

Leverage Your Enterprise Operating Model to Shift From Efficiency to Adaptability

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Being able to adapt to hypercomplex market conditions is pushing leading enterprises to pursue radical new organization designs. To succeed, CIOs will need to understand how such changes impact the enterprise's operating model.

More on This Topic

This is part of an in-depth collection of research. See the collection:

- [Scaling Digital Business Requires an Enterprise Operating Model Perspective](#)

Overview

Key Findings

- Leading CEOs are realizing that a vast array of disruptive digital transformation initiatives across industries is creating a cumulative effect on the market and the economy that mandates persistently dynamic business models.
- To master adaptability — a core capability — new management models are emerging based on pliable business processes, expansive job descriptions, bottom-up objectives and heterarchical control. When combined with a supporting digital infrastructure, this becomes an adaptive digital business.
- Adaptive digital businesses must peacefully coexist with the parts of the enterprise that, by necessity, continue to focus on efficiency. Inevitable tensions between the two will emerge across the enterprise operating model.
- CIOs are in the unique position to lead their enterprise through these tensions as their experience leading agile initiatives in the IT organization is directly transferable.

Recommendations

To lead business operating model innovation and evolution, CIOs should:

- Use agile methods to move the entire enterprise to operate as an adaptive digital business. Agile is not just a way to improve application development effectiveness.

- Establish management best practices based on agile methods, and coach senior leaders on their use to support the leadership needed to realize an adaptive digital business.
- Build the digital infrastructure needed to support an adaptive digital business — using artificial intelligence (AI), blockchain and social data — by focusing initially on the needs of the IT organization.

Analysis

A business model describes how the enterprise creates, delivers and captures value. An enterprise operating model describes how the enterprise configures itself to execute the actions and deliver the capabilities needed in the business model.

A central tenet of any enterprise is to continuously examine, improve and evolve business models. When technology is used in pursuit of this aim, we have what Gartner defines as either “digital optimization” (making an existing business model more efficient) or “digital business transformation” (reimagining the business model itself). Business models, therefore, are dynamic by necessity.

What leading CEOs are starting to realize is that there is a cumulative effect on their industry resulting from many enterprises seeking to disrupt through digital business transformation. And, as this spreads across all industries, there is a cumulative effect on the economy. The growing realization is that we are not in a period of flux before things stabilize into some type of *myindustry2.0*. Rather, the new market environment is one of persistent ambiguity borne of hypercomplexity, driven by the way digitalization is linking the world into a vast interconnected network of organizations, people and things. Digital technology is accelerating this in three ways:

- **Scope** — What constitutes a connectable node in a network is expanding as we find ever-more granular ways of digitally describing people and things.
- **Span** — Nonphysicality means that there are fewer and fewer limits on any one node’s ability to connect with another.
- **Speed** — The pace at which a communication moves from one node to another is immediate.









The emerging digital economy should be recognized as a source of massive new opportunities borne from an incalculable number of emerging exploitable gaps. Tapping into this requires enterprises to rearchitect themselves so that constant adaptation becomes not just possible, but also a central capability of the organization.

Adaptive Digital Business — Why Are They Emerging, and How Are They Being Created?

What does it mean to be adaptive? The best way to understand this is to consider a series of priorities that senior managers establish for decisions relating to opportunity realization, governance, asset utilization and investments.

However, these priorities are completely at odds with the priorities an organization must place on these same decisions in order to be operationally efficient (see Figure 1).

Figure 1. Distinctions Between Efficient and Adaptive Priorities

Distinctions Between Efficient and Adaptive Priorities				
	Efficient		Adaptive	
Opportunities are explored when they align with the enterprise's overall business model, brand strategy and go-to-market model.	 Alignment	Opportunity Realization	 Speed	Recognizing and acting on opportunities must be at least as quick as the quickest potential competitor.
Internal policies and processes must be broadly adhered to, unless a formally approved exception is granted.	 Consistent	Governance	 Flexible	Internal policies and processes must be open to interpretation and adaptation if specific market conditions require it.
Assets should be predictably utilized relative to the identified value.	 Coordinated	Asset Utilization	 Combinative	Assets should be adaptively combined and applied to meet emerging opportunities.
Fewer bets are made, and only when there is confidence they can achieve a minimum ROI.	 Certainty	Investments	 Optionality	Lots of small bets are made, with the expectation that a small number will pay off so well that loss on the majority won't matter.

Source: Gartner
ID: 382099

Source: Gartner (April 2019)

The challenge facing senior enterprise leadership is twofold. The first is how to create an environment where rapid opportunity realization, flexible governance, combinative asset utilization and optionality-based financial decisions are possible. The second challenge is finding a way for such an environment to peacefully coexist with the parts of the enterprise that must, by necessity, continue to focus on efficiency. This is particularly important, because focusing on efficiency tends to create an auto-immune system that limits the scope of adaptability if it doesn't kill it outright.

Leading organizations like Haier,¹ ING² and Gore,³ along with academics, are addressing the first challenge by questioning the foundation upon which an efficiently run enterprises is built – the bureaucratic management system.

Bureaucratic management systems are based on four principles:

1. Standardized business processes
2. Narrowly defined job descriptions
3. Cascading objectives
4. Hierarchical management control

If efficiency can be framed as dichotomous to adaptability, then the thinking goes that adaptability can be realized by creating a management system based on:

1. Pliable business processes
2. Expansive job descriptions
3. Bottom-up objectives
4. Heterarchical control

The starting point is the creation of what Gartner calls a “purposeful team.” These are groups that are small enough to ensure social cohesion can be maintained. Dunbar’s Number of 150 is a useful upper limit for a team, although Jeff Bezos’ view of a cohesive team was one that could be fed with two pizzas.⁴ The team coalesces around a shared objective, as opposed to a functional capability. Defining this objective is central to the success of the model, but very tricky to achieve. The approach that is emerging as a best starting practice is to link purposeful team objectives to customer journeys (see [“Ignition Guide to Building a Customer Experience Journey Map”](#)).

Moreover, objectives must be achievable, making scale an important consideration. The concept of “subsidiarity” — whereby issues are handled by the smallest, lowest or least-centralized competent authority — should be an important organizing principle. The culture within a team is based around the principles of autonomy, team focus and holistic thinking.

Purposeful teams do not exist as new departments in a hierarchical organization. Instead, purposeful teams are free to establish their own lines of interconnection between other purposeful teams. The decision to create, sustain or dissolve ties is a collective decision by team members based on whether the relationship is beneficial to the achievement of their objective.

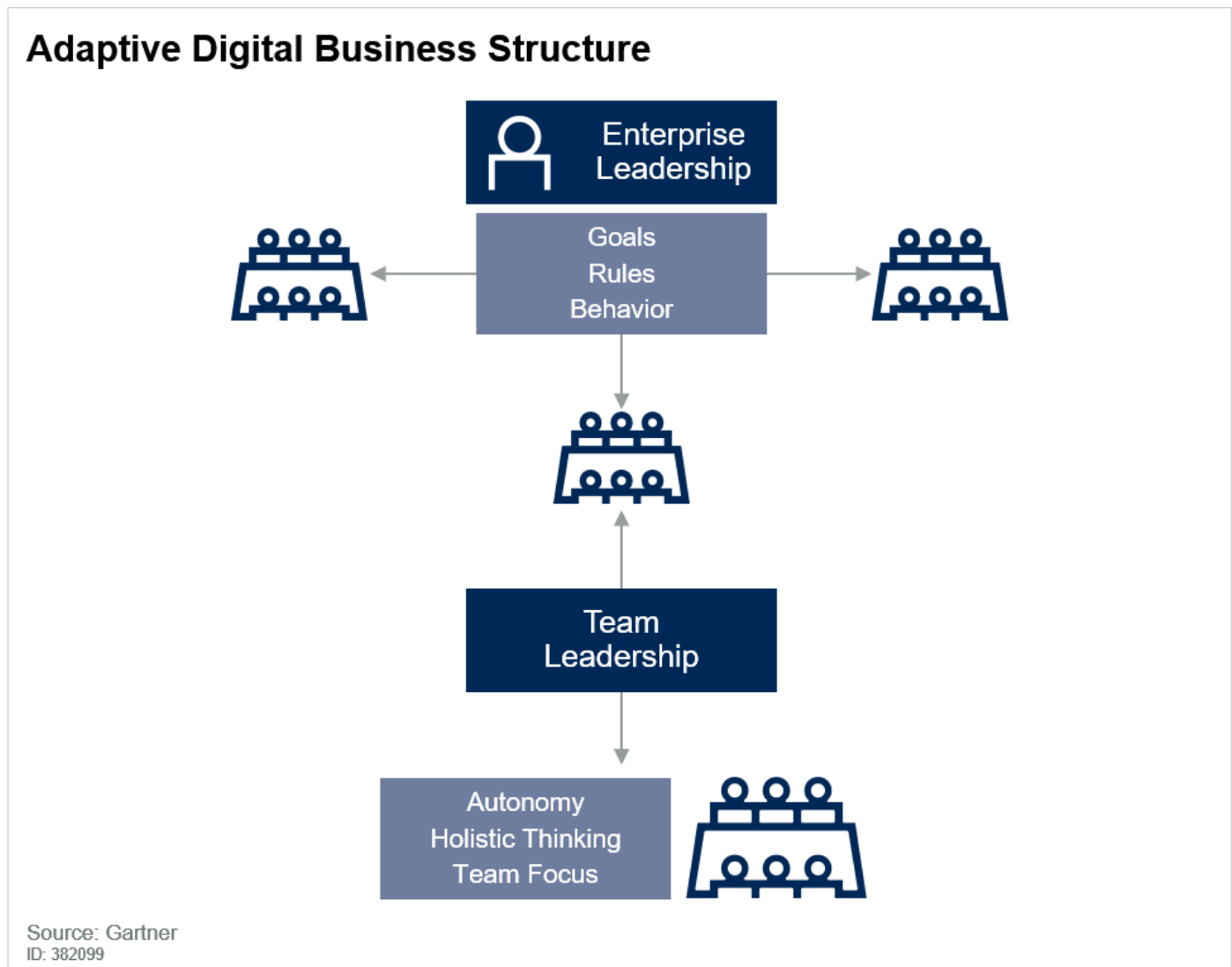
Purposeful teams — potentially interconnected with others — establish the foundation upon which adaptive capability must be built. That is, to push authority to the very edges of an organization. It is there where opportunities can be identified and acted on. Responsible use of authority is achieved by distributing risks and rewards. Purposeful teams are rewarded based on the success of the whole; therefore, risky individual behavior is likely to be self-regulated within teams before it has a material impact on everyone. Socially cohesive teams, supported appropriately by back-office support, make such policing possible.

Finally, purposeful teams, interconnected in a lattice structure, and operating with distributed authority, risk and reward, require a very different style of leadership. At the team level, leadership is expressed by seeking, creating and exploiting interteam relationships. In the parlance of social network analysis, the team leader could be referred to as a “boundary spanner.” Traditional management functions — supervision, monitoring and performance assessment — are not needed. Leadership at the enterprise level has three responsibilities: constant assessment and alignment of the shared goals that bring teams together, creation of rules/frameworks that mitigate the need for

administrative overhead, and perpetual reinforcement of heterarchical culture through words and behavior.

Combining these together and supporting them with a very different digital infrastructure from what is needed for a bureaucratic management system is what defines an adaptive digital business (see Figure 2).

Figure 2. Adaptive Digital Business Structure



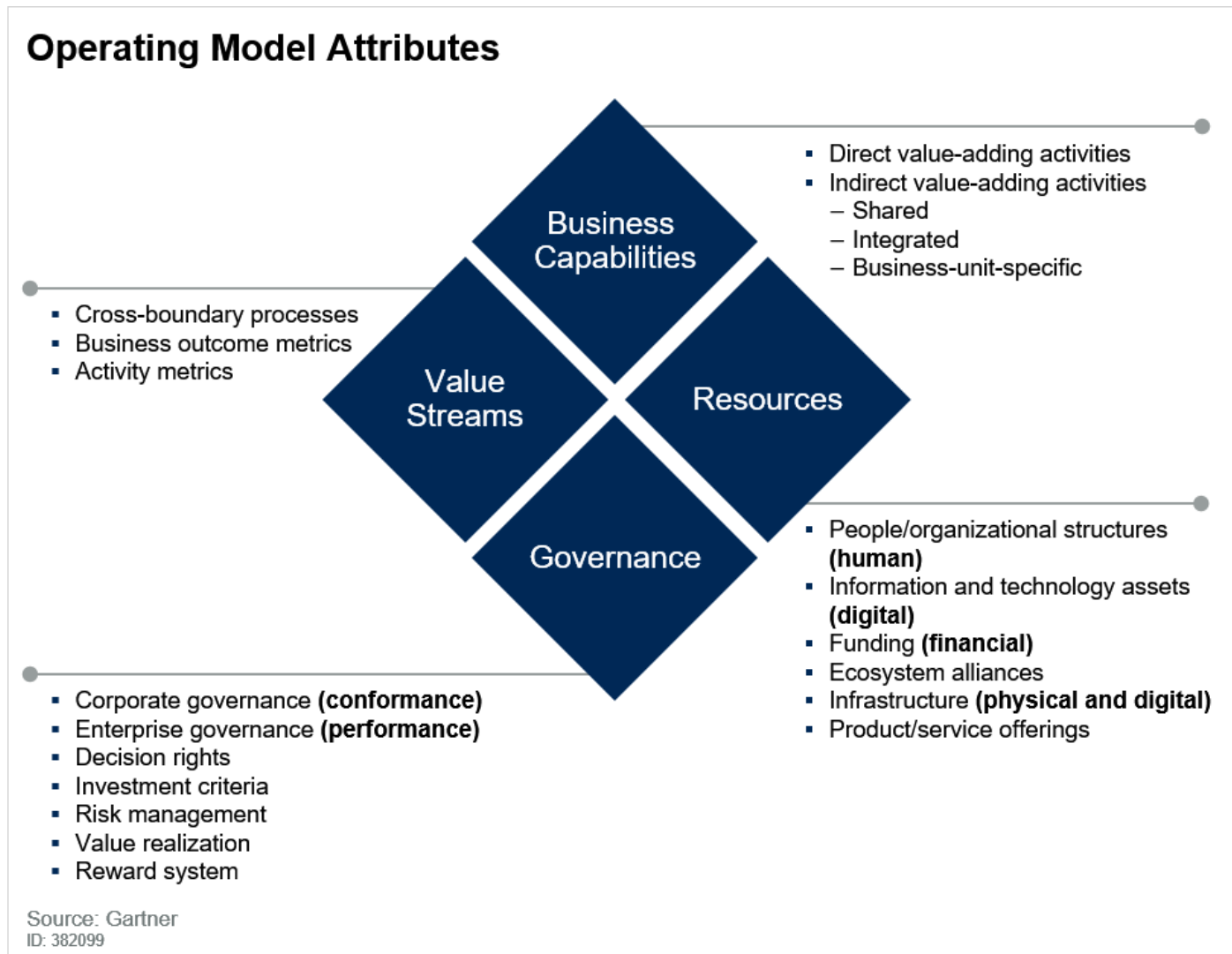
Source: Gartner (April 2019)

The Challenge of Coexistence Will Surface in the Enterprise Operating Model

Adaptive digital business fits within the framework of an enterprise's digital ambition in that it is a route to transformation. During any transformation effort, adaptive digital business is focused on adapting and altering an enterprise's business model or creating new business models, albeit in a very different fashion. Rather than take a planned and coordinated approach to altering existing or finding new business models, the approach is to allow transformation to occur in an organic, bottom-up fashion.

Because adaptive digital business remodels the structure of an enterprise in ways that impact value propositions, customers and financial models, it must be seen that creating capabilities is the route to an adaptive digital business. But this brings us back to the second challenge facing senior enterprise leadership. How can an adaptive digital business coexist with the parts of the enterprise that must, by necessity, continue to focus on efficiency?

Figure 3. Operating Model Attributes



Source: Gartner (April 2019)

The stresses between an adaptive capability and established bureaucratic management systems will be realized in executing daily business operations. Senior enterprise leadership can predict and plan for the inevitable tension points that will occur when enterprises seek to establish and scale their adaptive digital business. This can be done by considering the three areas of an enterprise operating model, connected to capabilities:

- *Value streams* — A common misunderstanding is that value-stream processes should be standardized. While standardization increases consistency and efficiency (ideal for back-office capabilities), direct value-added capabilities, such as “service customer,” often require more-

personalized approaches, requiring more customized, adaptable process designs (see [“CIOs: Redesign the Enterprise Operating Model to Scale Digital Business”](#)).

One of the most important aspects of an adaptive digital business is that it creates the environment where those adaptable process designs can emerge. But at some point, those variations will run up against what is deemed to be the established standardized approach. When they do, the debate will inevitably be caught up in personal and political dynamics, with the adaptable process designs likely having to prove their right to exist while being prohibited from implementation because the case hasn't been proven. The less clear the objective of a purposeful team is, the more likely this tension will both emerge and prove intractable.

Clarity of purpose is a critical factor in any adaptive digital business initiative. The closer that purpose aligns with the customer's journey, the easier it will be for all parts of the organization to make the necessary concessions to standardized process maps and workflows.

- *Resources* — The most striking distinction between an adaptive digital business and an efficiency-focused bureaucratic management model is in their organizational structures. However, this is not a tension requiring management exclusively at the enterprise operating model level, for the simple reason that adaptive digital business doesn't exist unless the alternative structures are created to effect business model transformation.

The most important resource tension in the enterprise operating model is, in fact, information technology. It must be recognized that a significant portion of any enterprise's application portfolio exists for the express purpose of supporting the efficiency requirements of the organization's managers. The enterprise's process maps have been hardwired into these systems, and variations usually require formal exceptions, with approval rights granted based on the organization's hierarchy.

It will prove too complex and costly to rewrite business applications to support two dramatically different approaches to structure and authority. Instead, a new technology infrastructure will need to emerge, designed for the express purpose of supporting an adaptive digital business. This technology will include:

- AI directed at automating the execution of administrative tasks, rather than frontline/customer-facing tasks
- Blockchain used to create system trust through the creation of immutable and auditable ledgers of activity
- Data created for the express purpose of internally directed social network analysis

- **Governance** — Governance-related enterprise operating model tension is multifaceted. For example, enabling combinative asset utilization will require changes to the traditional ways that enterprise governance is conducted. Creating optionality — making lots of small bets on the assumption that most will be complete losses, while a very small percentage will dramatically exceed internal ROI expectations — affects the way the CEO and CFO think about investment decisions.

But without doubt, the most significant governance issue surrounds decision rights. Adaptive digital business requires the dismantling, at some level, of an organization's managerial hierarchy. This involves limiting the scope of middle management's authority as it is distributed down into purposeful teams, which, in many cases, could well result in those positions disappearing from the org chart. It is likely that the many people whose entire career trajectories had been defined by moving up through a hierarchy will resist these changes. The challenge for senior enterprise leadership is to offer these people legitimate paths into purposeful teams and to communicate that high-value contributions within these teams are a faster route to the impact, recognition and remuneration they strive for.

Why CIOs Are Instrumental in Managing Enterprise Operating Model Tensions

The need for an enterprise to adapt to hypercomplex market environments is broadly recognized. While adaptive digital business management models are now well-defined, the awareness of them is nascent. Given that the changes required are so significant, CEOs are likely to consider other smaller-scale options in the pursuit of making the necessary commitment to an adaptive digital business.

Adaptive digital business, therefore, is something happening today with outlier enterprises. CIOs will likely find little success in trying to convince their CEOs to move toward an adaptive digital business if the CEOs are not already contemplating such a move.

With this said, CIOs will be struck by the similarities between the description of an adaptive digital business above and one of the most important initiatives being undertaken by IT organizations — agile development. Those similarities are not just coincidental. Agile development and adaptive digital business are both looking at similar problems. As a result, they are coming up with very similar solutions — small focused teams, distributed decision-making authority and the move away from functional silos with the associated reduction of middle management oversight.

The tensions highlighted between adaptive capabilities and bureaucratic management domination of enterprise operating model dynamics are already on the radar of CIOs undertaking an agile initiative through issues such as:

- Dealing with the “frozen middle” — the layer of IT department middle management that resists the distribution of authority

- Determining the scope of variance that agile teams can make to standard IT processes
- Identifying what constitutes an effective agile team

Just as important is the fact that the impact of agile development is not just contingent on the active participation of the other areas of the enterprise, but also that agile practices end up flowing into the business units by necessity. CIOs should realize that they are unwittingly becoming the leading practitioners of adaptive digital business leadership skills and, through the natural flow of agile practices across the enterprise, are the most qualified to mentor their senior leadership colleagues.

There is no other executive leadership position in an enterprise similarly positioned to become drive-adaptive digital business leadership. Those people, and the CEO, don't need to be sold on you, the CIO needing to lead this effort. It will occur naturally as you successfully execute the needed transition to agile development practices. But there are a few things CIOs should do to ensure they seize this opportunity to lead meaningful change.

Recommendations for CIOs

- Rid yourself of any thinking that agile development is about improving the efficiency and value of the application development team. Instead, instill in yourself and your team that agile development is the starting point for the entire enterprise's move toward greater adaptability, and sell this point to the CEO. Measurable improvements in the efficiency and value of the application development team are the validation the rest of the leadership needs to allow agile to scale more broadly across the organization.
- Don't just deal with problems in scaling agile practices. Create a set of management best practices as they're solved. For example, the frozen middle can be dealt with by eliminating middle managers that won't get onboard with the program. Problem solved, but nothing was learned. Instead, set down in writing the practices associated with things like how to devolve authority in a specific management role, how middle managers can support the transition, and how to create new roles for existing middle managers and effectively transition them. Whatever challenge you run into, think it through, act on it, learn and document. You will be creating a series of assets that will be invaluable to senior leaders as they face similar challenges in the future and that you will be able to coach them through.
- Start building the digital infrastructure needed to support an adaptive digital business. Keep it small and focused on only succeeding with agile in the IT organization. If possible, fund it through the discretionary budget you control. The goal is to establish a baseline understanding of how AI, blockchain and social data can be used to scale an adaptive digital business. Make the inevitable mistakes when they're cheap and of limited impact. Then, as agile practices scale and start moving into actual adaptive digital business management models, you will be better

placed to scale the associated digital infrastructure without expensive, high-impact failures that stall everything.

Evidence

¹ G. Hamel and M. Zanini, [“The End of Bureaucracy,”](#) Harvard Business Review, November-December 2018, pp 51-59.

² D.K. Rigby, J. Sutherland and A. Noble, [“Agile at Scale,”](#) Harvard Business Review, May-June 2018, pp 92-93.

³ G. Hamel, [“ Innovation Democracy: W.L. Gore’s Original Management Model,”](#) Management Innovation eXchange 23 September 2010.

⁴ [Dunbar’s number.](#)

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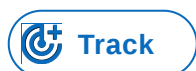
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