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Securing strategy implementation through iterative operating model design

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One of the most common debates in management literature is whether the strategy or the operating model should deserve more focus. The answer is usually something in between – strategy alone does not determine a successful company, but an operating model does not do that either. The trick lies in designing the equilibrium between these two; ensuring that the strategy is implemented through a good operating model design.

The iterative and participative approach has been found useful in strategy development, but we want to extend it further to operating model design and transitioning. This allows managers to focus on key issues one at a time, test and pilot them in a more controllable micro cosmos environment, and monitor and steer the underlying change process accordingly. Benefits are more fact-based design, broader buy-in from the organization, and more manageable risks during the implementation. In a rapidly changing environment, more agile adaptation is needed and with well-defined processes and tools, managers can learn to build new competences around it, creating a competitive advantage that is more difficult to imitate.

Strategy as such is only a document – a change of operating model is often needed for implementation

Strategy schools of thought have investigated the sources of competitive advantage throughout the past 50 years. Research has evolved from thinking of strategy as a position to emphasizing internal efficiency and time-based competition, to innovation and building intangible competitive advantages. At the same time, this evolution has promoted the role of

an operating model, which can for example be seen in the wide acceptance of the management mantra of agile strategy emphasizing flexibility of operations and fast adaptation to environmental changes.

There are several definitions to operating model, one of the first and most commonly referred one being the so-called star model (see Exhibit 1). The purpose for an operating model is set by the company's strategy, while the operating model itself is built on four interconnected domains: 1) structure – the way power and authorities are placed in an organization, and how an organization is built, 2) business processes illustrating how a company makes decisions and operates, 3) human resource management model explaining how a company attracts, develops and retains talent, and 4) reward systems–how a company aligns corporate targets with employee targets, and how it aims to influence employee performance. In different adaptations, also leadership, culture and style, systems and technology architecture have been included in the model (see for example Waterman et al. 1980, Kesler, G. & Kates A. 2011).

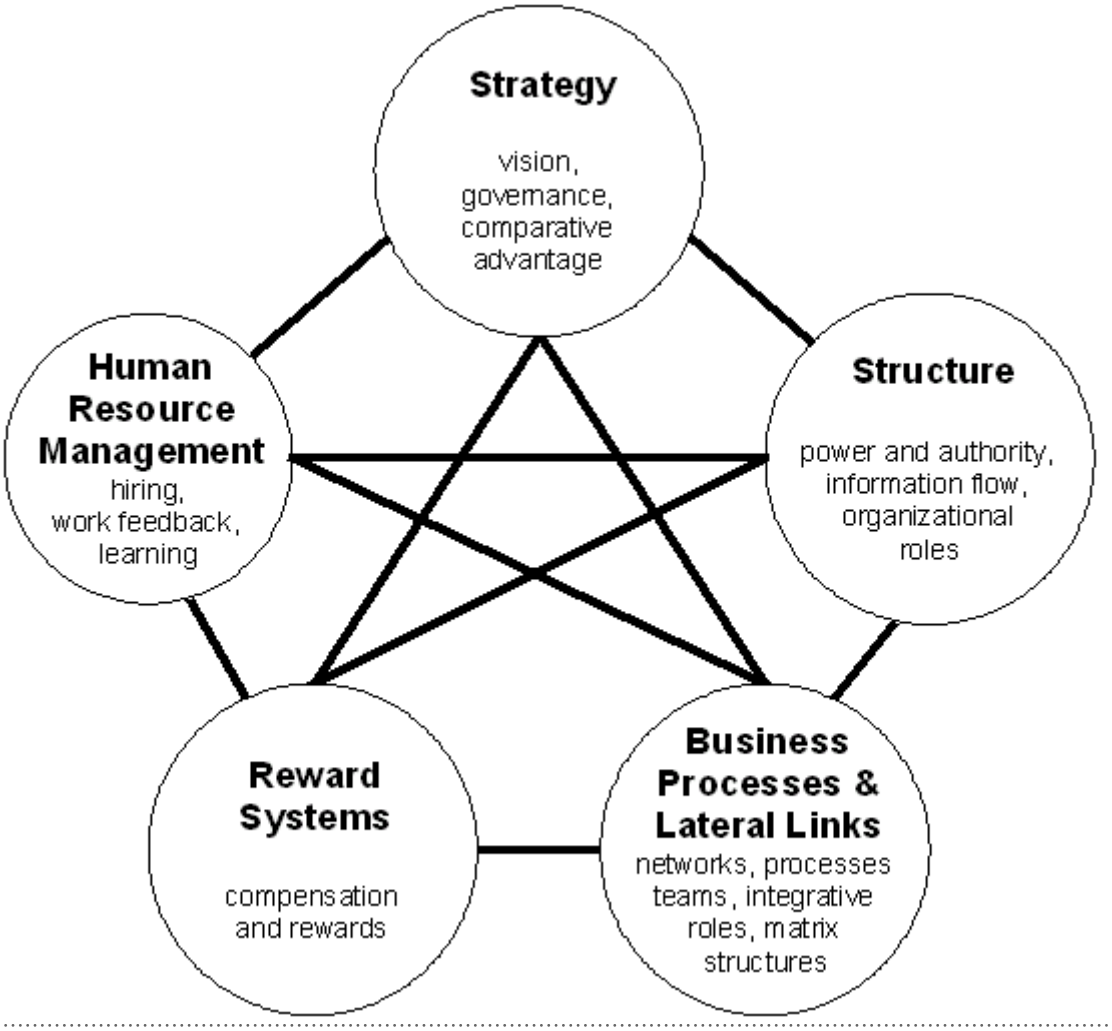

Exhibit 1. Star model (Galbraith, 2012)

It is important to notice, however, that different corporate strategies are likely to drive totally different operating model configurations. For example, deep integration between businesses calls for common processes, a structure that enables collaboration and common forums

(usually a matrix structure), reward systems driven predominantly by common goals, and different targets for talent management, while a holding company model usually gives more decision-making freedom to businesses and measures and rewards them based on business specific targets, seeking efficiency only from common back-office operations like finance and capital allocation.

Also, changes in competitive strategy – customers/markets (to whom), offerings (what), and operations (how) – usually require changes to operating model configuration as well. For example, to drive growth company may need to be more opportunistic, allow more risk-taking, and have more granular business unit structure to monitor progress, while cost focus most likely calls for more control, less risk-taking and higher span of control to drive efficiency. The same applies to processes, reward systems and human resource management as well. Still, despite the attention operating models have received, changes in strategy too seldom imply any major changes to the way a company operates, or is addressed merely through management team appointments.

Designing a new operating model is a complex equation with high risks and rewards

One reason why managers may not decide to embark on an operating model overhaul is the complexity and the size that it entails. Combining strategic imperatives, operating model configuration and the resulting human and organizational change creates a complex equation, affecting the way people behave and operate. A simple fact is that the pure complexity of the design requires broad cognitive capacity, not to mention the planning and management of the implying change, and thus fails too often (see for example Yle 25.5.2012).

Challenges do not seem to be related to any specific industry but are the same for private and public sectors, companies big and small. For example, Nokia's organizational change in 2008 has been quoted as one of the factors driving down its performance (Tekniikka & Talous 28.8.2012), while in public sector the operating model change of the Hospital District of Helsinki and Uusimaa (HUS) has been thoroughly debated in public, and not always with a positive tone (see for example Helsingin Sanomat 17.12.2008).

A good indicator of operating model functionality is how well a company can achieve synergies between its businesses. When the operating model is value-adding, a corporation should create more value (cash flow) as a whole than the sum of its businesses. On the other hand, without these synergies there are not many reasons for a corporation to maintain its existing business portfolio. Suboptimal performance is likely to be noticed soon by private equity players and other investors alike, who will seek to benefit from the situation by buying a stake in the company, forcing a restructuring, and carving out non-synergistic parts for another investor or an industrial buyer.

Do not underestimate the power of involvement

Like strategy, also operating model design is too often done in a corner office or even

outsourced to consultants who tend to leave when transitioning to the new operating model begins. Notwithstanding the complexity, managers may also choose to drive design and even transition phases with too limited an amount of participants, usually being afraid of data sensitivity. In the worst case this may limit the involvement of the expertise that is needed to address the complexity, leaving the design incomplete and inhibiting the creation of a critical mass of supporters who later on would drive the change as internal change agents. Like in strategy, another risk is that the existing organization designs only an incrementally updated operating model, and therefore new perspectives and participation are needed to drive major overhauls.

In a constantly changing environment, the need for renewal is ever more pressing. Like most other subjects, also strategy and operating model implementation can be learned. By well planned phasing, companies can introduce the change gradually to an increasing number of people, and develop competencies, processes and tools to drive even more change. After some successful implementation rounds, organizations tend to become more positive towards the change, creating a whole new competence that can serve as a more sustainable competitive advantage. However, the process is iterative and does not happen overnight – building and nurturing competencies in a determined way is needed.

Introducing change iteratively increases fact-base, manageability and employee buy-in

Like strategy development, also operating model design benefits from an iterative and fact-based approach. Addressing the complexity through gradual design updates instead of a big bang allows management to dedicate their attention onto few key issues at a time, while in parallel maintaining a holistic view on the key value drivers. This allows management to drive fact-based discussion instead of diving into political games around the organizational structure and nominations. One company for example published weekly design releases to the participants and used an issue tree to nail down issues one by one. Iterative process also allows the involvement of a larger number of people throughout the process from design to testing and piloting. Subject-matter experts can be better involved as well to solve specific topics when the scope is well defined.

Like in any other major program, testing is a vital part of a successful effort. In operating model implementation it can also be used to involve a gradually increasing number of people through specific testing sessions around relevant topics. Involvement should start already from the design phase, but can easily be doubled or even tripled through extensive testing and piloting. One way to perform testing runs is to introduce real-life case examples to the testing audience and facilitate role-playing sessions where teams solve problems in the new operating model. This enables deeper understanding of the model, and drives more fact-based debate as well. For example, clarifying and practicing roles in a matrix organization can prove useful given the challenges that matrix organizations usually face.

In a major restructuring where risks are high, testing sessions alone may not be enough to decrease risk level. This calls for piloting in a live environment. Especially, when a company’s way of working will be significantly altered and there is no full clarity on how it functions, the

only way to practically understand ramifications is to run a pilot in a limited micro cosmos environment (for example, a smaller country or business area). Planning the micro cosmos is important in order to be complete on one hand, while maintaining manageability on the other. Having all major dimensions participating in the pilot will also introduce the new way of working to the pilot audience, and show how collaboration between sales, delivery and corporate functions works. Piloting should not however be made too complex because of the risk of losing flexibility; basic support processes like forecasting, reporting and performance management can be performed manually before the new systems and processes are implemented.

Importantly, monitoring and communicating the progress of testing and piloting are powerful change management tools as well. Successful testing and piloting should not only be used to validate design, but also to present quick wins and to instill confidence to rest of the organization. Leveraging pilots to drive more change across the organization reduces risks during transitioning and helps accumulate a critical mass of internal change agents.

Interactive communication with well planned anchoring mechanisms helps to institutionalize the change

As the operating model implementation is a big change journey, communication and change management activities should have a central role in the effort. Planning communication and involvement in phases to ensure that all employees first reach adequate awareness, are involved and have enough information to internalize the contents, and ultimately can affect topics that have impact on themselves, is a prerequisite for a successful implementation. Communicating quick wins can be used to demonstrate progress on key areas and instill confidence to more skeptical employee groups. It is also noteworthy, that change touches a significant amount of employees that have not been participating in the design, testing or piloting phases (despite broad involvement), and therefore lots of repetition is needed. This can be addressed through multiple interactive channels, leveraging the breadth of available collaboration tools and social media.

To increase employees' competencies to operate in the new model, a structured training program should be created. A good way to ensure basic knowledge is to organize general operating model related training for all employees, and focus the more specific training sessions for key roles. This also promotes functional interest groups that may otherwise be forgotten.

One common caveat in the change process is the lack of focus on institutionalization. Without the supporting financial, management and reward systems as well as processes, a company cannot maintain the push towards the desired behavior for long, and may lose momentum on change, which can eventually backfire with people returning to their old ways of working. Thus, the critical areas of institutionalization include implementation of the new financial system to allow the measurement and reporting of figures supporting new strategic priorities and objectives. This includes for example planning, budgeting and target setting in the new model, and implementing performance management and reward systems based on the revised targets. Sometimes, more visible changes are also needed, like changing the

company’s brand or logo, or unit names or titles to illustrate changes in key areas.

Eventually, steering through a change is difficult without knowing the path so far. Therefore, a well-functioning feedback loop is needed. One company for example set up a monthly customer and employee pulse survey with few core questions to understand where the different employee groups are in their change journey, and how they feel about the change going forward. Implementing a periodic survey allowed the company to take specific measures in areas where the change was not rapid enough, but also to fine-tune the activities to steer through the change.

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In today’s business environment change is evident, setting new requirements to strategy development and implementation. Companies systematically developing competencies around strategy implementation can increase organization’s momentum to change, building a whole new competitive advantage. This can be an important differentiator in times when new innovations are copied even before their introduction.

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