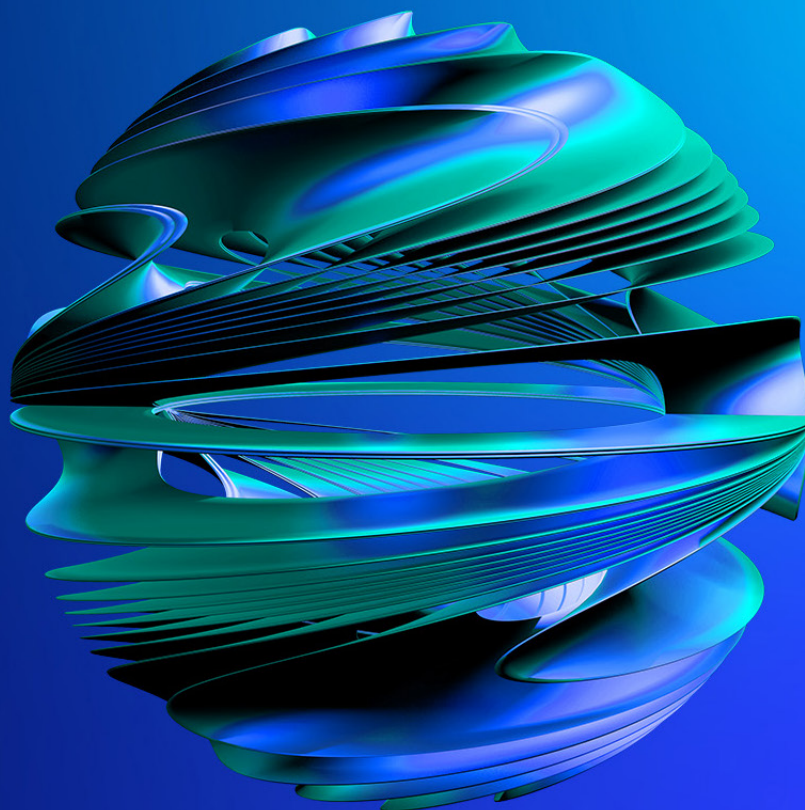


People & Organizational Performance Practice

A new operating model for a new world

While your strategic goals may be the right ones, is the organization built to achieve them? New research reveals a dynamic system that creates value in the face of volatility.

This article is a collaborative effort by Alexis Krivkovich, Amadeo Di Lodovico, Brooke Weddle, Dana Maor, Deepak Mahadevan, and Richard Steele, representing views from McKinsey's People & Organizational Performance Practice.



Every ambitious CEO will tell you that the way to beat the odds is to have the right strategy. That's because a smart, actionable strategy is the foundation for how a company allocates its scarce resources, including people, capital, and materials.

Yet even the best strategy does not magically yield a strong performance. For that, companies need an effective operating model that is intentionally designed to deliver four outcomes that all organizations covet: clarity, speed, skills, and commitment. The right operating model is what can turn strategic potential into market-beating results.

Leaders understand this, which is why they frequently try to adapt their operating models. Two-thirds of the organizations we surveyed have redesigned their operating models in the past two years, and half of the organizations say they plan to embark on a redesign in the next two years.

Numbers like that highlight the ongoing challenge of creating a high-functioning organization that consistently generates value. McKinsey research indicates that [even high-performing companies have a 30 percent gap](#) between their strategy's full potential and what is actually delivered, which can be attributed to shortcomings in their operating models.¹

Given the scale of this gap, we decided the time was ripe to update the best practices for operating model design.² Our analysis, based on academic research, interviews with hundreds of executives, and extensive experience working on redesigns, yielded a new approach: a dynamic system composed of 12 elements (including purpose, talent, leadership, and rewards) that can be tailored to an organization's particular circumstances and goals. We call this the "Organize to Value" system.

The new research represents a substantial evolution from McKinsey's 7-S framework (see sidebar "The classic 7-S"), which helped leaders design operating models in a more stable world. Because executives today must address so many fast-moving geopolitical, technological, and societal trends, their operating model needs to anticipate and react to change just as rapidly.

In this article, we describe actions CEOs can take to develop an optimal operating model "fingerprint"—defined as the unique combination of design choices CEOs make across all 12 elements—that can deliver their strategy and create value. Our research shows that the operating model is one of the most significant enablers of performance within a CEO's direct control. Before embarking on this journey, however, chief executives should identify the root causes of their strategy-to-performance gap, consider how broadly to redesign their operating model, and chart a course to lead the deep change required.

¹ "Losing from day one: Why even successful transformations fall short," McKinsey, December 7, 2021.

² This article, which focuses on the "what" of redesigning an operating model, is the first in a series, *Organize to Value*, which is meant to help leaders redesign their organizations to maximize performance and value creation. Our next article focuses on the "how" of implementing an operating model redesign.

The classic 7-S

When introduced in the late 1970s, [the 7-S framework](#) was a watershed in thinking about organizational effectiveness. As organizations grew in size and complexity, the more critical question became one of coordination.

Featured in the book *In Search of Excellence: Lessons from America's Best-Run Companies*, by former McKinsey consultants [Thomas J. Peters](#) and Robert H. Waterman Jr., the framework maps seven interrelated factors—shared

values, strategy, structure, systems, style, skills, and staff—that influence an organization's ability to change. The lack of hierarchy among these factors suggests that significant progress in one part of the organization will be difficult without working on the others.

After extensive research, we have refreshed the 7-S framework for a new era. This new “Organize to Value” system includes added and redefined elements that can help executives deal

with the speed and volatility of business, technological, and societal changes.

While there are now more operating model elements and different design choices for each element, what has not changed is the recognition that elements interact with one another as a system. When they are aligned, the system is reinforcing, and when they are collectively focused on value creation, they deliver a big impact on performance (table).

Table

From the ‘7-S’ framework to the ‘Organize to Value’ system

7-S Element	Definition	Shift driven by trends	Updated 12 elements
Shared values	What the organization is trying to achieve, or its set of superordinate goals	In today's complex world, purpose serves as a compass, guiding individuals and teams through the challenges of navigating continuous change	–Purpose
Strategy	What the company is doing to gain a comparative advantage vs the competition	Value agenda is now used to define the rules for bold resource allocation, which is managed dynamically to adapt to changing needs and priorities	–Value agenda
Structure	The organizational chart and the associated clear reporting relationships across different axes of the business	Structure has evolved to incorporate more sophisticated elements such as enabling flat, fast, and flexible ways of working within teams, while also considering how an organization collaboratively creates value with partners (ecosystem)	–Structure –Ecosystem
Systems	The processes of the organization, or the major ways in which work gets done	This element has evolved from focusing solely on processes and procedures to incorporating a comprehensive governance model, well-defined roles in decision-making (leadership), and the efficient execution of work, all powered by advanced technologies, including AI	–Leadership –Governance –Processes –Technology
Style	The culture of an organization, or “the way we do things around here,” including the informal rules of conduct	Style has evolved to include the behaviors expected from all employees that drive performance, along with the rewards that motivate and incentivize those behaviors	–Behaviors –Rewards
Skills	The institutional and individual skills that are possessed by the staff, including the required breadth and depth of skills and the skill acquisition strategy	The definition of skills has been expanded to include digital capabilities and now encompasses new approaches to sourcing skills, such as offshore or outsourced solutions	–Footprint
Staff	The people in the organization, in terms of their qualities, intrinsic talents, and demographics, and how they are developed	The focus of this element has shifted from simply retaining staff to adopting a differentiated people model designed to succeed in a dynamic and competitive talent market	–Talent

What's beyond traditional organizational structure?

When rethinking their operating models, many leaders begin by focusing on structure. This made sense in the past, given the traditional hierarchical structures and more stable environment that most executives were trained to operate in. Structure matters because it gives CEOs insight into how strategy is implemented. It is also meant to create accountability and the basis for managing performance.

But structure alone will not create value. Instead, companies should evaluate structure as just one of 12 interlocking design elements, which we discuss later, that create a holistic system.

Operating model design has evolved substantially over the past decade, as organizations have had to respond to fast-moving geopolitical, technological, and societal trends. A tailored operating model, and how much change may be required to implement it, will partly depend on the way in which an organization is experiencing these trends and the design choices they imply.

As part of our research, we asked executives to assess a wide range of developments to identify both the most positive factors and the biggest challenges affecting their business and their approach to organizational structure (see sidebar “Our methodology”).

Across industries, executives told us that the top opportunities relate to technology—specifically, [scaling AI and automation](#), accelerating digitalization, and expanding the value of data. Thirty-eight percent also suggested that they would add a chief AI officer to address these opportunities. Regarding geopolitical challenges, executives cite increasing regulatory complexity and declining trust in business as their top concerns, while shifting workforce demographics, including loss of skills from aging in developed economies, tops the list of the most significant societal hurdles they face (Exhibit 1).

Our methodology

We created a multipart research program to refresh our understanding of the key elements of operating model design and to learn how different models are equipped to deal with crucial trends.

We first conducted in-depth interviews and a survey of 757 senior executives at global companies from April to May 2024 to understand the predictors of their business performance. Participants were screened to ensure that they had a deep understanding of the rationale for their operating model. Industries included

consumer, technology, media, public sector, financial services, and energy; two-thirds of the companies had a market capitalization of over \$5 billion.

Simultaneously, we reviewed academic literature and interviewed leading academics in business and economics. We also reviewed McKinsey's work involving hundreds of operating model transformations.

Our research tested a set of common operating model options to understand

what makes them successful and what choices executives must make to implement them properly. We developed tools to link the operating model to value based on the principles of “new institutional economics” and the “transaction costs theory.”¹

Finally, we developed deep-dive case studies to better understand high-performance operating model fingerprints, including the discrete choices companies make to achieve their strategic goals and drive business performance.

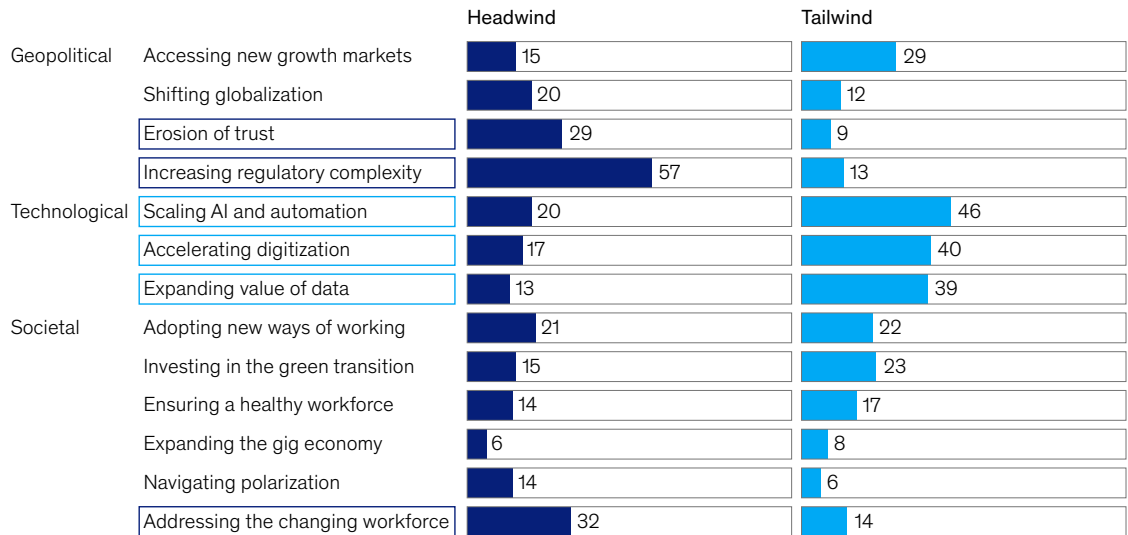
¹ For more on “new institutional economics,” see Douglass C. North, “The new institutional economics and development,” *Economic History*, University Library of Munich, Germany, 1993, Number 9309002. For more on “transaction costs theory,” see Ronald Coase, “The nature of the firm,” *Economica*, November 1937, Volume 4, Number 16; and Oliver E. Williamson, *Markets and Hierarchies: Analysis and Antitrust Implications*, New York: Free Press, January 1, 1975.

Exhibit 1

Geopolitical, technological, and societal trends present challenges and opportunities for organizations.

Expectation of megatrends having a significant impact on organization,¹
% of respondents selecting as top three impact (n = 757)

□ Highest share selecting as headwind/tailwind



¹Question: Which megatrends do you expect to have a significant impact on your organization? Please select up to 3 headwinds and up to 3 tailwinds.
Source: McKinsey Future Operating Model Survey, Apr 10–May 21, 2024

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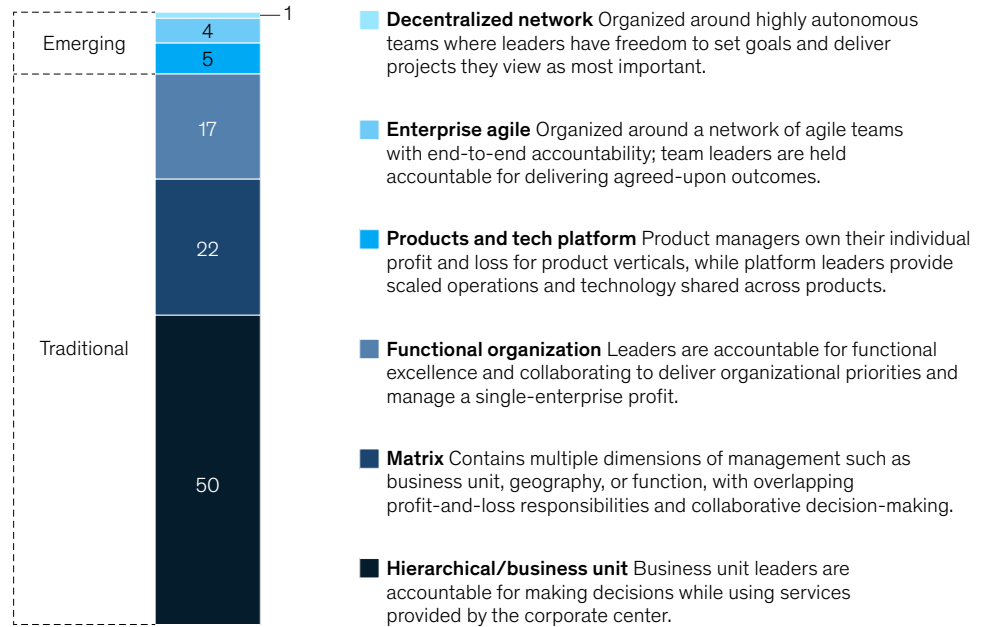
How do different operating model structures respond to these trends? Many leaders have been looking for new ways to make traditional structures, for example, matrix management, more effective. Others have adopted new structures, such as enterprise agile, which is designed to focus on speed, technology investments, and better deployment of scarce digital skills.

We asked executives to identify which structure out of six typical configurations most closely represents their current design. The findings show that 89 percent of organizations in our sample are still primarily using a traditional hierarchical structure—that is, a business unit/holding company approach, matrix management, or a functional organization. The remaining organizations have adopted one of three emerging structures as the basis for their redesign: the product platform model, the enterprise agile model, or a decentralized network (Exhibit 2).

Exhibit 2

Operating model structures have evolved to address geopolitical, technological, and societal trends.

Operating structure of respondents' organizations, % of respondents (n = 757)



Note: Figures do not sum to 100%, because of rounding.
Source: McKinsey Future Operating Model Survey, Apr 10–May 21, 2024

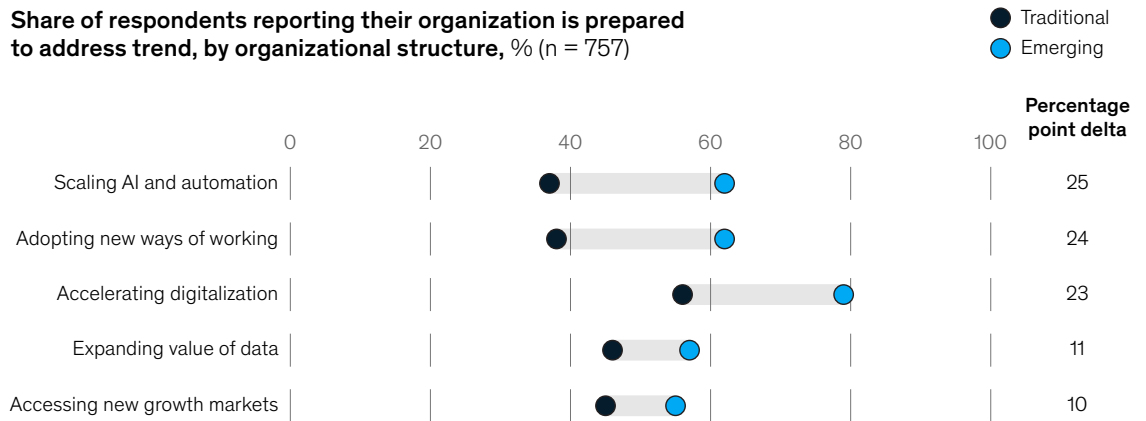
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We then asked executives to rate their organizations' readiness to address the trends they had identified as the most important opportunities and challenges today. The research confirmed that no one structure can drive operating model effectiveness; high-performing organizations can be found using any of these six structures. However, those that use one of the three emergent structures tend to outperform those with a more traditional structure in their readiness to address key trends. In particular, organizations that use emerging structures are more likely to prioritize innovation, technology, and data and to be well prepared to handle the impact of scaling AI and digitalization (Exhibit 3).

Exhibit 3

Companies with an emerging-structure design choice are more prepared to handle key business trends.

Share of respondents reporting their organization is prepared to address trend, by organizational structure, % (n = 757)



Source: McKinsey Future Operating Model Survey, Apr 10–May 21, 2024

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This research on structure and the potential benefits of emerging approaches helps explain why so many leaders focus on structural redesigns. Our analysis further reveals that structure alone does not determine how fit an organization is to fulfill the business's strategy in the current volatile context. Other factors beyond structure are critical to building a future-fit operating model.

The 12 elements of a dynamic operating model design

When we moved our research beyond structure, we set out to refresh our understanding of the key organizational factors CEOs need to consider when designing their operating model. Decades of experience working with organizations and new data collected on high-performing operating models have yielded an updated system of 12 elements that together represent the best of modern operating model design. In addition to structure, the elements are purpose, value agenda, ecosystem, leadership, governance, processes, technology, behaviors, rewards, footprint, and talent (table).

Table

The 12 elements of the 'Organize to Value' system

Element	Definition	Link to performance
Purpose	How the organization defines its core reason for being	Clear purpose helps employees and stakeholders navigate uncertainty
Value agenda	How the organization creates value	Clarity on the value agenda enables optimal resource allocation
Structure	How accountable units and mission teams are designed	Internal organization in the service of strategy enhances prioritization and accountability
Ecosystem	How the organization works with partners to create value	External partnerships create and share value beyond the organization's boundaries and capabilities
Leadership	How leaders make decisions and catalyze action	Roles and dominant approach to decision-making are clear and consistently implemented
Governance	How to set priorities, allocate resources, and manage business performance	Ensures enterprise resources are managed in a consistent, integrated way in alignment with the strategy
Processes	How workflows are designed	Approach to value-creating activities is clear and consistent across the enterprise
Technology	How digital, data, and AI enable value creation	Data and AI are deployed to increase productivity and drive new sources of value creation
Behaviors	How culture is nurtured across the organization	A unique "secret sauce" creates value for employees and customers
Rewards	How people are rewarded for performance	Rewards support the desired behaviors and practices that increase value
Footprint	How the organization locates and deploys talent	The right skills are available in the right locations in alignment with business needs and priorities
Talent	How the organization attracts and develops talent	The right capabilities are available to meet value creation goals

These elements act together as a system that enables the organization to deliver on the strategy. By mapping current organizational choices across the 12 elements, leaders can better understand their organizations' unique operating model fingerprint and determine whether each choice is aligned with their strategic goals. The system offers a way for leaders to either move to an adjacent fingerprint, by refining only the elements that matter most to delivering on strategy, or shift all 12 elements to an entirely new fingerprint. With either choice, they can create a unique form of competitive advantage.

The case of a top-performing airline illustrates how an intentionally designed operating model fingerprint can support performance. The company focused on achieving two business outcomes: delivering an exceptional passenger experience and driving industry-leading efficiency and financial resilience.

To reach those goals, the airline made specific choices across each of the 12 elements. For example, to support passenger experience, it anchors its purpose in organizational reputation and customer benefit. To ensure that the same high standards are met for every passenger, it maintains an integrated approach to its location footprint, meaning that its globally distributed workforce is directly employed by the company. To spur efficiency and resilience, it leverages a traditional value chain ecosystem; to make its matrix structure work, it emphasizes decisive leadership to ensure clarity and speed of decision-making. Finally, given the importance of costs and safety in the industry, it relies on control-oriented processes.

Collectively, the airline's choices across these elements and others formed its unique operating model fingerprint. This clarity helps leaders execute the airline's strategy on passenger experience, efficiency, and financial resilience.

By making intentional design choices across its operating model, the airline has achieved higher performance compared with its peers. It has better on-time performance, an EBITDA margin that is several percentage points higher than that of its peers, and a customer satisfaction score above the sector average.

Future-proofing the operating model

Leaders who become frustrated with their organizations' performance often turn to redesigns. But again, they are focused mostly on structure rather than the 12 elements and the system they form. That is why redesigns happen so frequently—and why they tend to leave value on the table, [according to McKinsey research](#).³ Four actions can help organizations avoid this constant churn.

The first step, as noted earlier, is to understand the organization's unique operating model fingerprint, or the combination of design choices it has made across all 12 elements. Next, leaders can compare their fingerprint and outcomes to highly successful operating model fingerprints across industries. They can then choose whether the best course is to move to an adjacent fingerprint by refining select operating model elements or to move to an entirely new fingerprint. Finally, they can commit to specific performance outcomes and a path to deliver them.

Consider the case of a global financial-services-infrastructure company (Exhibit 4). It had grown through acquisitions, but organic growth was slowing relative to its competitors, partly due to its high cost base. Those costs reflected duplicated investments in functions such as marketing and technology and the lack of an integrated and scalable infrastructure.

³ Steven Aronowitz, Aaron De Smet, and Deirdre McGinty, "[Getting organizational redesign right](#)," *McKinsey Quarterly*, June 1, 2015.

Exhibit 4

A financial-services company chose between refining several elements or shifting its entire operating model ‘fingerprint.’

Illustrative example of operating model review

Change in approach

Element	Starting point	Option 1: Refine select elements	Option 2: Shift entire fingerprint	Rationale for shift to entirely new fingerprint
Purpose	Customer benefit	Competitive performance	Competitive performance	Enables focus on the highest performance standards while still delivering a highly differentiated customer experience
Value agenda	Differentiation	Innovation	Innovation	Enables faster innovation through emphasis on software-as-a-service products
Structure	Matrix reporting	Matrix reporting	Enterprise agile	Enhances time to market and improves service levels through transition to enterprise agile
Ecosystem	Traditional value chain	Traditional value chain	Open platform	Allows increased client access to APIs and customizable data to meet client's specific needs
Leadership	Decisive	Decisive	Empowering	Enables product managers to make decisions independently and speed the rate of decision-making
Governance	Annual fixed budgets	Annual fixed budgets	Quarterly outcomes based	Allows for faster ability to course correct
Processes	Control-oriented approach	Control-oriented approach	Agile approach	Supports transition to one sales force, creates a standardized product manager role, and shifts away from managing primarily for compliance
Technology	Analytics	Analytics	Enabling copilots	Leverages potential of AI to support decision-making and customer experience
Behaviors	Accountability	Accountability	Collaboration	Supports implementation of data sharing, technology scaling, and unified customer experience across product teams
Rewards	Individual performance	Individual performance	Collective team performance	Incentivizes collaboration across shared goals for senior leaders
Footprint	Domestic integrated	Global integrated	Global integrated	Enables access to more diverse talent pool and workforce across offices, given global client base
Talent	Performance based	Performance based	Skills based	Addresses the need to have colleagues with specific functional skills to drive business outcomes

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When beginning the operating model redesign, the company's senior leadership team worked through the four-step process.

Documenting the current fingerprint

First, leaders assessed their current operating model fingerprint. The historical strengths of the fingerprint included the company's purpose, which focused on customer benefits, and its value agenda, which was based on differentiated products. These choices kept the company externally focused but diverted attention from creating effective ways of working and operational efficiency. The leadership also realized that the company's matrix reporting structure had become too complicated, as acquisitions required senior leaders to make too many decisions, which slowed down innovation.

Comparing operating model performance with successful fingerprints

Next, the leadership team explored options for how best to increase growth, either by evolving select elements or shifting to an entirely new fingerprint. In the first option, the team considered placing more emphasis on competitive performance and innovation while focusing on cost reduction by adopting a global integrated footprint that would enable investment in new product development.

The second option drew inspiration from technology companies that operate in a software-as-a-service model. By learning from exemplars, the leadership team realized that a step change in performance across critical dimensions such as innovation, time to market, and return on technology investment was possible. These outcomes were exciting but required shifts across all elements of the operating model to move to an entirely new fingerprint. This included a big structural shift from matrix reporting to an enterprise agile structure. To make the new structure work, the team's leadership style would need to shift from decisive (a top-down approach) to empowering, and rewards would need to move from individual contribution to collective performance.

Choosing whether to refine or remake the operating model fingerprint

The leadership team established the value at stake and examined the risks of the two options, employing two methods. They first set an overall aspiration for the change by comparing their outcomes against the performance of exemplar technology companies. Then they set specific targets for key capabilities—in this case, increasing the effectiveness of their product management function. This combination of top-down and bottom-up analysis created a robust business case for each option.

While option one carried a lower risk in the short run because it focused primarily on liberating costs and reinvesting them in innovation, the team decided on option two, shifting to an entirely new fingerprint grounded in an enterprise agile structure. The thinking was that significantly higher value more than compensated for the breadth and depth of change required.

Committing to specific performance outcomes and a path to deliver them

Equipped with the complete definition of the company's target operating model fingerprint, the team moved ahead with a broader group of 50 executives, giving them the opportunity to refine how the fingerprint would be implemented and how talent decisions would be made. Together, they enacted a program that made fundamental changes over the next 12 months. These changes covered not only what some executives think of as the "hard" operating model elements—such as structure, processes, and technology—but also the "soft stuff" encompassing leadership style, culture (for example, new roles, behaviors, and rewards), and talent development.

The leadership team also compared the company's historical performance and future plans to benchmarks for digitally native companies. This helped them commit to significantly more ambitious goals for revenue growth, better customer experience, and accelerated new product development, including up to 40 percentage points in speed to market and a 25 percent increase in technology ROI. Upon completion of the transition, leaders continued to evaluate their new operating model fingerprint, refining it as needed to align with their strategic aspirations.

Positive outcomes and performance gains

Our experience helping leaders to implement new operating models reveals that CEOs and their teams are often confused about whether their models work as well as they could. Lacking a perspective on the full range of possible structures and the 12 elements that can be used to increase performance, they can get stuck in a frustrating cycle of underwhelming redesign efforts.

Instead, it's helpful to remember that there are many winning fingerprints, as we see in our airline and financial-services examples. The robustness of these fingerprints depends significantly on the organization's strategy, business context, and the trends it faces. CEOs can create a unique fingerprint for the organization and what it wants to accomplish.

Ultimately, a fit-for-purpose operating model that maximizes value creation enables CEOs to achieve four measurable outcomes—clarity, speed, skills, and commitment:

- *Clarity:* Resources and accountabilities are aligned to strategy. In volatile times, it's essential that CEOs can see for themselves how resources and teams deployed throughout the organization reflect strategic priorities. By clarifying who is accountable for this value agenda, the whole organization can navigate change and replace bureaucratic layers with flexible teams that have a clear sense of purpose. Creating ideal spans of control and flattening the organization are crucial. The value of clarity also extends beyond the traditional boundaries of the organization by enabling the development of an ecosystem of partners. This alignment should also be dynamic, since the context will continue to change as the strategy is implemented.
- *Speed:* Workflows are fast, tech enabled, and frictionless. Getting resource allocation and accountability right is important, but it's just the first step in translating strategy into performance. It is often difficult to execute a great strategy quickly, either because leaders take a long time to make decisions or because poor governance prevents the right decisions from even being identified. Also, when work is done in silos with multiple hand-offs rather than in streamlined workflows, it can be hard to capture the value of emerging technologies, including gen AI. For leaders needing to move quickly, it's no longer enough to codify decision rights and incrementally improve processes to automate repetitive work. Instead, leaders must also develop ways of using technology to spur human creativity, including establishing how people and AI work together.
- *Skills:* A future-ready workforce is equipped to deliver the highest value. Geopolitics and new technologies are challenging long-held assumptions about how to source talent and whether to develop skills in-house or by partnering with others. Leaders can go beyond a static workforce plan by continually upgrading their talent and reevaluating location and outsourcing decisions. This allows them to keep up with a labor market that is changing at a dramatic rate. With the wrong operating model fingerprint, the risk is that the market for skills changes faster than the organization's ability to source, hire, develop, and deploy talent.

- *Commitment:* Creating a performance-oriented culture. The implementation of strategy, especially in a volatile era, requires a highly committed workforce and a motivating culture. By creating a shared set of behaviors—a cultural “secret sauce”—organizations can move more quickly and engage colleagues effectively. Reward systems can be designed to encourage those behaviors, support how decisions are made, and ensure that the right work is getting done. When employees adopt common behaviors, it creates a healthy organizational culture that can act as a multiplier effect on performance, further focusing resources and accelerating strategy.

When organizations take this holistic approach to operating model redesign, what can they expect for their bottom line? Our research reveals that a great operating model can go a long way toward closing the strategy-to-performance gap.

For example, the financial-services company discussed earlier achieved step changes in multiple metrics after shifting from a traditional structure to an emerging structure and redesigning the other 11 elements of the system. [McKinsey research shows](#) that gains from such shifts include a 10 to 30 percent increase in customer satisfaction, operational performance, and efficiency; a fivefold-to-tenfold increase in speed in driving change and decision-making; and an increase in employee engagement of ten to 30 percentage points.⁴

The big picture: Practical questions for CEOs

Before embarking on an operating model redesign, CEOs should take a step back to identify the outcomes and risks of evolving or more radically redesigning their model. Many leaders overestimate the results of changing individual elements of their model, especially structure, yet underestimate the degree of difficulty in implementing a more holistic change. That’s why a practical approach to refining and evolving their model as a system starts with asking five key questions:

- *What is the gap between your value agenda and delivered performance?* Assess your recent strategic plans, identify areas where you have not achieved your goals fully, and identify potential root causes for these gaps.
- *What are the critical outcomes your operating model should generate to enable the value agenda?* Define your desired future performance across the four outcomes, creating accountability for your most important initiatives and the specific performance metrics you must achieve.
- *How does your operating model work as a system to create value?* Assess the 12 operating model elements to make design choices that work together and reinforce your ability to deliver business outcomes and strategy. This includes identifying obvious inconsistencies across the 12 elements and areas where poor execution has limited the effectiveness of your design choices.
- *What are the trade-offs between refining your current operating model and moving to a new design?* Evaluate the degree of change required to capture the value creation potential of a new model and determine the hard and soft factors that could prevent you from doing so effectively.

⁴ Wouter Aghina, Christopher Handscomb, Olli Salo, and Shail Thaker, “[The impact of agility: How to shape your organization to compete](#),” McKinsey, May 25, 2021.

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- *How will leaders need to engage differently to enable the operating model at scale?* Take stock of how leaders (including [middle managers](#)) can lead in the ways required in the new operating model and demonstrate the mindset and behavior shifts necessary for the model to succeed.

Organizations looking to make their operating models more effective can start by identifying the causes of their strategy-to-performance gap, followed by choosing whether to redesign several of the 12 elements or all of them. Whatever choice they make, viewing the elements as a holistic system can help leaders meet strategic goals and bolster performance in a complex business environment.

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