

Jomer & Co

Understanding and agreeing on differences in underlying operating logics

Organizations evolve over time and too often get shaped by management fads and politics rather than for rational reasons. Signs indicating constraints and anomalies, which easily get ignored, become a source of constant frustration. Strategic initiatives often stall or go astray due to fragmented or unclear responsibilities, and promising opportunities may vanish due to lack of attention. Most leaders and managers sense when their operating model could perform better. By operating model we mean the organization in its broader sense, represented by structure and processes, people, culture, and measures and rewards. However, improving the operating model is many times inevitably complex, and tweaking one area may produce unanticipated consequences in another area. Proposing and agreeing on improvements could also be immensely complicated, involving an endless stream of trade-offs and variables that may turn into power plays.

An effective operating model has strong consistency and coherence among its components. Spans of control, degrees of job enlargement, vertical interfaces to horizontal value streams, forms of decentralization and specialization, planning systems, and matrix structures should not be chosen at random. They should rather be selected carefully, aligned and tuned with respect to the strategy, underlying operating logics, the situation of the organization, conditions in the industry and the competitive value dimension.

Strategy deals with focus and finding the direction and must be integrated with choices concerning the organization's purpose and capabilities. An integrated view on strategy calls for answers to questions like: *What is the organization's raison d'être? Why would it matter?*

The answers to these questions need to include the organization's strategic value dimension, i.e. how the organization create value and where it must excel to generate superior customer value and results. There are basically three dimensions in which organizations generate value: product leadership, cost leadership, and customer intimacy. To become a leader, the organization must focus on excelling in only one of these value dimensions, since the operating models are inherently different in the three dimensions. The other two dimensions are still important and need to be performed above threshold standards with continuous improvement of operational efficiency. See fig. 1.

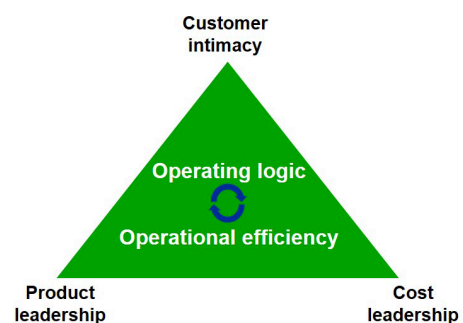


Figure 1. Strategic value dimensions

Furthermore, extended superior performance along the strategic direction can only excel when the underlying operating logic and variances thereof are attended to when configuring the components of the operating model. Consistency and coherence are

important perspectives when improving the operating model. The components of the operating model influence each other interactively. However, consistency and coherence come at a price if different parts of the organization have different operating logic and are hampered by a one-fits-all-solution. Taking time to reflect, over the challenges and demands the differences in operating logics induce, increases the knowledge and understanding of how the organization must operate to create value and perform outstandingly well or different than competition.

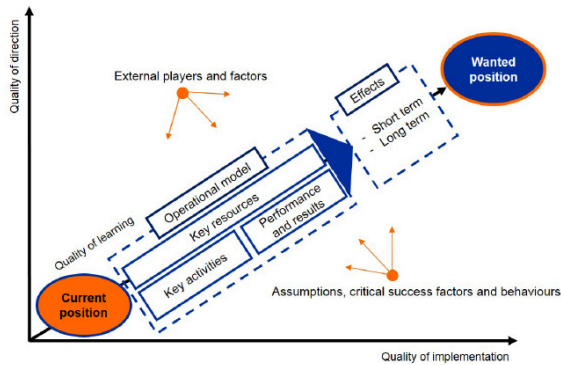


Figure 2. Understanding and agreeing on adequate operating logics within the operating model enable a successful transition toward the wanted position

Organizations, which operate with multiple branches, almost always have multiple operating logics beside the obvious differences between core and support. The more variances an organization harbor, the more challenging governance becomes. If the operating logic is based on faulty assumptions or mismatches with the key strategic value dimension, performance will most likely decrease. Increased understanding of the differences in operating logics may help redefining old problems and developing new solutions to improve the performance. Our experience

tells us that too often when an organization struggle to achieve its targets, it has neglected differences in the underlying operating logics and thereby failed to adequately address causal relationships between resources, activities, performance and results, see fig. 2.

Key differences in operating logics

There are three fairly obvious underlying operating logics derived from the strategic value dimensions:

- Production focus
- Customer focus
- Project focus

Harvesting the potential of a production-focused organization usually requires stable and standardized structures and processes. The relationship between managers and co-workers is usually fairly direct and based on top-down target setting and follow-up in addition to a throughput-oriented culture.

Getting the full potential from a customer-focused organization requires dynamic structures and flexible processes. The manager/co-worker relationship is usually guidance-based with an outside-in approach to management and control besides a service-oriented culture.

Utilizing the potential of a project-focused organization usually requires temporary structures and dynamic processes. In addition to a project-oriented culture, the manager/co-worker relationship needs to be supportive and based on an iterative approach to management and control.

Regulatory environments, as well as operating branches with tasks that consist of elements of qualified judgments and assessments, often define yet another type of operating logic, which requires functional structures and processes. For this kind of logic, the relationship between managers and co-workers usually takes a consultative approach based on regulatory and policy compliance, a conformity approach to management and control, and an issue-oriented culture.

Other traits that may indicate a need for clarification

From experience we know that there are some key areas that define and impact the organization's character, and hence the operating logic, more than others. Thus, it is crucial to learn and understand the nature of those areas in order to improve the overall performance:

- Customer segmentation
- Value creation
- Culture
- System levels
- Execution and accountability
- Agility

Customer segmentation: Since collaboration between units is more difficult to manage than collaboration within units, customer segmentation and sources of competitive advantage often require a clarified operating logic. *Does the operating logic direct sufficient attention to its key customer segments? Is there a dispute with regard to customer segments? Does the operating logic support the key sources of competitive advantage, e.g. speed, innovation, efficiency and customer intimacy?*

Value creation: Depending on the operating logic, turning a value proposition into a winning proposition could be a question of leveraging customer intimacy, skills, modularization, standardization or a mix between them. It is people's strengths, weaknesses and motivations that enable value creation. Hence, having the right people performing the right value-adding tasks determine the level value creation. *Are the offerings unique or "me too"? Does the operating logic give sufficient attention to value-adding tasks and initiatives? Do the support and shared functions add sufficient value to the operating core?*

Culture: Each of the above operating logics has its preferred culture. Hence, it is important to understand if there are units that need to operate differently. If the performance of such unit is linked to variances in the operating logic and is key to the overall success today or in the future, whether in operating core or support functions, it has to be understood and agreed that it is allowed to operate differently from the rest of the organization. *Are there units within the organization, which need to act in ways that are different from the norms of the operating model? Are there specialist cultures in need of protection and nurturing?*

System levels: Most complex organizations normally have layers of hierarchical system levels, where the upper and superior level defines the whole system and governs the lower ones. Taking a system view on leadership means acknowledging and

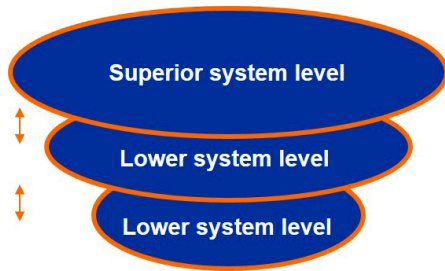


Figure 3. The superior system level provides context to the lower levels

understanding the hierarchical vertical levels, as well as the organization's horizontal patterns, when organizing execution. A prerequisite for systems-based leadership is alignment in structure, functionality and target orientation throughout all system levels where the superior system level provides the context to the levels below. Hence, top management is responsible for designing the system while the rest of the organization are system users. See fig. 3. *Does your operating model have too many or unclear system levels or units? Do they create value? Do they have the necessary resources?*

Execution and accountability: Accountability is important in order to induce performance, especially in decentralized organizations. Measurements may be disordered and distorted when execution is difficult to measure. This happens when responsibilities are blurred, thus hampering execution and accountability unless deep knowledge of the operating logic is truly mirrored in the governance model. Nota bene, beware of units with shared responsibilities and where collaboration is key. *Are management follow-ups fitted to purpose and responsibilities? Do the follow-ups motivate managers and co-workers?*

Agility: An agile organization is flexible for the future as well as fit for the present. It provides ways to pursue innovation and allows for adaptability to changing circumstances. This requires flexible minds, deep talent, and robust resources. *Does your organization provide the agility required to adapt to change? Does the operating logic obstruct exploration and pursuit of opportunities? Where can sources of resistance to change be found?*

Zooming in on operating logic

Three leadership questions are crucial to answer in order to understand and increase awareness of the organization's operating logic:

- *What is the environment in which we must compete and win in order to fulfill our purpose and achieve our targets?*
- *What underlying operating logic do we need in order to fulfill our purpose and achieve our targets?*
- *How will we mobilize our organization to understand and agree on variances in the operating logic in order to fulfill our purpose and achieve our targets?*

The answer to the first question needs to clarify in which environment to play, the hierarchy of its needs and what to offer. The answer to the second question needs to determine what to do to win, and in which value dimension to excel. It needs to be fully understood by a deepened knowledge of the key characteristics of the

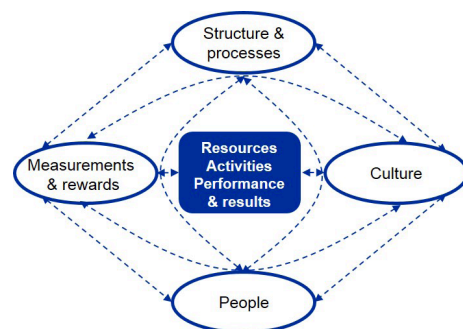


Figure 4. The operational model must support causal relationships between key resources, activities and performance based on adequate operating logics

business, the operating logic and the casual relationships and effects between resources, activities and performance. The answer to the third question lies in a deepened understanding of how well the operating model is aligned to the operating logic. As indicated above, by operating model we mean the organization in its broader sense. See fig. 4.

In a perfect world, the answers to these leadership questions show an impeccable alignment between the operating model and the preferred operating logic. More realistically, they usually indicate that the current operating model is either built on faulty assumptions, or that one or more of the components of the operating model do not assent to the right assumptions of the underlying operating logics. In both cases, alignment initiatives are necessary to improve performance of the organization.

Leadership evolution

Many of the leadership teams and executives we support in implementing and executing strategy have come to understand the importance of clarifying existing and preferred operating logics when aligning the organization behind strategy, thus improving performance and enhancing their management and control system. Working closely with them has put us in a fortunate position to influence and support them in raising their ambition for organizational performance. Taking on a higher ambition, when redesigning the organization to its purpose, strategy and operating logic, leads to a higher level of commitment and performance. Old beliefs and assumptions need to be questioned by using system thinking to agree on the operating logic and differences thereof in the organization. When designing the operating model, these executives foremost pay attention to how the organization needs to perform to progress along the strategic direction and which operating logics that will fulfill the requirements in the best way.

How can we help?

It is probably wishful thinking to get everything perfect when designing the organization. However, we argue that it is possible for organizations to significantly improve their chances of success if they agree on the preferred operating logic before they configure the components of the operating model.

Jomer & Co has long experience and knowledge of helping leadership teams and executives in organizational design. Our support is always bespoke and there are several possible entry points to a successful collaboration, for example:

- Strategic dialogue: executive coaching regarding strategic challenges, targeting the operating model and operating logics.
- Balance analysis: identify and analyze imbalances in the operating model, operating logics and execution.
- Organizational efficiency: manage lack of strategic targets and unclear operating logic, roles, responsibility and interpersonal dynamic, to ensure quality of direction, learning and implementation.
- Running an Alignment Workshop with the management team to understand the possibilities and barriers for strategy execution.

Jomer & Co

We help clients close the strategy-to-execution gap by creating and implementing winning strategies.

Jomer & Co is a boutique advisory firm, focusing on strategy creation and implementation. Our focus on employing professionals with extensive experience provides us with the executive resources of a larger organization while still being flexible and responsive in the relation to our clients' challenges.

We are devoted to knowledge and situational insight and are aligned to the shift in demand for management consulting services by its way of leveraging knowledge, experience and giving advice. Our experienced Consulting Associates work closely with clients throughout the stages of strategy creation and implementation.

For contact and more information, please email info@jomer.se.