

Follow 5 Steps to Architect Your Enterprise Operating Model

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Initiatives: [Enterprise Architecture](#)

Organizations leverage digital technologies to optimize business models. This means changes in support of enterprise operating models, and is where change often fails. Enterprise architecture and technology innovation leaders should follow five steps to successfully transform their operating models.

Overview

Key Findings

- Gartner surveys show that many CEOs are transforming their business models, and almost half of CIOs report that such transformation is already underway.
- Creating new and changing existing business models requires changes to the supporting enterprise operating model. This is often highly complex, with many elements across business and IT needing to change at the same time.
- Many organizations lack an understanding of their enterprise operating model and how to bridge change across the technology-enabled business and operating models.

Recommendations

Enterprise architecture can help organizations transform their business and operating models to:

- Gain a clearer understanding of the enterprise's business and operating models, especially how the two models fit together around business capabilities.
- Develop the approach and fundamental practices that underlay business and operating model transformation and optimization.
- Transform business and operating models by following the five steps outlined in this research.

Analysis

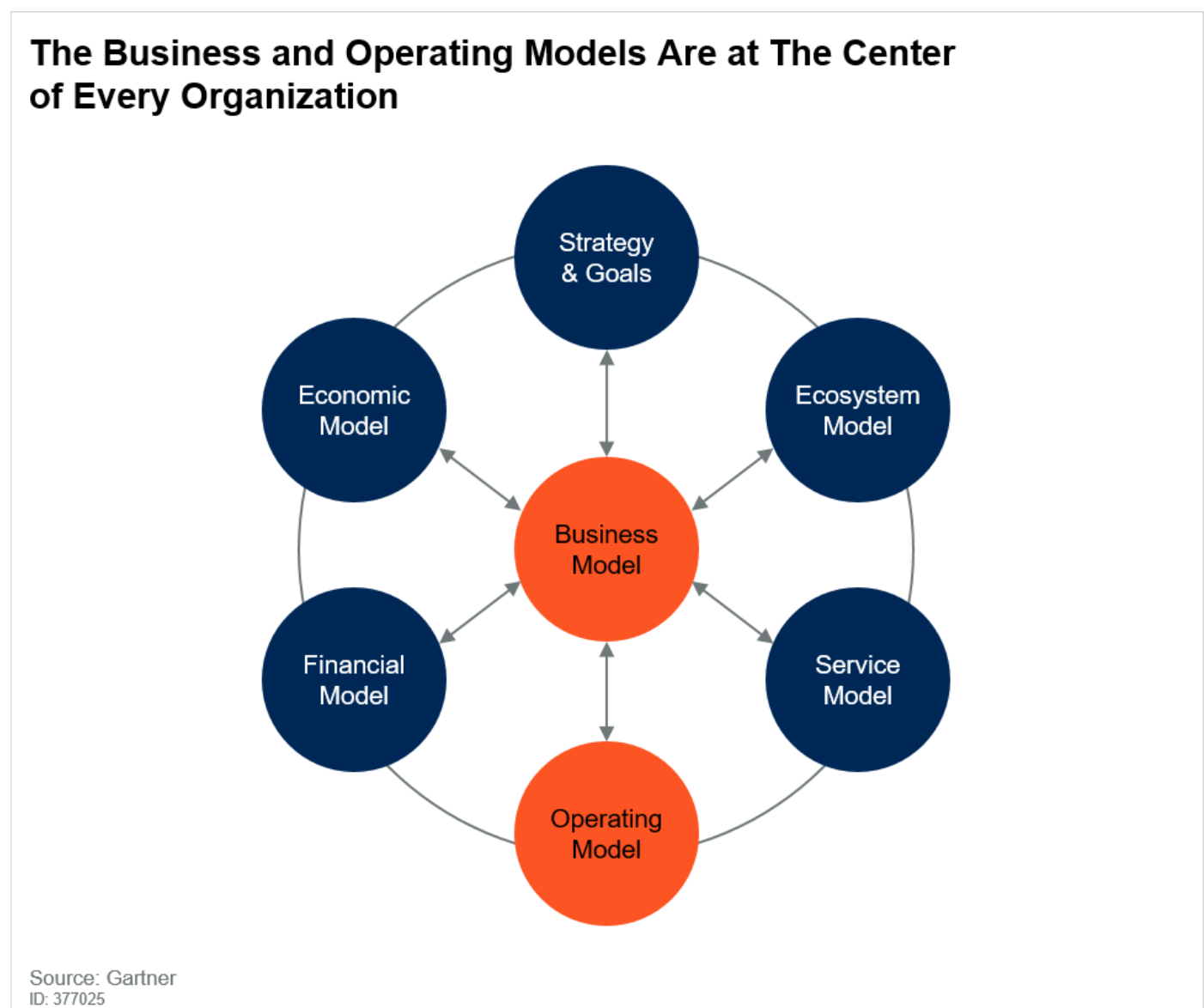
In a recent Gartner survey, 63% of CEOs reported that they will change their business model by 2020, ¹ and 49% of CIOs reported that their organizations have already changed business models

or are in the process of changing them. ². However, research shows that only 13% of organizations successfully execute their strategy. ³.

While creating new business models and optimizing existing business models is challenging, changing the supporting or underlying operating model is where organizations are most likely to fail. Arming the organization with the five steps to architect the enterprise operating model, including a clear process to design and execute it, is critical to the success of any business model initiation and change.

The business model and operating model are at the heart of every organization (see “[Better Digital Business by Design With the Business Architecture Landscape](#)” and Figure 1). The business model reflects what value the entity will create and deliver to customers or constituents. The operating model reflects how the entity creates and delivers that value. It brings together the people and organization, technology, business process, and information needed to deliver the business model (see Note 1).

Figure 1. The Business and Operating Models Are at the Center of Every Organization

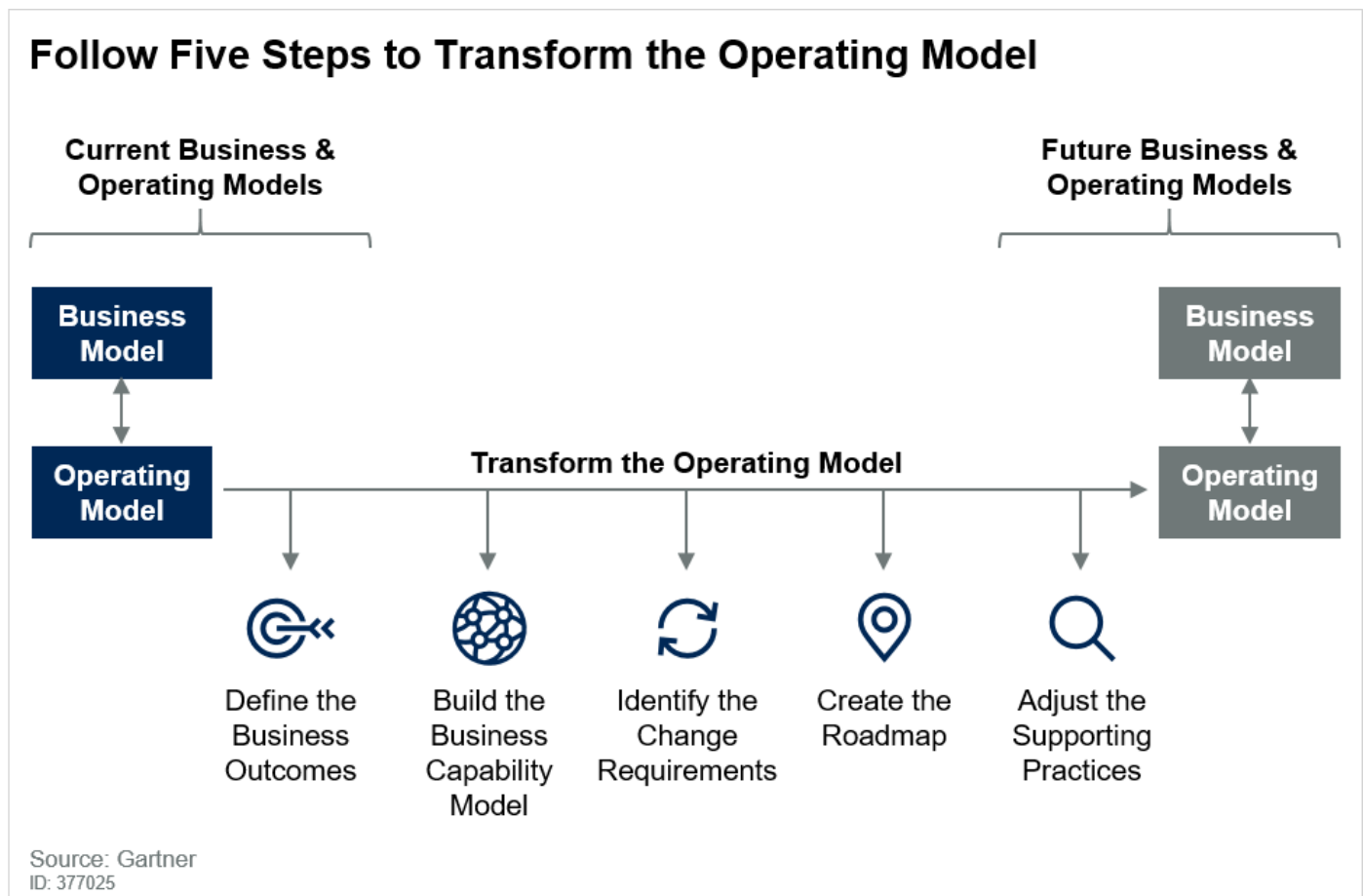


In this research, we will examine how organizations can link the business model to the operating model, and how organizations can design and execute the underpinning operating model. We present it as steps or processes for clarity. However, in reality, the process is a virtuous cycle of continuous innovation in the organization's business model, and continuous innovation in the operating model. Once an iteration is completed, organizations tend to return for the next cycle. The faster an organization can complete a cycle, the more adaptive it becomes, thereby creating comparative and competitive advantages.

Follow Five Steps to Architect The Enterprise Operating Model

To develop the operating model, follow the five steps outlined in Figure 2. Organizations must be flexible when adapting these steps, being mindful of the overall process, but not rigidly bound by it. Remember that, while we have presented it like a process for simplicity, in reality, this will be more of a virtuous cycle.

Figure 2. Follow Five Steps to Transform the Operating Model



Step 1: Define the Business Outcomes

Changes in the operating model will be driven by the business outcomes the organization is focused on. A business outcome is a statement of a specific business benefit result that is measurable, achievable within a specified time frame, and in support of the business strategy and objectives. A business outcome is expressed as a change occurring within a specific short-term or long-term time frame. Business outcomes may be transformational, incremental or remedial, but

enterprise architects must select the highest-impact outcomes that they have the capability and credibility to address. The best way to ensure that a business outcome is targeted to meet business needs is by mapping it to the critical strategic questions that senior executives are asking. ⁴.

Good strategy has three elements: ⁵ a diagnosis, a guiding policy, and a set of coherent actions or business outcomes (see Figure 3). So the first step is to work with business executives to define good strategy, and identify the business outcomes they need to drive. Put simply, business outcomes are the steps the organization takes to move from its current state to its future state.

Figure 3. Identify Business Outcomes



Approach

- Do your homework. Review your organization's strategy, in its published documents and in presentations that senior management has made. Try and identify your disruptions and trends, the guiding policy, and business outcomes.
- Engage business executives. Use the business outcome statement as a template to get their perspective on the strategy, guiding policy and business outcomes they want to drive.
- Develop an evaluation of the business outcomes. Create an impact analysis to understand the opportunity and impacts of the proposed business outcome. This is a high-level analysis aimed

at getting a better understanding of the business outcome, focusing on elements such as linkage to business strategy, opportunity, organizational changes required, investment needed, etc.

- Get agreement on which business outcomes to drive. In most cases there will need to be a prioritization of the business outcomes. The enterprise architecture (EA) team can make a recommendation based on its analysis of which ones to pursue, but ideally business executives come together through groups like the strategic review board or capital budgeting committee to prioritize and agree.

Next Steps

With the prioritization complete:

- Work with your CIO and business executives to create a prioritization and running order for business outcomes.
- Create a high-level business outcome roadmap to guide and communicate the top-level plan.
- Begin identifying the resources that will be needed to execute against the business outcome roadmap (people, time, new technologies, etc.). It's often helpful to reach out to the project management office (PMO) to help with the roadmap and scoping, and get them bought in.

Resources

[“Stage Planning a Business-Outcome Driven Enterprise Architecture”](#)

[“Toolkit: Business Outcome Statements Deliver Value to Your Business and Guidance for EA”](#)

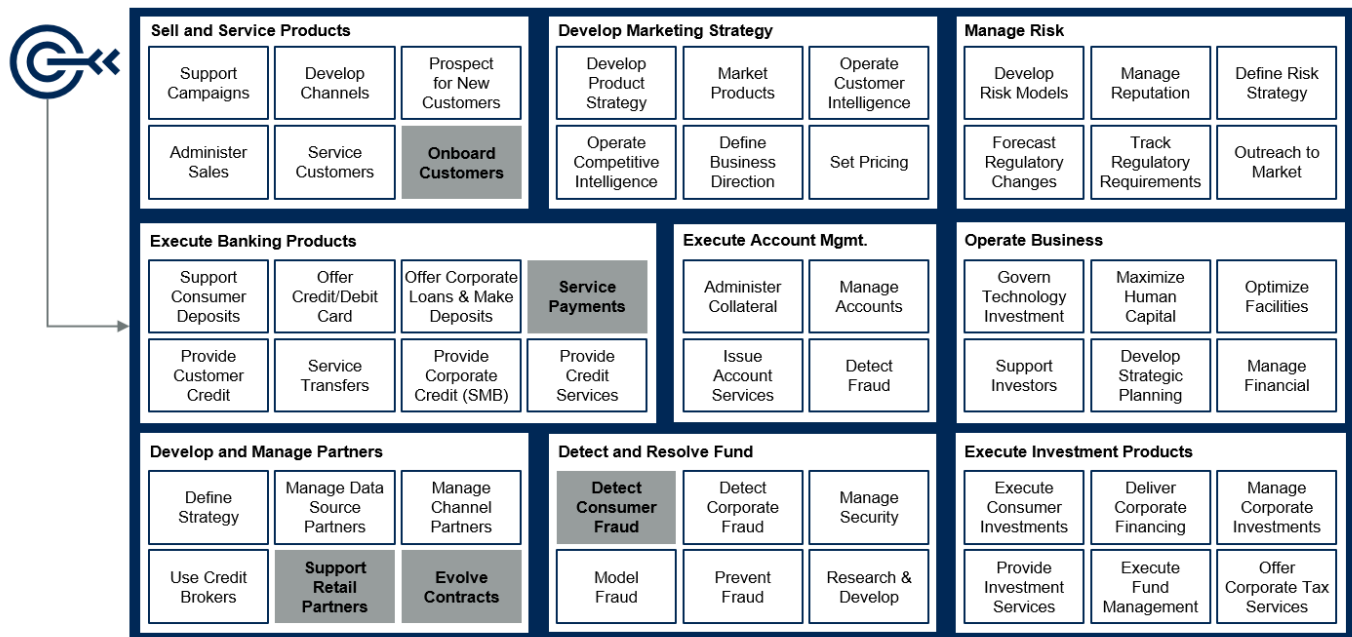
Step 2: Construct the Business Capability Model

Business capability modeling is a technique for representing the ways in which enterprises combine resources, competencies, information, technology, processes and their environments to create unique competitive possibilities and deliver value to customers or citizens. Business capabilities are themselves enabled by people and organizations, business processes, technology and information — the operating model.

Business outcomes change the business and operating models from current to future state, so we're looking to understand what that future state will look like. We begin with business capabilities, as the rest of the operating model flows from there. In this step, we bring together the business capabilities that are needed to support our future-state business model (see Figure 4).

Figure 4. The Business Outcomes Will Require Specific Business Capabilities

The Business Outcomes Will Require Specific Business Capabilities



Source: Gartner
ID: 377025

Approach

- Work with the business executives and their teams responsible for each business outcome to identify the future-state business capabilities. We're aiming to understand what new, or changed, business capabilities will be needed to support this business outcome. Do this for all the business outcomes you're working on.
- If you have a pre-existing business capability model, layer or integrate these additional capabilities and changes into your new business model:
 - Determine if the newly identified business capabilities are incremental (net new – we didn't have it before – or pre-existing – we have it, or something very similar).
 - Conduct an impact assessment – determine how the new or changed business capabilities impact others.
 - Construct a future-state business capability model that brings all the capabilities together and contains new definitions for the newly identified business capabilities.
- If you don't possess a pre-existing business capability model, use the newly identified business capabilities as a starting point to construct a business capability model:
 - Construct a business capability model in the typical manner.

- Review the business capability model with the business leaders who participated in the workshop, and seek validation:
 - Identify which business capabilities are high priority — because you'll need them to develop investment roadmaps.

Next Steps

With the development and reviews complete:

- Construct a final future-state business capability model, linked and prioritized to the new business model.
- Document the business capabilities — this includes a description, critical success factors and KPIs, and what's needed from people, business processes, technology and information to support it.
- Build a capability maturity overlay — this assessment categorizes how close we are to the future-state business capabilities. The scale ranges from “can do it now” to “can do some of it now” to “can do most of it now” to “can't do it now.” Use traffic light colors to show this, ranging from red for “can't do it now” to green for “can do it now.”

Resources

[“8 Best Practices for Creating High-Impact Business Capability Models”](#)

[“Toolkit: Workshop for Constructing an Initial Business Capability Model”](#)

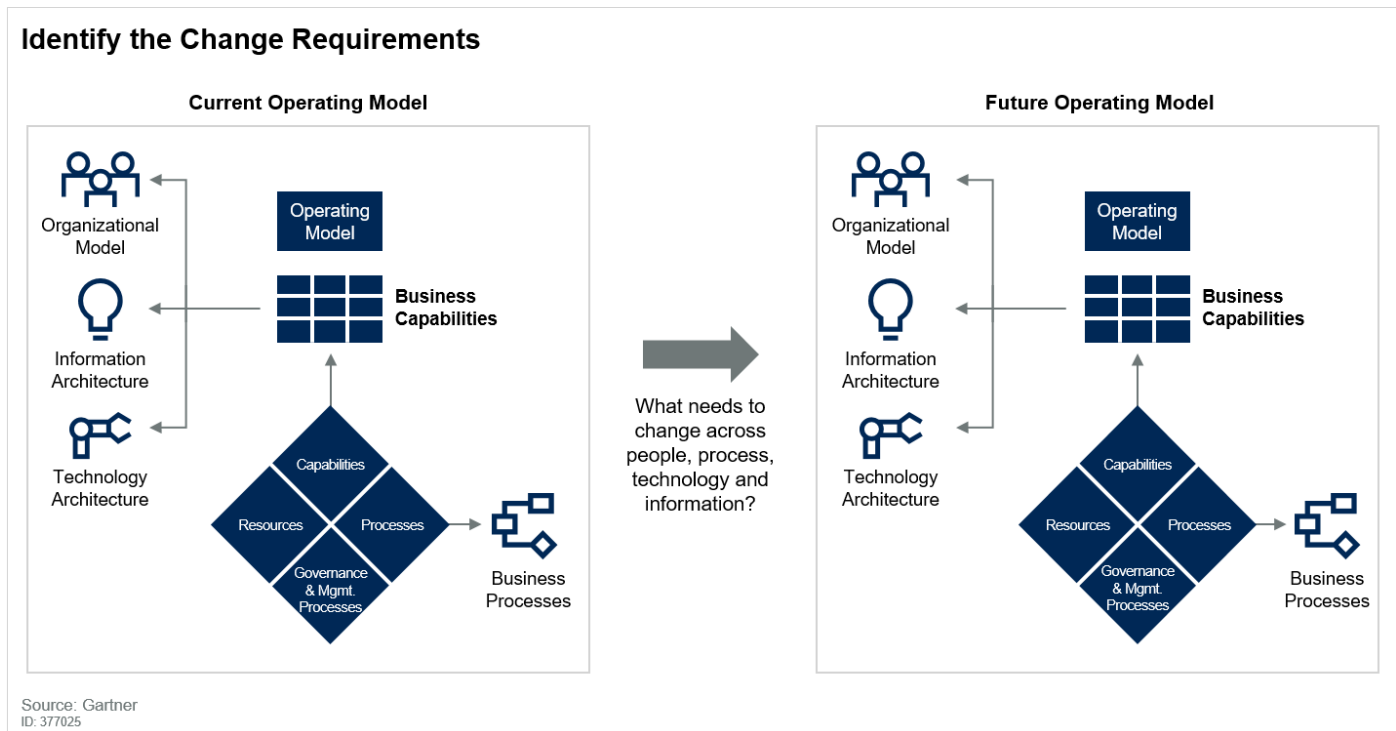
Step 3: Identify Change Requirements

Building future-state business capabilities requires changes across people and organization, business processes, technology and information (see Figure 5). With the future-state business capability model developed, the business architect will need to conduct a gap analysis to determine the detailed change requirements.

Utilize one of two approaches:

1. Traditional gap analysis — EA team works with domain experts to identify and quantify in more detail what needs to change.
2. Risk-based approach — Use the future-state business capability model as a starting point and, in a separate workshop, use a risk analysis — asking what will stop you from building the new business capabilities. This is a lightweight and fast approach, but runs the risk of missing important detail.

Figure 5. Identify the Change Requirements



Approach

- Use the future-state business capability model to decide where the organization will focus its analysis. Combine priority with capability maturity.
- Reach out to the respective business and IT teams responsible for the delivery of the supporting components of each business capability — managers, business process owners and technology leads, and information architects (or a chief data officer, if you have one):
 - Most likely, these multidisciplinary teams will cut across more than one business capability.
- Work with these teams to identify what would need to change in the existing IT estate to enable the future-state business capability and, in turn, drive the associated targeted business outcomes.
- Consolidate and collate the results of the analysis into a set of change requirements:
 - Engage and involve the PMO, as the PMO must have input into (if not drive) the development of the investment roadmaps containing the various programs, projects and initiatives to deliver and enable the new operating model.
- Call out any foundational pieces — for example, the procurement or build-out of a new and emerging technology — or high-risk pieces — those that might have to be reorganized. This might meet resistance. This will help in the roadmapping stage.

Next Steps

With the change requirements, programs, projects and initiatives identified, the organization is ready to operationalize on execution. Begin by:

- Reviewing the change requirements.
 - Engage the teams that helped develop the change requirements. Validate and ensure that the change requirements make sense.
 - Engage the PMO, domain experts and delivery teams who will be involved with delivering the program, project or initiative. Ensure that they understand what needs to change.
 - Check in with the business and IT leaders (strategic review board) who are empowered with overall accountability for initiating and motivating change.
 - The strategic and architectural review boards must understand and sign off on potential risks, implications and costs to the business, and the corresponding IT estate (see [“Rethink EA Governance, Assurance and Review Boards in the Digital Business Era”](#)).

Resources

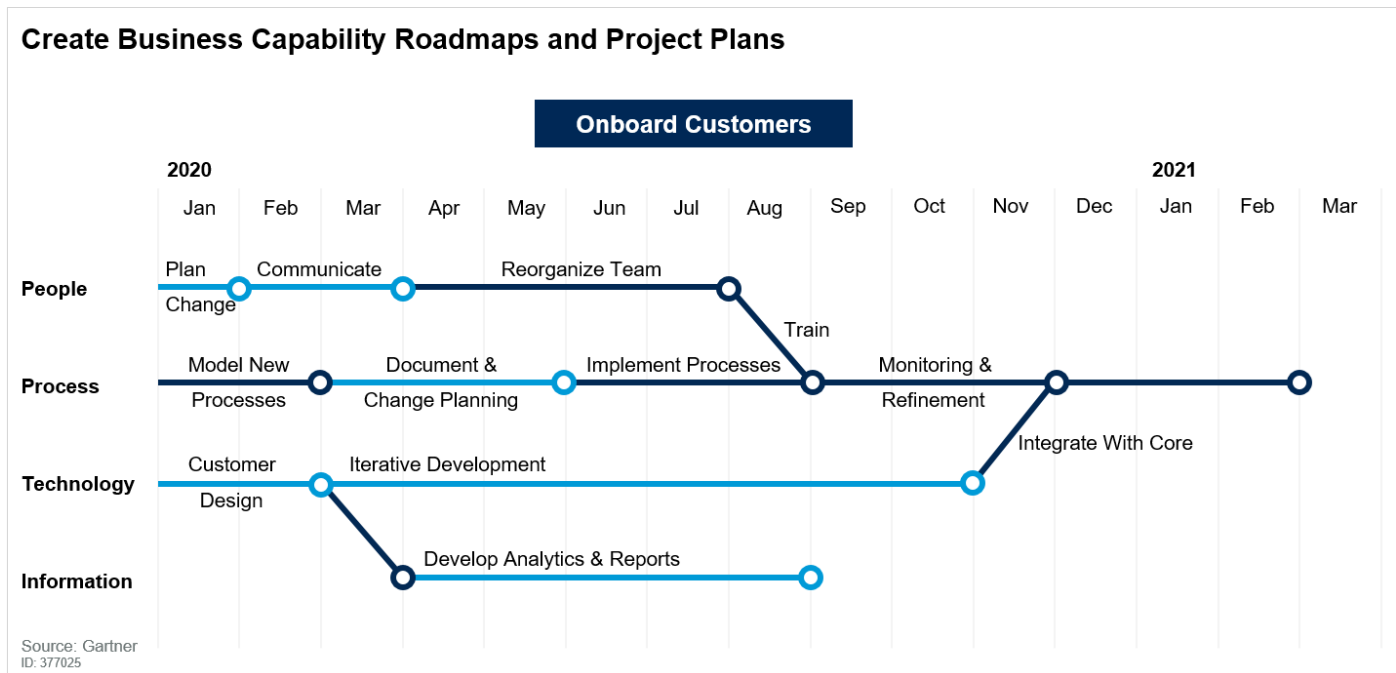
[“Rethink EA Governance, Assurance and Review Boards in the Digital Business Era”](#)

[“From Project to Product Management: The Role of EA Governance and Assurance in Agile Development”](#)

Step 4: Create the Roadmap for Change

With Steps 1 through 3 complete, it's time to construct the capability roadmaps that inform and guide change (see Figure 6). These roadmaps show the build-out of the business capabilities and their respective components over time. Developing roadmaps is often an iterative process, aiming to balance resources, time and priorities (see [“Best Practices for Delivering Targeted and High Impact Roadmaps”](#)). Upon completion of the roadmapping, responsibility shifts from the EA program or team to the PMO for execution and delivery.

Figure 6. Create Business Capability Roadmaps and Project Plans



Approach

- Engage the PMO and domain experts. Prepare to transition from the EA team to the PMO.
- Use the change requirements and the EA analysis of business capabilities to shape the potential roadmaps:
 - In many organizations, responsibility for this step will lie with the PMO.
- Stress-test your roadmaps against time, cost and resource considerations.
- Identify the supporting programs, projects and initiatives:
 - Ideally, these will run using iterative methodologies such as agile to drive change quickly (see [“From Project to Product Management: The Role of EA Governance and Assurance in Agile Development”](#)).

Next Steps

Transition from the strategic to the tactical. Hand off from the EA team to the PMO for program, project and initiative execution and delivery. The PMO drives with the EA team in support:

- Monitor the progress of the programs, projects and initiatives against the capability roadmaps.
 - This enables the tracking of progress against organizational objectives and targeted business outcomes. It helps identify issues and problems early on.

- It enables the organization to measure the business value of EA (see [“EA Business-Value Metrics You Must Have Today”](#)).

Resources

[“Best Practices for Delivering Targeted and High-Impact Roadmaps”](#)

[“Four Must-Have Practices for Successful Organizational Change”](#)

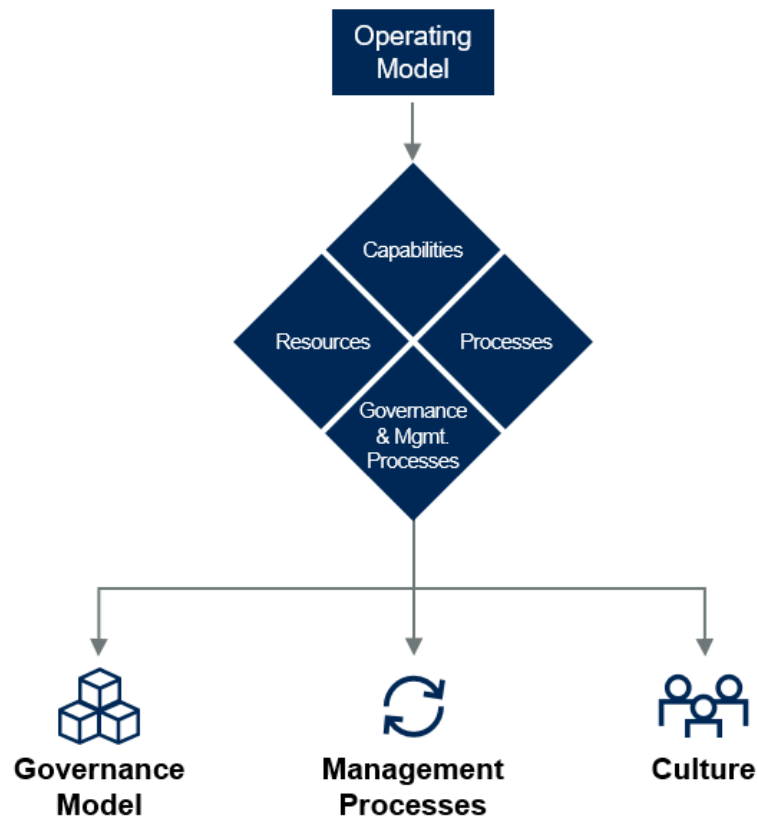
Step 5: Adjust the Supporting Practices

Operating models are more than just the sum of the people/organization, business processes, technology and information (see Figure 7). The operating model is brought to life with the governance model, how people come together and make decisions, the management processes needed to run the organization, and the organizational culture. To complete changes to the operating model, we need to take a closer look at these elements and adjust them as needed.

If we make changes to the organizational design, business processes or technology, we will need to look at the governance model and management processes and ensure that they’re in alignment with the new way of working. Culture tends to be harder to change, but needs to be aligned to the new ways of working — for example, our guiding policy may be to create a more agile and adaptive organization. To do that, we may need to change the culture to reflect that way of working — away from a risk-averse bureaucratic culture.

Figure 7. Adjust the Supporting Elements of the Operating Model

Adjust the Supporting Elements of the Operating Model



Source: Gartner
ID: 377025

Approach

- Begin by reviewing your governance model against your proposed transformation and future-state operating model:
 - If it's a big transformation, then you will need a specific governance model, charged with driving the change over and above your business-as-usual governance model.
 - Work with the stakeholders involved in delivering the future-state operating model and look at the types of decisions the governance model must make. Identify areas of change needed in the existing governance model to support it.
- Review your management processes against the future-state operating model to identify any changes needed:
 - This often follows a familiar business process analysis approach where we identify the management processes by area, look at the future-state operating model and ways of working, and identify the potential impacts and changes required.

- This is often best done in a workshop format, with managers responsible for those management processes coming together to do the review.
- Culture is more challenging as its less tangible, and requires both business and IT leaders to come together to drive change:
 - Engage business and IT leadership in the conversation around organizational culture, and identify areas for change.
 - Get business and IT leadership to take ownership of cultural change and use the tools available to them.

Next Steps

Change to the operating model tends to be continuous, through both strategy cycles and tactical initiatives in response to opportunities or events:

- See the steps to drive change in the operating model as a continuous process; expect to have different initiatives at different stages in the pipeline.
- Be sensitive to operations; build a strong feedback mechanism that can capture issues early on in operational processes and teams.
 - Just like you would with DevOps, have a mechanism to “stop the train” and fix problems before they get serious.
- Build continuous improvement into your process. Work with stakeholders and teams across business and IT to regularly identify where you could do this better, and implement these improvements:
 - Always be open to learning and new insights, wherever they come from.

Resources

[“Leverage Your Enterprise Operating Model to Shift From Efficiency to Adaptability”](#)

[“Define a Roadmap for Your Culture Change Journey”](#)

Evidence

¹ [“2018 CEO Survey: CIOs Should Guide Business Leaders Toward Deep-Discipline Digital Business.”](#)

² [“The 2019 CIO Agenda: Securing a New Foundation for Digital Business.”](#)

³ D.F. Prosser. “Thirteeners, Why Only 13 Percent of Companies Successfully Execute Their Strategy, and How You Can Be One of Them.” Greenleaf Book Group Press. 2015.

⁴ [“Stage Planning a Business-Outcome-Driven Architecture.”](#)

⁵ R.P. Rumelt. “Good Strategy/Bad Strategy: The Difference and Why It Matters.” Profile Books. 2017.

Note 1

Business Model and Operating Model Definitions

A **business model** defines how an organization will make revenue (or, for government organizations, deliver its services) from its operations. It defines the customer, the value proposition for the customer, the financial model (such as revenue and cost), and the business capabilities needed to support the model.

Most organizations will have more than one business model targeted at different customers (for example, combining traditional retail with e-business).

An **operating model** defines how an organization supports its business model in the real world: how it is organized, the supporting technology, and the business processes and information needed. The operating model also defines how the organization manages itself and its resources through its management processes, governance and culture.

Any change to the organization’s business model will require changes to the operating model (the “execution” element of business strategy).

Recommended by the Authors

[Better Digital Business by Design With the Business Architecture Landscape](#)

[A Detailed Examination of the Elements of the Business Architecture Landscape](#)

[8 Best Practices for Creating High-Impact Business Capability Models](#)

[Toolkit: Workshop for Constructing an Initial Business Capability Model](#)

[Best Practices for Delivering Targeted and High-Impact Roadmaps](#)

[Rethink EA Governance, Assurance and Review Boards in the Digital Business Era](#)

[From Project to Product Management: The Role of EA Governance and Assurance in Agile Development](#)

Recommended For You

[Toolkit: Workshop for Constructing an Initial Business Capability Model](#)

[Enterprise Architecture Primer for 2020](#)

[Tell Your Business Model Story With Simple Building Blocks](#)

Ignition Guide to Rebooting the Enterprise Architecture Practice

How Leading Organizations Create Innovative Business Models

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