

## Operating Model Reinvention

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Hi, it's Rob Llewellyn here and welcome to episode sixteen of transformation management. Thank you so much for joining me today. As always, I'm going to do my best to help you get better equipped to manage and lead transformation.

Most companies know where they want to go. And some get it right, while others get it wrong. But regardless, the CEO has a direction, and hopefully he or she has ensured the entire organisation understands what it is.

I hear most leaders say they want to be more effective, quicker and agile. They want to deliver great customer experiences, take advantage of new technologies to cut costs, improve quality and transparency, build value, and focus on its culture.

I'd go so far as to say that, in the last few years, those aspirations have become quite cliché. They're all easily said, but much harder to get right in the complex environment of a large organisation - in any industry and in any country.

The problem is that while most companies are trying hard to get better, the good intentions often don't materialise because they're not approaching transformation holistically.

Many leaders allow one-off initiatives in separate business units to exist in silos - not joined up with other initiatives across their enterprise. Their transformation journey is often mapped on separate roadmaps, many of which aren't integrated. They all take place in separate worlds.

After the CEO announces strategy, a target operating model and transformation roadmap needs to be agreed, to transform what matters, while building an agile, integrated and cross-functional approach.

Right now, there are countless benefits that digital transformation could create for any business, but digital for the sake of digital won't do that. Your company might feel digital, but that's about it. And this is known as digital sugar coating.

Thousands of organisations are now mindlessly implementing cool new technologies, but they're unable to demonstrate the business value or competitive advantage any of this achieves. First because many transformations don't include value management as a discipline, and secondly because digital sugar coating will rarely create any business value that was worth the investment of time, money and people.

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This happens in companies that have used the words digital and transformation in the same sentence because it's a popular trend, while the reality is that not all things digital are transformational. And in extreme cases, people are even using the word digital to replace what they once called IT or technology.

The mere implementation of technology does little in itself to alter the habits, culture and collaboration required for a genuine transformation to take place. Which downgrades the efforts of many companies wanting to undergo transformation to a series of projects which implement new technology but achieve nothing transformational for the business.

And all this plays into creating the delusion of transformation, which I spoke about in episode 2. You can listen to it at [robllewellyn.com/2](http://robllewellyn.com/2)

Many leaders also communicate their strategy and then expect their management teams to set about executing upon that strategy without any consideration for the operating model - which is the bridge between strategy and operations. So instead of going from strategy to operating model to execution, they go from strategy to execution with an operating model that isn't set up to help them be successful.

For companies to build value and provide compelling customer experiences at lower cost, they need to commit to a next-generation operating model. This operating model is a new way of running the organisation that combines digital technologies and operations capabilities in an integrated, well-sequenced way to achieve improvements in revenue, cost, and customer experience.

An operating model translates strategic intent into operational capabilities. It serves as the foundation for execution and provides a clear guide for enterprise leadership teams, line managers and operational teams. It articulates how an organisation delivers value to its customers or beneficiaries as well as how an organisation actually runs itself. So, in a way it's a subset of the organisation's business model.

And the business model describes how an organisation creates, delivers and captures value and sustains itself in the process. So, the operating model focuses on the delivery element of the business model. And a company's operating model is often the single biggest barrier to realising its digital potential.

It's a fact that companies without an operating model run the risk of strategy not being realised. They experience ambiguity around accountabilities, roles and responsibilities, and operational inefficiencies as people invest their time on doing work that's not supporting strategic intent. There's often inadequate collaboration and integration between business units and functional areas, and staff not aligning to a common view of how the company is approaching transformation.

While digital technologies are rapidly changing the face of business, this change is happening at a pace that exceeds that of transformations in operating models. This means that technologies such as AI and advanced analytics will amount to little if any business value, if they don't actually transform the way we and our organisations work.

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And the truth is that many organisations are unlikely to experience any of the benefits they talk about because during what they call digital transformation, they've paid little in any attention to re-shaping their operating model.

But this is nothing new because for years we've seen countless organisations implement enterprise-wide technology solutions without considering their operating models. Installing new technology to automate an existing set of inefficient business process is sometimes as good as it gets.

Leaders are responsible for ensuring their organisation has the next-generation operating model required for it to be successful in the digital economy. It's a fundamental part of transformation which CEOs and senior business executives are responsible for. Because only these senior figures are positioned to create alignment required at all levels of the organisation.

Getting your operating model right isn't easy, which is exactly why it should be firmly fixed to the agenda of the most senior management board in your company.

So, it's essential that leaders and their management teams take care of their organisation's operating model when embarking on transformation. Because when an organisation attempts transformation with an out-of-date operating model, strategy and execution will fall increasingly out of sync with one other. And the best of intentions can fall flat on their face.

Your operating model is the vehicle that allows or prevents the translation of your strategic intent into operational capabilities and, ultimately, into reality. In short, your operating model determines your organisation's ability to execute what it intends to do. Which I hope you'll agree is really important.

A next-generation operating model is vital to drive a business forward in the digital economy. And how well that operating model is developed and implemented will be the difference between successfully transforming the business and just trying to do it with all sorts of digital solutions but failing.

The first step is to identify what it takes to succeed in the current and future market places, and then take a hard look at how the company's current operating model stacks up. It's vital to ensure investment gets targeted at areas that offer the greatest potential for competitive differentiation and return, while non-core areas could be outsourced.

If you take a structured approach to operating model design, you can get it right and realise solid benefits in company performance and employee engagement. But the harsh reality is that, while CEOs and their boards enjoy the strategy process, many ignore the operating model, so they skip a step and head straight into execution.

Senior leaders have a key role in getting the operating model right and one of their first jobs is to convince their peers that the next-generation operating model can break through organisational inertia and trigger legitimate business transformation.

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The CEO or another senior executive needs to align the business on a few key journeys to tackle first. After that comes evaluation of the company's capabilities to determine which levers can be pulled using internal resources and which will require external resources.

Finally, there's the work of actually implementing the new operating model. Transformation can't be a siloed effort. The full impact of the next-generation operating model comes from combining operational-improvement efforts around customer-facing and internal journeys.

One of the simplest ways to visualise a next generation operating model is to think of it as having two parts.

The first part is moving from running uncoordinated siloed initiatives to launching an integrated business transformation focused around customer journeys and internal journeys, which are the end-to-end processes inside the company.

And the second part is moving from using siloed technologies, capabilities, and approaches to applying them to journeys in combination, and in the right sequence.

So, let's first consider part one.

Many organizations have multiple independent projects and programmes underway - all with aspirations to achieve different objectives, and they're often housed within separate organisational units. This can make it easier to deliver small incremental gains within individual units, but the overall impact for the business is sometimes underwhelming. I've often seen individual functions celebrating how they've achieved certain objectives, while customer satisfaction and overall business value and costs remain unchanged.

Instead of working on separate siloed initiatives, companies need to think holistically about how their operations can contribute to delivering incredible customer experiences. The best way to do this is to focus on customer journeys and the internal processes that support them, which cut right across organisational silos. This can involve many components ranging from governance through to values and culture.

Another big mistake is when companies fall into the trap of simply trying to improve existing processes - often during new technology implementations. They're making faster caterpillars instead of creating butterflies. Which is the difference between change and transformation.

Instead, they should be reinventing customer experiences, which in-turn will expose opportunities to improve journeys and processes that can unlock massive value that no one had previously anticipated.

Now let's consider part two.

Companies can exploit a range of capabilities and approaches to shape their next generation operating model, which underpin the customer and internal journeys I just mentioned.

Digitisation is the process of using tools and technology to improve journeys. Because digital tools have the capacity to transform customer-facing journeys in powerful ways, often by

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creating the potential for self-service. Digital can also reshape time-consuming tasks that are part of internal journeys.

Business process outsourcing uses resources outside of the main business to perform certain tasks or functions. This typically works best for processes that are manual, not primarily customer facing, and which don't influence or reflect key strategic choices or value propositions. Tasks like back-office processing of documents.

Lean process redesign helps the company streamline processes, eliminate waste, and foster a culture of continuous improvement.

Advanced analytics enables companies to process data using sophisticated tools to uncover insights and make recommendations for better decision making.

Intelligent process automation is an emerging set of new technologies that combines fundamental process redesign with robotic process automation and machine learning. It can replace human effort in processes that involve aggregating data from multiple systems or taking a piece of information from a written document and entering it as a standardised data input.

Deploying any of these new technologies in non-innovative ways is unlikely to add much value to your business. It's probably not going to protect you from disruption and it certainly won't do much in the way of disrupting.

The companies that are starting pull ahead from the pack look beyond short-term tactical fixes. They're reinventing their business and operating models, and their definition of transformation is so much more than the empty promises of digital sugar coating.

The operating models of many companies aren't equipped to deal with the challenges of legitimate digital business transformation. But if you're ready to take a fresh look at what your company calls transformation, start by identifying what it takes to succeed in your current and future market places, and then take a good look at how your current operating model is set up to enable that to happen.

There are many different templates you can use to start re-inventing your operating model. From the Operating Model Canvas, through to the myriad of approaches that consulting firms concoct. But there is no silver bullet.

I appreciate you listening, and here's a quote to finish off the day from Warren Buffett.

“In a chronically leaking boat, energy devoted to changing vessels is more productive than energy devoted to patching leaks.”

In terms of transformation, how is your company investing more in changing vessels than patching up the leaks?

I hope you enjoyed this episode. Thanks for listening - Take care and I'll catch you in the next episode of transformation management. Bye.