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Operating Models in Context
The theory and practice of creating a more joined up enterprise

By Dale Vile, Freeform Dynamics Ltd, January 2012

In a nutshell: Recent research has shown that all large organisations suffer from disjoints and disharmony across the business to one degree or another, with tangible consequences in terms of elevated costs and missed opportunity. While Business Process Management (BPM) can be used to optimise discrete processes, bigger picture synergies between divisions and business units can only be fully exploited with the help of a higher level operating model.

Change is a fact of life in business, but it's generally not managed in a joined up fashion across large organisations. This was confirmed in a recent study based on interviews with 123 senior business managers from the UK, France and Germany[1].

One outcome of uncoordinated change is that various parts of the organisation end up doing the same things in different and often conflicting ways. Meanwhile, some business units become constrained by shared support systems that were never designed to cope with the way in which their current requirements are evolving.

We then see a negative impact on efficiency and effectiveness when departments and divisions are required to work together. Differences in objectives, standards, conventions, processes and systems all conspire to create cost, latency and conflict at both a practical and political level, and undermine effective decision-making [2].

The degree to which individual parts of the business are affected can vary. The impact is sometimes very obvious at a local performance level, but it is actually not uncommon for individual business units to be meeting their own targets while the organisation as a whole is failing to achieve its full potential.

Examples here range from basic procurement inefficiencies because each part of the business buys goods and services separately from the same suppliers, to missed cross-sell and up-sell opportunities because each business unit is using its own CRM system and customer database. We have even come across examples of subsidiaries buying goods or services, or licensing intellectual property (IP), from competitors of sister companies, rather than sourcing from within the group.

These kinds of problems cannot be fixed through basic process optimisation. Improvements driven via Business Process Management (BPM) initiatives tend to be concerned with the modelling and either streamlining or re-engineering of local processes within a subsidiary or division. While extremely valuable, the confined perspective typically misses or even deliberately excludes bigger picture considerations to keep projects focused and manageable.

Optimising the bigger picture needs a different approach, and this is where 'operating models' are relevant. Analysis and modelling at a higher level is concerned less with individual processes, and more with the way in which business units, divisions and core support functions work together and with key external entities (such as suppliers and partners). An operating model is, in effect, a

blueprint for the operation of an organisation, e.g. a group of companies, as a whole. It defines the way in which overall corporate strategy and objectives are or will be implemented.

Building an 'as is' operating model of how the organisation looks at the moment immediately shines a light on where disjoints and disharmonies exist that have hitherto gone unnoticed. Gross misalignments can then be dealt with right away, often with pretty short pay-back cycles.

Operating models come into their own, however, when they are used to define how the organisation would ideally work. The so called 'to be' models that fall out of this are compared with the 'as is' view to form the foundation for a programme of improvement and development based on the delta between them.

Options for consolidation, rationalisation, standardisation and reuse of assets or competencies across the group are likely to emerge from such work. These in turn will allow shared services, partnering and outsourcing initiatives to be defined and scoped objectively, and may even provide insights to drive merger, acquisition and/or divestment activity.

In practical terms, the hardest part about building and exploiting operating models is identifying the people from across the business that should be involved, and freeing up their time. Consultants can help, as can formal methodologies and even standard industry templates, but having people involved who really know the business and are familiar with overall strategy is critical.

In terms of scope, while some purist consultants would advocate keeping operating models and BPM activities separate, supposedly so bigger picture modelling is not constrained by implementation detail, in reality this makes little sense. Effective business change is about ensuring that things will work effectively at all levels, as well as horizontally between peer level entities. And in fact, some of the constraints that exist at a detailed level, whether resource, compliance or operations related, are going to be real and cannot be ignored.

Taking steps to better understand dependencies and synergies across the organisation and the potential to optimise at group level can have huge value. A purely top-down theoretical approach is unlikely to yield the best results though. Operating models are useful only if they are based on inclusive, iterative and pragmatic analysis, with the right people involved along the way.

References and further reading

1. **Defining the Business Change Agenda**
    Achieving the right blend of innovation, transformation and optimisation
    Dale Vile, Freeform Dynamics Ltd, October 2011

2. **The Business Information Illusion**
    Seeing through to the reality, and dealing with it
    Dale Vile, Freeform Dynamics Ltd, October 2011

Both of these are available for free download from www.freeformdynamics.com.

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