

How COVID-19 is redefining the next-normal operating model

Jost, Gregor; Mahadevan, Deepak; Pralong, David; Sieberer, Marcus . The McKinsey Quarterly ; New York (Dec 10, 2020).

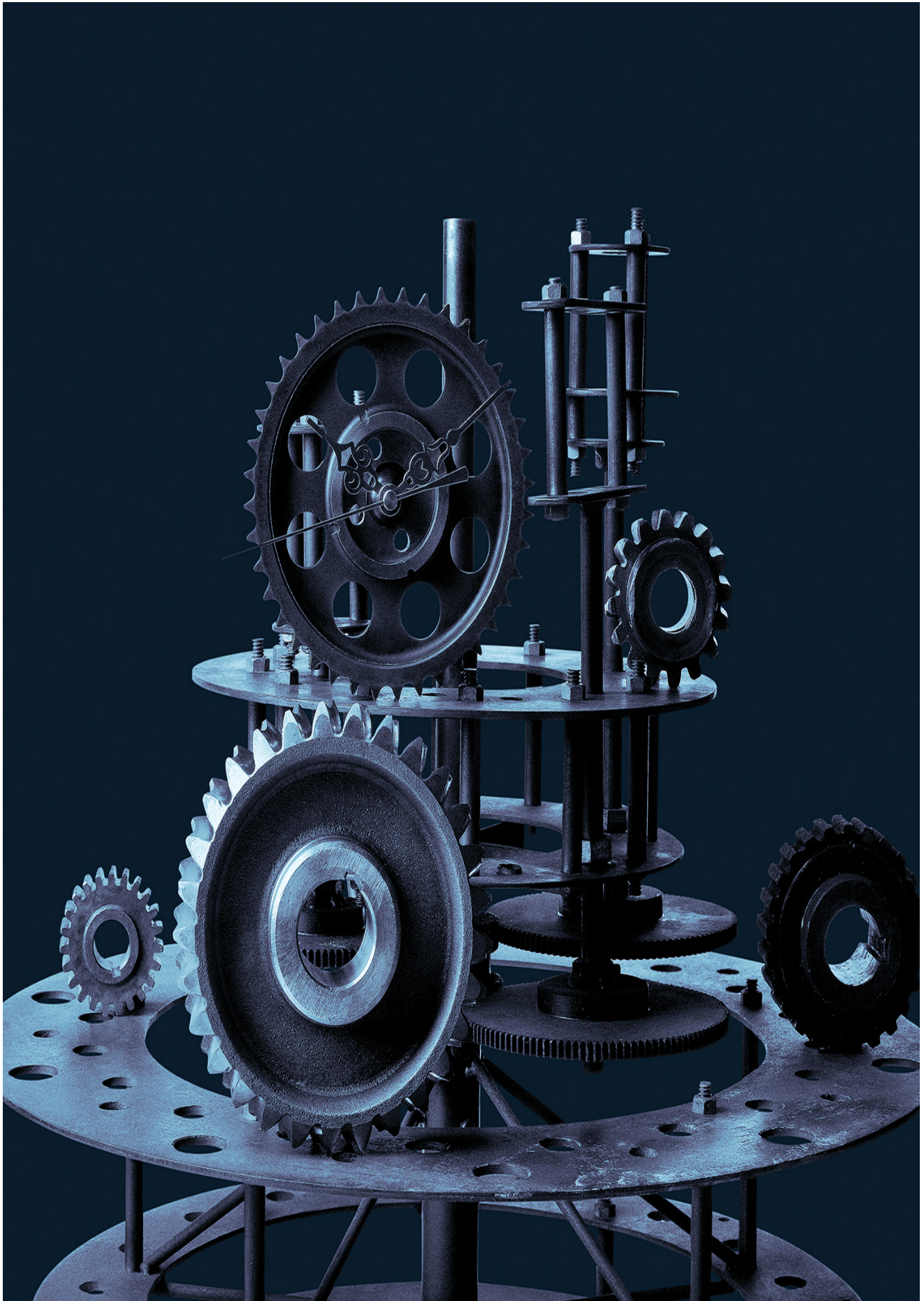
[ProQuest document link](#)

ABSTRACT (ENGLISH)

Pioneers that had embarked on full transformations based on principles such as reallocating people and priorities shifted quickly toward projects that create value, extending decision-making authority downward and improving capability building in dynamic times well before the arrival of COVID-19. On average, those organizations had recorded notable improvements in customer satisfaction (up 10 to 30 percent), employee engagement (up 20 to 30 percent), and operational performance (gains of 30 to 50 percent in operational speed, target achievements, and predictability). At one European bank, for instance, leaders realized that people quarantining and staying at home created a terrible risk for the company: since its core services weren't optimized for online, customers who once would have come in to speak with a branch officer were now likely to leave for banks that had better digitalization. Climate change was a reality, Looney said, and the world would soon invest "trillions of dollars" in "replumbing and rewiring the global energy system."

FULL TEXT

With everything disrupted, going back to the same old thing is a losing strategy. The strongest companies are reinventing themselves by embracing pandemic-driven change.



[Enlarge this image.](#)

For the better part of this century, large- and medium-size companies have been wrestling with whether and how much or how little to adopt a set of concepts birthed largely in Silicon Valley. These concepts upended traditional

operating models and drove the success of companies as disparate as Netflix and Amazon. Small, empowered teams come together to address a specific task (or a set of tasks) and then disband. The company's purpose is the basis of what it will and won't do. Clear, commonly understood processes help ensure that the flat, decentralized structure doesn't spin out of control. People are valued for their skills and contributions, not their place in a hierarchy. Technology is used to create efficiency on the back end and delight the customer on the front end. In our experience, a set of common beliefs often helped reassure some leaders that they didn't *really* need to dive into these new ways of doing business: the company already operates at great efficiency; large companies can't possibly move as fast as a start-up; their employees can't be mobilized and energized quickly; you can't put customers first *all* the time. Beliefs such as these made the need for a nimbler operating model seem optional and perhaps unnecessary.

Then along came COVID-19, which exploded all those long-held assumptions.

As our colleagues have noted elsewhere, businesses reacting to the COVID-19 pandemic have produced previously unimagined gains in speed and productivity, even as the very nature of their workplace was transformed. Business leaders tell us that the metabolic rate of their organizations has soared. Their companies have accelerated by adopting new ways to work. Boundaries and silos have been removed; new technology has been adopted quickly, delivering digital products that customers suddenly needed; decision making has accelerated and been pushed further down in the organization. Leaders have spent more time in direct connection with teams, while teams of cross-functional, high-caliber talent have assembled and then reformed to address the company's—and its customers'—most critical needs. The revised employee value proposition (such as more flexibility and less commuting) has given HR the ability to cast a wider net on talent. The spread of empowerment throughout the company, born of necessity, has created a new set of potential leaders.

CEOs are actively taking advantage of this particularly malleable moment, where new ideas are becoming the foundation of new ways of doing business, to reinvent their companies in ways that simply make more sense for today's—and tomorrow's—economy.

The result: COVID-19 is shaping a new kind of operating model. Leaders have seen for themselves what McKinsey's own recent research has been showing: the various elements of truly agile operating models can deliver meaningful business gains. Many companies have tested aspects of such models before and during the crisis with convincing results: total clarity on priorities and goals, nimble resource allocation, and reduced handovers can boost productivity by 20 to 40 percent. A genuine customer orientation with fast, iterative feedback cycles can raise customer-satisfaction scores by 30 points. And people working with a clearer purpose and greater autonomy to make decisions will drive up employee-engagement scores (see sidebar, "How operating-model reinventions drive better results").

Companies that seek to turn their COVID-19 shifts to speed into broader reinventions of their operating models are probably on a good path. Pioneers that had embarked on full transformations based on principles such as reallocating people and priorities shifted quickly toward projects that create value, extending decision-making authority downward and improving capability building in dynamic times well before the arrival of COVID-19. Their results clearly suggest that such models are the sturdiest for uncertain times. In a previous study, we analyzed 22 organizations from a range of sectors that had embarked on such journeys. On average, those organizations had recorded notable improvements in customer satisfaction (up 10 to 30 percent), employee engagement (up 20 to 30 percent), and operational performance (gains of 30 to 50 percent in operational speed, target achievements, and predictability).

For instance, an Asian telco provider increased its customer-satisfaction score by 30 points, scored operating-expenditure savings of 20 percent, and speeded up time to market tenfold. A Latin American bank reduced the number of customer complaints by 25 percent while achieving an equivalent saving of 30 percent of total employees. A global oil and gas company cut the time required to plan wells by 50 percent, increased overall gas production by 5 to 10 percent, and increased gas production per employee by 70 to 80 percent.

Previous McKinsey research supports the conclusion that such agile, speed-oriented operating models are the

ones that companies need at moments of great change and instability. Perhaps even more tellingly, telcos and banks that adopted these operating models before COVID-19 were able to respond to the pandemic significantly faster, on average, than their peers.

;

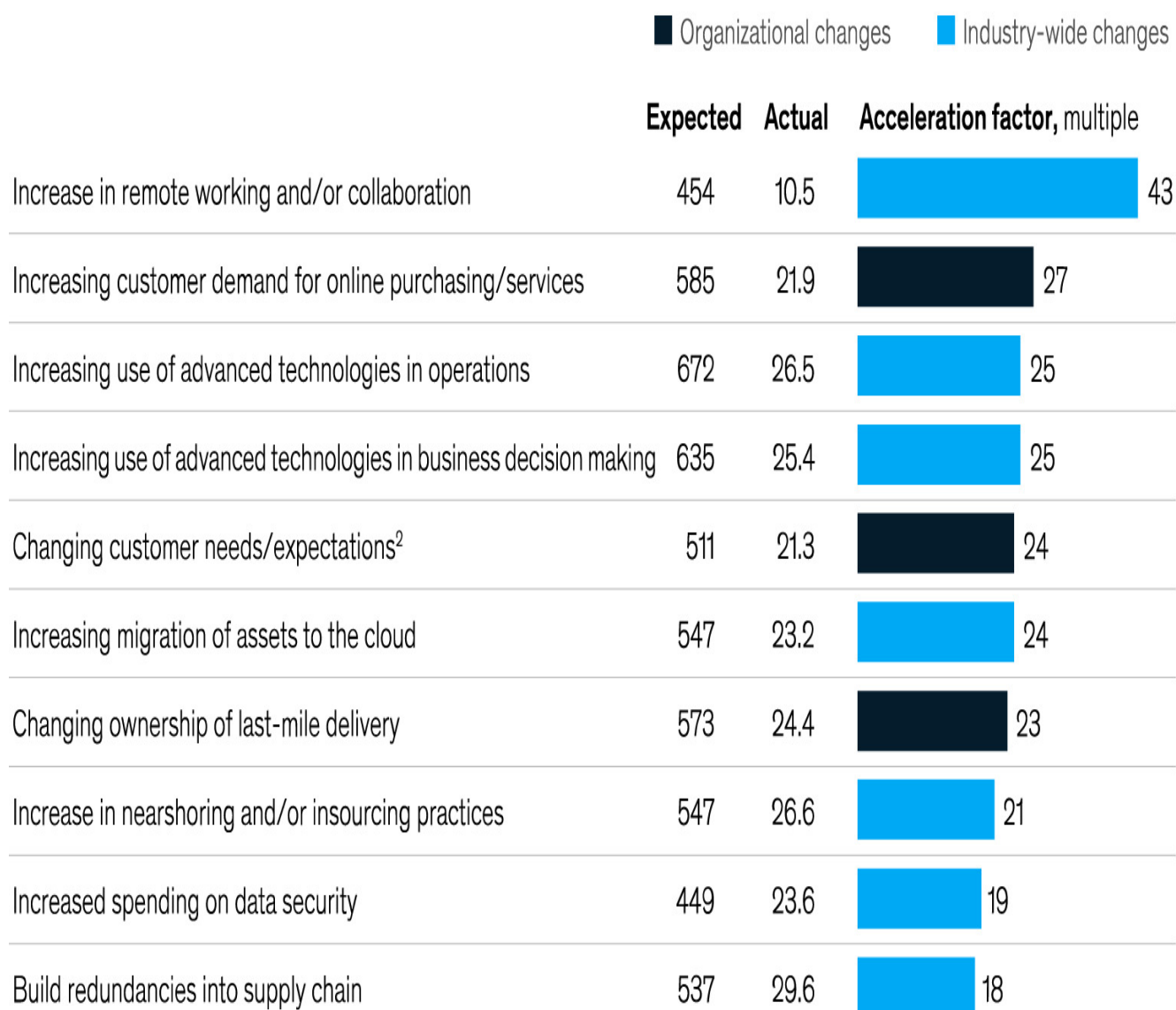
Leading CEOs have taken note of all this and have decided that there is no going back. They are actively taking advantage of this particularly malleable moment, where new ideas are becoming the foundation of new ways of doing business, to reinvent their companies in ways that simply make more sense for today's—and tomorrow's—economy. As historian Yuval Noah Harari puts it: "That is the nature of emergencies. They fast-forward historical processes."

In this article, we highlight four key pandemic accelerations that are now being incorporated into the emerging operating models of leading companies. We also look at the process by which companies can evaluate the changes they made during the pandemic, decide which shifts they want to make permanent, and embark on a broader transformation to make this speed and efficiency the standard going forward. The exigencies of the pandemic have given many companies a tangible experience of operating at unprecedented speed (exhibit). Companies that don't lean into this emergent shift run the risk of being leapfrogged by those that do understand why a swift, nimble, and versatile operating model is best and necessary for uncertain times like these.

Exhibit

Executives say their companies accelerated through COVID-19-related changes much more quickly than they thought was possible before the crisis.

Time required to respond to or implement changes,¹ expected vs actual, number of days



¹Respondents who answered "entry of new competitors in company's market/value chain" or "exit of major competitors from company's market/value chain" are not shown; compared with the other 10 changes, respondents are much more likely to say their companies have not been able to respond.

²For instance, increased focus on health/hygiene.



Enlarge this image.

What kinds of changes have we seen during COVID-19?

As the COVID-19 pandemic developed, companies faced a raft of problems simultaneously: lessened demand,



office closures, supply-chain derailments, and more. Leaders reacted by shifting to what we call “survival minimum” mode. They needed to accomplish as much as possible with less—time, resources, people—than they had before. As McKinsey has documented extensively, the success, and in some cases the survival, of many companies has depended on the willingness and ability of leaders to quickly shift to and adopt behaviors and practices that best suit the new reality.

These shifts occurred at all kinds of companies across many different industries. Some were minor adjustments, while others were radical changes to the way companies operate. Looking across a wide landscape of companies, we see that these COVID-19-driven changes fell into four broad categories, which can serve as useful pillars of an operating model built for adaptability and speed in the face of uncertainty.

Purpose sets priorities

Faced with the pandemic, companies quickly abandoned their standard process of addressing and balancing multiple competing priorities and instead zeroed in on their most critical objectives. Those companies with a clearly defined and clearly lived purpose had an easier time with this than those with missions ill-defined or unmatched to the reality of the business. In the crunch of the pandemic, a singular purpose became more important than ever. Purpose, above all else, enables forthright decision making at speed.

At one European bank, for instance, leaders realized that people quarantining and staying at home created a terrible risk for the company: since its core services weren’t optimized for online, customers who once would have come in to speak with a branch officer were now likely to leave for banks that had better digitalization. This bank kicked its digitalization efforts into high gear and launched fully redigitalized offerings online in just eight weeks. Before the pandemic, it believed that such a full conversion would take years. But when it saw how critical the need was, it delivered the strengthened digital product in record time.

Other companies found that the pandemic confirmed their purpose in a highly tangible way. On February 12, 2020, just two weeks into his tenure and before there were even a dozen reported cases of COVID-19 in the United Kingdom, BP CEO Bernard Looney spoke to a live audience at London’s Royal Lancaster Hotel and laid out an ambitious reframing of the energy giant’s mission as “Reimagining energy for people and our planet.” Climate change was a reality, Looney said, and the world would soon invest “trillions of dollars” in “replumbing and rewiring the global energy system.” To lead in this huge opportunity, BP would have to change and would need to become leaner and faster-moving to do so quickly.

The success, and in some cases the survival, of many companies during the pandemic has depended on the willingness and ability of leaders to quickly shift to and adopt behaviors and practices that best suit the new reality.

Just three-and-a-half months later, Looney spoke again at the company’s May 27 annual meeting. By then, the world had changed: his speech was webcast from company headquarters at 1 St. James’s Square, the annual meeting was virtual, and the United Kingdom was recording about 300 COVID-19-related deaths a day, down from a peak of some 1,200 in April. Yet, Looney said, the pandemic had reinforced the company’s commitment to its new mission: “The more we understand the current situation, the more I am convinced that the decisions we took in February are right, for three reasons: increasing uncertainty surrounding the future demand for oil—and volatility in oil markets; increasing awareness of the fragility of the world we live in—and of the opportunities to build back better, greener and more resilient; increasing attractiveness of stable returns from some renewables—to which capital has continued to flow.”

When challenged by the pandemic, and by a world of “uncertainty,” “volatility,” and “fragility,” many companies have chosen to lead from purpose, whatever it takes. When the head of plasma-derived therapies at Takeda, a global pharmaceutical company, realized that it might speed the development of plasma-based COVID-19 medicines by partnering with others, it formed a nonprofit alliance with other companies. Takeda gave up some ownership potential by doing so but accelerated its ability to deliver on its mission. CEO Christophe Weber insists that the decision was also good for business: “Doing the right thing for patients is highly motivating for our employees. It is a way to improve our reputation. [And] a good reputation is good business in the long term.”

While purpose can dictate clarity in priorities, it is equally necessary for organizations to build the mechanism to cascade these priorities to the front line. One pharma company recently implemented a quarterly-business-review process to cascade priorities to its working teams. When COVID-19 hit, this backbone process allowed the company to realign the entire organization to a new set of priorities in matter of days.

A flattened cross-functional structure focused on outcomes

During the pandemic, business leaders have bypassed their company's traditional hierarchies to deploy cross-functional teams assembled to address specific tasks. Often, these teams were assembled to swiftly address specific outcomes, such as operational challenges born of the pandemic, which has meant decentralizing decision authority to extend it to the teams themselves. Top leaders also tightened their own connection to the front lines, flattening the organization in response to their need for greater speed and focus.

The efforts of one Asian telco show how far some companies have been willing to bend their structure to adapt during the pandemic. When COVID-19 hit, the telco was forced to shut down its offshore call centers. Customers wanting service had to wait as much as 36 hours for a response. The company quickly pulled in retail staff to help with calls. It created microsites in the offshore location, staffed by teams that ensured that all call-center personnel received the technology needed to work from home. Finally, it enabled a new chatbot service for all customers. By the end of a month, wait times on service calls were down to a few minutes. Executives at the company say that their emphasis on teams empowered to quickly solve the call-center crisis allowed the system to get back up in days, as opposed to the months it would have taken if the company had relied on its standard hierarchy.

Thanks to the pandemic, many companies have embarked on experiments in which they've organized around outcomes, in flattened structures that replace physical colocation with hybrid models. Barclays is decentralizing decision making by making local branches satellite offices for more employees, including investment bankers, call-center workers, and people who formerly had to commute to a central office. India's Tata Consultancy Services (TCS) believes that its new hybrid model, which frees associates from any need to spend more than 25 percent of their time in a TCS office, could improve velocity by about 25 percent, thanks to productivity gains.

To make these kinds of flatter, more collaborative models work, companies must create rigorous processes, build capabilities, and enable decision making at the lowest possible layer. Often, this also requires a fundamental change in how leaders operate and enable their teams to make decisions. Organizing for speed requires faster decisions. Faster decisions require more empowerment of the frontline team. And empowerment truly happens only when leaders let go of traditional hierarchical management.

People are reallocated, reskilled, and reenergized

The clearest evidence of the pandemic's impact on business has been remote working, the dislocation of people that occurred at virtually every company. But remote work itself is the tip of the iceberg. Spurred by their experience during the COVID-19 crisis, more and more companies are shifting their people model to one that values skills-based mobility and contributions instead of location-based work and standard functional expectations.

Clearly, redeployment has been a critical part of serving customers during the pandemic. But much of the redeployment has been accompanied by retraining that gives employees more options; in the long run. Verizon created new virtual training programs and retrained more than 20,000 workers during the COVID-19 pandemic. Thousands of hourly staffers now take at-home customer-service and sales roles. An international bank reskilled and redeployed hundreds of employees from advisory jobs to customer-experience roles. Based on that success, the company has standardized a rapid redeployment process that will pay off long after the pandemic is over. SWIFT, a European payments company, launched what it calls the DevSecOps academy, a virtual-training system for employees to strengthen their engineering capabilities and become fit for the future.

Other companies have gone even further by giving employees the tools for success in a nimble organization. One telco, for example, originally planned to train 400 employees in agile practices and product management over three months. Spurred by the pandemic, it instead trained 4,000 people. The experience of the COVID-19 crisis is

accelerating the transformation upon which it had already embarked.

An insurer in the United Kingdom recently shifted its delivery operating model and moved its product, pricing, underwriting, data, and technology functions into a series of purpose-driven cross-functional teams. To enable this, it has invested in an at-scale, fully remote capability-building program for nearly 1,000 employees.

During the COVID-19 crisis, technology resources have been steered toward two main goals: solving customer needs quickly and facilitating the work of customer-facing teams.

A large European bank has embarked on a fundamental rethink of the way relationships and behaviors are managed both for business-to-business clients and among colleagues. As part of these efforts, the bank reset its target services and its operating model by digitalizing product offerings, reinforcing remote services, and pushing more management power to remote workers. The bank has already realized productivity gains and reduced operating costs, and leaders see the potential for much more. To ensure that this transition is a company-wide effort, they have put a number of “hard” and “soft” enablers in place. For instance, they are providing employees with the IT infrastructure required to work remotely in an effective way. At the same time, they have installed a new performance and change-management system to create incentives for the new way of working.

This kind of fundamental reset has been happening at many companies, with some having started before COVID-19 and others spurred by the pandemic. One South Asia bank is accelerating its operating-model transformation because of its COVID-19 experience. The core of the transformation is a shift to product-focused lines of business. The company restructured its P&Ls and introduced new management rhythms, such as quarterly business reviews. At the same time, it converted its people model into one in which existing and emerging talent is drafted into pivotal roles and upskilled in new ways of working, with a new contribution model that accounts for the different maturity of the lines of businesses. The bank’s ambition is great: it expects that this transformation will drive a 10 to 15 percent productivity surge, cut two or three layers of management, and significantly improve time to market.

Propel technology to the front lines

Technology is a key element in ensuring the success of this kind of empowerment and extension of authority to customer-facing teams. During the COVID-19 crisis, technology resources have been steered toward two main goals: solving customer needs quickly and facilitating the work of customer-facing teams.

Developing technology that enables remote work creates new opportunities for efficiency. When the COVID-19 pandemic hit, Verizon suspended in-home installation appointments. Instead, the company developed a new tool designed to help Verizon customers install new equipment and troubleshoot issues at home with remote assistance from a technician. This remote-assistance tool has proved so successful that Verizon believes it will help the company gain access to new markets.

Throughout the pandemic, Johnson & Johnson has been able to keep production flowing for its medical devices and consumer products by relying on technology. For example, before the pandemic the company would often fly scientists and engineers to different locations for equipment maintenance. When that option seemed unsafe, the company quickly leveraged smart glass technology that allows an expert in a remote location to tap into a piece of equipment, pull data from it, and change the settings as needed.

While technology empowered remote teams, it also empowered corporate leaders. Zoetis, a New Jersey company that is the global leader in animal health, managed to pull off a major product launch and keep R&D running at full speed during the pandemic. One reason: when CEO Kristin Peck gave local leaders in 45 countries greater latitude than ever, she also had a dashboard of leading indicators created to allow her and other leaders to monitor dynamic shifts in all those markets more closely.

How to turn COVID-19 shifts into permanent operating-model change

Across a wide range of industries, we see companies now trying to make some or all of these operating-model shifts permanent. Many business leaders are telling us that the tangible experiences they’ve had during the pandemic have given them confidence to launch broader transformations.

Business leaders looking to lock in COVID-19-era speed and adaptability would be wise to follow a simple process:

reflect, decide, and deploy at scale. Reflection is a crucial first step because so many COVID-19 crisis changes were fueled by adrenaline rather than careful planning. Many may not be sustainable without substantial adjustments, while others may not be useful outside of a full-on crisis such as the pandemic. Reflection may take the form of a systematic review of the current state (“dispassionate assessment”), a blueprint for the new model, a value sizing, and a road map of value capture. The full executive team must then decide, stack hands, and explicitly settle on what changes to the old operating model will serve as the foundation of the new normal. Finally, deploying at scale is typically unleashed by a deep transformation in one area (a frontrunner that is a good representation of what’s possible at scale), followed swiftly by company-wide transformation. At that point, companies will be making a series of what we believe are ten to 20 critical design decisions across their operating models. These decisions will determine the full extent of the shift, and no single company will make all the decisions in the same way—there is no such thing as a one-size-fits-all operating model.

That said, the pandemic has made one thing quite clear: companies that want an operating model designed to handle a future of greater uncertainty and unpredictability in everything from capital markets and politics to climate change and the pace of technological change will be wise to learn from the approaches that worked best during the COVID-19 crisis. Not everything companies turned to during the emergency will prove useful going forward. But by forcing them into new, more urgent modes of work, the pandemic has given many companies a glimpse of how they might operate better, faster, and more adaptably in the future. For many, there is simply no justification for returning to the old ways of doing business. The very strongest companies are already acting on this opportunity to reinvent themselves with deliberation and speed. Companies reacting with less urgency are soon likely to find themselves outpaced.

About the authors

Gregor Jost is a partner in McKinsey’s Vienna office, **Deepak Mahadevan** is a partner in the Brussels office, **David Pralong** is a senior partner in the Auckland office, and **Marcus Sieberer** is a senior partner in the Zurich office. The authors wish to thank Jonathan Green, Alberto Montagner, Charlotte Relyea, Guilherme Riederer, Daniel Rona, Lars Schor, and Patrick Simon for their contributions to this article.

This article was edited by Rick Tetzeli, the editorial director of the *McKinsey Quarterly*.

DETAILS

Subject:	Customers; Success; Coronaviruses; Employees; Pandemics; Decision making; Efficiency; COVID-19
Business indexing term:	Subject: Customers Employees
URL:	https://www.mckinsey.com/business-functions/organization/our-insights/how-covid-19-is-redefining-the-next-normal-operating-model
Publication title:	The McKinsey Quarterly; New York
Publication year:	2020
Publication date:	Dec 10, 2020
Section:	Insights on Organization
Publisher:	McKinsey & Company, Inc.

Place of publication:	New York
Country of publication:	United States, New York
Publication subject:	Business And Economics--Management
ISSN:	00475394
Source type:	Scholarly Journal
Language of publication:	English
Document type:	News
ProQuest document ID:	2468770929
Document URL:	https://proxy.lib.umich.edu/login?url=https://www.proquest.com/scholarly-journals/how-covid-19-is-redefining-next-normal-operating/docview/2468770929/se-2?accountid=14667
Copyright:	Copyright McKinsey &Company, Inc. Dec 10, 2020
Last updated:	2021-09-12
Database:	ABI/INFORM Collection

LINKS

[Availability at University of Michigan](#)

Database copyright © 2021 ProQuest LLC. All rights reserved.

[Terms and Conditions](#) [Contact ProQuest](#)