Operating Models That Deliver Strategy

Idea In Short

When a strategy stalls between the boardroom and the front line, the cause is rarely a flawed plan. It is an organization still configured to run the previous one. Leaders should stop treating a new direction as a communications exercise and start treating it as a redesign of governance, structure, processes, technology and people, the five elements that determine whether a strategy actually ships. Ford, Nike and IKEA each solved a different strategic problem by rebuilding this machinery rather than rewriting their pitch decks. The practical takeaway: before the next strategy refresh reaches employees, leadership should already have answered how decisions get made, who owns which outcome and which three to five processes will change first, because an organization asked to execute a new strategy on old infrastructure will default back to old behavior within months

A leadership team can leave a strategy offsite with total agreement on direction and still watch the business fail to move. Decisions slow down at the exact moment they should speed up. Departments that were supposed to pull together keep pulling in different directions. The results that looked achievable on a slide plateau well below what the strategy promised and the natural response is to blame the plan itself. In most cases the plan was fine. What was missing is the organizational machinery required to carry it out and that machinery has a name:

> the operating model

Strategy Answers Where, Operating Model Answers How

Strategy and operating model get used as if they were interchangeable and that habit causes real confusion once an organization tries to act on either one. A business strategy answers where to compete and why the company expects to win there. It covers markets, customers, products and the logic behind how value gets created and it looks outward at choices about what the organization will pursue and what it will deliberately leave alone.

An operating model answers a different question entirely:

> how will the organization deliver on those choices every day, across every function, in every location

It looks inward at how work actually flows, how decisions get made, how resources get allocated and how performance gets tracked. McKinsey frames this plainly, describing an operating model as the backbone of an organization because it dictates how a company delivers value, runs day to day and pursues its strategic goals1.

The relationship runs in one direction. Strategy sets the destination and the operating model has to be reconfigured to move toward it, which is precisely where most organizations underestimate the scale of what changing direction actually requires. Consider a software company selling project management tools on a subscription basis. Its strategy fits on a single page:

> recurring revenue, customer segments from small teams to enterprise accounts and growth through expanding existing accounts rather than closing new ones

Delivering on that strategy demands an operating model built for round-the-clock cloud reliability, support coverage across time zones, continuous product releases and a sales motion tuned for expansion instead of one-time deals. The strategy is simple. The operating model behind it requires hundreds of deliberate decisions.

This is why a new strategy announced without a matching reconfiguration tends to stall almost immediately. Telling an organization to compete differently while leaving its governance, structure, processes, technology and people exactly as they were is asking it to run an unfamiliar play using equipment built for a different game entirely.

What Actually Sits Inside an Operating Model

An operating model is not the organizational chart, though structure is one piece of it and it is not the business model, which describes how a company creates value in the market rather than how it delivers that value internally. Two companies can run identical business models and produce very different results because their operating models diverge and that divergence is usually where the performance gap actually originates. Bain research shows that a persistent gap between strategy and execution is almost always traceable to an obsolete or misaligned operating model rather than a flawed strategic idea2.

Five interlocking elements consistently separate operating models that hold up under pressure from ones that quietly erode.

Governance and Guiding Principles

Governance is the set of rules that shapes decision-making and settles trade-offs when reasonable people inside the organization disagree. Principles only create value once they are specific enough to act on in a real moment of conflict. A value statement like customer first sounds appealing but resolves nothing. A principle that states when a customer issue conflicts with an internal process, resolve the customer issue first and fix the process afterward gives a frontline employee an actual instruction to follow. Organizations that skip this step end up with governance that exists on paper and gets improvised in practice and that improvisation is rarely consistent across teams.

Organizational Structure

Structure covers reporting lines, how teams are designed and where the company draws boundaries between units and it is the element most leaders reach for first when something is not working. That instinct is understandable but incomplete, because structure only pays off when it is redrawn around the thing the strategy actually depends on. Harvard Business Review makes this point directly, describing an organization as nothing more than the living embodiment of a strategy and noting that only about 10% of organizations succeed at truly aligning the two3. A structure built around the wrong axis, product lines instead of customer segments, for instance, will keep producing friction no matter how talented the people inside it are.

Processes and Ways of Working

Processes define how work actually flows end to end across functions, rather than how it moves through a single department's own procedures. A European bank illustrates the point well:

> it redesigned its account opening process from a seven-day paper-based sequence into a fifteen-minute digital journey and that outcome required marketing, compliance, technology and operations to change simultaneously rather than in isolation

Processes redesigned only within one department tend to shift the bottleneck to the next department rather than eliminate it.

Technology and Data

Technology and data form the platforms and information architecture that either enable or constrain what the rest of the operating model can achieve. A specialty retailer that spent years unifying inventory and point-of-sale data across 400 locations saw comparable-store sales rise 12% in the first full year after launch, because a single, accurate view of inventory made same-day delivery and ship-from-store operations possible for the first time. Technology decisions made without reference to the operating model they are meant to support routinely become expensive systems nobody can fully use.

People, Skills and Culture

People, skills and culture determine whether a design that looks coherent on paper actually functions once real employees, with real incentives and real habits, start using it. A redesigned structure paired with unchanged incentive plans and unchanged management behavior tends to produce surface-level compliance rather than the behavior the new model was meant to produce. Culture reflects what actually gets rewarded and recognized inside an organization, not what gets stated in a values document and a model that leaves rewards untouched will not move behavior no matter how well everything else is designed.

When the Machinery Does Not Match the Ambition

A business-to-business services company decided in 2022 to move from project-based consulting toward a digital subscription offering and the logic behind that pivot was sound. Recurring revenue, better margins and greater scalability all pointed toward the same conclusion. What the company had not accounted for was that its entire operating model had been built for a different business.

Sales incentives rewarded large upfront deals, which created quiet resistance to the account-expansion motion that a subscription business actually requires. Delivery teams organized around bespoke projects struggled to maintain a shared platform used by many customers at once. Support functions built to close break-fix tickets could not deliver the proactive customer success work that keeps subscription churn low. Finance systems designed for one-time invoicing had no mechanism for usage tracking or recurring billing.

The company initially treated the pivot as a product launch and the first year was difficult as a result. Only after it invested deliberately in redesigning incentives, delivery structure, support processes and finance systems did the pivot begin to work:

> by 2024, subscription revenue made up 40% of total revenue and was growing at twice the rate of the traditional services business it had been built to replace

Three Companies, Three Operating Model Choices

Ford, Nike and IKEA each faced a distinct strategic problem and each one solved it through deliberate operating model choices rather than a strategy rewrite alone.

Ford entered 2006 having lost roughly a point of United States market share every year for a decade. Chief executive Alan Mulally's strategy was straightforward:

> divest non-core brands, invest in fuel-efficient vehicles and build common platforms across global markets

Executing that strategy meant dismantling a structure organized around independent regional business units and replacing it with a global functional model. A single global head of product development cut the number of vehicle platforms from roughly 40 down to 10 and each regional unit took on global accountability for specific vehicle categories, North America for large pickups, Europe for compact cars, eliminating duplication that had inflated costs for years. Governance changed alongside structure:

weekly business performance reviews were redesigned to surface problems openly instead of managing appearances and laminated cards describing the new behavioral expectations went out across the entire workforce

Nike's problem in 2008 was different. Customers, including amateur athletes, increasingly wanted sport-specific gear rather than separate footwear, apparel and equipment purchases and Nike's product-based structure could not respond to that shift coherently because no single team owned a complete answer for any given sport. The company rebuilt its operating model around sport categories instead of products, appointed category heads, began reporting earnings by sport and coordinated shipping so a season's full range of items for a given sport arrived in stores together. Bain research found that companies in the top quartile on operating model indicators report decision-effectiveness scores nearly five times higher than bottom-quartile companies and Nike's redesign is a clear example of the kind of boundary-redrawing that produces that gap.

IKEA took a third path, building its operating model around a deliberate choice to excel at a small number of things rather than being adequate at everything. Its cost-leadership strategy rests on two capabilities:

supplier partnerships that keep more than 95% of inventory reliably in stock and a repeatable design process that starts with a target price and works backward to a manufacturable product

Procurement units sit close to strategically important suppliers, supplier evaluation forums run consistently and nothing gets gold-plated where extra quality would not matter to the customer. At IKEA, the operating model is not a support function behind the strategy. It is the strategy, made operational.

Practices That Make an Operating Model Hold

Building an operating model that survives leadership changes, market shifts and strategic pivots is a separate challenge from designing one in the first place and organizations that succeed tend to follow a consistent set of practices.

Start With Design Principles, Not an Org Chart

Before anyone draws a reporting line, the organization should articulate a short set of principles describing what it must do to execute the strategy. Statements such as make it easy for distributors to do business with us give every later design decision an objective test to pass and that objectivity matters because structural decisions are otherwise prone to becoming political.

Involve Frontline Managers in the Design

An operating model designed only by executives tends to look coherent in a presentation and fall apart on contact with real operations. Frontline managers see where processes actually break, where informal workarounds have already emerged and where stated policy and daily reality have quietly diverged and involving them during design rather than only during rollout produces noticeably better outcomes.

Sequence Changes Deliberately

Changing everything at once tends to produce confusion rather than momentum. Redesigning three to five processes that most directly affect customers or generate the most friction typically produces the largest performance improvement and getting that right before expanding scope prevents the kind of overload that derails broader transformations.

Treat the Operating Model as a Living System

Strategy refresh cycles have shortened, often running annually rather than every three to five years and an operating model revisited only after a major disruption will fall out of alignment faster than anyone updates it. Quarterly retrospectives and monthly operating reviews give an organization a defined mechanism for catching drift before it becomes a crisis.

Budget Explicitly for Change Management

Roughly a third of transformation efforts achieve their intended outcomes and the more common cause of failure is poor adoption rather than poor design, a pattern Deloitte's own transformation research identifies as operating model debt building up between strategic ambition and how work actually gets done4. Full adoption of an operating model transformation typically takes 18 to 36 months and leaders who declare victory early often watch the organization revert to old patterns within a year, a dynamic BCG's transformation research attributes to organizations that skip the sustained governance a transformation office is meant to provide5.

Frameworks Worth Knowing

Several analytical tools recur across serious operating model work, each suited to a different diagnostic question.

McKinsey's Organize to Value framework maps 12 interconnected elements, including purpose, structure, governance, processes, technology and talent and it is particularly useful for spotting how choices in one element reinforce or undermine choices in another.

Bain's five-dimension framework organizes design around structure, accountabilities, governance, ways of working and capabilities and it works well for translating a strategy into design principles before anyone touches the org chart.

The McKinsey 7-S model, covering strategy, structure, systems, shared values, skills, style and staff, was built for a steadier business environment but remains a useful diagnostic for spotting misalignment when a redesign is just beginning.

RACI matrices, standing for responsible, accountable, consulted and informed, clarify decision rights across functions and are especially valuable inside matrix structures where accountability tends to become diffuse.

Process mapping and value stream analysis expose where handoffs slow work down, where duplication exists across functions and where end-to-end ownership is unclear and they deliver the most value when applied to the handful of processes that matter most to customers.

Scenario-based capacity planning models how an operating model would respond to demand shocks, supply disruptions or regulatory shifts, building resilience into the design in advance rather than reacting to disruption after it hits.

No single framework answers every question an organization needs to ask and the most effective operating model designs draw selectively from several of them depending on what the organization is actually trying to diagnose.

An organization that gets its strategy right but leaves the underlying machinery untouched is choosing to compete with one hand tied behind its back. The companies that consistently outperform their peers over years, not just quarters, are rarely the ones with the most original strategic thinking. They are the ones that built governance, structure, processes, technology and people into a system capable of carrying out that thinking every day, across every team, without requiring heroic effort to hold together.

- 1What is an operating model and why does it matter?
- 2Great strategy, but is your operating model up to the task?
- 3Design your organization to match your strategy
- 4Operating model transformation
- 5How to create a transformation that lasts

Summary

A strategy describes where an organization competes and why it expects to win. An operating model describes whether the organization can actually do what the strategy asks of it every day, in every location, without heroics. The two are related but distinct and confusing them is why so many well-argued strategies underdeliver. Ford, Nike and IKEA each rebuilt governance, structure, processes, technology or people, sometimes several at once, to match a strategic choice their prior organization could not support. Consulting research puts the average shortfall between strategic ambition and delivered results at

roughly 30% and closing that gap depends on treating the operating model as a designed system rather than an afterthought. Organizations that revisit design principles regularly, sequence change deliberately and fund adoption properly convert strategy into results at a pace their competitors cannot match