Principles to consider when you design a new operating model

by Stephanie Owen (stephanie@strategy2life.com)

This article discusses some benefits of operating model redesign, identifies 9 key elements of an operating model, and outlines some principles that need to be considered when redesigning the operating model for your business, organisation, or function.

The world is currently undergoing a period of fundamental, disruptive change. Many leaders are realising that tactical responses such as cost reduction may not adequately address such structural changes. Strategic responses are required, resulting in many organisations rethinking their operating models. An operating model can be thought of as the way that people, processes, and infrastructure (including technology) combine to deliver a set of organisational results or outputs. Or to put it another way, it is a way of modelling how an organisation, business unit or function translates strategy into day-to-day delivery of products and services to its internal or external customers.

Some ways that an operating model redesign exercise can help you meet the challenges of change:

Making strategy visible. By nature, operating model redesign typically accompanies the early stages of strategy execution, as leadership teams flesh out how the strategy will translate into the day-to-day work of the organisation. The blueprint can also be used to communicate the specific changes required to achieve new strategic outcomes, and to assess the impact and cost of the transition.

Identifying improvements. Because many operating models have evolved organically over time, even documenting the current operating model can reveal issues and improvement opportunities. For example: process bottlenecks due to inadequate communication or unclear accountabilities between teams, gaps in management reporting/metrics, or poor understanding and/or communication of the real costs of delivering services leading to wrong pricing decisions.

Identify strategic options. Through an improved understanding of the organisation’s operational strengths and capabilities, it becomes possible to identify and assess strategic options, like developing new services/products or new markets (including the possibility of offering an internal service to external customers, as IBM did with IT outsourcing, and Westpac did with mortgage processing).

In designing an operating model, there are at least 9 key elements that need to be considered:

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<td>1. <strong>Results</strong>: What are the key results or outputs required by the users or customers of this organisation or unit?</td>
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<td>2. <strong>Capacity</strong>: What capacity is required of this organisation/unit and how does it vary at different times (day, week, month, year)? How would forecasting and capacity adjustment take place?</td>
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<td>3. <strong>Processes</strong>: What are the processes that deliver these outputs/results?</td>
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<td>4. <strong>People</strong>: What groups of people (eg, outsourcers, departments, teams) work together to deliver the required outputs/results? Who does what? How many people are in each of these groups? Where are they located (centralised vs decentralised, geographic location)? What capabilities do they need?</td>
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5. **Infrastructure**: What technologies, tools and facilities are required to deliver these results/outputs? Who owns them? Where are they located?

6. **Engagement**: How do the groups that work together communicate with each other regarding requirements and performance (both day-to-day as well as more strategic conversations)? How does the organisation or unit communicate with the end user or customer?

7. **Performance**: How is performance of the operating model measured, managed, and reported? How are performance issues addressed? How is continuous improvement achieved?

8. **Governance**: Who has the accountability and authority over the elements of the operating model and the results/outputs generated? How are decisions made?

9. **Costs**: How much does it cost to run the operating model?

Because you are designing a system, the interplay between these elements can be complex and ever-changing. Some principles that are helpful in designing an operating model include the following:

1. **Start with customers.** The most important principle is also the first step: understanding the results or outputs required by customers (either paying customers or internal customers). There is often a tendency to gloss over this step, yet many issues and problems can be traced back to designing around the wrong performance objectives/parameters, which in turn arise from an inadequate understanding of customer needs, including the possibility that their needs may vary by customer segment.

2. **Think strategically.** Operating model redesign usually results in the creation, enhancement, modification, or destruction of capabilities within the organisation. These capability changes are typically difficult to reverse and may well modify the basis of existing competitive advantages of the organisation – and therefore must be thought through with care.

3. **Plan transitions.** The impact of changes to an operating model can have significant impact on staff, ranging from the relatively minor need for awareness and training, to possibly major impacts such as mass outplacement of staff, and everything in between. For customers, it may mean inconvenience or a change in habits. Robust change management is required to ensure a smooth transition to a new operating model.

4. **Build in continuous improvement.** No operating model will be perfect, because both the model and the external environment will constantly evolve. Because of this, an operating model design must include not just mechanisms for regularly reviewing performance against existing objectives, but also periodic reviews for alignment between the operating model and new external realities.

A change to the operating model of a business or function is a major undertaking, but often a valuable and necessary part of a strategic response to a changing external environment, or as a means of transforming an organisation’s capabilities and cost structure. By adopting a systematic approach, with due focus on change management and other implementation considerations, you can design and transition to a new operating model while minimising risk to your organisation.

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