



# Insights from The Clarion Institute

## Exploring White Space

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In our work we often speak of the essential alignment among the interdependent components of a business operating model. We illustrate the idea of alignment through words and diagrams, but there is a deeper knowing – a business sense or leadership feel for timing and balance – that eludes easy verbal description.

Through a sequence of analogies and simple examples, this issue of Insights focuses on the deeper, tacit knowledge that is required of executives in attaining the alignment that is created in the “white space” between components.

### Essential Operating Model Elements

Reduced to the simplest level, every business shapes itself around three fundamental components:

1. Its **strategy**: Its reason-for-being, its market focus, what value it can deliver and for what price, how it will compete



2. Its **structure**: How it will organize processes and systems to execute on the strategy, operate efficiently, make decisions, deliver products, communicate and interface with suppliers and customers

3. The **behavior** of its people: The talent needed to lead and deliver on its strategy; how to attract, train, focus, compensate, and promote the right people

From the local pizza shop to the largest of global corporations, business leaders must address these fundamental components. It is not sufficient for a company to choose to be good at just one, or even two. The perfect pizza recipe still has to be made, delivered on time and sold by someone at a reasonable profit.

By all rights the complexity of national and global operations with multiple product lines, suppliers, service models and distribution channels demand the input of sophisticated specialists in the areas of strategy, structure and behavior. For sure, thinking strategically is different in nature than designing effective organizational processes, which is different than changing cultures and developing talent – each a domain of business acumen around which expertise has evolved. While some may have the luxury of building out approaches to strategy *or* structure *or* behavior *separately*, leadership does not.

### Thinking About Alignment

While focusing on one piece of the triad is necessary at times, it is equally critical to see how the whole network integrates and works together to achieve the optimal business results. The three components are interdependent and every organization needs to have alignment among its strategy, its structure and the behavior of its people.

What do we mean by alignment? The following explanations build on each other, step by step. At each step we shift our focus slightly,

moving further away from the tangible components of an operating model and stepping more into the intangible qualities and network required to connect them in the white space that exists between.

### ***The Three Legged Stool***

First, simply, it is necessary for leadership and organizations to pay attention to all three parts of the operating model equally. Each aspect of the operating model must be independently strong; but it's also a matter of balance. One short leg means the stool is unstable. Often senior teams do not give equal weight to all three in practice; while the parts may not demand equal time, they are of equal importance.

The CEO, or the leadership team as a whole, has typically developed a greater comfort and expertise in one component compared to another. Comfort is often influenced by the functional business area out of which they rose up through the organization. Executives with operating management experience are much more likely to appreciate the subtleties and importance of business process and organization design. Today it is becoming painfully apparent that many executive teams have vastly undervalued the critical contribution of talent enablement. The point is that, most typically, some part of the operating model is getting the short leg at the senior team table, and this is a risk.

**Situation:** A well-established industry leader faced serious threats from players outside traditional industry boundaries, disrupting established distribution channels and dramatically challenging their basis of competition. The strategic overhaul this forced resulted in deep changes to their operating model from product to distribution, including internal competition between new and old business lines.

**One Leg Short:** It quickly became apparent that this bold new competitive positioning would require leadership attributes and alternative market experience that the current senior management simply didn't possess. The past

formula for talent would no longer suffice – but the new talent profile required was not to be found internally. Post strategic plan, this industry leader was already 18 months behind in its own markets, scrambling to run in place, and now lack of sufficient leadership talent would realistically delay execution by at least another year. Resource talent is now an integrated component of their strategic planning.

### ***Right for Each Other***

Another big part of what we mean by alignment is that components of an operating model must be right for each other. Far more frequently than might be suspected, we see companies with components that are independently strong but unfortunately mismatched to each other.

For example, companies competing on the basis of operational excellence require highly efficient end-to-end processes; waste and deviance from the standard are the enemy; decision making is generally centralized; team (not individual) performance drives the reward system. But these same structural and behavioral components, even though well designed and executed, can actually impede success in organizations pursuing customer-centric solutions. There, decision making is best decentralized, close to the customer, encouraging more autonomous behaviors; depth of relationship management, creative problem solving and nonstandard solutions are desired; individual rewards are linked to share of customers' spend and less to expense savings.

It is not always obvious that operating model components are wrong for each other, especially in complex businesses with matrixed product, service and distribution structures crossing over multiple organizational lines. At times we hear, "We have a clear strategy in the market, very smart people, efficient processes, our scorecards are on target. We are doing all the right things. So why isn't this working better?" In retrospect, once the misalignment is realized, the reaction is often, "Of course! Why didn't we see it?"

One reason it is difficult to see is that alignment requires shifting one's focus to a different field – to the white space and network of relationships between the strategy, structure and behavior, where all the intersections and connections meet. Like a connect-the-dots game, the picture does not emerge from the individual dots, but from the correct interconnections of each to the other.

### ***Balance in Motion***

Up to this point, alignment has been described as static: strong components, a three-legged stool, being the right fit for each other. It's been some years now since companies could get away with thinking of their operating models with singularity and as relatively stable over time. A model designed for success 30 years ago might come unglued at the seams trying to run at the speed of execution required today. It is apparent that we must understand operating model alignment in terms that reflect motion, speed, multiple innovation streams and the necessity of change: a company's ability to move quickly, change direction on a dime, anticipate the environment ahead, set the right timing and pace, and gain on the competition.

Balance on a bicycle is only achieved when in motion; design, speed and balance are all interdependent and can only really be tested in action. The same is true of an operating model. The only way to really know if it works is to get on and ride it.

They say you never forget how to ride a bike. Our bodies remember the feel of balance that kicks in at just the right speed, with just the right shift of body weight to take a curve. Many skilled executives have developed a similar sense of "knowing" when it comes to leading organizations and driving business results. They can feel when the organization is top heavy, or execution is not in gear to take a steep hill; or, conversely, when growing free and fast is spinning the organization out of control. Maybe it's intuition. Maybe it's the result of the accumulation of years of experience. Whatever the source, however it happens, this is a form of knowledge that is

very difficult to describe to others (some call it tacit). Basically, you know it when you see it.

**Situation:** A profitable industrial company was run like a well-oiled machine, with seasoned managers in place, experienced in driving operating efficiencies and leveraging assets, throwing off enviable margins along the way. In the midst of apparent operating success, the CEO rattled strategic cages, sensing their very success might impede needed flexibility.

**Sensing the Problem:** There were no tangible indicators here, but this CEO sensed things were running too smoothly, and that was a seductive competitive trap. He deliberately pushed the executive team to find new growth at and beyond the edges of their core competencies, stretching them out of their comfort zone. Through his push for external market growth the company became much more aware of both overlooked opportunities and their potential vulnerabilities in the face of possible industry changes.

That CEO sensed something out of whack without personally seeing any obvious symptoms. Others recognize it if they are not achieving expected business results. When business performance lags the results expected based on the strength of the components, e.g., compelling strategy or talent of individual players, the problem may lie in how various components are working together in the white space to create balance or momentum. Clues can be found in the underlying business drivers (product development cycle, number of products to market, complexity in supply chain management and manufacturing) that lead to efficiency, customer satisfaction and financial results. Equally important are qualitative symptoms of misalignment: things like unclear decision making, infighting over political turf, lack of clear brand identity, or high employee turnover.

With or without an intuitive sense of balance, more analytic methodologies can be followed to assess alignment. Certain frameworks can provide a structured, rational thought process to find the necessary alignment. Just as the

designs for tour racing bikes are different from the designs for mountain bikes, so the best alignment of an operating model differs according to any number of factors, for instance, the stage of the life cycle a business is in. What works for an established, cash generating business line is different than what works for emerging business ventures requiring experimentation and risk tolerance.

## Achieving Alignment

Not only is an operating model itself in motion, but the marketplace landscape it navigates is changing underneath it as it moves. Change is happening faster, coming from previously unknown global sources, and more unpredictable in form. As Hamel says, “change itself is changing.” It is simply not reasonable to think that any business model, even the most successful, will last forever. Or five years. Sometimes, even one year. Operating model misalignment is no longer a sign of things gone wrong, rather simply a fact of change itself. Today’s business environment requires frequent rebalancing of the components and their interconnections in order to maintain alignment.

So, what’s a leader to do? How you initiate and manage the process of moving towards alignment depends on such things as your natural instincts and capabilities as a leader, the pace of change that is required, and how much change you believe your organization can handle.

### *Effecting Change via Balance*

Exactly how to prevent crippling misalignment or create a new alignment gets more complex, partly because there are so many moving parts. Organizations often express this challenge as “changing the tires while the bus is moving.” Sometimes it is possible to coordinate change in strategy, structure and behavior in tandem, maintaining a sense of balance along the way.

### *Effecting Change via Cause and Effect*

Other times it is appropriate to change only one element of the equation at a time, deliberately altering one aspect of the operating model knowing that other areas must automatically follow suit – like tapping the first domino in a line, and seeing the others fall in sequence to create a planned design. This often occurs when a new CEO is hired; the Board or leadership team wants to stimulate re-alignment of the company. The rest of the organization braces itself: they know significant change will follow in quick succession.

When leadership presses specific organizational levers repeatedly, the effects can be somewhat predictable, which helps the rest of the organization adapt to the change. For example, in a company that grows principally through acquisitions, as soon as leadership communicates the decision to acquire, known sets of activities are put in motion to make the acquisition happen. This capability is so well honed that the cause and effect alignment occurs almost seamlessly.

### *Accommodating Complexity*

The leadership mandate to effect change by bringing connection to the network of relationships in the white space is challenging for very good reasons. Not only must the operating model components themselves be individually strong, but they must be right for each other, and they must maintain a sense of balance, while in motion, traveling through an unpredictable environment, faster, ahead of the competition, anticipating future change.

For some of our clients, it is not uncommon to have multiple operating models active simultaneously – like chess masters playing multiple games at the same time. What is it like to lead companies in such a complex, non-linear business world? Experienced leaders talk about effecting change being part science and part art. Business leaders today operate in a complex social system of markets, governments, products, solutions, alliances, partnerships and emerging and conflicting technology – all interconnected and influen-

cing each other in unpredictable ways. Setting our bikes and chess boards aside, a somewhat more useful analogy at this level of complexity might be a team sport, like basketball.

Something magical happens when a coach is able to visualize just the right offensive and defensive sets (strategies) that will work for the players (talent) on the court. But rarely is this known at the beginning of the season. Finding the right balance of controlled plays (structure) and individual player autonomy comes from seeing how the team works best together; it comes from experimentation, good judgment and practice. Gifted coaches seem to possess the ability to trigger motivational levers unique to each individual (behavior) that create a connected commitment toward team execution. The space between is just as important as the players themselves: getting open, spreading the offense or filling the lane, slowing down the tempo, converting fast break opportunities, seeing the floor, or anticipating the ball movement.

Similarly, many gifted business executives use their tacit knowledge to orchestrate the complex alignment of their business' operating model: game strategy, structure and execution of team plays, mid-year adjustments, the right channel strategies, and development of individual talent. Given the unpredictability of single changes in complex systems, there are many choices, all of which can result in the desired outcome. A leadership team may first address those elements that are aligned to its strengths because there is greater comfort in handling these, or it may go after those areas they typically avoid knowing it will have a greater impact, sooner. The path to alignment may be driven by the general capability of the organization to handle a particular change, or by what the market or shareholders expect to happen. How the changes are synchronized could be based on leadership's deeper inner drive to make an impact and perhaps a motivation to leave a business better off than she or he found it. Regardless of what stimulates action, the goal is to hold a picture of all of the moving

parts or what eventually needs to change, and to be clear about the desired end state.

**Situation:** A software technology company pursued a business plan to integrate its software architecture and diverse set of applications. The business rationale was to drive economies of scale within a portfolio of products, solutions, services and sales, in an environment of complex innovation models and acquisitions that were designed to leverage multiple channels. To enable this change the CEO created a new Group executive role to lead this collection of diversified software businesses. The intent of the plan was to enable consistent quality in architecture, process and culture and a consistent platform that would serve as a standard for software development and deployment. This action ran smack up against independently minded entrepreneurs now needing to work together and compete for resources.

**Whose "One Team" Are We On?** The complexity of managing individual player competition now on one internal team was exacerbated by a series of one-off deal structures and the conflicting incentive packages required to retain the talent. Furthermore, the innovation models of the diverse businesses were almost all challenged in some way by transitioning to a standardized platform. The newly appointed Group executive was forced to manage a series of staged strategic issues, all of which were complicated in their own right. First, the not-so-black-and-white tradeoff between the deployment of a standard platform and open source flexibility. Second, resolving how decisions can and should be made in what was now essentially a forced network of participants with overlapping circles of cooperation and needs for collaboration. Third, the subtle massaging of large egos and confronting power struggles, while at the same time deploying a unified management structure that evaluated investments and made portfolio level decisions. While all along taking some hard looks at the effectiveness of each of the businesses and learning which executive talent was critical and had the capacity to scale in leadership to the changing needs of the business.

## Business Alignment

In film, the Director of the Year award often goes to one who has gotten more out of the team of performers than was logically possible. We all know there are times when an ensemble's results far surpass the individual or collective talent of the actors. By contrast, hugely talented casts of characters can disappoint with lackluster performance.

Success lies in the ability to take the separate components and combine them in a way that, in any given moment, creates performance that exceeds what any of the parts alone

could realistically explain. Sensing when to quicken the pace, when to slow the tempo, when to motivate by providing coaching and guidance on the set, when to mentor quietly behind the scenes – most executives, like directors, understand that they need to pay attention to all the subtle elements of pace, timing, match-ups, relationships, rewards, control, autonomy and all of the glue that holds it together.

Always changing, always evolving, knowing what to change, when, and how, using explicit knowledge and tacit knowledge, leaders can produce business alignment.

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