



Operating model performance is defined by its design

Twenty-five years ago MIT's Sloan School of Management undertook a research project that fundamentally changed our thinking about improving organisational performance. It was a five-year, multimillion-dollar research programme called *Management in the Nineties*, and its aim was to better understand the role and impact of information technology on the formulation of business strategy and structure in an enterprise.

The legacy of this early work is that we now have a better understanding of the important role that process has on organisational performance and the need to develop IT strategies that support end-to-end business processes as opposed to business functions.

One of the most powerful insights to emerge from this period was the notion of an *operating model*: an abstraction of the enterprise (or a part of the enterprise) that enables you to describe how it operates in a way that is understandable to others.

Unfortunately after all these years the term is still not well understood, and much confusion still remains about what an operating model should describe and to what level of detail. For some it's a term used to describe structure or operational footprint, and for others core business processes. Some executives feel that the term is so overused (or misused) that it has lost all meaning and they have banned its use. This is unfortunate as decisions on operating model strategy are as important as decisions on market place strategy.

Operating models are multifaceted

An operating model does not describe all aspects of an enterprise; it simply describes how the enterprise operates. Its purpose is to explicitly define HOW products and services are designed, developed, produced and delivered. Operating models are multifaceted, comprising processes, structure, technology, suppliers, people and governance, and their performance (and cost) ultimately depends upon how the different facets collectively work together to achieve business outcomes.

Operating models also need to be agile

For most organisations, change is the norm: whether it is the result of an acquisition;



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Stefan Deutscher and his colleagues at BCG believe there is, particularly when it comes to making our businesses more agile.

In a recent [article](#) they argue that while the agility of an individual sports person demands a set of physical attributes, such as the ability to accelerate, stop and change course quickly, it also requires them to think ahead and improvise when the situation demands it. At the team level it requires an additional overarching ability to create a high degree of synergy among the individuals at a particular moment.

Agility at the individual level is clearly vital to a company's success, but the ability to unify those individuals and get them to work together and respond to changing circumstances is even more important. And harder to achieve.

Business model innovation through process change

Business model innovation – often enabled by technology platforms – is not new. In the late 1990s the growth of the Internet made every organisation look at the potential for online presence and examine its business model.

Today's technologies, such as social media, mobile, cloud and big data, are doing the same and enabling new ways of working and competing, says Brad Power in a recent [HBR article](#).

Brad cites Forbes, the business publishing and media company, as one example. In 2011 they rolled out a new newsroom based upon a blog-based platform. The new newsroom added outside contributors to its traditional staff reporters and helped them build their personal

replacing legacy IT systems; outsourcing to an offshore provider or delivering day-to-day business improvements, an organisation's operating model is continually undergoing change. Operating models therefore need to be able to respond to change; in short they need to be agile.

Operating models should be designed

It could be argued that the design of enterprise operating models is more an engineering discipline than a management discipline. If this is the case, how many managers have the skills necessary to design and build operating models that are both high performing and agile?

Furthermore, how much executive airtime is given to discussing operating model strategy as opposed to product and market strategy? Unfortunately operating models only get serious attention when the enterprise needs to drastically reduce cost or invest in the replacement of core legacy IT platforms. As one COO recently put it: "Agility isn't designed or thought about by leaders until it's too late to influence or create."

If you would like to read my full article in which I describe the facets of an operating model, click [here](#).

I welcome your thoughts.

[David Trafford](#)
david.trafford@formicio.com

Formicio Limited, 180 Piccadilly, London, W1J 9HF
Registered Office: 26 Hazelwood Road, Oxted, Surrey, RH8 0HZ
Registered in England and Wales No 07146177

brands, and in return they broadened Forbes' coverage.

About Formicio

Formicio was formed in early 2010 by a group of thought leaders and experienced practitioners. We work with people who want to improve their organisation's future by delivering successful transformational change.

We can help you [explore emerging practices](#) that will determine how your business and its functions will operate in the future, [deliver change](#) that is outcome focused and [develop organisational capabilities](#) needed to ensure that your transformed organisation operates to its full potential.

Our expertise is in business operations, technology, people and change, particularly where these domains intersect.

More details can be found on our [website](#).

Parting thought

"No incentive is quite so effective as the prospect of having to live with the result of one's work."

Michael Hammer and James Champy
Authors of *Reengineering the Corporation*