

Optimizing the Operating Model & Planning Under Uncertainty

Alec Levenson

Center for Effective Organizations webinar

October 14, 2020

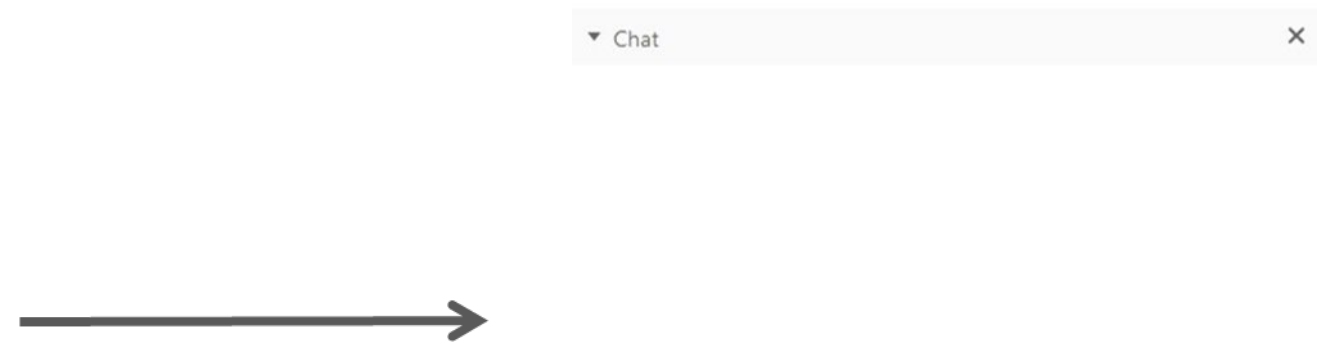
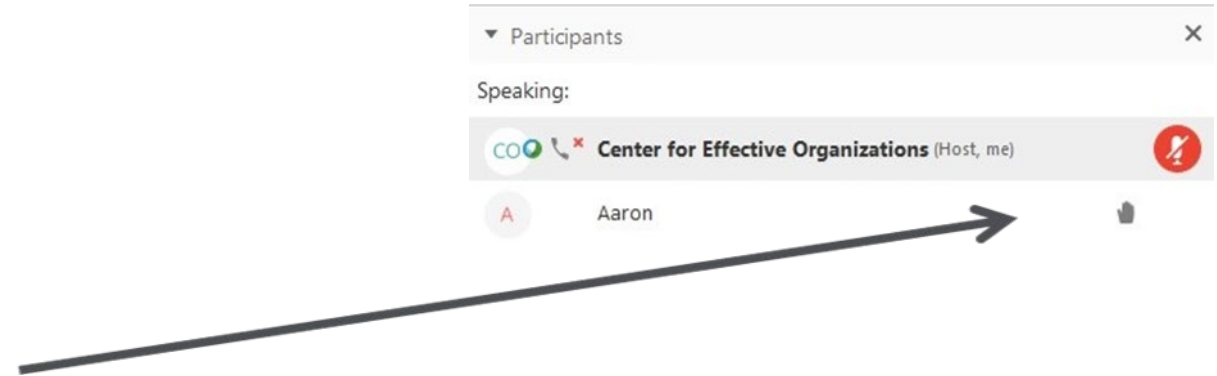


USC MARSHALL **CENTER** FOR
EFFECTIVE ORGANIZATIONS

All listener lines will be muted.

Want to speak during the discussion? Please click the “Raise Hand” button. Please click the button again (it will read “Lower Hand”) once you are finished speaking.

Have a question during the presentation? You can type it in the chat box and press send.



- We are recording this webinar.
- A PDF of the slide deck and the recording will be available online after the webinar.
- We'll send an email to attendees with the URL for these.

Rigorous research.

Reliable results.



Alec Levenson, PhD

Senior Research Scientist

Center for Effective Organizations

Marshall School of Business,

University of Southern California

LinkedIn: /alec-levenson-8915475

Twitter: @alec_levenson

Email Address: levenson@marshall.usc.edu

[https://tinyurl.com/
Operating-Model-
Beyond-COVID19](https://tinyurl.com/Operating-Model-Beyond-COVID19)

OPTIMIZING THE OPERATING MODEL

BEYOND COVID-19

November 4-18, 2020
Online



USC MARSHALL CENTER FOR
EFFECTIVE ORGANIZATIONS

**Six 3-hour sessions
spread over 3 weeks
(two sessions per week)**

Featuring:

- **Alec Levenson**, USC Marshall Center for Effective Organizations
- **Mary O'Hara**, CHRO & SVP of Internal Communications, Blue Shield of California
- **Shayna Schulz**, SVP Transformation and Operations, Blue Shield of California
- **Heather Stockton**, Functional Excellence Lead for Change Management, W.L. Gore

Decentralizing your operating and talent models

MIT Sloan Management Review



<https://sloanreview.mit.edu/article/decentralizing-your-operating-and-talent-models-the-right-way/>

- COVID-19 has disrupted processes leaders rely on to address weaknesses in their operating models, both regionally and globally
- Need to rethink how & where work gets done
 - Centrally-organized companies need to focus even more on remote ways of working
 - Decentrally-organized companies need to focus even more on central ways of working
- Every insight gained today on how to work better – remotely or centrally-focused – can pay huge dividends once the pandemic is over

Everyone is talking about resilience

“Psychologists define resilience as the process of adapting well in the face of adversity, trauma, tragedy, threats or significant sources of stress – such as family and relationship problems, serious health problems, or workplace and financial stressors.

As much as resilience involves ‘bouncing back’ from these difficult experiences, it can involve profound personal growth.”

-- American Psychological Association

- Current conditions
 - VUCA: volatile, uncertain, complex, ambiguous
 - Second global black swan event in <20 years
- We know what resilience means at a personal level
- How to build organizational resilience to deal with the current situation ... and prepare for future uncertainty?

Uncertainty vs. Risk

JOHN KAY
MERVYN KING

DECISION-MAKING
BEYOND
THE NUMBERS

RADICAL
UNCERTAINTY

- **Economic models work well with risk, not uncertainty**
- **Strategic planning processes for 50+ years have addressed risk assessment and “localized uncertainty”**
 - Product tampering: Johnson & Johnson Tylenol
 - Natural disasters
 - Operational failures: nuclear meltdown, chemicals explosion, etc.
 - Terrorist attacks: “localized” impacts in air travel, hotels
- **Great Recession (2007-08) and COVID-19 are much more systemic, global events than scenario planning addresses**
 - Decades of focusing on “core” business models, optimizing operations for cash flow, efficiency, and low cost/high reliability
 - Supply chain optimization & just-in-time production
 - Our organizational systems and industry “best practices” have created an inability to deal with these global events resiliently

Three dimensions

1. Operating model
2. Financial model
3. Human capital

Operating model resilience

	Before COVID-19	Post COVID-19
Supply chains	Global	More local / greater redundancies across geographies (not stretched so thin)
Just in time production / minimizing inventory costs	Focused exclusively on reducing inventory carrying costs	When parts of supply chain are outsourced, how can we be sure that our partners will prioritize our business needs over other orgs?
Open standards / crowd sourcing	Platforms and open standards gaining traction	Would greater reliance on platforms & open standards increase resilience?
Internal capability vs. outsourced	Amazon, FedEx and related business models spread risk among independent contractors & suppliers (like Japanese in 1960s & 1970s)	Should companies now bring more operations / capabilities in-house? Reputational risks are now higher (e.g. Amazon contractors & health benefits under COVID-19)

Financial model resilience

	Before COVID-19	Post COVID-19
Financial leverage	Maximized	Much less
Profit margins	Measured in real time, immediate cash flow	Risk models where higher current cash flow may come at expense of future cash flow if don't invest in right capabilities
Budgeting	Dominated by operational planning and assumptions of certainty	Need to add more risk and uncertainty management to decision making
Sources of financial resources (both incoming & outgoing)	Banks, bond market, stock market, etc.	<p><i>Incoming:</i> Government contracts in a crisis, regulatory edicts and reputation risks</p> <p><i>Outgoing:</i> Become the short-term financial intermediary for vendors / suppliers / go to market partners</p>

Human capital resilience

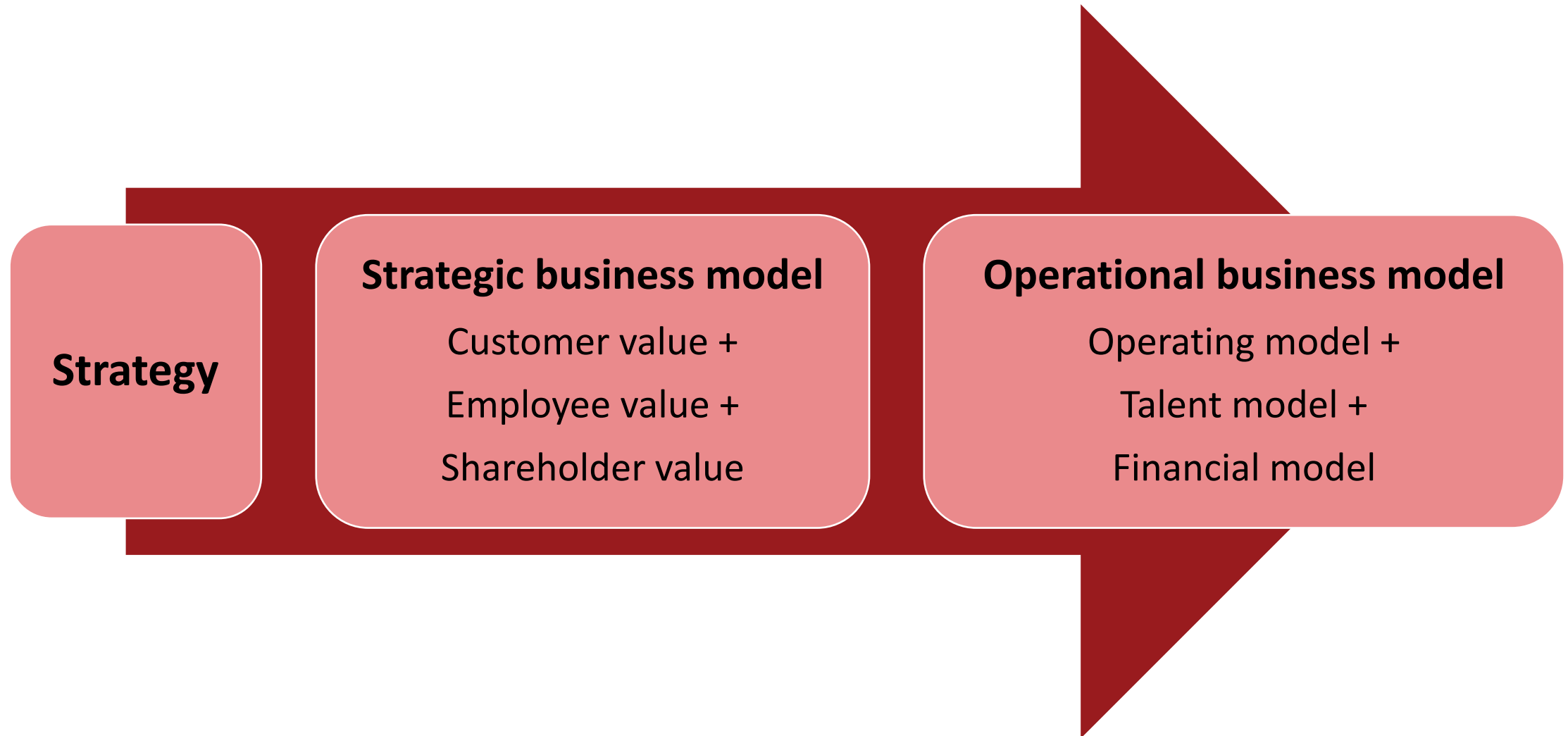
	Before COVID-19	Post COVID-19
Cross-training	Within teams, for adjacent jobs	Expand cross-training beyond the immediate team
Staffing for absence	Usually 105 – 110% of headcount, assuming uncorrelated absences	Absences now highly correlated within teams and entire sites
In-hiring vs. outsourcing	Risk of dis-engagement vs. benefit of employment on demand	Increased importance of shared destiny in face of radical uncertainty: scales tilted more towards in-hiring
Investing in people	UPS develop from within Costco: generous benefits for frontline workers in opposition to industry standard practice	In this new world, are these moving from “interesting exceptions” to standard models?

What is an operating model?

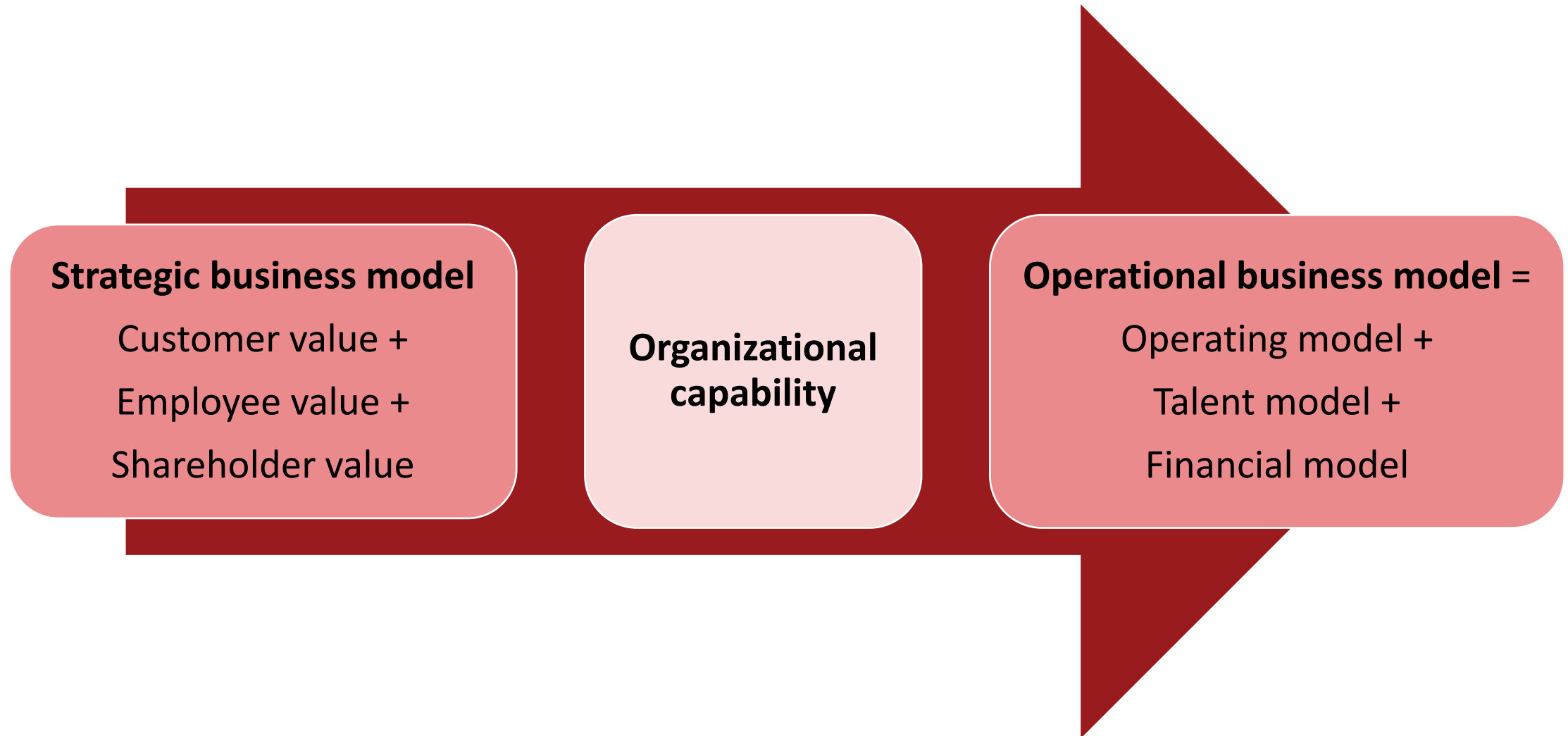
A century of operating model development

- **First part of the 20th Century was about making stuff**
 - Operating models only needed to describe the physical parts of production
- **1980s & 1990s: Information technology changed the nature of business**
 - Concept of operating models evolved as information ecosystem developed

From strategy to the operating model



Org capability bridges strategy & operations



Google case study: Why did they add ...



- What strategic objectives were they trying to solve?
- How are these different capabilities than search?
- How did they fit those new capabilities under one organizational roof?
- What is the strategic business model today vs. before?
- How do they reconcile the strategic vs. operational business models today?

How do you build robust org capability?

Capacity of the organization to deliver customer & shareholder value

- Enabled by delivering the right employee value proposition
- Provides the true north to align the org top to bottom, and end-to-end

1. Work design

2. Staffing and talent management

3. Work execution and management

Work design

- **What are the critical roles needed to deliver customer value?**
- **How are they organized into teams?**
 - What are the systems and processes the teams have to implement for success?
 - How are they supported by the functions and other parts of the business?
- **How are the teams organized in business units, and how are they aligned with key business processes?**

Staffing and talent management

- **What are the critical competencies for each role?**
 - How are they acquired and/or built?
- **What are the team capabilities?**
 - How are the teams formed and developed to ensure success?
- **How do the teams operate together to create the business unit capabilities?**
 - Who is responsible for the integration and handoff between silos?
 - How are those people and teams chartered and developed to ensure success?
 - Does any one person or team own the end-to-end business process?

Work execution and management

- **What are the goals for each role and team, and the business process?**
 - Are there issues with goal clarity, conflict and how challenging they are to meet?
 - How do people, teams and leaders balance short-term operational objectives against the longer-term objectives of customer, shareholder and employee value?
- **How are people and teams held accountable for their performance?**
 - Who is doing a good job, and where are improvements needed?
 - What are the causes of underperformance: leadership, team cohesion, support, etc?
- **What types of rewards are used, both explicit and implicit?**
 - Explicit: compensation, bonuses, spot rewards, promotions
 - Implicit: culture, social norms, access to opportunities, celebrating, shaming

Org capability components

	Business Unit	Team	Individual
Work Design	<ul style="list-style-type: none"> • Business process design • Business unit capabilities 	<ul style="list-style-type: none"> • Team design • Team capabilities 	<ul style="list-style-type: none"> • Job design • Individual competencies
Staffing & Talent Management	Staffing and development of business unit capabilities	Staffing and development of team capabilities	Staffing and development of role capabilities
	Align talent management systems: recruitment, learning, promotions, career paths, etc.		
Work Execution & Management	<ul style="list-style-type: none"> • Business unit goal setting • Accountability for business unit performance • Rewards for business unit performance 	<ul style="list-style-type: none"> • Team goal setting • Accountability for team performance • Rewards for team performance 	<ul style="list-style-type: none"> • Individual goal setting • Accountability for individual performance • Rewards for individual performance

[https://tinyurl.com/
Operating-Model-
Beyond-COVID19](https://tinyurl.com/Operating-Model-Beyond-COVID19)

OPTIMIZING THE OPERATING MODEL

BEYOND COVID-19

November 4-18, 2020
Online



USC MARSHALL CENTER FOR
EFFECTIVE ORGANIZATIONS

**Six 3-hour sessions
spread over 3 weeks
(two sessions per week)**

Featuring:

- **Alec Levenson**, USC Marshall Center for Effective Organizations
- **Mary O'Hara**, CHRO & SVP of Internal Communications, Blue Shield of California
- **Shayna Schulz**, SVP Transformation and Operations, Blue Shield of California
- **Heather Stockton**, Functional Excellence Lead for Change Management, W.L. Gore