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The IT Operating Model Framework of the Future

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INTRODUCTION

What is the correct way to organize IT work to deliver the most value to your business? This question has been on the agenda of countless CXOs since the 1960s. Unfortunately, there is no one definitive answer that will work at all times in all environments and for all business objectives. But there are methodological approaches that will help you arrive at the correct answer and reap the benefits.

An IT operating model defines and describes the value IT creates for the business, the way work is organized, the roles and responsibilities of different parties, the tools available, etc. Each organization has its own IT operating model – whether it is purposefully designed and documented, or it has evolved over time to fight the latest fire. Consciously designing an IT operating model prevents sub-optimal ways of working that lead to waste and missed opportunities.

To help design your IT operating model and organize IT work to benefit the business, you can use one of many IT operating model frameworks. An IT operating model framework provides the necessary building blocks that help ensure you have no blind spots in planning and carrying out IT work. It is a guide to design and implement the IT operating model that suits your organization's specific needs.

This ISG white paper explores how operating model frameworks have evolved over time, the advantages of ISG's state-of-the art operating model framework and future trends and focus areas of operating models.



To maintain competitive edge, more and more companies are moving toward product-centric operating models with a clear view of business outcomes.

Evolution of Operating Model Frameworks

Looking back, it seems there has been a major new IT trend or disruptive technology every three to five years, rocking both the business and the IT worlds. Today, the frequency seems to be increasing.

As technologies evolve and customer expectations change, companies must adapt continuously to the changing environment to be successful and continue to grow. To maintain competitive edge, more and more companies are moving toward product-centric operating models with a clear view of business outcomes; this is a step change from traditional operating models, which focus on activity types performed during the lifecycle of products (e.g., plan-build-run). The operating models used by many companies still address the previous decade's priorities: risk management and increased efficiency.

In the past, operating models typically focused on organizational structure, governance and processes required to operate and develop the IT environment. Their aim was to create structure and document relevant components required to run the IT environment. While these dimensions are still important, the evolving digital and technology landscape have created additional

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considerations, including regulatory compliance, digital channels, platforms, delivery models (e.g., multi-speed, coexistence of agile and waterfall) and organizational change management.

IT operating model frameworks have also evolved to incorporate the latest industry trends:

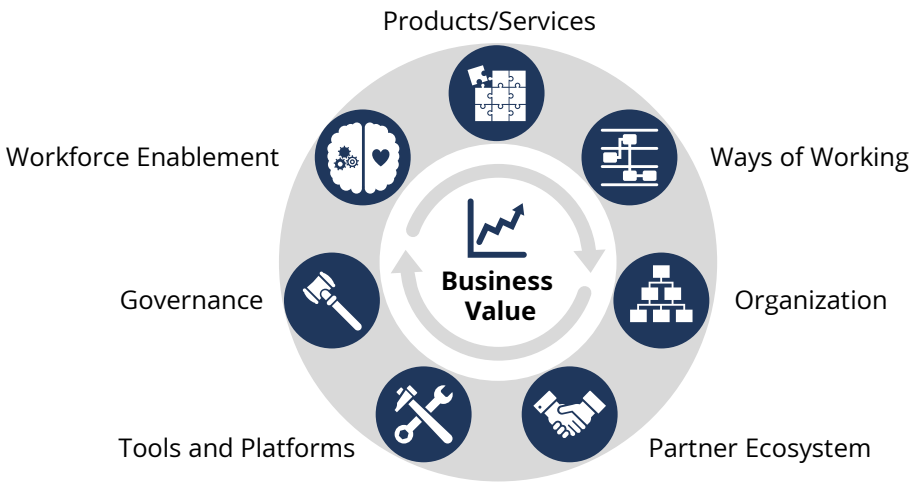
- **~2012 to 2014:** Focus on governance, processes and organizational setup.
- **~2015 to 2017:** Consideration of the service integration and management (SIAM) role of the IT organization creating value for business customers via internal and external service delivery; managing a multi-provider ecosystem as a key element of the operating model framework.
- **~2018 to 2020:** Strong focus on product orientation, enterprise agility (resulting in management of multiple IT delivery models in the IT organization) and cloud (provider) management.
- **~2021 to present:** Focus on "hub and spoke" operating models defining the demarcation line between the central IT and the business IT organization as well as integration of digital platforms in the operating model environment

ISG's Operating Model Framework

Modern target operating models incorporate steps to reduce organizational friction, build adaptability to change and ease the execution of challenging visions and strategies.

Therefore, ISG has developed an operating model framework that reflects the requirements of a modern, agile and digital organization.

Figure 1: The iFlex Operating Model Framework



Source: ISG

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The ISG operating model framework consists of eight main dimensions, each of which need to be addressed for optimal delivery:

1. **Business value:** This is the starting point and core of the operating model, which drives the operating model strategy based on business objectives.
2. **Products/services:** This defines the product/service portfolio and the enterprise architecture. Recognizing different types of products/services, their business value and their customer centricity may drive different delivery models.
3. **Ways of working:** The goal is to simplify workflows across multiple delivery value streams and define appropriate ways of working – such as light-weight processes – as speed to market, technology, provider landscape and objectives change over time.
4. **Organization:** This is the organizational structure that enables a business- and customer-centric culture and includes business-aligned and flexible team setups with new empowered roles and skills.
5. **Partner ecosystem:** This is essential where scarce skills are available and/or innovation is shared. Focuses on engaging culturally and managing the ongoing relationship.
6. **Tools and platforms:** This focuses on the user experience and right selection of platforms – enabling collaboration, free flow of information and automation to create repeatable process and flow by providing the right tools.
7. **Governance:** This governs the environment through appropriate controls, visibility of performance, legitimized shared accountabilities and clear decision rights.
8. **Workforce enablement**: This acknowledges and enables the cultural shift via change-leadership. Fosters employee-driven learning, continuous improvement, adaptability and accountability.

The ISG operating model framework provides consistent tools, templates and typical deliverables to help you define the right operating model for every level of your organization (e.g., for the entire enterprise, a department or at team level).

The main advantages of ISG's operating model framework include:

- **Modularity** – Focus on specific dimensions and reuse any operating model element already developed in your organization.
- **Adaptability** – Design an operating model to serve your specific situation and industry.
- **Completeness** – Cover all aspects of a best-in-class IT organization.
- **Flexibility** – You are free to define specific required deliverables within the dimensions.

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Future Trends that will Impact Operating Models

Operating model frameworks have evolved in the past to accommodate trends in operating model design. There is no sign of such evolution stopping.

Since general operating model frameworks can be used to design and accommodate any type of operating model, it could be argued that such frameworks would carry us forward, no matter what kind of developments happen in the operating environment. However, we can already identify several trends that will impact the ways organizations design their operations. These trends will determine the focus of the operating model design:

1. **Resiliency and the "new normal."** COVID-19 is old news, but it seems the new ways of working it ushered in are here to stay. Organizations need to plan and build operating models that consider a mix of on-site and remote workforce and be prepared to change the models quickly on-the-go as the pandemic progresses and recedes.
2. **Carbon neutrality.** Not yet fully understood in terms of operating model design, the drive for carbon neutrality will have huge impacts on practical levels, from the selection of partners, tools and technology to reduce emissions to the design of smart delivery models that minimize travelling, etc.
3. **Pervasive AI and automation.** The commoditization of AI and automation skills and the technologies that enable their increasing use are causing major shifts in operating model design. AI and automation have the potential to eliminate many of the operational and regulatory risks caused by current operating models and enable organizations to put increased focus on innovation.
4. **Agile operating model design.** Applying agile principles to operating model design will change the way operating models are designed, documented and implemented. Operating models are no longer designed centrally and implemented as a big bang – instead, the central authority will own the minimum viable level of lean documentation and design, while autonomous teams will be given the mandate to do the detailed design, documentation and implementation in their area in smaller, iterative changes. This approach drastically changes the focus of future operating model design, creating the environment and culture to drive change, while ensuring proper governance and guardrails are in place to guide autonomous teams.
5. **"Hub and spoke" operating models.** To balance the need for control and economics of scale for agility and custom solutions, many companies are designing operating models that provide truly shared services by central IT, while business IT provides business unit or customer segment services. Having only a centralized IT typically leads to rigidity and exacerbates "shadow IT" in the business. Business-only IT can lead to spaghetti architecture and inefficiency across the enterprise. Hub-and-spoke models are emerging to bridge this gap, but the specifics of implementation (e.g., "size" of hub and number of spokes) will depend on company goals and the current environment.

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