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What is an Operating Model?

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Unpacking the operating model definition

A company can use an operating model to coordinate people, infrastructure, tools, processes, and other operational factors to effectively produce products and services. This allows it to navigate the market, produce surplus value, deal with business challenges, and grow its operations.

At its core, a company's operating model represents how business components work together in line with the system's guiding principles. At the highest level, operating models describe how a business functions.

WHAT TO READ NEXT: What is the Modern **Operating Model?**

Two analogies can help explain organizational operating models and their multiple functions. The first is to think of operating models like GPS devices. They're mechanisms that help you navigate the business terrain and achieve strategic and operational objectives. Once you've set your destination, your operating model helps you reach it.

The other way to think about a business operating model is in terms of the human nervous system. The operating model connects the business together to create something greater than its individual parts. It's this interplay of different business components that creates value and sustains operations.

Operating model vs. business model

Although they have some overlaps, an operating model and a business model have two distinct meanings.

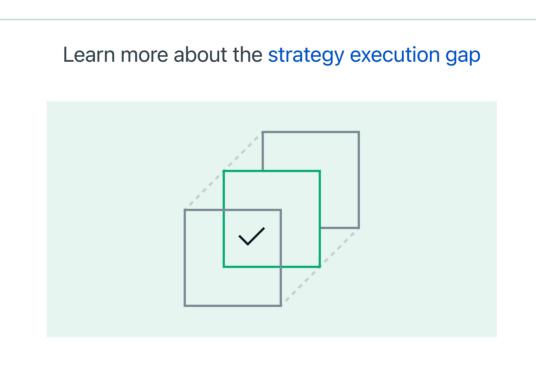
Your business model describes how your business functions in terms of commercial activities. This includes things such as your go-to-market strategy, customer segments, price points, product lines, delivery mechanisms, customer acquisition channels, as well as any other factors regarding your business's commercial strategy.

In contrast, your operating model is about fulfilling commercial activities, highlighting the operations sustaining your business. It covers your operational design and day-to-day activities (e.g., execution of work, people management, process management).

Operating models and strategy execution

Operating models contribute to different aspects of your business, the most prominent being strategy execution. High-level considerations such as mission, vision, and strategy — combined with your operating and business models -come together to inform strategy execution. Strategy execution is the discipline of how you go about achieving your strategy.

Adding to the GPS and nervous system analogies, your operating model can also be thought of as an engine that drives strategy execution. While laying out the right strategy and commercial considerations is critical, efficiently generating momentum toward your destination is just as important. As such, optimizing your organizational operating model is crucial to effective strategy execution and goal attainment.



The components of a business operating model

As we'll dive into shortly, each business has a unique operating model based on circumstances such as industry, size, and business maturity. There are, however, certain components that all company operating models have in common. These include:

- 1. Guiding principles
- 2. Organizational structure
- 3. Processes
- 4. Technology
- 5. People
- 6. Culture

Guiding principles

At the highest level, an operating model has a set of guiding principles that inform its purpose. These also explain how different components work at an individual level and how they interact to

create the whole system.

Your business operating model's guiding principles are directly linked to your business's strategic objectives. For instance, if your company's goal is to accelerate growth, the guiding principles of your operating model will emphasize rapid production and scalability, as opposed to quality control, for instance.

Another aspect of guiding principles is governance. This covers topics such as how data and information are leveraged and how decisions are made throughout the organization. For instance, decisions can be made locally, closer to the points of execution, or through the strategic chain of command. Procedures and policies affecting components such as processes and culture are also a part of governance.

Organizational structure

Your operating model also covers the layout, setup, and structure of your organization. At the basic level, this includes how your people collaborate across teams, departments, networks, and divisions.

This can also extend beyond the organization and into your ecosystem, looking at how suppliers and vendors interact with your business's operations. Your organizational structure also informs the chain of command and how decisions are made, as mentioned earlier. This can also cover collaborations with freelancers and gig workers.

Processes

Your organization's processes encompass how work is conducted, and draws on other components such as people, technology, and infrastructure. Processes include things such as:

- How inputs are transformed into outputs. For instance, how a factory worker uses their expertise to put together parts of a product
- The fulfillment of goods and services to customers
- Department-specific activities such as marketing campaigns and product launches
- The governance of processes through methodologies and playbooks such as agile and design thinking

Technology

The technology you use is also a key part of your business's operating model. This includes all layers of technology, including:

- Machinery: The machines used in the production process like tractors, assembly arms, and other industry-specific machinery
- Physical infrastructure: The infrastructure that supports the production and delivery of services (e.g., warehouses, logistic networks, office space)
- IT infrastructure: The IT systems, networks, and computers that support the digital processes of your business
- Software: The software tools you use to run your business, including software that aids employee collaboration, human resources, logistics, supply chain, and inventory, among others
- Data: The data that your company produces or accesses for decision-making and optimization

People

How your employees execute work is the people component of your operating model. This covers:

- Talent acquisition and retention: Finding and keeping people with the right skills and expertise to do the work
- **Responsibilities:** Deciding which individuals and teams are responsible for which activities and outcomes
- Leadership and management: Finding and nurturing leaders to oversee operations, solve problems, and maximize outcomes such as productivity and engagement

It's important to point out that people and labor are greatly influenced by technology. Software and machinery have already replaced a significant amount of human work, and advances in cobots and autonomous systems will perpetuate this trend.

Culture

Your company culture encompasses shared beliefs, values, behaviors, identity, modes of working, implicit assumptions, and all the other factors influencing how, what, and why work is conducted. Within your company operating model, culture plays an important role in influencing how your organization functions.

For example, by declaring and adhering to customer-centric values, your organization's culture can be optimized to prioritize customer success. This may lead to behaviors such as spending extra time on customer support or having a more enthusiastic approach to solving customers' problems.

How are company operating models designed?

Alongside business models, an operating model is one of the first things a company must consider. As mentioned earlier, the operating model definition is unique to a specific company, despite their common features. It's also important to note that operating models are not static. They change based on:

Industry: Operating models will vary across industries and company types. At the highest level, a manufacturing company will have a fundamentally different operating model compared to a software provider. The former must deal with operating factors relating to inventory and raw materials, whereas the latter is mostly digital.

Maturity: A company's strategic objectives, and thus its operating model, will vary depending on the company's maturity. A mature company may focus on greater operational efficiency, while a scale-up may focus on growth.

Size: Similar to the company stage, the size of the organization will affect factors such as structure and management.

Purpose: Each business operating model is optimized for different outcomes. Even among its

competitors, a company may change its operating model in order to gain a competitive advantage in a specific outcome. For instance, if there is an opportunity to compete on price by optimizing for economies of scale.

When thinking about building or updating an operating model, there are a few things you can look at:

- Organization maps: Visually depicting how the organization is laid out in terms of teams, departments, divisions, external ecosystems, and all relevant interdependencies
- **Blueprints:** Visualizing how a specific process or function should work • People models: Mapping out the skills, knowledge, bandwidth, and capabilities of
- individuals and teams
- Scorecards: Leveraging systems for performance management and better optimization • Decision grids: Creating frameworks that govern how decisions are made across the organization

Organizational operating model examples

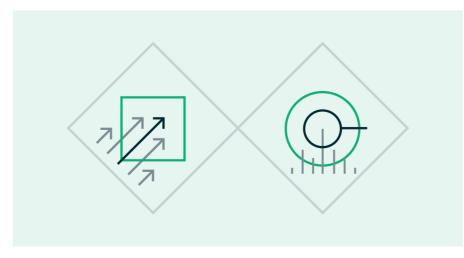
With operating models being unique to each company, it's difficult to describe the ideal operating model. Naturally, the ideal business operating model will differ depending on the perspective and needs of a particular company. But to provide a concrete example, a generalized, conventional operating model will have the following qualities:

- A top-down chain of command: Decision-making and approval will be run up and down the organizational hierarchy
- Multiple initiatives and priorities: A company using a standard operating model may have multiple strategic objectives. These may not align across the organization and may require separate strategies to be effective
- Data and information silos: Data and information are usually confined to individuals, software, and departments
- Quarterly and annual reviews: Performance reviews typically happen on a quarterly and annual basis

In contrast, a Modern Operating Model would have different qualities:

- Data-driven focus and accessibility: More focus placed on transparency and data use for effective decision-making and optimization
- Decentralized chain of command: Decisions are made closer to the points of execution by the people responsible for doing the work
- Alignment through objectives and key results (OKRs): The organization is aligned both vertically and horizontally to achieve critical goals
- Continuous progress reviews: Progress reviews happen on an ongoing basis in order to problem solve, gain validation of working in the right direction, and continuously optimize.

Learn more about the Modern Operating Model



The future of operating models

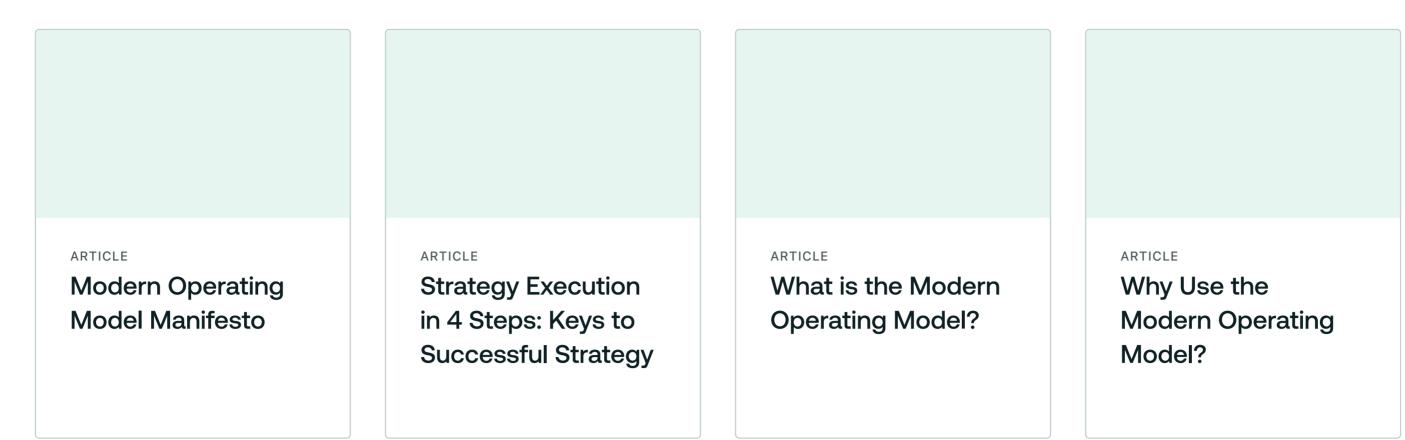
The world continues to change at an accelerated rate. Business challenges such as effective hybrid work, the fourth industrial revolution, and changing attitudes mean conventional operating models need to be reevaluated. On top of these changes, the strategy execution gap persists. Considering these challenges, a new, Modern Operating Model is taking shape to help companies bridge the strategy execution gap and navigate a fast-changing world.

Quantive empowers modern organizations to turn their ambitions into reality through strategic agility. It's where strategy, teams, and data come together to drive effective decision-making, streamline execution, and maximize performance.

As your company navigates today's competitive landscape, you need an Always-On Strategy to continuously bridge the gap between current and desired business outcomes. Quantive brings together the technology, expertise, and passion to transform your strategy from a static plan to a feedback-driven engine for growth.

Whether you're a visionary start-up, a mid-market business looking to conquer, or a large enterprise facing disruption, Quantive keeps you ahead — every step of the way. For more information, visit www.quantive.com.

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