

Organization Practice

Bridging the gap between a company's strategy and operating model

Four questions can help a company translate business goals into operating-model design.

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How well is your company's operating model keeping up with its evolving strategy? Under pressure to respond more quickly to rapidly changing competitive circumstances, executives today are more likely to adopt a rolling strategic plan that they update as needed instead of the three-to-five-year plan that was once standard. Reorganization follows, as often as every two years—followed by a new operating model that can take as long as two years to implement. Companies scarcely have time to complete one organizational redesign before starting the next one.

Change at that pace can create a disconnect between a company's strategy and its operating model—aggravating existing problems, creating arbitrary or disconnected reactions, and breeding organizational confusion. Efforts to redesign the operating model can be too tactical to create real value. They often move departments and individuals around and change reporting lines without fundamentally shifting how an organization functions to support its strategy. And the more the intuition and cognitive biases of executives shape the process, the more an operating model can lack the grounding in the business strategy, fact base, and competing perspectives that enable it to support a company's goals. Instead of drawing out the link between the strategy and organization, the new design may merely confirm existing biases and social dynamics.¹

Consider the case of one marketing-services company. After five years of rapid-fire acquisitions in an industry with a fast-changing business model, managers realized that they continued to lose ground to boutique competitors. They had acquired new companies to add similar capabilities and continued to believe in that strategy. Yet they also felt they weren't getting the full benefit of all those acquisitions, even though business ticked up. They were at risk of failing in part because *how*

they were working—their operating model—did not fully enable *what* they needed to achieve: their business goals. They knew they needed to update their operating model to keep up with the company's evolving strategy, but they wanted to avoid the common pitfalls of operating-model design.

In situations like these, it is critical for managers to link a company's strategy to its organization. Answering four questions will identify the capabilities and accountabilities required to enable a company's operating model and unlock its strategy: What do we need to be able to do to create value? What distinctive capabilities do we need to create this value? Where do we have these capabilities today? And what are the implications for our operating-model design, especially on accountability and the corporate functions?

What do we need to be able to do to create value?

Not all work is equally valuable, nor are all parts of an organization. In one airline example (see sidebar, "Strategy and operations in an airline"), executives determined that what they needed to be able to do to create value was to increase the time planes spent in the air moving customers and reduce the time spent on the ground. For any given company to achieve its strategy, there are always business units, process steps, or brand attributes that make outsize contributions to creating value relative to others.

This insight may sound simple, but companies often don't know precisely what they do that creates the most value. They seldom sit down to identify two or three things that really matter, let alone to map the value chain of their industry to identify where the company needs to differentiate itself. That's a critical step, since it determines not only how to design an effective operating model but also where to allocate resources.

¹ Chris Bradley, Martin Hirt, and Sven Smit, *Strategy Beyond the Hockey Stick: People, Probabilities, and Big Moves to Beat the Odds*, Hoboken, NJ: John Wiley & Sons, 2018.

Strategy and operations in an airline

Consider a major airline in the US market, where price wars and low product differentiation make it hard to maintain a competitive edge. Several years ago, executives there settled on a strategy to differentiate their airline by pushing costs down for passengers while maintaining a high-quality customer experience. A typical intuitive approach to designing an operating model might have led to one that cut costs across the board—stripping out overhead wherever possible and dropping support functions to bare-bones levels.

Instead, by answering the four questions linking strategy to organization, executives realized that a very different approach would help them achieve their goals. They determined that what was needed to create value against their strategy of being the lowest-cost carrier was keeping as many planes in the air as possible at any given time. Therefore, the distinctive capability they needed was to be able to turn planes around faster than any of their competitors. They knew that they only had this capa-

bility in pockets of the existing operating model, so they invested in creating the best trained and equipped ground crews in the industry. This had important implications for their operating-model design, including a need to reallocate resources to support training and ground operations, to ensure clear incentives for ground crews, and to ensure visible senior support for front-line operations and talent. This approach clearly linked the airline's strategy to its organization.

In an example from the defense industry, completing this exercise revealed that the most important step for a major procurement organization was the very first one—having a clear, compelling, and well-designed purchasing strategy. If not done well, then subsequent steps in the value chain, lasting as long as 15 years for one product, would be painful, sluggish, and costly. To ensure that those steps could be completed quickly, effectively, and with minimal rework, the organization invested time, resources, and talent in the first step of the value chain—to ensure the up-front purchasing strategy produced a clear yet flexible direction for the product.

When the marketing-services company from our earlier example completed the value-mapping exercise, it realized that cultivating long-term high-revenue relationships was critical to its ability to meet its goals. Through analysis of the company's accounts, the company concluded that its ability to serve large clients across multiple service offerings over consecutive years would create the most value and differentiate it from competitors.

For each of the above example organizations, the first and most important step in redesigning their operating models was to understand which specific parts of the work or steps in the value chain were most critical to creating value. Once they knew that, they could proceed to the next step and begin thinking through the capabilities they'd need.

What institutional capabilities do we need to capture this value?

Once a company understands where it creates the most value, it must identify the specific institutional competencies it needs. This usually means getting specific about what it needs to be able to *do* to deliver on the most important parts of the value chain:

- For the airline that wanted to reduce customer costs, the institutional competency was exceptional ground operations. That included frontline employees with the technical expertise, problem-solving skills, and continuous-

improvement mind-set—as well as the resources and authority—to increase plane-turnover rates.

- For the defense-procurement organization, it was a clear and agile approach to designing strategy that included diverse stakeholders, such as engineers, program managers, contractors, and financial managers. These changes minimized costly delays and rework throughout the rest of the acquisition timeline.
- For one food and beverage consumer-goods company, it was about rigorously managing supply and support-function costs to reinvest in digital capabilities and insight analytics while rethinking the innovation model to rapidly test new products and scale successful ones.
- For the marketing firm, it was an ability to build enduring relationships with large, long-term clients by providing bundles, discounts, and related services.

Effective operating models are not designed to satisfy everyone; companies can't be great at everything. Instead, they need to clearly identify where they can really excel in order to achieve their strategic goals.

Do we have these capabilities today—and where?

Here is where a company begins to look inward to understand whether the functions and capabilities it needs to create value currently exist—or need to be developed. Understanding whether there are distinctive institutional capabilities and where they lie involves answering a few further questions: Which functions and capabilities should reside within the corporate center versus within the business units? Who should be empowered to make key decisions and manage the budget or allocation of resources? What are the most critical roles within the organization, and do we have the best people assigned to those roles?

As agile ways of working become a source of value, executives in many industries will need to get better at identifying where the most desired capabilities already exist in their organizations, both organizationally and geographically. In this dynamic world, it is even more critical to map talent to value, putting people with the right skills and capabilities into the right jobs and the best people into the most critical roles. This will make it easier for executives to adapt to changes in strategy and operating model—as well as to address gaps between the current and desired future state.

When executives in the marketing-services company looked closely at how their company created value, they learned that few of their existing account executives proactively opened doors for their colleagues, which limited their ability to build enduring, long-term relationships with their largest customers. In some cases, they lacked a clear understanding of what others could do. In other cases, they worried about damage to their own client relationships if their colleagues recommended services that fell short of expectations.

The company's approach to profit-and-loss accountability exacerbated the problem: it booked revenues and costs entirely against individual service lines, rather than by customer. That reinforced existing silos of activity and limited the company's ability to serve its largest customers in an integrated way. Without an account lead across all service lines, senior executives lacked structural or financial motivation to cross-sell services within large accounts.

What are the implications for our operating-model design?

Building a road map for operating-model design requires a company to prioritize existing strengths and redress strategic weaknesses—by reconfiguring, building, or acquiring new capabilities to ensure it can deliver on its strategic goals. Before embarking on the full operating-model

redesign process, a company should articulate any implications coming out of the above assessment and ensure that the design of the operating model reflects them.

For our airline example, these implications included ensuring frontline ground-crew employees were well paid and had clear paths to promotion. They also included narrowing the span of control for supervisors to emphasize coaching and support. And they included empowering ground-crew-operations leadership with decision rights.

For the marketing-services company, managers needed to develop and provide incentives for a group of client counselors who fully understood customers' needs and could represent a wide array of marketing services. This meant higher pay, more training, and rewards for cross-selling and collaboration across service lines. It also meant creating a single senior account leader for each customer with clear lines of internal accountability and centralized communication with customers.

The company then shifted responsibilities to give account leaders time to develop their account-management skills and focus on relationship-building efforts. They updated their performance-evaluation process to encourage the right activities and outcomes. Finally, they brought together new business-development activities and project-delivery capabilities, which were previously scattered throughout the organization. This allowed teams to collaborate on integrative relationships with specific, high-revenue clients. These actions would boost the company's ability to deliver on the function that created the most value for the company: delivering best-in-class project work across its various service offerings for the largest clients.

Experts in operating-model design have long known the importance of aligning a company's operating model with its business strategy. Answering these four questions can unlock growth and provide clarity to what matters in an operating-model design.

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