



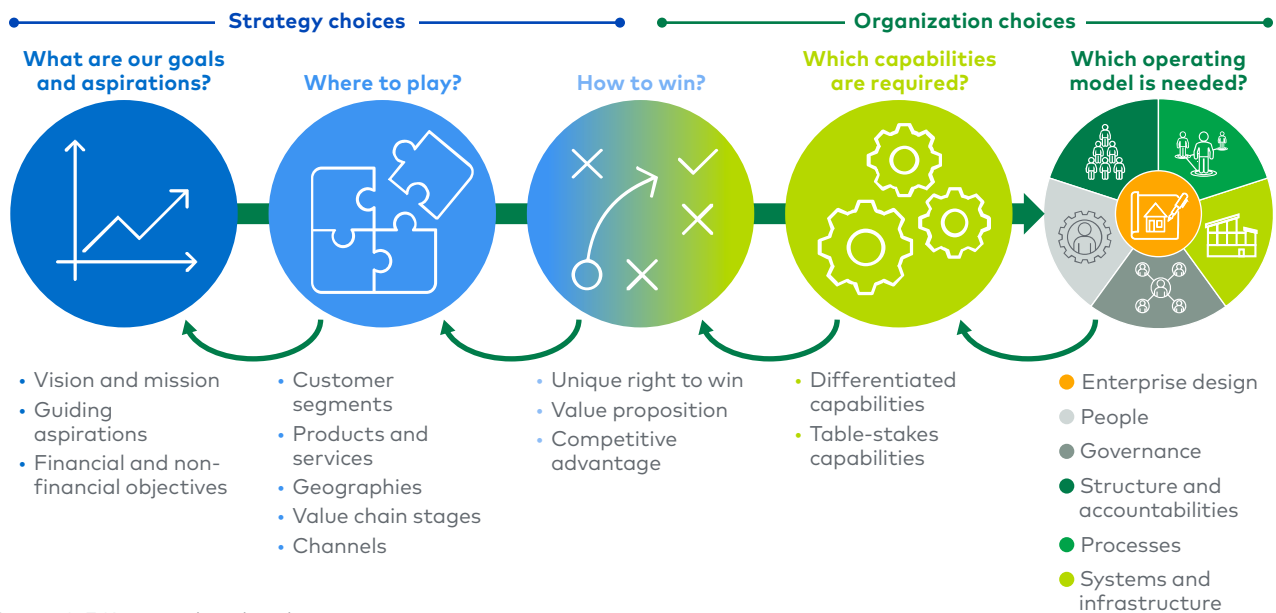
EXECUTIVE INSIGHTS

Effective Organizational Design: Think Outside the Boxes (and Lines)

The operating model – Converting a company’s strategy into effective execution

On their own, strategic plans are insufficient to propel an organization to successful execution. Even in organizations with a best-in-class corporate strategy, their enterprise design, structure, processes, systems, governance and/or people may be insufficient to implement that strategy (see Figure 1). This impacts organizations of all sizes, industries and maturity stages; most, if not all, organizations will struggle, at some point, to bring strategic choices to life.

Figure 1
Strategy and organization choice cascade



Source: L.E.K. research and analysis

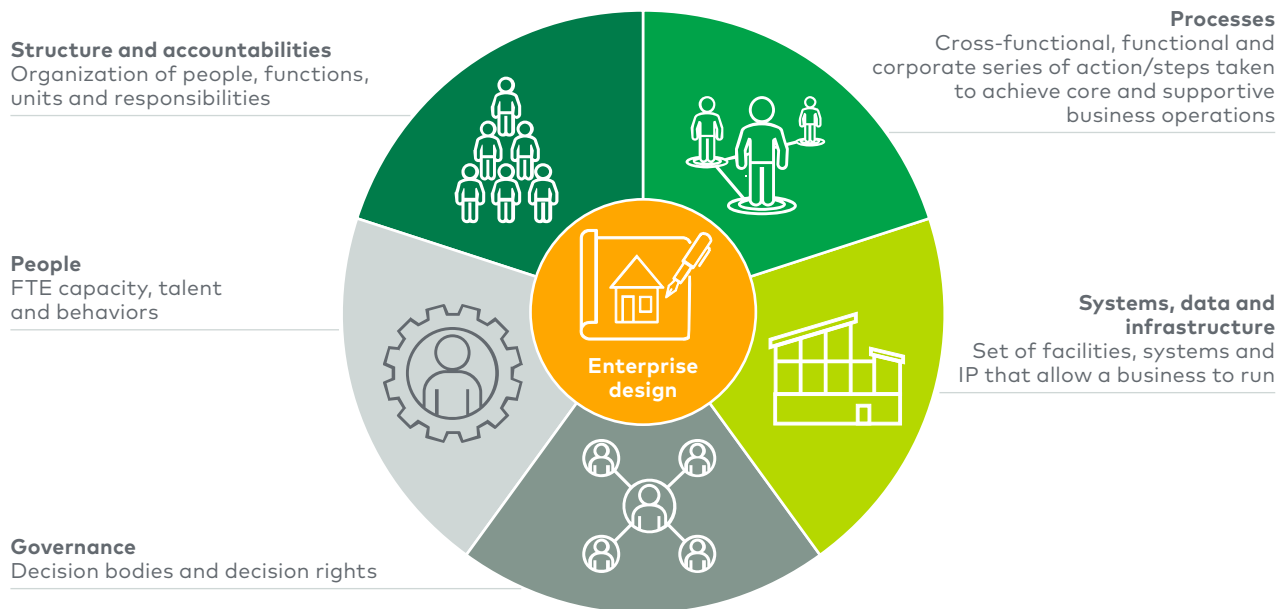
The operating model is the vehicle through which an organization continuously converts its strategy into day-to-day execution. A thoughtful and intentionally designed operating model will guide the organization as it operationalizes its corporate strategy. As organizations increasingly look to scale effectively with an optimized cost structure, a carefully designed operating model has the added benefit of illuminating and unlocking operational efficiencies, synergies and new growth opportunities. Ultimately, a well-designed operating model will lead to cost-effective and sustainable operations, differentiate an organization from competitors, and solidify its value proposition.

To realize these outcomes, there must be alignment between the corporate strategy and the operating model to ensure that the organization is fit for its intended purpose, whether that purpose is growth, value and/or cost savings. Many organizations – including those that are considered successful overall – will at times fall short of having a fit-for-purpose operating model and will thus not fully capture their value creation potential.

The operating model and its core elements

L.E.K. Consulting’s operating model framework includes six key elements, which collectively represent an operating model (see Figure 2).

Figure 2
L.E.K. Consulting operating model



Note: FTE=full-time equivalent; IP=intellectual property
Source: L.E.K. research and analysis

- **Enterprise design (the foundational starting point):** At the core of every operating model, enterprise design incorporates the organizational guiding principles and clarifies the relative positioning of business units (BUs), enabling functions and the corporate center. Enterprise design also outlines where profit-and-loss responsibilities sit across the organization and reflects all in/outsourcing decisions, including the determination of what is critical to keep in-house, and why.
- **Structure and accountabilities:** Organizational structure effectively summarizes all reporting lines and accountabilities to enable the most-efficient work, cross-collaboration and execution. Structure addresses spans of control, ensuring that spans and layers suit the organization's size, geographic footprint and life stage.
- **People:** The "people" element helps illuminate whether the organization has sufficient human capital (full-time equivalent employees and skills) to operate effectively. When role and talent gaps exist, this part of the framework guides organizations in how to approach deficiencies and remediation.
- **Processes:** Workflows within teams/functions and across the organization must be clearly defined, widely understood and automated when possible. Processes should span all key elements of the organization, from new customer development to back-office support.
- **Systems, data and infrastructure:** For a new operating model to succeed, it must factor in the enterprisewide and function-specific systems that are necessary to support daily operations and promote the sharing of data and insights. It is not enough for infrastructure to simply execute workflows as designed; technology must serve as a true enabler that underpins all organizational activities and facilitates the sharing of knowledge and insights.
- **Governance:** Recurring decision forums and clear decision rights are integral to ensuring corporate-, functional- and asset-level adherence to operating norms and governance. As part of operating model design, leaders must not only understand but also align on how key organizational decisions are made and the ideal degree of decision-making centralization.

L.E.K.'s lessons learned in designing an effective operating model

- **Be led by the strategy**

Before in-depth operating model design begins, leadership should have a well-laid-out strategic plan. Leadership's conviction around its target customers, products and services, geography, value chain stages, and channels will fuel organizational success. These decisions will shape the understanding of "how to win" and the capabilities required in the ideal state.

- **Keep the customer in mind**

Begin operating model design from the outside-in, with the customer in mind — their segmentation, needs and pain points, and where a company can differentiate to serve the customer. Determine the customer engagement model and build the operating model accordingly.

- **Recognize the limitations — and successes — of the current-state operating model**

Ensure sufficient time is spent diagnosing the current-state operating model. Identification of key pain points helps pinpoint areas of concern and potential improvements. Equally important as shortcomings, organizational strengths should be identified with the aim of preservation.

- **Be informed by guiding principles**

Enterprise design decisions will set the tone for the remainder of operating model design; therefore, leadership must seek alignment and use the organizational guiding principles to build consensus and develop a unified vision around the key operating model goals. These goals should answer what the operating model is solving for, and how design choices can be made more objective and unbiased.

Example of guiding principles for an organization's operating model:

- Foster a "one company" mentality across business units
- Ensure sufficient risk tolerance and team focus on next-generation products and growth opportunities
- Build top-tier technical expertise into every aspect of the business
- Create the ability to flexibly respond to shifts in market demands
- Implement a nimble but structured way of working

1. Do not rush to build org charts

Stakeholders must systematically consider all elements of the operating model rather than jumping to drawing the boxes and lines of an org chart. The initial focus should be on the macro themes and the relationships between these building blocks before moving into individual and functional relationships. It is critical to take a holistic approach to organizational design, with consideration of each operating model element (not just structure).

2. Thoughtfully build each layer on the model

Each element of the operating model should be completed at a given level before moving to the next level of detail. By developing the new model in layers, from the top down, the design is more thorough and can help stakeholders proactively identify any interdependencies or cascading changes from the design decisions.

3. Focus on how work will get done

All structure and accountability decisions must acknowledge the business-critical work, and how (where and by whom) it is currently done. This allows leadership to focus on how value is created and recommend the accompanying governance frameworks. When decision-making authority is communicated in a clear, easily understood way, operating model recommendations can more easily be converted into standard operating procedures.

4. Do not forget capabilities and talent

Early in the design process, it is also critical to inventory and assess the capabilities that most influence organizational performance. There should be cross-functional and cross-BU discussions around the differentiating vs. table-stakes capabilities, as well as the perceived capability gaps. The benchmarking of analog best practices is only one piece; further analysis of internal capacity and skill constraints is essential.

5. Be intentional about change management

Every operating model implementation will face challenges such as overburdening of resources, lack of coordination, low motivation, and change fatigue or resistance. Leaders must make the case for change with ample time before changes take effect and communicate the rationale for the benefits and timing of changes. To achieve this, leaders must systematically identify where solutions will impact existing stakeholders, processes, structures or governance, and quantify the degree of impact.

Mindset shift toward a holistic operating model design

While traditional operating model design has leaned heavily on the “boxes and lines” of organizational structure, our approach to the operating model recognizes that structure is merely one of the elements that should be considered. By addressing all six elements, organizations can generate a much more lasting and comprehensive impact.

We understand the intricacies and interconnected impact of having an effective operating model, including the key pitfalls to avoid. We have delivered numerous successful operating model and organization strategy projects across industries. Our rigorous approach is supported by the necessary templates and tools needed to drive transformation across businesses to serve customers and create value.

For more information, please contact lifesciences@lek.com.

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About L.E.K. Consulting

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