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Is Your Company Actually Set Up to Support Your Strategy?

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Summary. For every company wrestling with evolutions in its strategy, success depends as much on matching the operating model to those evolutions as it does on the soundness of the strategy itself. Your operating model must define ways of working and behaviors that... **more**

How do banks switch customer relationships from branch offices to mobile phone screens? Why is one multinational consumer goods company organized by category, while another organizes by region? Why is one insurance company deep into an agile transformation while another is experimenting with it only at the edges of its business?

For every company wrestling with evolutions in its strategy, success depends as much on matching the operating model to those evolutions as it does on the soundness of the strategy itself. Whether a company has reinvented itself, sought growth through expansion, or turned to partnerships or M&A, gaps between what it says it does for customers and what it delivers are usually the result of an operating model that isn't set up to deliver the strategy.

An "operating model" — how a company organizes and manages its resources to achieve its strategic ambitions — is the bridge between strategy and execution. The idea that organizational structure follows strategy is not new — business historian Alfred Chandler laid this out in 1962 in his book *Strategy & Structure*. But exactly how do today's companies create or update an operating model to match adaptations or wholesale changes in strategy?

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After all, a well-designed operating model involves far more than the lines and boxes or spans and layers in the organization chart. It includes accountabilities. Who has P&L authority? Who on that org chart has the authority to make which decisions? As companies move to more agile operating models, they must learn to balance accountability with autonomy. A new operating model also requires a governance structure and leadership model so leaders know how they will exercise operational control and inspire employees—and hold themselves accountable for doing both. That means choosing the right dashboards, defining which metrics matter most and mapping out how long-range planning, resource allocation, and budgeting will work. And since people ultimately make all the difference, your operating model should define how you manage the assignments and career paths for your difference-making talent.

Crucially, the operating model also must define ways of working and behaviors that actually bring your company's strategy to life. If your company's promise to its customer is lowest costs, is everyone focused on cost control? If your reputation is built on superb service, is everyone — not just the front line, but even back-office functions like accounting or legal or procurement — highly attuned to how they affect the customer experience? What high-performance behaviors are nonnegotiable, and how do you make sure that you're enabling and reinforcing them? What is your approach to risk taking, experimentation, and test and learn?

And finally, does the operating model support the company's strategic mission with the right combination of people, process, technology, and tools? Are you focusing opex and capex on these priorities in order to build competitively differentiated capabilities?

None of these are easy questions. Consider traditional banks, which Gartner estimates spend an average of about 66% of their IT budgets to maintain legacy IT systems vs. just 22% to grow the business and 12% to transform it. A decade after the global financial crisis, many banks remain averse to risk, and their legacy talent pools, processes, and IT systems are ill-suited to major change.

Yet change they must. Do they focus on "manufacturing" (creating products), "distribution" (managing channels and customer relationships), or some combination of the two? How do they ensure someone owns each customer experience or "journey" on an end-to-end basis? Citibank Asia, which has a strong customer loyalty position in most of its markets, decided to change its operating model to double down on customer relationships to counter locally based competitors. Among other steps, it elevated the role of customer segment heads, giving them authority over products and channels for those segments. It also placed a team charged with ensuring an excellent experience for each customer segment. Banks emphasizing products, meanwhile, have turned to partnerships. Bank of China and Deutsche Bank set up a host-to-host platform for domestic and international payments. Others have joined forces with fintech companies, such as JPMorgan Chase partnering with OnDeck to approve and fund small business loans in as little as a day.

More such partnering is inevitable in banking, but is challenging for banks that now have less control over the people and IT involved in providing services to their customers. When an insurance company's staff works in a bank's branches and uses tablets that collect customer data, this arrangement pushes each organization into new territory. Who owns each customer relationship? Who is responsible for regulatory compliance?

A common mistake we see companies make when tackling such complex and often political questions is that they dive straight into a detailed redesign of their operating model — and lose sight of the strategic intent.

We believe redesigning your operating model must start with a blueprint based on a few basic principles. First among them: Agree on what really matters to deliver your strategy. An operating model that tries to make your company good at everything is doomed.

Your company must be great at some things — and can probably be just OK at the rest. Agreeing up front on the capabilities that truly matter turns what can be a very subjective and emotionally charged discussion among your leadership team into a fact-based dialogue. This is especially needed in organizations that have been geared for functional excellence everywhere.

Across industries and countries, effective principles share three characteristics.

First, they're grounded in facts in order to bring that needed objectivity. Principles informed by a fact-based strategy encourage impartiality, highlighting gaps, and forcing difficult choices.

Second, they're specific enough to help senior management make trade-offs. One CEO we know worried that some principles developed by his senior team were too generic to help them evaluate different operating model options. "Can any of them equally apply to a dog food company as to us?" he asked. Generic statements such as "leverage scale" or "create a streamlined organization" have little explanatory power. For a sports apparel and equipment maker, for instance, the generic "improve collaboration across different categories" contains less useful direction than "make it easy for us to deliver coordinated head-to-toe apparel and footwear to stores in time for the season."

Third, effective principles stay brief. The best sets of principles fit on one page. If they exceed 10 or so, it's best to identify the ones that should be weighted most heavily.

Once the blueprint is developed, we find that the best CEOs focus not only on the capabilities that matter, but on the individuals and teams that matter. For individuals, they make sure that difference-making talent is in mission critical positions. They make sure that the most important battles are entrusted to agile, cross-functional teams with real authority and support. We refer to these discrete, customer-focused initiatives as "micro-battles" whose key lessons then can be applied to other parts of the business.

Finally, we urge companies not to lose sight of an essential goal of good organizational design: constructive conflict. The CEOs we know who have built effective operating models have a real intuition about designing creative conflict into their operating models, as well as the means for efficiently and effectively resolving that conflict. The result is often inspired outcomes for their customers, employees and other stakeholders. A CEO I once worked with would often say the decisions that were made without debate or agreements that came without conflict were "often pleasant, rarely pleasing — and never transformational."

If your company's operating model can't deliver on your strategy, or needs to be upgraded to match the evolution of that strategy, start the redesign with your leadership team not by digging into the details, but by pulling up and agreeing on a few basic principles. Clarity and simplicity are the watchwords here.

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