OPERATING MODELS: The Frustrating Quest for Clarity

ODF Community Convo

Wed, Dec 6th at 11 AM ET

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Previewing Our Discussion for Today

What is an Operating Model (OM) and why is it frustrating to define?

What client challenges are we facing and how are we addressing them?

Here is what you get when you search for Operating Model Images..

Tracing Our Steps: Understanding How We Got Here

The evolution of operating models has transformed significantly over time

Traditional Models (Industrial Era):

- **Functional Silos**: Operations were compartmentalized into specialized functions like production, marketing, and finance.
- **Hierarchical Structures**: Decision-making flowed from the top-down, with rigid structures and clear reporting lines.

Process-Based Models (Late 20th Century):

- **Focus on Efficiency**: Emphasis shifted to optimizing processes within and across functions.
- **Lean and Six Sigma**: Strategies like Lean and Six Sigma aimed at reducing waste and improving quality.

Digital Transformation (21st Century):

- **Technology Integration**: Embracing digital tools for automation, data analysis, and customer engagement.
- **Agile Methodologies**: Flexible approaches like Agile and DevOps emerged, promoting quicker iterations and adaptive responses to change.

Era of Ecosystems (Contemporary):

- **Collaborative Networks**: Operating models evolved to encompass partnerships and ecosystems, leveraging external resources.
- **Customer-Centricity**: Shift towards models prioritizing customer needs, personalization, and experience.

Future Trends (Emerging):

- **AI and Machine Learning Integration**: Greater reliance on AI-driven decision-making and predictive analytics.
- **Sustainability and Purpose**: Focus on sustainable practices and aligning operations with broader social and environmental goals.

Source: ChatGPT

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Untangling Operating Models: The Frustrating Quest for Clarity

Complexity and Abstraction: OMs often involve intricate systems, structures, and processes, which can be abstract and difficult to visualize or comprehend without practical examples or tangible representations.

Varied Interpretations: Different industries, organizations, and experts define and implement OMs differently, leading to a lack of standardized understanding. This ambiguity creates confusion about what elements are essential and how they function.
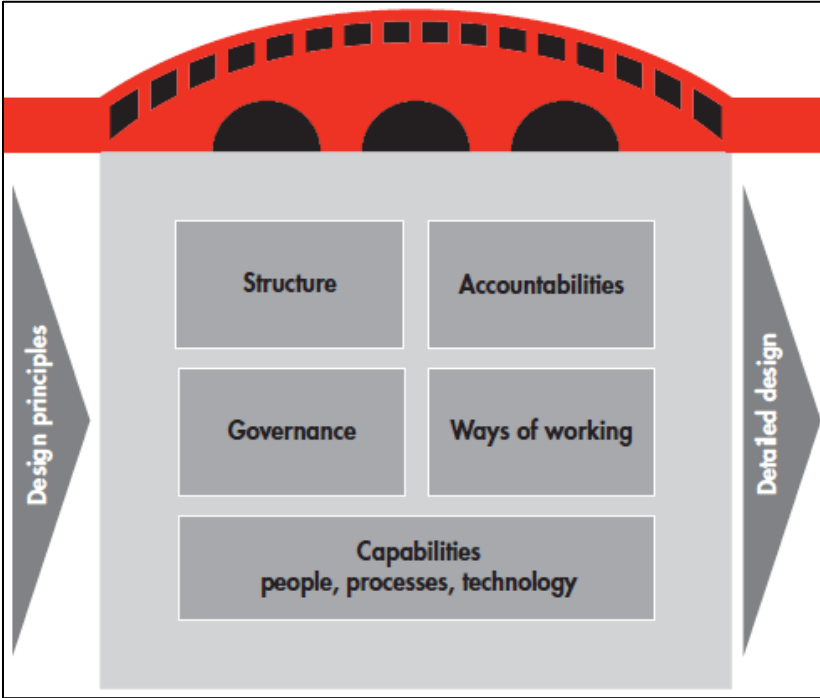
Jargon and Technicality: The language used to describe OMs often includes technical terms, industry-specific jargon, or management concepts that might not be familiar to everyone. This can create multiple interpretations and contribute to confusion.
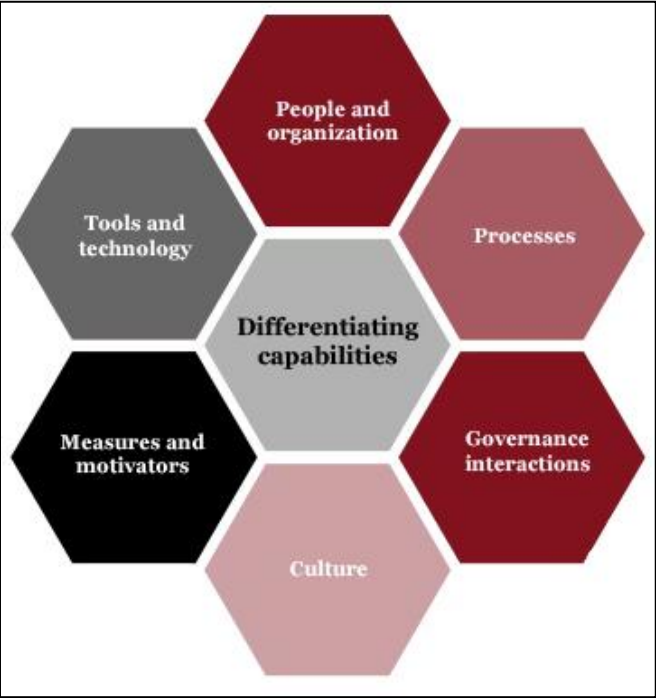
Different Operating Model Frameworks

McKinsey & Company

Bain

PwC

Varied Definitions of Operating Models

McKinsey & Company: "The necessary choices that together determine how an organization operates."

Bain: "… dictates where and how the critical work gets done across a company. It serves as the vital link between a company's strategy and the detailed organization design that it puts in place to deliver on the strategy."

Deloitte: "The arrangement of the various business components (people, processes, technology, and governance) that ensures the delivery of the organization's capabilities."

Dupont: "How do key elements of the business work together to realize strategy and the business models?".

Harvard Business Review (HBR): "The blueprint that defines how a company will deliver value, specifying the critical processes, resources, and governance needed to make that happen."

Operating Model (OM), Target Operating Model (TOM), vs Operating System (OS)?

- When discussing Operating Models (OM), another term that is often used is Target Operating Models (TOM) denoting the ideal state that companies strive to move towards.

- We are also observing the emergence of the term Operating System (OS). While it can be traced to technology industry (e.g., the iPhone operating system), it is being increasingly used to define a team or an organization's ways of working.

- As explained earlier, we see OM as a macro or strategic concept while OS is a micro or tactical implication.

Our Working Definition in a Sea of Variance

Our definition of an operating model is simple but comprehensive:

An Operating Model should clearly show how value is created by an organization – and by whom within the organization.

- It is a bridge between strategy and operations

- It is an **abstract and visual representation** of how an organization delivers value to target customers as well as how an organization actually runs itself

- It can include a collection of models, maps, tables, and charts

An Operating Model shows **where** and **how** critical work gets done across a company.

Can we agree on this as a working definition?

BREAKOUT SESSION #1

- **How would you define an Operating Model?**

- **Does the definition matter? What do you find frustrating about it?**

- **What key framework components are most important to you?**

Evolution Unleashed: The Dynamic Transformation of This Space

- The emerging post-pandemic agile hybrid work environment is driving a lot of change in organization design and ways of working.

- Prior mindsets and models simply cannot keep pace with the pace of change and needs (of business and employees).

- As smart practioners, we need to check our biases, embrace a growth mindset, and keep up with the explosive knowledge creation in this space.
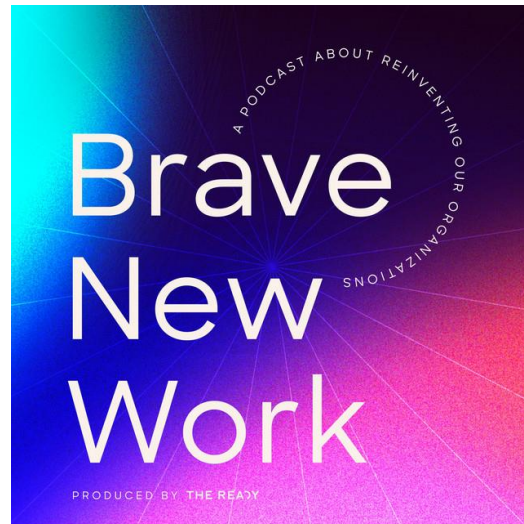
POLLING QUESTION #2

Static Framework vs. Adaptive System:

How would your **clients** define it today?

(1) a static framework that defines how an organization operates 59%

(2) a dynamic, adaptable system that evolves with changing needs 41%

BREAKOUT SESSION #2

- **What challenges and breakthroughs have you had in developing operating models with your clients?**

Concluding Thoughts

- While the debate will continue and evolve especially with the transformations underway in how companies organize themselves and refresh their ways of working, it is important for consultants (external & internal) to be clear on the concepts and terminologies.

- We believe in the adage that: "All Models are Wrong, Some are Useful".

- In the end the most important thing (MIT) is: What do you want the OM to answer for your company?

- We hope this community convo has increased your learning in the topic and ideally clarified terms and approaches!

If you want to continue to conversation…

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