A SUCCESSFUL ORGANISATION IS IN CONTROL OF ITS OPERATING MODEL

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Dear Reader,

In a world characterised by rapid technological advances, ever-changing markets and evolving customer preferences, the quest for business success remains a complex challenge for organisations. Many factors contribute to an organisation's success, from visionary leadership, robust strategies and innovative products to efficient processes. In this complex landscape, when we take a closer look at what underpins the success of high-performing organisations, one thing stands out: a well-functioning operating model as their backbone. That is why we wrote this book about the operating model.

Many organisations with impressive strategies 'on paper' fail to translate them into tangible results. In 2013, The Economist Intelligence Unit[1] reported that only 13% of surveyed organisations qualified as 'best strategy executors', with the remaining 87% underperforming. Ten years later, in 2023, nothing had changed when McKinsey[2] found that only 12% of surveyed organisations reached and sustained their performance goals for more than three years. However, perhaps more importantly, both studies also concluded that these organisations delivered significantly better financial performance. McKinsey states that these organisations report twice the EBIT growth of their peers.

This is where the operating model as a critical ingredient of the execution of a strategy comes in. The operating model details how your organisation is organised to carry out all of its activities in pursuit of executing the strategy. It encompasses various elements, including tools, processes, metrics, governance, culture, and more. We view these elements as the adjustable levers that allow you to make the desired changes and drive successful execution.

We know first-hand that most successful organisations are also 'best strategy executors'. Their control over their own operating model creates a bridge between strategy and the daily operations in support of that strategy and enables them to simultaneously run and change their business. To put it simply: they consciously use their operating model to better navigate their business environment and to deliver results.

We've developed a framework to help you enhance your control over your operating model. We will illustrate the transformative influence of a well-structured operating model by presenting our approach, which is build around the Crosslinx framework – a guiding tool that assists you in your journey and acts as a compass to navigate. By providing practical advice

1 *The Economist Intelligence Unit, 2013, Why good strategies fail. Lessons for the C-suite*

2 *McKinsey (Steve Armbruster, Takanori Sakamoto, Nancy Busellato), 2023, How to implement transformations for long-term impact*

and supported by two case studies we aim to provide you with valuable insights on how to efficiently and effectively run and change your business at the same time. We recognize that achieving 100% control over your destiny is not realistic, but you can always improve on what you are accomplishing today.

We hope that this book will contribute to the success of your organisation and your personal development, because ultimately, it is people who make organisations.

Willem Mosterd & Josje Fiolet

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chapter 1

WHY YOUR OPERATING MODEL MATTERS

Our definition of a successful organisation?

We do not want to name any companies here, as there is no guarantee that they will continue to be successful. But we consider an organisation to be successful as long as it meets each of these five characteristics:

1. **Customers are their (sales) champions:** these organisations have customers who are so satisfied and loyal that they actively promote the company's products or services to others.
2. **Competitors regard them as the benchmark:** these organisations are seen as the industry standard, the ones that competitors strive to emulate.
3. **Suppliers want to become preferred suppliers:** they have strong, mutually valued relationships with suppliers, who in turn want to be associated with them.
4. **Public opinion and employees admire the reputation:** these organisations enjoy an excellent public and internal reputation, earning the respect and admiration of the public and their own employees.
5. **Investors want to own the shares:** they attract investors who want to invest in their shares because of their proven success, stability, and potential for growth.

1.1 Successful organisations are in control of their Operating model

Successful organisations cultivate and maintain a competitive edge. For one part, this achievement is about their strategy – how they leverage assets, value propositions, market positioning and customer engagement in support of their overarching ambitions. Many management articles and books are devoted to this aspect of organisational success: the strategy component.

The other part revolves around the execution of their strategy. Successful organisations, be they for-profit or not-for-profit, may operate in different markets, have different go-to-market strategies, and use different operating models. But they all have one thing in common:

Success organisations possess the capability to execute their strategy in an ever-evolving business landscape because they have control over their operating model.

Based on extensive interaction with a wide range of organisations and supported by numerous studies, we operate under the premise that control over your operating model is critical to successful strategy execution[3]. With this understanding, you're inevitably left with the question: 'How do we gain control over our operating model?'. Interestingly, it's a challenge that's often underserved by the existing literature, and that's precisely where we come in.

So, if your organisation has a sound strategy and seeks to sustain or enhance its success, your journey might well start by addressing these key questions:

- What precisely defines our operating model?
- How does our existing operating model manifest itself?
- What enhancements to our operating model are necessary to bolster our strategy?
- How can we establish a firmer grip on our operating model and ensure alignment between our strategy and daily operations on an ongoing basis?

To address these questions, let's discover what the operating model encompasses and how you can gain control of it.

3 *To support our premise, please visit the article library on our website: www.operatingmodelsinc.com*

1.2 Operating model: the definition

The Operating model is the representation of **all relevant structures** that constitute an organisation.
The Operating model details **how an organisation is internally organised** to deliver the agreed strategy and envisioned value.
The Operating model consists of **8 Operating Model Elements**, that are linked to each other.

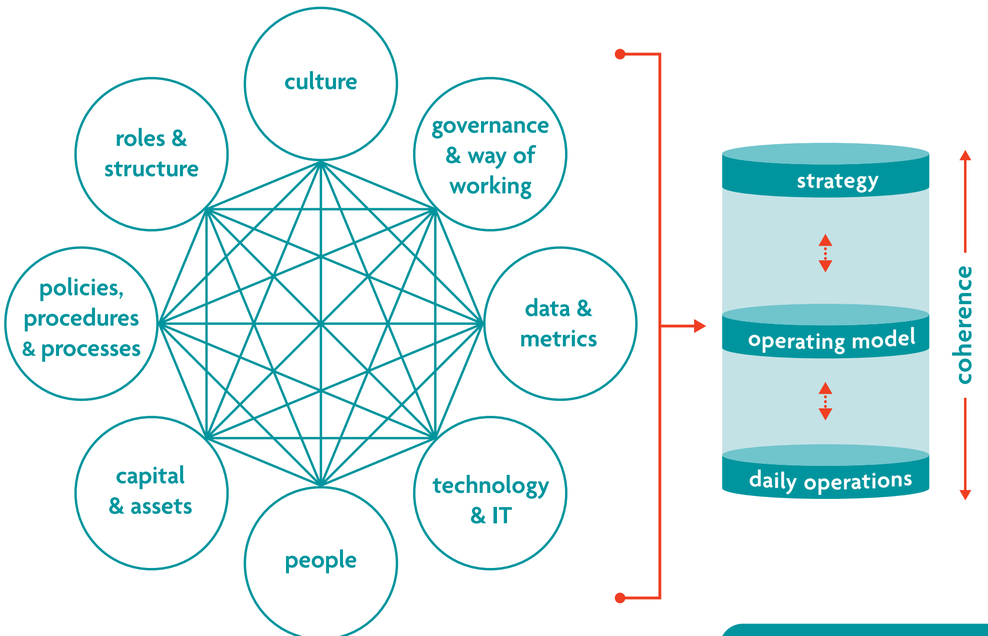

Figure 1.1 The Operating model and its eight interconnected elements.

A well-functioning Operating model establishes **coherence between the strategy and the daily operations.** Strategy feeds on daily operations, as the daily operations are fed by the strategy. The result is that your organisation can run and transform its business in an effective and efficient manner and thus creates the conditions to become successful.

1.3 Being in control of your operating model delivers four distinct advantages

Achieving business success depends on maintaining control over your operating model, as it brings forth four distinct advantages:

1. It creates a shared understanding and holistic view across the organisation of the strategy and how the strategy will be executed.

With execution we mean: all the activities related to deploying, operating and tracking a strategy based on consistent information throughout its lifecycle. The operating model enables everyone in the organisation to understand the strategy, how it affects their work and what is expected of them. In addition, a well-defined and deployed operating model enables cross-organisational collaboration based on a shared holistic view of the organisation, its objectives and what needs to be accomplished as a result. And when the conditions of the business environment change, the same holistic perspective enables the organisation to respond in a coherent manner in support of the strategy, or the adapted strategy in the case of major changes in the business environment.

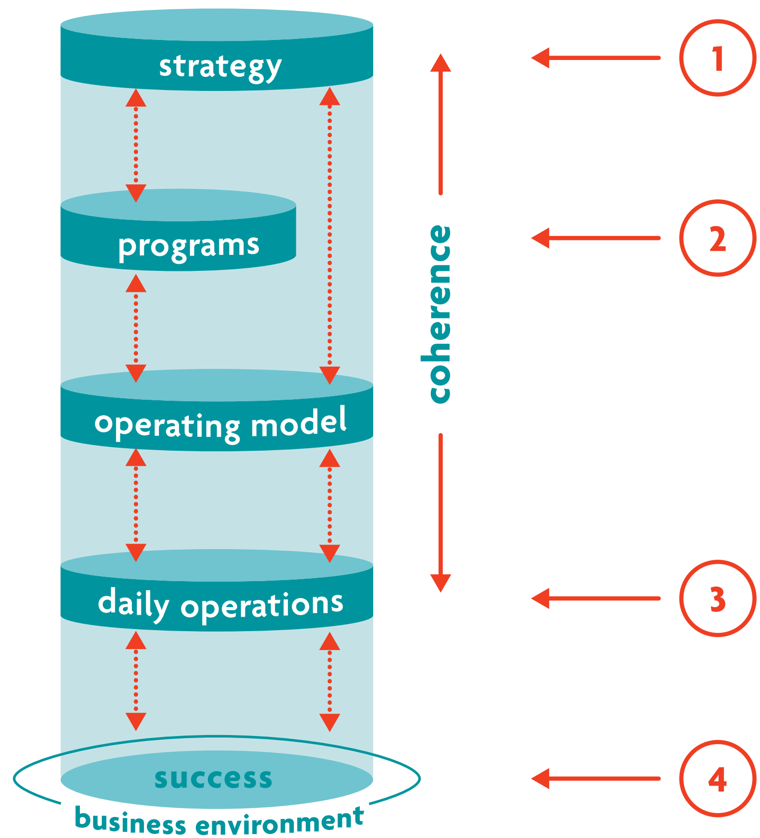

Figure 1.2 The four distinct advantages of being in control of you operating model.

2. It provides insights to effectively and efficiently mitigate the underperformance of the programs on which the strategy is based.

In executing their strategy, organisations typically deploy various programs in support of their strategy. Running programs is not easy, even best executors are just 73% successful, compared to 53% for all other organisations[4]. Typically this underperformance is related to a lack of a holistic overview of the programs and their contribution to the strategy; as a result, most organisations do not grasp or manage how the 'under-performance' of their programs impacts their overall strategy, and where and what mitigating actions should be taken. By taking control of your operating model, you can manage the progress of your programs against desired outcomes and measure their actual contribution to the success of the organisation from the same holistic perspective as your strategy. Not only will you be in the position to mitigate the 'underperformance' of your programs, but you will also be more effective and efficient in adjusting your active programs based on new insights within your organisation throughout the life of the program.

3. It facilitates holistic monitoring and ongoing optimisation of the daily operations in support of the strategy.

It is harder to change your daily operations than it is to execute a large program. Daily operations are what the organisation does on an ongoing basis to create value and because of all the cross-organisational interdependencies, they affect all units, functions and people. Without being in control of the operating model, there's a risk that the strategy programs and daily operations are two parallel worlds. For strategy to be integrated into the daily operations and lead to sustainable, long-lasting success, you need a different lens to manage this transformation than the standard financial and other general management reports. Based on your operating model it will be possible to define and operate a strategy execution dashboard that provides a holistic view of the current state of your organisation, which will be the basis for continuous improvement towards a more successful organisation.

4. It enhances the organisation's agility to respond to changes in its business environment.

You need to be able to respond to changes in your business environment that may threaten or can enhance the success of your organisation. Minor changes can be dealt with as part of the current strategy, but major changes require an evaluation of the same strategy. The ability to respond (pro-actively) to change requires that your organisation has mechanisms in place to monitor its business environment and that this information reaches its rightful owners for action. A well-controlled operating model ensures that your organisation can deploy and maintain these mechanisms.

4 *The Economist Intelligence Unit, 2013, Why good strategies fail. Lessons for the C-suite*

1.4 Most organisations are not in control of their operating model

While all organisations inherently have an operating model, most are not in control of it. If you are not in control of your operating model, you will miss out on the four advantages described in the previous section, which will significantly reduce your success in executing your strategy.

Typically, we see two main reasons why organisations are not in control of their operating model:

1. Not all organisations are familiar with the concept of the operating model.
While most organisations recognise the various Operating Model Elements, they lack the perspective that these elements together constitute the operating model needed to effectively support the execution of their strategy. Typically, different departments within an organisation own individual Operating Model Elements, but there is little or no collaboration and alignment between them.

2. Even for organisations that understand the concept of the operating model, defining it and, more importantly, managing it successfully is a significant challenge.
Most of these organisations often succeed in defining the ‘as-is’ state of their operating model. The complexity is compounded when the organisation needs to manage the interdependencies between various Operating Model Elements in support of the strategy in a changing business environment.

Only a few organisations demonstrate a natural ability to be in control of their operating model consistently. This is often underpinned by traits such as discipline, a culture embracing change, employee involvement, and an efficient way of working. If your organisation is not currently in control of its operating model but aspires to be, you need an approach to designing and managing a ‘fit for purpose’ operating model to support your strategy and daily operations. In Chapter 4 of this book, we will introduce you to the Crosslinx framework that will help you to take control of your operating model.

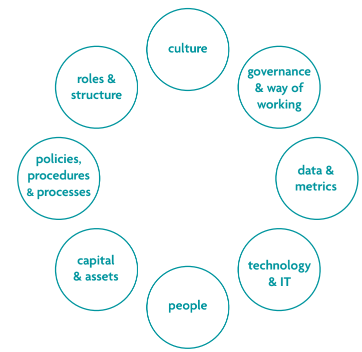

Figure 1.3 The Operating Model Elements.

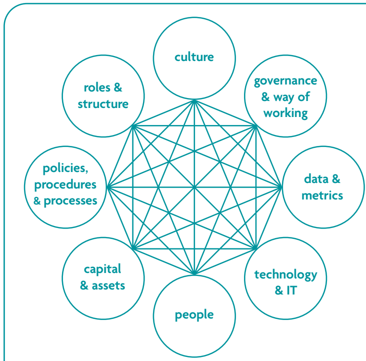

Figure 1.4 Interdependency of operating model elements.

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