Agile + Congruent = Healthy Operating Model

The Right Formula for Successful Organisations in a Digital World.
## Contents

<table>
<thead>
<tr>
<th>Section</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>Executive summary</td>
<td>04</td>
</tr>
<tr>
<td>Introduction</td>
<td>06</td>
</tr>
<tr>
<td>Organisational agility: Increasing speed and flexibility is key</td>
<td>09</td>
</tr>
<tr>
<td>Optimising for agility is one step into the right direction. Let’s talk congruency!</td>
<td>15</td>
</tr>
<tr>
<td>True Operating Model Healthiness: How to unleash the power of agility, congruency … and digital</td>
<td>20</td>
</tr>
<tr>
<td>What’s next? Key trends and how to tackle them</td>
<td>26</td>
</tr>
<tr>
<td>Acknowledgements</td>
<td>28</td>
</tr>
<tr>
<td>Contacts &amp; further information</td>
<td>32</td>
</tr>
</tbody>
</table>
Executive summary

The importance of Healthy Operating Models

Strategic changes are a necessity when developing a Healthy Operating Model which must be both agile and congruent. At Capgemini Consulting, we define an Operating Model as an organisational blueprint which lays the foundation for the detailed design and implementation of a strategy. It encompasses nine dimensions, such as a firm’s organisational structure, its governance model, processes and IT infrastructure. Today’s increasingly dynamic, competitive and digital environment, with its rapid technological developments, requires businesses to demonstrate higher levels of adaptability while still maintaining operational alignment. We therefore conceptualise Operating Model Healthiness as a combination of high levels of agility and congruency, with a digital component. While agility can be understood as having dynamic capabilities for sensing and responding to change, congruency refers to internal alignment among the different Operating Model dimensions.

Only 1/3 of all Operating Models are healthy

Our research sheds light on the progress that today’s firms have made in implementing such strategic changes. Our results indicate that only 36% of the organisations that we analysed have already succeeded in making adjustments to equip themselves with robust capabilities in both dimensions of Operating Model Healthiness: agility and congruency. Most firms, if at all, only excel in a single dimension so far, namely congruency. While only 52% of respondents credit themselves as having an effective capability in sensing important internal and external changes, at least 68% see themselves responding well to them, when these changes are identified. This suggests that the greatest area of improvement lies within being able to anticipate industry shocks early, in order to maintain a competitive edge. The data shows clear differentiation by industry. The pharmaceuticals and medicine industries, for example, show a particular lack of agility, while Original Equipment Manufacturers in the automotive industry have acknowledged that their Operating Models are not sufficiently cohesive. However, both agility and congruency should be present along with digital proficiency to maximise the benefits of a Healthy Operating Model and to secure future competitiveness.

Capgemini Consulting’s Health Plan supports Operating Model optimisation

Through analysing the data captured for this study and extensive practical experience in projects across a range of industries, Capgemini Consulting has developed a ‘Health Plan for Operating Models’. It contains seven measures in the fields of A) Organisational Structure, B) IT & Data, C) Processes and D) Culture. A simple, lean and homogenous organisational structure, clear decision making responsibilities and an adequate involvement of people in decision making are also central elements. Reliable IT-systems that adhere to the CIA triad (Confidentiality, Integrity and Availability) and the effective use of databases constitute additional key success factors for today’s new digital imperative. Finally, changes in business processes need to be adopted quickly by employees and rewards should secure innovative behaviour.

Five emerging trends will cause future Operating Model changes

Nothing is as constant as change, and this holds true for Operating Models. Capgemini Consulting’s study reveals that it is not only current challenges, but also five major future trends that will influence their design considerably. These are: 1) Big Data & Analytics, 2) Hypercompetition, 3) Future of Work, 4) Regulations & Politics and 5) continuing Digitalisation. As with all strategic actions, it may take some time before the associated benefits roll in, which is why it is now crucial that firms begin their transformation towards a Healthy Operating Model as soon as possible. Capgemini Consulting suggests two concrete approaches for making changes to Operating Models as to increase their healthiness levels. The first one is more traditional and develops the whole Target Operating Model or selected dimensions of it in great detail before the implementation takes place. The alternative approach is characterised by a rapid design phase and then iterative testing and learning.
Agility + Congruency = Operating Model Healthiness
Introduction

Industry 4.0, Big Data & Analytics, industry disruptions and convergence... These buzz words dominate today's board rooms and represent a selection of the tremendous challenges that today's firms face.

The changes these challenges bring about go beyond simply introducing a new distribution channel or spiking one's Supply Chain with RFID chips. They are more fundamental and require new strategies. Business Models and subsequently, Operating Models, must be adapted to successfully meet the required levels of agility and congruency. While agility can be understood to be having dynamic capabilities for sensing and responding to change, congruency refers to internal alignment among the different Operating Model dimensions.

Many organisations start addressing these challenges by implementing agile working practices, like the scrum project management approach. This is shown by another study by Capgemini Consulting which focuses more on a tactical bottom-up approach. However, changes on a strategic level (top down) need to follow to truly facilitate a sustainable Healthy Operating Model.

WHAT WE WANTED TO KNOW

Capgemini Consulting was therefore interested in ascertaining what progress today's global organisations had already made in implementing these strategic changes. By means of an international survey, we asked representatives of more than 70 different companies to rate the healthiness of their Operating Model. We enquired about related key success factors, future trends as well as other important indicators. We also took care when asking the following questions to ensure that all respondents were aligned with our understanding and definition of Operating Models:

- How healthy are today’s Operating Models?
- Can differences between industries be detected?
- What are the critical success factors of a Healthy Operating Model?
- Which trends will influence the design of Operating Models in the future and how?

Figure 1: Overview of survey data

<table>
<thead>
<tr>
<th>Industry Sector</th>
<th>Number of Employees</th>
<th>Organisational Hierarchy</th>
<th>Existence of Company</th>
</tr>
</thead>
<tbody>
<tr>
<td>Financial Services</td>
<td>25%</td>
<td>Mgmt respons. 65%</td>
<td>&gt;25 years - 54%</td>
</tr>
<tr>
<td>Consumer Goods &amp; Retail</td>
<td>15%</td>
<td>No mgmt. resp. 34%</td>
<td>11-25 years - 31%</td>
</tr>
<tr>
<td>Telco</td>
<td>15%</td>
<td>No answer 1%</td>
<td>1-10 years - 15%</td>
</tr>
<tr>
<td>Automotive</td>
<td>11%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Other</td>
<td>11%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Pharmaceuticals</td>
<td>10%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Consulting</td>
<td>6%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Chemicals</td>
<td>3%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Energy &amp; Utility</td>
<td>3%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Public Sector</td>
<td>1%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Other</td>
<td>11%</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

© Capgemini Consulting 2017

1For further information regarding the distribution and advantages of agile working practices please refer to Capgemini Consulting. 2017. Agile Organizations.
WHAT WE UNDERSTAND BY A HEALTHY OPERATING MODEL

The term Operating Model can be somewhat intangible and can mean a variety of different things to different people. We define an Operating Model as an organisational blueprint which lays the foundation for the detailed design and implementation of a strategy. It consists of nine dimensions and should provide the organisation with a comprehensive, concise, single view of capabilities.

**Business Processes** define value-adding activities toward end-customer value and enable continuous improvement.

**Organisational Design** directs capabilities and resources to process activities through accountability and interaction.

**Tech Architecture** efficiently coordinates applications and infrastructure (e.g. web spaces, cloud storage) to support business process outcomes.

**Information & Data** are the raw materials for analysis and insight that can give a business a competitive advantage.

**Governance** provides clarity and simplicity allowing for considered but quick decision-making, authorisation and key approvals.

**Channel Strategy** facilitates engagement with customers and development of the customer experience.

**Physical Infrastructure** provides property, facilities, equipment and value-adding assets to enable business.

**Key Performance Indicators** leverage data and information to direct and monitor business.

**Leadership & Culture** includes a collective mindset alongside clearly modeled target behaviours.

A Healthy Operating Model combines all of the above in an agile and congruent way. It frequently builds upon agile working practices, in using agile methods and tools, but also directs their use beyond these in a strategic sense. This highlights the structural changes that are required across all Operating Model dimensions to enable agility and congruency on a long-term basis and in an active manner through being organisationally aligned as well as sensitive and responsive to changes. Consequently we analysed all dimensions with regards to the above in the course of our study.

---

Figure 2: Capgemini Consulting’s nine dimensions of an Operating Model

---

²For further information regarding the distribution and advantages of agile working practices please refer to Capgemini Consulting, 2017. Agile Organizations.
Agility
Organisational agility: Increasing speed and flexibility is key

What began 15 years ago with a handful of software developers signing the so-called “Agile Manifesto” with its twelve principles, has spread well beyond the realm of information systems. Nowadays the agile method is present in many types of organisations, across industries and departments.

In the managerial sense, agility can be understood as a company’s ability to sense and respond to change, both adequately and in due time.

Agility is a company’s ability to sense and respond to change both adequately and in due time.

Our study confirms that being flexible and reacting in a fast and agile way is considered a key success factor to succeed in today’s ever-changing world.

This applies not only to a business’ strategy-making but also its operationalisation of business functions. Organisations must reorganise and sometimes even reposition themselves quickly, in such a way that they thrive in new competitive settings and meet both internal and external challenges head on. Agility therefore incorporates two distinct but equally important capabilities: “agility in sensing” and “agility in responding”.

Only 52% of all analysed organisations perceive themselves as good at sensing internal & external changes that affect their business.

Although agility is seen as key for healthy Operating Models, our results show that there is great room for improvement. Only approximately 50% of the analysed companies perceive themselves as “good” at effectively detecting industry changes. This capability is known as “agility in sensing”.

“Agility in sensing” is gained through continuously monitoring the external environment to identify trends, relevant competitive movements & key technological developments in order to assess their strategic implications. Experimentation, probing, distancing, abstracting and reframing are all helpful internal measures to identify new development areas.

© Capgemini Consulting 2017
A mere 44% of the respondents agreed with the statement that their organisation increasingly uses a large amount of data to create forecasts.

**Figure 4: Study results for “agility in sensing”**

Only 40% have the impression that their organisation links various data sources so that Business Analytics generates new insights on customers, channels and processes.

Similarly, half of the firms from our sample perceive their databases as giant cemeteries from which insights are drawn with difficulty.

On the upside, more than 70% attested that an active exchange across departments and divisions exists within their enterprises. Such an exchange across teams was valued highly and perceived as a critical success factor. It helps to identify adaption needs early on, therefore increasing the firm’s agility.

**BEING REACTIVE TO CHANGES IS MORE NATURALLY IN THE BLOOD OF ORGANISATIONS - 70% AWARDED THEMSELVES GOOD RESPONSE CAPABILITIES**

Compared to agility in sensing, the respondents awarded themselves a better ability when it comes to reacting to change. Albeit a positive result, one has to keep in mind that firms can only respond to changes once they have actually identified or ‘sensed’ them. This is known as “agility in responding”. If competitive shifts in disruptive technologies are detected too late, being quick and effective in reacting might still not be good enough.

“**Agility in responding**” is gained through accurately interpreting changes before deciding and acting upon them in an adequate manner that enhances the competitive position of the organisation in light of the change.

Nevertheless, almost 70% accredited their organisations a good overall ability in responding to changes, with only 15% saying that their organisations are only doing moderately well.

**Figure 5: Study results for “agility in responding”**

Digging deeper, almost 80% agreed that their organisation have established temporary teams across divisions or business units to implement changes quickly and effectively.

Conversely, new requirements-driven process adaptations seem to be a common weakness as only approx. 50% believed their organisation acted fast enough. Similarly, 63% of the respondents said that within their organisations important decisions are not made quickly enough because it is unclear who has to make the crucial decision.

Our results show that only 48% of today’s organisations perceive themselves already as good at both sensing and responding to changes. 42% showed improvement potential in at least one of the areas and 10% admitted honestly that they considered themselves not agile at all.

**Market trajectories and characteristics across industries strongly influence today’s agility levels**

With regards to industry specific differences, our survey revealed that consumer goods and retail, telco and the service industry yield the best performance in overall agility. What makes this so?

In the consumer goods & retail industry, competing firms have recently faced enormous pressure regarding personalised products and offers, all-channel experiences as well as fast – if not same day – delivery. This affected great parts of the value chain from logistics, to operations, to marketing and sales. Technological advancements both intensify and facilitate this transformation as our example from Walmart shows. These adaptation imperatives also led to frequent business transformations and positioned organisations towards an agile way of working which can be seen in our survey results.

**Walmart and its journey to increased agility**

In 2011, Walmart was struggling with its online business as its e-commerce site had a basic design, non-intuitive search options and a lack of integration with physical stores. The Supply Chain simply could not live up to the customers’ expectations.

In order to alter this, changes to the Operating Model were made particularly within the organisational structure and IT, as well as business and support processes. A global central division was established to consolidate all e-commerce activities and integrate the digital and physical shopping experience. The unit further took over responsibility for running Walmart’s 10 websites worldwide and built a cutting-edge technology that allowed for the combining of social media and leveraged Big Data Analytics to offer a personalised shopping experience. Process-wise, Online Fulfillment Centers were built and a new operating system put in place.

For this as well as for the @WalmartLabs – an internal idea incubator – new talent was hired with the necessary capabilities that had so far been missing. All of this was accompanied by initiatives that fostered a culture of innovation and stimulated a digital-savvy leadership.

These changes helped Walmart to gear its operations to past changes in consumer behaviour and technology advancements, and led to a sales growth of nearly 150% between 2011 and 2014.

By means of the above Operating Model alterations, Walmart not only ensured its alignment to past consumer changes but set itself up in such a way that it is now able to pro-actively sense and respond to prospective changes in an agile way.
In contrast to industries that have recently experienced large amounts of change are those which have seen relative stability, such as the pharmaceutical industry. The latter is still characterised by strong regulatory constraints which restrict opportunities for agile transformations e.g. in process design and testing. However, our results and those from another study, which we conducted together with the MIT, show that most pharmaceutical companies nevertheless acknowledge that their competitive position will suffer if they do not become more agile and digital-oriented. Despite this, they are still unclear on how to best effect this transformation. In addition, our results show that they lack the management practices to fully realise the value from it.³

This suggests that past market trajectories and characteristics strongly influence the degree of firms’ agility today. Market forces, regulatory constraints, as well as competitive structures and a specific organisation’s position, determine whether emphasis has already been laid on agility.

Once these circumstances alter, even old-fashioned industries rejuvenate themselves. The telco industry is a good example of the latter, as the quote from one of the respondents suggests.⁴

The transformation of the telco industry, with its higher competition and the move towards a bipolarized industry (low cost vs. premium), creates even more the need to be flexible and to be able to respond quickly to market dangers (both on a creative and on an IT level).

- Middle manager, large telco company

**THE POWER OF DIGITAL BOOSTS AGILITY**

Companies in industries which recently experienced dramatic change, such as the consumer goods & retail, manufacturing and the transport sectors, are at the forefront of embracing new challenges by turning towards digital transformation. A digital Supply Chain, for example, enables integrated tasks and collaboration across functions and partners, providing a single real-time view of processes, improving operational performance and enabling more effective cost management.⁵ All of the above drives not only operational excellence but also organisational agility.

As a consequence, firms should not only foster agile capabilities and improve business function alignment but also look to explore digital transformation opportunities. Indeed, Beth Comstock, Vice Chair of GE, stressed the importance of new technologies, Big Data & Analytics in enabling her corporation to be better at both sensing and responding to shifts in the internal and external environment. Predix, a cloud-based open platform was developed to predict potential problems within physical and digital infrastructure. This allowed the firm to pro-actively respond to them and thereby avoid negative business consequences.⁶

---


Another example is Inditex-owned Zara’s ‘fast-fashion’ approach which is facilitated through buyer-driven Supply Chain Management. By monitoring real-time information on in-store customer spending, new designs and price points are instantly created. At the same time, manual operations are reduced to a minimum: Optical readers sort more than 600,000 items of clothing every hour. Therefore, Zara’s digital Supply Chain Management lays the foundation for its organisational agility as well as its process and resource efficiency.

The above cases exemplify how digitalisation can greatly increase agility. Additional methods are exhibited in figure 8 and stem from research undertaken together with the MIT. At the top line, existing products, services and customer experience are enhanced quickly and effectively through improved communication. At the bottom line, costs reduce, e.g. through the automated and rapid implementation of process changes.8


Congruency
Optimising for agility is one step into the right direction. Let’s talk congruency!

Aiming for organisational agility is good, but unbalanced. If responses to market changes are taken without considering the big picture (strategy, Business & Operating Model), sub-optimisation and cannibalisation of effects can be the consequence. This is why we, at Capgemini Consulting, only consider firms healthy if they possess Operating Models that are agile and congruent at the same time. The latter, refers to internal alignment of the different Operating Model dimensions in relation to one another.

THE MAJORITY OF ORGANISATIONS PERCEIVE THEMSELVES AS “SOMewhat CONGRUENT”

The positive conclusion is that 59% of all firms included in our study attribute to themselves a “good” level of congruency. Indeed, an additional 13% of respondents reported that their organisations were proficient in congruency, compared to those reporting similar levels of proficiency in agility. While the absolute number of firms that were said to be not at all congruent is slightly higher than that of non-agile firms, a significantly lower percentage of companies are stuck with mediocre congruency levels compared to mediocre levels of agility.

Interestingly, the level of congruency was rated largely homogenous across industries with only one outlier – the automotive industry. The latter is not surprising due to the substantial disruptions that this industry currently faces, as the quote by BMW’s CEO Harald Krüger illustrates well.

With its new strategy called “NUMBER ONE > NEXT”, BMW identified digital as one of its key areas of change. According to Mr. Krüger, the majority of the car maker’s value generation will shift from hardware to software and will therefore require a substantial transformation of the traditional Operating Model to a more integrated, aligned, agile and digital one.

SURVIVAL OF THE FITTEST FOR THE DIGITAL AGE

Setting up and maintaining an agile Operating Model is not a simple task. Multiple interactions and interdependencies need to be accounted for. These require a holistic perspective, taking all nine dimensions of an Operating Model into consideration and aligning them comprehensively towards agility. Furthermore, a target Operating Model should leverage both current and future digital technologies while ensuring that their customer’s needs are always at the heart of change.9

What can make the development of an agile and congruent Operating Model even more difficult is the fact that there is no ‘one size fits all’ solution. Every organisation requires a unique specification to achieve congruency among the nine Operating Model dimensions. Generally speaking, whereas the congruency measure of Capgemini Consulting’s Healthy Operating Model formula is most relevant to a business’ internal operations, agility is more focused on interactions with the external environment.

9An overview of the nine dimensions of an Operating Model and their customer focus are provided on page 7.
Our world has changed during the last couple of years in a faster and more radical way than ever before. (...) [As a consequence] we need to transform all departments along the whole value chain.\textsuperscript{10}

- Harald Krüger, CEO, BMW Group

Our previous research with the MIT confirms that the manufacturing industry and automotive companies lag significantly behind other industries in their digital capabilities. With such a fundamental industry transformation under way, it is not surprising that especially Original Equipment Manufacturers (OEMs) in our study also acknowledged lower levels of congruency. The cause of this can be explained by the way that the industry is still struggling to grasp the full potential and application of new technologies. Connected cars, autonomous driving and new business models based on shared mobility are all examples of this. As new concepts are gradually developed and implemented, Operating Models have also adapted and will slowly but surely increase in their congruency levels once more.

While the advance of digitalisation constitutes significant challenges for the automotive and other industries, the new digital imperative is not the only explanation for the huge disparity in congruency levels. Our results show that the congruency of a firm is largely dependent on its size, with very large organisations exhibiting some of the lowest results.

Given that in very large organisations…

- ... more employees need to be reached by communications, successfully engaged and trained when undergoing change.
- ... a greater number of both core and support processes require end-to-end integration for complete alignment.
- ... the complexity and inefficiency of the organisational design is greater due to a higher number of layers as well as departmental and regional differences.
- ... internal and external employment relationships, as well as direct and indirect reporting lines, can further complicate the governance structure at all levels of the organisation.

Therefore, it is not surprising that with the increasing size of a firm the greater the perceived issues with alignment.

\textbf{Figure 11: Congruency results by industry, company size and existence}
Interestingly, the above relationship does not seem to be true for firms with 1,001 to 10,000 employees. This medium-sized group in fact displays the highest levels of congruency in our survey. Firms of this size are large enough to require formalised rules, documented processes and official organisational charts to ensure effective operations. Legal/regulatory requirements or information request from investors may create additional pressures to document, analyse and optimise an organisation. These activities are often the starting point from which firms begin to think about aligning their internal operations, and can often lead to more robust levels of congruency. Although these pressures are equally valid for very large organisations, their greater number of employees and more diversified operations can present additional challenges, which goes some way to explaining their lower ratings.

Conversely, our congruency results for the age of a company do not show any great differences. We can therefore assume that the level of experience of a firm does not significantly outweigh political obstacles, financial investment or cultural resistance to change. It requires internal or external impulses, such as a change in the top management of a firm, to trigger thorough analysis and implementation of changes to encourage increased alignment. The latter can happen at any given point of time during the life cycle of a firm.

**HOW CAN CONGRUENCY BE MEASURED?**

Internal organisational or process analysis provides a solid foundation for measuring congruency. Typical activities include the breakdown of a firm’s objectives to departmental and individual elements and the development of an incentive and bonus system.

Beyond this, intangible human elements need to be taken into account too through an assessment of a firm’s culture. Our survey included such an assessment and showed that only about 60% of the firms promote cross-departmental exchange and collaboration, or offer trainings beyond normal job descriptions. Both approaches however, do reduce separate thinking and foster an understanding of the needs of other departments and roles. Correctly addressing these areas is therefore a key step towards more aligned and integrated operations.

Cross-functional teams, whether permanent or temporary, may have a similar effect as adequate information technology in promoting congruency. If the IT infrastructure and applications do not allow for exchange and easy collaboration among employees, regular alignment becomes difficult. As our results show, more than half of today’s firms have already recognised the benefit of congruency and have taken measures to increase their internal alignment.

**Our office is optimised for collaboration.**

(…) The squad [= team] members work closely together, with adjustable desks, and easy access to each other’s screens. They gather over here in the lounge for things like planning sessions and retrospectives. And back there is a huddle room for smaller meetings, or just getting some quiet time. (…) **Although each squad has its own mission, it needs to be aligned with the product strategy, company priorities & other squads. Basically be a good citizen in Spotify ecosystem.**

- Henrik Kniberg, Agile/Lean coach at Spotify

The creation of central cross-functional departments is often the method of choice to increase congruency levels. The advantage lies in the fact that they bundle expert knowledge and skills to produce superior solutions. The latter are oftentimes standardised products and services but can be customised. They thereby reduce costs, fully utilise investment opportunities and most importantly always have the cross-functional solution at the heart of their actions.
Mercedes me

Superb customer experience through cross-everything alignment: Digital, Physical, Regional and Corporate

In 2013, Mercedes-Benz Cars launched the “Mercedes-Benz 2020 – Best Customer Experience” initiative in order to create a consistent premium brand experience across all physical and digital touch points. One key success factor towards this goal was the implementation of the new service brand “Mercedes me” which integrates five major service areas in a single online portal. It was built to help customers throughout all stages of the product life cycle and beyond with regards to their purchase, financing and service requirements.

According to Ola Källenius – a member of the divisional board of Mercedes-Benz Cars – the organisation realised that a superior customer experience could only be delivered if all departments related to the customer journey are brought together and get aligned. As a consequence, a new customer experience function was created and now works according to a novel project and organisational leadership model. It is responsible for creating a blueprint for a consistent global Mercedes-Benz brand experience across all digital and physical channels and designed, developed and implemented the Mercedes me platform.

With the introduction of the new customer experience function and aligned with a group-wide restructuring program, the Operating Model and governance were optimised. The result is a management team that ensures the participation of regional as well as central group level-functions for all relevant departments in each meeting. This way, full transparency is achieved and strategic decisions are reached with the agreement of all stakeholders, while remaining aligned with the overall vision on customer experience.
Operating Model Healthiness
True Operating Model Healthiness: How to unleash the power of agility, congruency … and digital

2/3 OF OPERATING MODELS CAN BE OPTIMISED

Agility and congruency are both crucial elements of overall Operating Model Healthiness. To exploit the full potential of an organisation, it is paramount to excel in both categories simultaneously. As this can be a challenging process, only 1/3 of all organisations currently consider themselves to have a Healthy Operating Model. It is far more common that firms exhibit a weakness in at least one of these areas. Generally speaking they have geared their Operating Model, or at least parts of it, to greater alignment due to competitive pressures or recent management fashions, for example integrated business planning. This is a good starting point to then tackle their organisation’s agility.

The 6% of firms which attest themselves severe problems with both, agility and congruency however, might find themselves severely struggling to remain in the market if they do not explore countermeasures rapidly. The example of Blockbuster shows what can happen if poor levels of agility are allowed to settle, and little to no action is taken to address them.

Although high levels of agility and congruency are preferable at all times, this is not always practically feasible. While an organisation should be constantly alert to any external changes and quick in formulating an adequate response, this is not always possible in the case of congruency.

Firms have to accept that there are times during which congruency may not be perfect. This is most often the case during business transformations when the response to a sensed need for change is implemented. While developing alternative responses and selecting the preferred one to an environmental impulse, the firm with its strategy, priorities, business and Operating Model should all be taken into account. Operating Models are increasingly important once changes have been implemented and all dimensions need to be re-aligned.

When considering Operating Model transformations, a long list of pressures can impact organisations from different industries. The relatively low levels of congruency in the automotive industry make it the most obvious negative outlier. Firms in this competitive space need to begin to develop countermeasures sooner rather than later. Our Capgemini Consulting Health Plan on the following pages helps to steer companies to better achieve this.

---

**Blockbuster’s fall**

A showcase of what happens, if the symptoms of an unhealthy Operating Model are not taken seriously and their root causes are not treated

In 2000, when Blockbuster LLC was engaged by a start-up called NETFLIX to build up and handle their online delivery of movies, it kindly declined the offer. The rest is history: Blockbuster – once the dominator of the movie rental industry – filed for bankruptcy in 2010 and NETFLIX has since then become a synonym for the product. But how did this happen?

Blockbuster became a victim of the “winner’s curse” as it did not sense the opportunities and threats that new competitors and technologies posed, such as the move to DVDs and the growth of the internet. When the urge for change finally settled in, NETFLIX had already signed more than 1 million subscribers and was growing rapidly. Despite the efforts, Blockbuster never prioritised or fully aligned its organisation to its online business regarding its Business and Operating Model. Instead they further focused on store-based business and even acquired additional stores from a competitor. The cost disadvantages, changing consumer behaviours and a lack of innovation finally led to falling profits and eventually to the end of the once dominant organisation.

Blockbuster’s story is one of an unhealthy Operating Model. The firm sensed disruption too late, responded with a corresponding time lag and was not bold enough to take the necessary congruency steps to really drive a new digital strategy and reinforce the digital business model behind it.

---

*For further details on the potential for agile working practices see Capgemini Consulting, 2017. Agile Organizations.*
MASTERING OPERATING MODEL HEALTHINESS IN A DIGITAL WORLD: THE CAPGEMINI CONSULTING HEALTH PLAN

Based on our international study, we were able to identify seven characteristics which are closely related to high levels of Operating Model Healthiness. We combined these characteristics with our 50+ years of consulting experience to propose a Health Plan for Operating Models.

Our Health Plan focuses on four Operating Model dimensions: A) Organisational structure, B) IT & Data, C) Processes and D) Culture. These four focus areas with their respective characteristics show the strongest link with Operating Model Healthiness.

Figure 16: Capgemini Consulting’s Health Plan for Operating Models
1. Simple, lean & homogeneous organisational structure

Firstly, a simple, lean and standardised structure should be pursued. A reduction of organisational complexity in combination with flat hierarchies and a reasonable number of decision-making committees are traditional characteristics of Healthy Operating Models.

In order to achieve this, firms should strive for an organisational design which is easy to comprehend and applies a similar logic across all business units and subsidiaries. This way, decisions can be reached quickly on what needs to change and how this change should be executed, should an adaption need arise. An organisational structure that is simple, homogenous and aligns all parts of the organisation also increases its operational effectiveness, leverages its potential for cross-functional benefits and helps to identify redundancies as well as unclear responsibilities.

Flat hierarchies are an effective way to a simple and lean organisational structure. They can be implemented even in large firms through the installation of permanent or temporary cross-functional teams that run autonomously and fulfill tasks from start to finish. Culturally, such teams need to be empowered to make day-to-day decisions and ideally adopt agile working practices to increase speed and flexibility. However, this is not a mandatory activity, as some functions or types of work are more suitable for agile management tools than others, such as Scrum or Design Thinking.\(^1\)

In order to take advantage of the power of cross-functional teams, a workforce that is eager to learn new skills and show independent problem-solving behaviours, is often highly beneficial and should therefore be actively recruited and developed. Such working patterns can be supported by new incentive and performance management logics and an adequate governance structure.

2. Clear decision-making responsibilities

Clear decision-making responsibilities are important for quickly implementing organisational change. They go hand in hand with a well-defined structure of a firm, increase its speed and effectiveness and can contribute to flatter hierarchies, as we will see below.

In order to increase Operating Model Healthiness, firms need to clearly allocate decision-making responsibilities and ensure that these are delivered in a transparent manner. All stakeholders must know who is in charge of making a decision so that they can interact with the relevant group or individual to request information or press for a decision. These decision-making rights have to be allocated at the right hierarchy level and those who make the call need to be adequately empowered. Effective communication and an up-to-date, easy to access view of where decision-making responsibilities lie are key in that manner, e.g. through role descriptions. Similarly, it is important that firms allocate decision-making responsibilities to specific roles in an unambiguous way. As a guiding principle, firms should assess their decision-making rights whenever organisational changes are made, if an increased level of Operating Model Healthiness is sought.

3. Adequate involvement of people in decision-making

Involving a larger number of employees in decision-making processes requires trust and empowerment. Yet, when implemented in the right way, it can yield great results. In order to secure such benefits, individual employees need to develop a mind-set of responsibility for their role and deliverables. Through this, they are more likely to improve not only their individual contribution, but the firm’s overall performance as well. The final outcome of these developments can take many forms, such as improved processes, new product ideas, increased levels of employee and customer satisfaction, and faster decision-making owing to decentralised, and flatter structures.

For decentralised business tasks, firms should put the following in place: management support for distributed decision-making, clear and comprehensive communication of company strategy and values and a corresponding incentive system with formal controls. HR must select and train employees in such a way that they feel comfortable in taking on new responsibilities and in making correct decisions themselves. Leadership training and change management are other key success factors as decentralised decision-making constitutes a real paradigm shift for most organisations and their leadership. In practical terms, this means that managers have to let go of micromanagement and the imposition of their personal views. It is far more effective to instead coach their employees in such a way that they are capable of developing suitable solutions for any given problem statement.

4. Reliable data through IT systems

IT systems can be used to bring together distinct strings of data, mine them and then share the resulting intelligence widely and in a fraction of a second. This makes both IT and data core strategic assets of a firm. The active management of these in line with best practice and the latest thinking is a continuous characteristic of Healthy Operating Models. Having the right information at the right time in the right place enables fast and informed decision-making, as well as the optimal use of company resources.

To realise the full potential of IT systems, they must be designed in such a way that the data they provide is not only comprehensive but also reliable, consistent and well-structured. This can be achieved by building an Enterprise Management System which relies on a single data model and adheres to the so-called “CIA triad” (Confidentiality, Integrity and Availability).
A key success factor of this is well-defined data governance with clear processes and unambiguous access rights and responsibilities. The resulting high data quality can then be leveraged to sense, assess and react quickly and effectively to environmental changes.

5. Effective use of databases

IT systems can improve Operating Model Healthiness not only by means of reliable and well-managed data but also through data analysis. By combining previously discrete strings of data, applying Big Data & Analytics (e.g. automated real-time analysis of application and environment telemetry), and visualising the results in management dashboards, firms can obtain new insights, quantify risks and reap benefits faster and more accurately than ever before. This further supports better decision making in dynamic and complex environments.

Beyond this, IT interfaces must also be aligned in such a way that they link different systems effectively. For that reason, systems and data need to be compatible and all locally saved data or custom-built solutions have to be integrated in a single cloud-based system. On the human side, both training and active communication about the integrated system and its databases have to be established.

This creates transparency about system content and use which is fundamental for transforming it into an integral element of a firm’s knowledge management.

“For me, it is most important to have consistent and standardised systems and a data management that feeds into them across international borders. Fast access and user-friendly interfaces are crucial, too. Otherwise those systems are not used and their potential for improving our operations and change remains untapped.”

- Manager, large financial institution

With his statement, the manager of a large financial institution included in our study confirmed the importance of coherent systems and data, and raised another important point: access. Granting access to a larger number of employees is crucial for decentralised decision-making and uncovering new insights, both early predictors of business environment change. Integrated systems with databases and analysis tools should be well publicised, and be user-friendly and easy to access.

6. Rapid adoption of new business processes

Business processes should not be considered as cast in stone after their initial definition, but rather as evolving procedures, shifting to meet changing organisational needs. Such a mind-set allows for flexible responses to external factors, (e.g. new technologies or management practices) and internal impulses (e.g. process innovations). It also takes into consideration that processes have to be re-aligned with the rest of the firm following business change, in case other dimensions of the Operating Model are altered.

To ensure quick adaptation of process changes, firms should invest in creating a flexible and versatile workforce. The introduction of agile working practices can further increase the speed by which teams take up new processes and the pace by which they refine them. Yet it is not only down to the individual employees and their training. It is also the firm’s process management approach and the effectiveness of its implementation that determines the level of agility and congruency (e.g. standardisation, de-coupling, alignment and linkage via interfaces).

Reliance upon standardised process methodologies, which force organisations to fit their activities into a general set of process steps, can severely impede both process customisation and the development of dynamic business capabilities, of which the latter is crucial for a Healthy Operating Model. New approaches that balance autonomy with standardisation are therefore the most promising way forward. While processes should be standardised and adequately documented for efficiency and clarity purposes, over-reliance on standardisation can result in innovation inertia. This is why continuous improvement is paramount. It invites the entire organisation to challenge and adjust existing business processes for the better and thereby implement changes not only from the top down but also from the bottom up. Since the introduction of continuous improvement, a number of organisations have further developed this, such as Spotify’s “cross-pollination” approach. This encourages employees to improve processes or create new ones, abiding by general or standardised design criteria. Such criteria, (e.g. “no sub-optimisation”) give guidance and organisational alignment while teams can concentrate on innovation while operating in a more autonomous and efficient way. If enough teams find the new or improved process useful and adopt it, a new process standard is born. This distributed approach not only fosters the dissemination of best practice between teams and departments, but also allows for parallel and aligned structures to be built. The result is ambidexterity which means maximising efficiency on the one hand, and encouraging innovation on the other. Once these elements have been developed to a satisfactory degree, it is possible to convert a whole organisation to a new operating standard. These approaches minimise the risk of process failure and embed a culture of innovation within an organisation.
A culture of innovation is crucial for businesses to survive in increasingly competitive business environments. Examples such as Blockbuster help to demonstrate this, and serve as precedents of failure for firms that fail to adapt, evolve and do not engage their employees to the right level. This constitutes the last, but by no means least important, characteristic of Healthy Operating Models as the following statement from the survey illustrates:

“The feeling of belonging, the team spirit, is what drives people to work to improve and to innovate. This is what encourages them to go through stressful periods (…), to accept changes and to support each other during those. This specific psychological factor is a very strong kicker to a person’s will and performance.”

- Manager, medium-sized service company

To foster a culture of innovation, decentralised decision-making and the empowerment of employees are both incredibly important. All of the aforementioned structural changes should be accompanied by cultural guidance and appropriate change management. Organisational values have to encourage an innovative mind-set to take hold, while the right incentives need to reward demonstration of innovative behaviour. In practical terms, idea management platforms are a popular and effective way to encourage creativity and thus create internal impulses for change. Another increasingly adopted approach involves digital innovation centres. By setting up teams and physical sites within global tech hubs, businesses can leverage the day to day mannerisms of start-ups, venture capitalists, accelerators, vendors and academic institutions. It is well recognised that such firms can effectively accelerate innovations by rethinking customer experience, improving operational efficiency and testing new business models through the use of technologies such as Big Data, the Internet of Things, Social media, Mobile, Robotics, and Augmented Reality.

Innovation centres also help organisations stay close to the latest technologies which can enable them to sense corresponding environmental business changes, respond to these quickly and to accelerate their solution development in retaliation.

Although the seven points from the Capgemini Consulting Health Plan show the strongest link with Operating Model Healthiness, it is a necessity that each organisation analyses its current strengths and weaknesses with regards to agility and congruency as well as future trends, to ensure that they have considered all available information and have selected the most beneficial solution.
What’s next?
Key trends and how to tackle them

IMMINENT TRENDS IMPACTING OPERATING MODELS

Capgemini Consulting’s study showed that 52% of the investigated firms can still increase their agility level and 41% can improve their congruency level. In light of ever faster changing business environments, their capability in doing so can even decide whether they will survive in the long-term. A continuously fast-changing and highly competitive environment, so called “hypercompetition”, has also been anticipated as one of the top five trends for the near future by the study participants.

The other four trends similarly act as catalysts for Operating Models being adjusted towards future changes e.g. by building and integrating even more Big Data & Analytics capabilities or by allowing for more flexible, distributed and autonomous ways of working.

Without question, Operating Model Healthiness will be a future imperative. It will be interesting to observe how organisations embrace these trends by firstly scaling agile working practices and then by making structural changes to their Operating Model.

HOW TO IMPROVE AN OPERATING MODEL

At Capgemini Consulting, we have identified two distinct routes for making changes to an Operating Model.

Route 1 is the more traditional approach. Primarily, it requires the definition of the high-level changes that have to be made to the existing Operating Model in order to increase its healthiness. Alternatively, this stage can see the foundation established for a completely new Target Operating Model, if a Greenfield approach is desirable. Following this initial phase, the high-level design then has to be detailed across all concerned areas out of the nine Operating Model dimensions, before it is finally implemented within the organisation. It is pivotal during the design and the implementation phases that the connections and relationships between the dimensions are taken into account and that it is understood how change in one area will impact the rest of the organisation.

While this approach allows a firm to consider, define and detail the Operating Model dimensions in great detail and to get the buy-in of...
all key stakeholders before its execution, it also takes longer to realise tangible results. However, this might be a welcome characteristic, should the nature of the changes include a reorganisation. In such cases, it might not be advisable to gradually test and improve an organisational structure, especially if efficiency potentials are to be achieved with the new design.

Route 2 provides an alternative approach. It utilises rapid design elements and iterates them through test cycles and incremental improvements. The trial and improve phase can be executed on a small scale, typically in a clearly defined and separated business unit. Once the design has matured sufficiently, it is then scaled to the wider organisation. Firms can experience results faster by using accelerators and tools, such as Hothousing or Proofs of Concepts. By adapting route 2 for the whole Operating Model project or parts of it, space for innovation is created, allowing for the incorporation of changes after the project has already started.

Which route is the right one for a firm to take depends on various factors, such as the nature and size of the sensed change, the complexity of the firm itself and its attitude towards change. Selecting the right way to improve one’s Operating Model Healthiness should not be done haphazardly, as the approach can have far-reaching consequences for deliverables, project management, measurement, capabilities and resources required as well as accompanying change management. No matter which route is chosen, it is important that these actions are taken in the near future because:

“Change is the law of life. And those who look only to the past or the present are certain to miss the future.”16

- J.F. Kennedy.

---


Figure 18: Possible routes for improving an Operating Model

1. **DEFINE the Future Operating Model**
   - Sets the foundations of the programme where core principles are defined. The high level future Operating Model and its roadmap is designed.

2. **DEFINE RAPID DESIGN SCALE**
   - Quickly sets the scope of the Operating Model to deliver the strategy and vision.
   - Enables quick design and delivery of the Operating Model; optimises through test and learn and ensures that the organisation is ready to scale.
   - Incorporates learning from iterative design and evaluations to enable delivery at scale.
Acknowledgements

We would like to acknowledge the efforts of the team who contributed to this study.

The research team
René Rabich (Sponsor)
Christina Wawarta (Lead author)
René Fleischer
Konstanze Kader
Yorck Koerfer
Hans Krebs
Christoph Müller
Philipp Rass
Christoph Strasser

Contact us:

Other Capgemini participants
Jamie Breathnach
Robert Cade
Georg Ogulin
Katja Stepping

Enquires about the study:
Capgemini Deutschland GmbH
Marketing
Berliner Straße 76
D-630065 Offenbach am Main

Get the study online:

URL:
About Capgemini Consulting

Capgemini Consulting is the global strategy and transformation consulting organization of the Capgemini Group, specializing in advising and supporting enterprises in significant transformation, from innovative strategy to execution and with an unstinting focus on results. With the new digital economy creating significant disruptions and opportunities, the global team of over 3,000 talented individuals work with leading companies and governments to master Digital Transformation, drawing on their understanding of the digital economy and leadership in business transformation and organizational change.

Learn more about us at www.de.capgemini-consulting.com

About Capgemini

With more than 190,000 people, Capgemini is present in over 40 countries and celebrates its 50th Anniversary year in 2017. A global leader in consulting, technology and outsourcing services, the Group reported 2016 global revenues of EUR 12.5 billion. Together with its clients, Capgemini creates and delivers business, technology and digital solutions that fit their needs, enabling them to achieve innovation and competitiveness. A deeply multicultural organization, Capgemini has developed its own way of working, the Collaborative Business Experience™, and draws on Rightshore®, its worldwide delivery model.

Learn more about us at www.de.capgemini.com