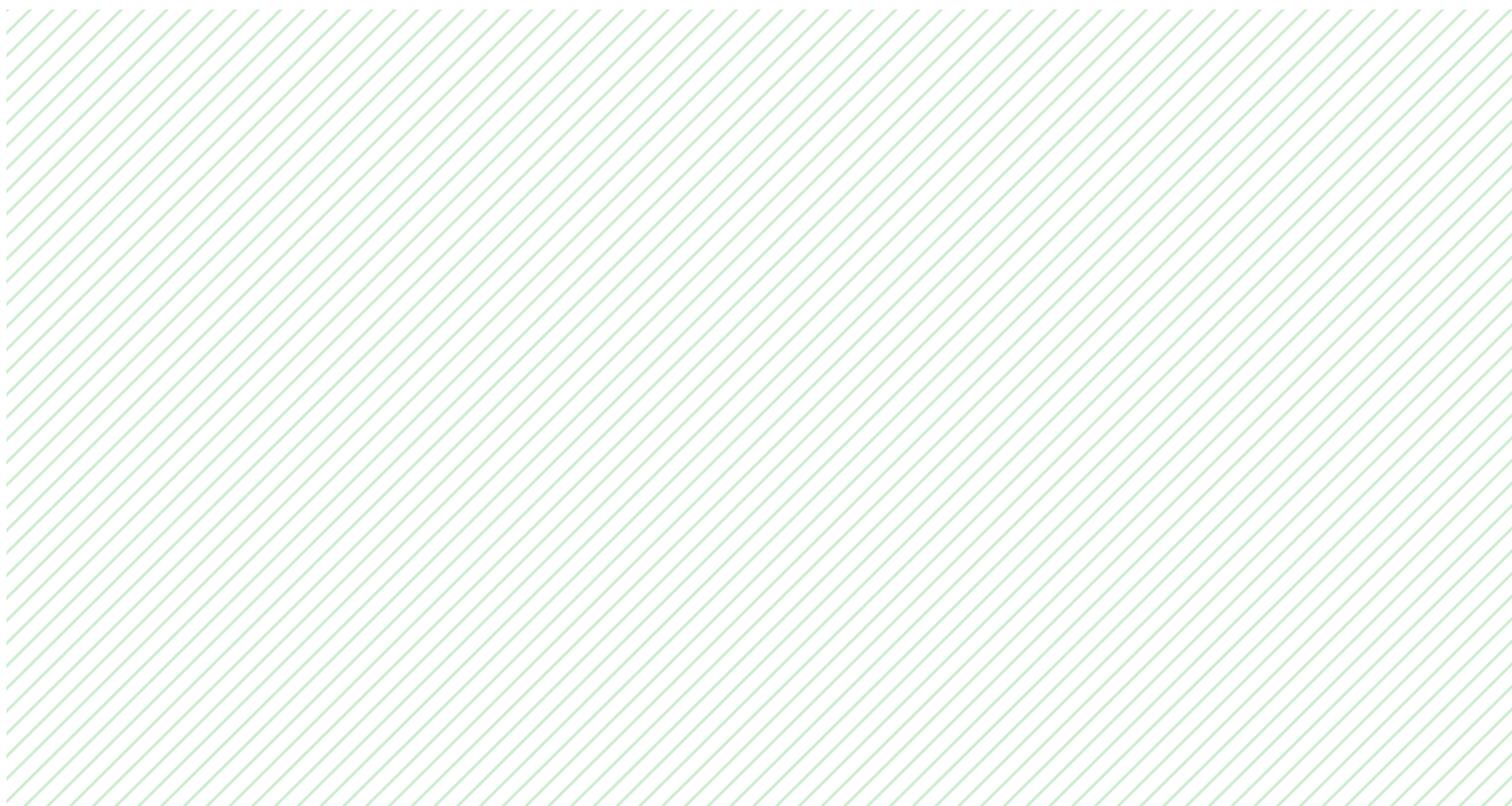
Individual product/service personalisation

Product and portfolio rationalisation, standardisation and modularisation may quickly arrive at their limits: customers ask for tailor-made products, which are profitable for the business, but cannot be produced in a standardised or modularised way (e.g. a highly specialised life-saving drug). As long as the business understands the implications and prices the product appropriately, we believe this does not pose a problem for our clients.

Country-specific legal and/or regulatory requirements

Extensive product simplification across countries and regions might be limited due to national, regional and/or local legal and regulatory requirements. For instance, certain industries and products require specific product characteristics (e.g. package design and size, supplied information, dosage, etc.), depending on local laws and regulations.

...simplification is a principle, not a rule...



▶ Deep Dive 2: “Cloud simplification”

Why is it important to consider Cloud now?

It's no big news that technology is rapidly evolving and permeates more and more business areas. The impact that stands out is the rapidly increasing pace at which long-standing markets are disrupted by new entrants or the evolution of new business models. This evolution can be compared to the industrialisation era when manufacturers realised that factories are more efficient if they no longer create their own supplies, including electricity, but rather source them from a professional provider at much better quality, higher availability and a cheaper price tag thanks to economies of scale. The same shift is happening now as companies realise that they can source ready-made, top-notch technology in time to cater for their (new) business models.

What is the source of complexity?

Cutting-edge technology and applications are key enablers for growth, increasing productivity and efficiency, and enhancing the customer experience. Cloud is, however, not such a technology in itself, but rather an enabling platform, providing access at speed to desired technology. Using Cloud removes the burden to design, build and maintain the underlying technology. Hence Cloud adoption accelerates a trend that traditional in-house IT will no longer be the only option to source technology, but enterprises will be empowered by Cloud to tap into new solutions at demand⁶. Organisations with the capability to make use of applications, infrastructure or storage space in a timely manner today are able to act and react to defend or grow their market position and enter new businesses, circumventing lengthy traditional IT development and implementation processes.

As promising as all these benefits sound, they require significant adjustments throughout the organisation's operating model, and this is where the complexity comes from. When laying out the fundamentals in the business operating model, several points need to be taken into account: Sourcing of Cloud capabilities in a coordinated manner, keeping the associated costs under control, manage the associated risks and stay compliant with regulation, and many more. While the complexity of embedding Cloud properly is often underestimated, it is critical to successfully harvest the promised benefits.

Where to simplify? How Cloud is itself a simplification lever

By enabling Cloud throughout the organization, Cloud transformation becomes by definition an organisational simplification because it entails in most cases a reduction of lengthy software development and maintenance processes and activities. Evidently, adapting to Cloud democratises the technology procurement model, making it possible to act quicker and reduce time-to-market for new business solutions. Following the identified simplification levers, these are some of the key benefits:

- **Rationalisation:** Just using Cloud services is not driving any rationalisation, there is rather a risk to induce an even more fragmented and expensive to run landscape⁷. However, if the migration is executed in a way that reflects the 5 Rs of our Deloitte rationalisation framework, there is an opportunity to shape a lean, de-cluttered cloud architecture and operating model. The 5 Rs to consider in order to benefit from rationalisation potential are different migration approaches:

- Rehost
- Refactor
- Rearchitect
- Rebuild
- Replace

⁶ Source: Deloitte CIO Insights on "Thin IT: The Emerging Technology Operating Model", The Wall Street Journal (2019)

⁷ Deloitte Perspectives on How not to fail a Cloud Transformation (2020)

- **Standardisation:** Standardisation comes inherent with the decision to source Cloud services. The Cloud service providers have developed technology for multiple clients and industries. Hence the public Cloud offerings are already highly standardised, whether for storage, a software solution or security features. This includes the benefits of market-leading technology and the use of leading APIs. While a shift to Cloud might force an IT organisation to standardise their former customised applications to a certain extent, the whole technology portfolio will benefit from lower costs due to less customised application maintenance. In addition, the vast optionality of traditional OnPrem development & deployment routes is reduced.

- **Modularisation:** This lever may be the easiest one to utilise. Once your organisation is Cloud-enabled and can source the required technology at its fingertips, you will quickly find two modularisation principles applicable:

1. **Modular IT Landscape:** You source only the applications, infrastructure or process services you need
2. **Modular Applications:** You can use a containerised approach or loosely coupled micro services for your Cloud applications

These two modularisation principles help you to become more agile, increase scalability and ultimately reduce costs.

The Cloud journey isn't that difficult – if you do it right

Cloud provides appealing benefits (e.g. reduced costs and risk, increased robustness and flexibility), tempting some organisations to rush into a migration without due evaluation and planning, in some cases leading to a failed transformation⁸. Often that is because Cloud is not approached holistically but as an IT project only. However, if organisations are truly keen to realise the advantages of Cloud, their operating model needs to be made fit for it. These are the key success factors that need consideration:

- Define a Cloud strategy
- Adapt the Risk Management
- Design & implement a governance model
- Set up the financial analytics
- Define a Cloud migration roadmap
- Encourage cultural change.

It's no big news that technology is rapidly evolving and permeates more and more business areas. The impact that stands out is the rapidly increasing pace at which long-standing markets are disrupted by new entrants or the evolution of new business models.

⁸ Deloitte Perspectives on How not to fail a Cloud Transformation (2020)

5. The simplification approach

There are various approaches as to how one can start tackling the not-as-simple-as-it-sounds endeavour of simplification.

Depending on whether an organisation is operating on business as usual (BAU) or is currently in transformation, we see two different approaches to embedding the simplification principle.

Approach 1: Business as usual

From a BAU perspective, each decision should be tested against the three simplification levers (rationalisation, standardisation and modularisation) and their anticipated benefits in order to truly anchor the principle of simplification in a firm. This requires a front to back all-encompassing approach. An organisation should evaluate which lever can be improved through a specific decision.

If none of the three levers can be improved by this decision, the organisation should consider whether the envisioned benefits (e.g. improved customer experience, cost reduction, organisational agility, etc.) really hold true in both the short and long term. For example, if an organisation aims to produce a new version of a product at a customer's request, this may cause an increase in production complexity and deterioration in rationalisation in order to satisfy the client's demands. Hence, the envisioned benefits of customer experience and satisfaction would need to outweigh the negative consequences of a decreased state of simplification in order to proceed with the decision.

Approach 2: Business transformation

From a transformation perspective, the simplification principle should also be anchored in every change initiative that an organisation undertakes. The process handbook for changes should entail a level of guidance that includes a framework based on the simplification levers to be used when calculating the business case of a change initiative.

Approach 3: Dedicated simplification initiatives

For dedicated simplification initiatives, we have developed a four step approach.



Figure 4 Key steps of a simplification approach

Step 1: Blueprinting the root cause for the complexity area. Before diving into developing a solution, it is essential for the root causes to be properly understood and mapped out. Therefore, it is important to create a blueprint of the complexities to determine these root causes and enable simplification. For instance, COOs will have to ask themselves some key questions about the focus areas:

- Why has the complexity area developed in the way it did?
- Have triggers for this changed over time, and are they going to continue increasing for some time to come?
- Which root causes will result in greatest impact if solved?
- Which additional root causes are easy to solve?

Step 2: Identifying and prioritising simplification opportunities in your organisation. To adequately build on the blueprint of root causes under Step 1, it is key to define focus areas for your organisation's simplification target. Start by determining the simplification criteria which will be applied when assessing potential simplification opportunities.

Consider, for example, whether the primary focus of the simplification outcome should be cost reductions, ease-of-use, quicker lifecycle management, customer or employee satisfaction, etc. This is important as, depending on what one wants to achieve with the simplification efforts, the initiatives and chosen focus areas might differ.

Of course, when zooming in on any part of an organisation, it is likely that simplification or efficiency improvements can be found everywhere, but the key here is to identify the areas that will have the greatest impact. This is also why starting from a top-down TOM approach is advisable as it encourages a holistic view of the entire organisation instead of one of its separate parts. Additionally, dependencies and integrated solution opportunities will also be considered when they might otherwise be overlooked.

Step 3: Decreasing or resolving complexity in the most sustainable manner. Once it is clear what the simplification opportunities in your organisation are, as identified and prioritised under Step 3, it is time to turn towards solution development and implementing the most effective solution. There are several simplification programmes that one could apply. An interesting approach to get to the best solution for your problem would be a combination of business case development and conceptual design thinking to test solutions before opting for the most effective one.

For example, business cases can confirm whether the strategic, financial, operational and social benefits of a particular simplification solution will align with the simplification purpose.

Step 4: Optimising simplification benefits for the long run. Once simplification initiatives have been implemented, the achieved results should be sustained in the long term.

Evidently the approach to achieve this varies on a case by case basis. However, it is worth considering the following points:

- Does the initiative/solution address the identified root causes?
- Does the initiative/solution meet the defined simplification criteria?
- Is the initiative/solution in line with the strategic direction set out by the organisation and with further planned or envisioned change initiatives?
- Are there clearly defined success metrics that enable evaluation and monitoring of the outcome of the initiative/solution and, if necessary, drive the definition of required adjustments?

From a transformation perspective, the simplification principle should also be anchored in every change initiative that an organisation undertakes.

▶ Deep Dive 3: “Legal Entity Simplification”

Introduction

Rationalisation was identified as one of the levers towards simplification. When mapping this lever against the TOM layer “organisation”, we do not only uncover opportunities to rationalise the management/reporting structure (e.g. delayering), but also the legal entity structure.

Where does complexity come from?

Before elaborating on the issues of a complex legal entity structure and simplifying such a structure, we should understand why companies have such structures in place. Here are some examples:

- Past M&A activities where post-merger integration has not been completed
- Legacy tax optimisation work, e.g. special purpose vehicles for issuance of debt instruments
- Outdated regulatory requirements which required segregated legal entities
- Legacy market access considerations, triggering local subsidiaries.

SELECTED CATEGORIES	IMPLICATIONS
Employees	<ul style="list-style-type: none"> • Time-consuming handling of labour law requirements, employee pension and benefit schemes which are often set up per legal entity, e.g. meetings of work councils
Governance	<ul style="list-style-type: none"> • Limited transparency around governance • Governance and accountability questions, e.g. liability considerations for board members
Systems	<ul style="list-style-type: none"> • Implementation and running costs of new systems/processes given tools need to be configured to cater for all legal entities, particularly IT systems
Costs	<ul style="list-style-type: none"> • Excess costs, e.g. audit, yearly annual general assembly, board members
Capital and funding	<ul style="list-style-type: none"> • Trapped capital and liquidity across the corporate group • Risk of confusion for analysts, clients and employees

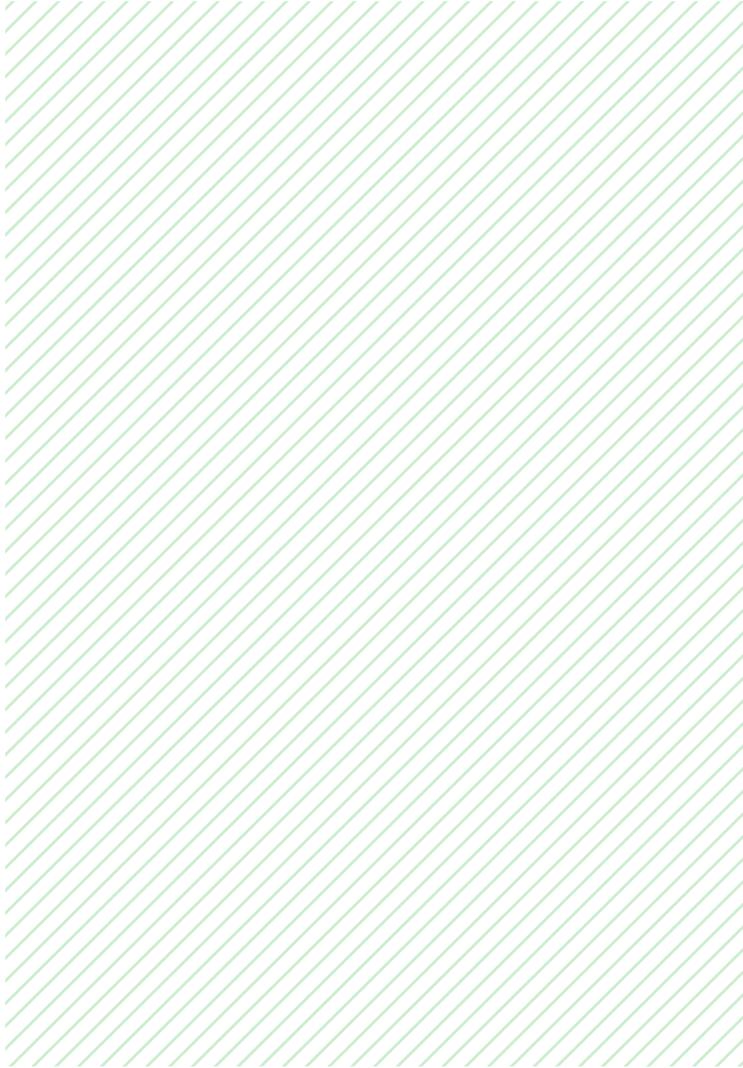
As we see from these examples, there are good reasons for having some complexity in the legal entity structure at certain times. However, too often rationalisation of the structure is not carried out once the benefits of excess entities have diminished. The reasons may be manifold, ranging from limited appetite to perform a cross-functional legal entity rationalisation project, with the involvement of finance, legal, tax and possibly also production/operations, to uncertainty over whether some legal entities may not be used again in the future. In addition, the benefits may not easily be quantifiable beyond yearly audit and board member costs.

Why it would be a good idea to rationalise and optimise?

Companies that have legal entities that are not used or inefficiently used may be confronted by a number of consequences:

But there are also limitations

Deloitte has supported many clients with projects to simplify the legal entity structure. While the list of issues associated with a complex legal entity structure is long, the effort to consolidate the structure should not be underestimated. Careful analysis is required along clearly defined criteria. In the past we have also seen examples where rationalisation was not paying off. For instance, recently a bank has done an analysis to consolidate certain legal entities in the asset management space but realised that the business case was not strong enough due to the insignificant ongoing costs, the proportionally low integration benefits and the costs and risk of merging the activities, including the regulatory approvals.



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6. Recommendations

Large simplification programmes often fail and result in more complexity

Too often, we see large transformation projects geared to standardising and rationalising components spiral out of control, both in terms of budget and scope. In our observations we found that such projects are not being rolled back when they are about to “fail”, but de-scoped to at least claim partial success. What does de-scoping mean in relation to simplicity? For many projects, such as IT implementations, the business owner is left with two components, one being the new solution, one being from the old solution, combining both components with interfaces to allow the new and old worlds to co-exist. We have seen IT implementations where, due to budget pressure, spreadsheets were introduced to perform certain steps and full integration deferred to a “Phase 2”, which is then postponed year after year and very often never happens at all.

Furthermore, demands from various stakeholder groups in large transformations derail the paradigm of simplification (e.g. system implementation where different parties ask for adjustments which require significant custom builds). We recently observed an implementation of a software solution for trading, which should have standardised and rationalised components, thereby reducing costs and operational risk. Sponsors of the project advertised this project and solution as “off the shelf”. However, too many special requests and requirements delayed the project by years, leading to substantial de-scoping instead of actually de-commissioning the legacy software. Now, both the new and legacy software are required to run in parallel, which brings additional complexity, higher costs and increased risks.

The “change as little as possible” principle is too often adding complexity

A common design principle for change projects is “change as little as possible”: it aims to limit scope in order not to overload the change capacity of an organisation and reduce implementation risk. Due to budget pressures, clients often explicitly ask us to focus solely on fulfilling the bare minimum of regulatory requirements as opposed to addressing the broader issues. As a result, the overall complexity increases, but the project is delivered at low costs, and risks are transferred from the change portfolio to the business which must deal with process variants every day. We advocate weighing the simplification principle at least as much as the “change as little as possible” principle.

Apply “agile” with caution

At Deloitte, we like the new ways of working and associated “agile”⁹ principle. However, if not applied correctly and carefully, agile methods may end up adding complexity to the project or organisation. For instance, applying “agile” in an extreme (and incorrect) form, with uncoordinated activities pushed forward by small teams, quickly jumping from design to implementation and back will result in chaos without the advertised benefits.

We have seen a number of organisations and leadership teams that want to undertake “agile” transformations. Structures are put in place, from appointing product owners and scrum masters to scheduling sprints and agile ceremonies. However, often these “agile” structures and roles remain embedded in thoroughly “waterfall” environments. Resistance and confusion instead of better outcomes may often be the result. Simply branding a transformation as “agile” is not enough, and even dangerous. To keep things simple, the key is to focus on desired outcomes first (“Better Value Sooner Safer Happier” as we like to refer to it¹⁰). Only then “empower the how”. In general, there is no such thing as best practice, and there is no one-size-fits-all solution that optimises outcomes for the many unique contexts in which change takes place. Nevertheless, a standardised framework across organisations on how to utilise agile techniques and solutions can be beneficial in guiding agile teams from different parts of the organisation.

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⁹ Refer to the book of Jon Smart: Business Agility Deloitte, June 2019: Want to do an Agile Transformation? Don't. Focus on Better, Value, Sooner, Safer and Happier

¹⁰ Refer to the book of Jon Smart: Sooner Safer Happier: Patterns and Antipatterns for Organizational Agility: Antipatterns and Patterns for Business Agility.

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References

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