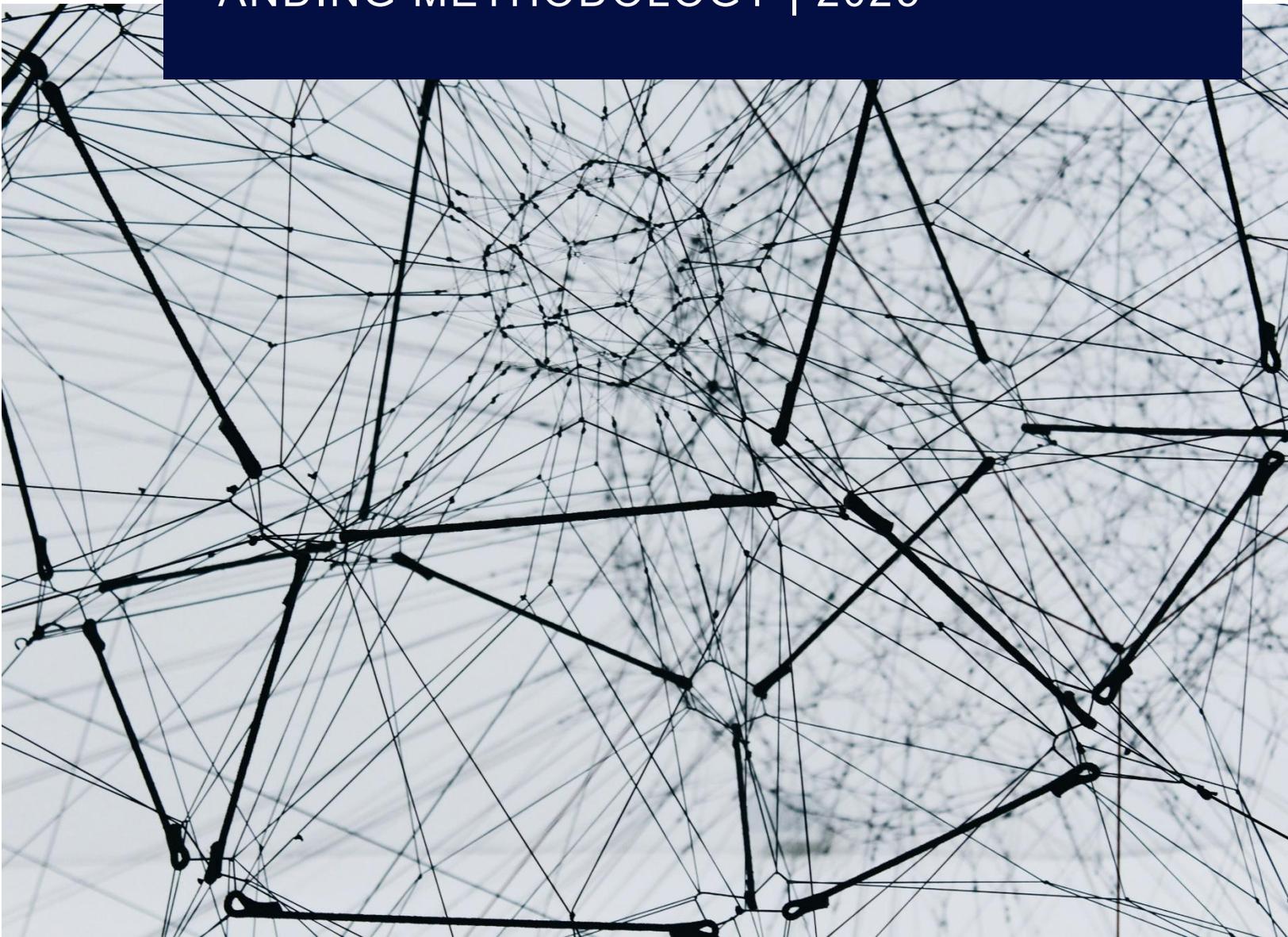


Steering organizations towards a modern operating model – The DIPOC Framework

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The need for a modern, digital operating model

Every company has an operating model, whether designed intentionally or formed organically over time. It reflects how processes flow, decisions are made, capabilities are deployed, and technology supports operations. A well-designed operating model enables efficiency and predictable growth. Especially for private equity-owned companies, acquired with the goal of improving performance and realizing a higher multiple at exit, a solid operating model is a central lever of value creation.

Although the fundamental value creation levers are typically clear (e.g. digitalization of processes, modernization of technology, productivity increase, point use of AI), systematic operating model transformations are difficult to execute well. On top, organizations are confused by ever-emerging trends like digitalization, agile, new work and AI, often abandoning established practices and reinventing the wheel. In this paper, we outline the fundamental approach to defining and improving any operating model, be it conventional, agile, or AI-supported. We account for digitalization and AI as the fundamental driver behind productivity and therefore call our methodology “Digital Operating Model”. Drawing on strategy consulting and hands-on entrepreneurship, this Anding approach is well suited for the pace and pragmatism needed by PE-backed organizations but remains equally relevant for established companies.

What is a Digital Operating Model?

The operating model connects strategy with daily business operations. It describes how the strategy is implemented and the business is run. Without it, organizations would not know what to do to achieve the strategic mission or would act inconsistently. Our methodology captures an operating model in five components, ordered by logical dependency: **Processes, Decision-making logic, Capabilities, Incentives and Organization (PDCIO – or DIPOC, for the sake of pronounceability)**. When new trends or technologies are reshaping the modern enterprise, companies must adapt these five pillars. Adjusting these components is necessary for realizing goals associated with digitalization and AI-implementation, such as higher process efficiencies, speed, innovation effectiveness or better customer experience.

We have often seen companies set ambitious strategic targets but fail to adapt their operating model. This gap blocks the strategic vision from reaching employees, because they cannot connect with the strategy and resources are not adapted accordingly. True digital transformation cannot be achieved just by hiring a CDO or adding an AI tool. Neither can the operating model be redesigned based on vague suggestions like “use big data”, “be customer-centric”, “work agile and lean” or “embrace AI”.

Instead, it is time to design, establish and implement an efficient and holistic digital operating model. In this thought piece, we define the components in question and give hands-on advice on how to adapt the operating model.

Linking the operating model to the strategy

The operating model needs to be put into the overall strategic context of the company. Starting with a clearly framed digital and/or AI-ambition, a digital strategy defines the *where to play* and *how to win* the game. The **where to play** defines which (digital/AI) products and services should be offered to which customers and which people the company wants to attract as an employer. **Where to play** involves clear choices on *what elements* a company needs to transform or re-focus to realize the strategy - spanning customers, services and products and people. The **how to win** defines which specific approach should be taken to achieve success vs. the competition and is ultimately what shapes the operating model – the processes, decisions, capabilities, incentives and organization.

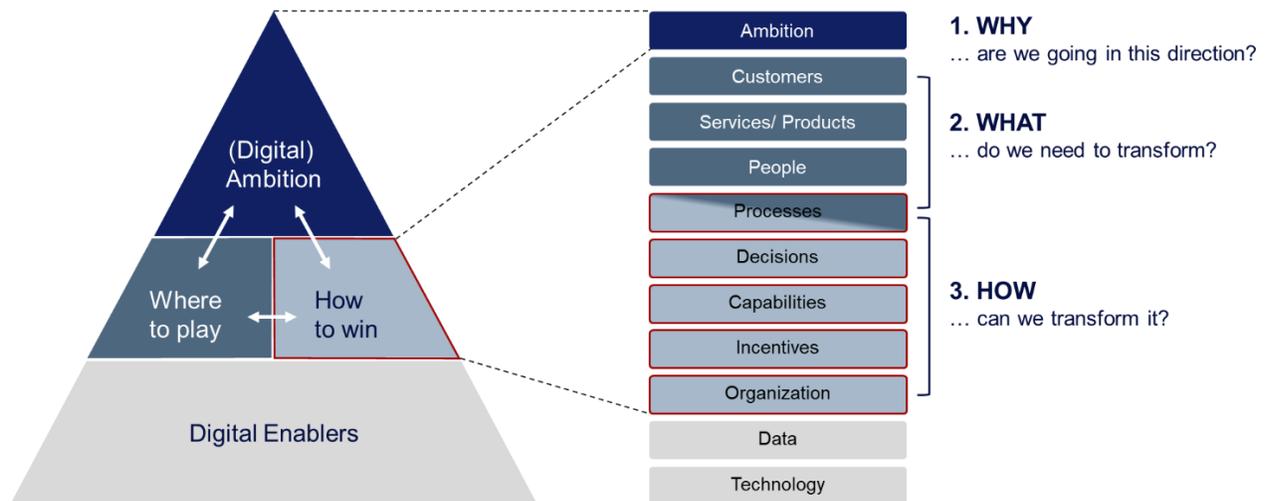


FIGURE 1: DERIVING THE OPERATING MODEL FROM STRATEGIC PRIORITIES

In practice, defining a new digital/AI strategy happens relatively fast. Transforming the underlying operating model, however, is a much slower process. Yet the two cannot exist independently. A strategy not reflected in how the organization works will not materialize. The operating model needs to continuously evolve until it fully supports the strategic ambition. Figure 2 illustrates this evolution across multiple stages.

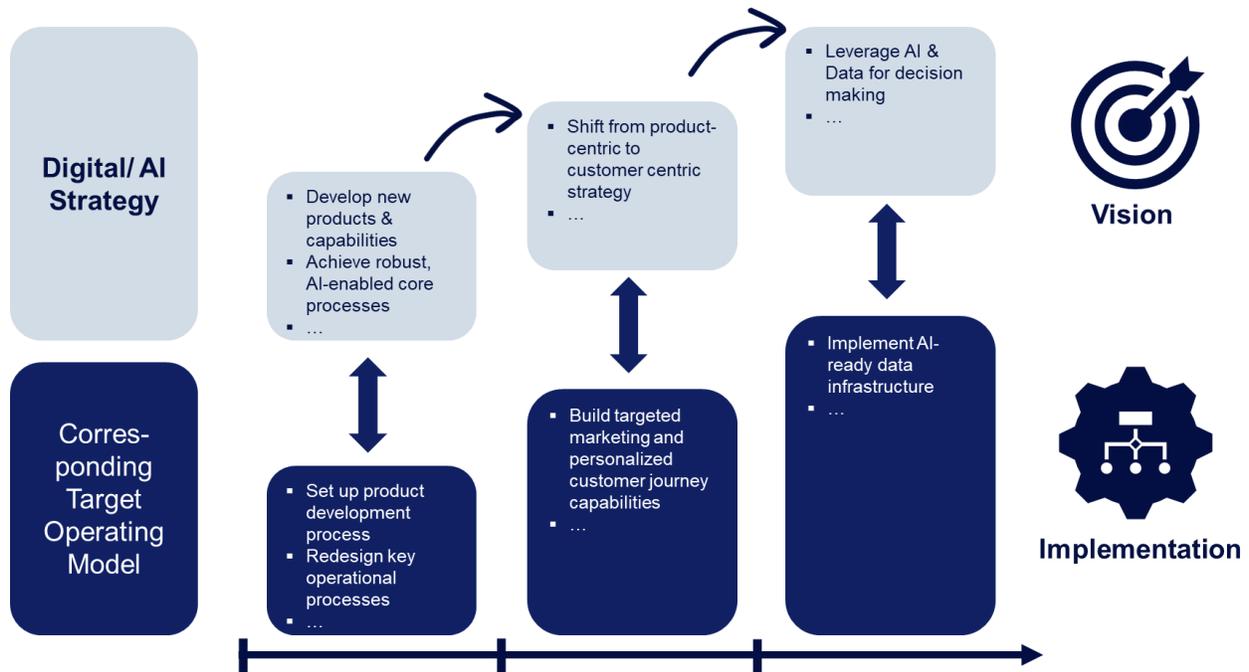


FIGURE 2: STRATEGIC GOALS MUST BE SPECIFICALLY ANCHORED IN THE OPERATING MODEL

While the exact path will vary, an early milestone is often to develop new digital products or implement tech-/AI-enabled processes. The operating model has to align, for instance by setting up new product development processes or redesigning key operational ones. From there, many companies shift focus toward customer-centricity, building targeted marketing and personalized customer journey capabilities. A further stage typically involves leveraging AI and data for decision-making, backed by an AI-ready data infrastructure. This alignment continues until the overall vision is achieved – and beyond.

Elements of the digital operating model: DIPOC

The digital operating model consists of five elements that logically build on each other: *Processes, decisions, capabilities, incentives* and *organizational structure*, which we call **DIPOC**. **Processes** are the overarching element of the operating model, connecting the what and the how in the strategy. Processes have to be transformed in line with customers, products, and people. New processes require a refinement of the **decision-making** logic to account for new participants making decisions in a new succession over a new time-span.

To run adjusted processes and new ways of decision making, the right **capabilities** need to be attained and deployed – by mobilizing existing ones, building new ones and disposing of obsolete ones. Consequently, the **incentive** structures have to be adapted to fit the new processes, drive optimal decisions and sufficiently incentivize required digital and AI capabilities. Finally, the **organizational structure** have to be adjusted to reflect the changes made to the operating model.

Processes

As processes describe how an organization works, digital/AI processes need to capture how it operates in the digital world. Embedding digital capabilities into process steps is one (rather straightforward) way to adjust processes. The more challenging, but also more impactful way is to adjust processes such that their outputs deliver on the digital promise of the strategy – primarily digital or hybrid products and digital business models.

As part of the digital operating model, the key 3-4 processes crucial for digital impact need to be tackled first. Typically, these are product development, customer interaction, sales and marketing as well as data gathering and analytics processes. When laying down new processes, finding the right balance between documentation and flexibility is key – we advise doing as little documentation as possible, as much as necessary.

Taking product development as an example, this process has traditionally followed a waterfall model, completing tasks sequentially. It needs to be reenvisioned as it will increasingly result in products with digital or AI components. The new process must incorporate cross-functional input, e.g. Marketing and Sales already in ideation, to achieve a customer-centric perspective. AI can greatly accelerate this by synthesizing signals from user behavior, market dynamics, and operational performance in near real-time – allowing teams to identify risks earlier, parallelize steps and reduce duration up to 40%. As an example, BMW has transformed its product development through its iFACTORY strategy. Integrating a new vehicle model previously required weeks of physical testing. BMW rebuilt this process around AI-powered digital twins, enabling planners to simulate and optimize every step virtually, compressing weeks into days. After proving the concept, BMW extended the same logic to further processes – showing how rethinking a single core process can cascade into a broader transformation of the operating model.

Decision-making logic

Once it is clear which digitally enabled processes need to run, accompanying key decisions must be specified. This calls for a much clearer specification than in the past, when nobody could say with certainty who was involved in deciding, e.g. the pricing for a new product. The decision-making logic defines which stakeholders are involved in which decisions – as a contributor, decision maker or executor. More often than not, companies fail to make this clear enough, leading to inconsistencies and chaos. With AI increasingly automating processes, it remains essential to maintain a human owner behind the decisions.

The decision making logic changes significantly with the move towards a digital operating model: there are new types of decisions (e.g. which digital features to build into previously physical products), new sources of information (e.g. real-time customer data from product use), substantially shortened time horizons (e.g. software cycles of days vs. hardware cycles of months) and new roles, such as the Chief Digital Officer or Chief AI Officer.

Companies typically follow a few paradigms when designing the future decision-making logic, such as:

- Leverage (more and better) data: The decision logic should follow data driven insights instead of internal politics and (just) managerial instincts, e.g. real-time data on product functionality usage to decide the features for the next version

- Make decisions where they belong: Empower people close to the business (decisions as “low” in the organizations as possible, as “high” as necessary), e.g. product owners should decide on scope of product functionality, not the management board
- Ensure speed & consistency: Leverage direct communication and decision-making tools to make decisions on the spot as opposed to long-planned meetings, e.g. tools like Slack or MS Teams
- Even and especially when leveraging AI for research and preparation of the decision, retain a human decision maker as responsible and owning the decision

A digital operating model should make it easier to make critical decisions quickly and effectively. We suggest, among others, the RACI model. The following example shows how part of a future product development process could be run and how key stakeholders could be involved. This will always need to be specifically designed for each company.

Digital Decision Logic: Hybrid Product Development (haptic/ digital)										
Decision		Marketing	Sales	Business Units	IT	Digital Factory	Production	CDO/CAIO	CFO	CEO
Idea Generation	Which problems and needs of the customer should be solved/ satisfied with the product?	C	R	A				C		
	Which customer segment should the product address?	C	R	A				C		
	What should be the value proposition of the product?	C	C	R				C		
	Is the particular idea worth considering?		C	R				C		A
Market Evaluation	In which market should the product be launched?	C	C	R	I	I	I	C	I	A
	How should the product be tested?									
Production Process	Which haptic and digital features should the product have?		C	R		C	C	A		
	What is the profit goal of the product?		C	R		C		C	C	
	Which partners should we use to develop, build and maintain the product?		I	I	C	C	C	R	I	
	...									

FIGURE 3: RACI MODEL DEFINES ROLES PER PROCESS, SUPPORTING EFFECTIVE DECISION-MAKING

Capabilities

Capabilities bring an organization to life and are vital to have processes and decisions work as designed. Digitalization and AI drive the need for a whole new set of capabilities, some technology-focused such as programming and AI engineering, some softer such as AI literacy and change management. Capabilities are probably the hardest to change and build sustainably. Future processes and decision-making logic should define which capabilities are needed, so that gaps and redundancies can be identified. For further guidance on leveraging AI through human and technical capabilities, see our *CompAI/ler* paper.

1. Craft the capability target picture

Based on the digital strategy, processes and decision logic, a holistic set of capabilities needs to be defined, encompassing topics like digital marketing, advanced (AI-based) analytics, customer experience design etc. (we typically work with 30-40 capabilities). Put into a capability framework,

the target picture gives clear guidance on which capabilities are needed in which quality and quantity, stringently aligned with the strategy.

2. Understand the capability as-is situation and spot gaps and redundancies

Often eye-opening, mapping the current state of digital and AI capabilities (along the abovementioned framework) and comparing it with the target picture reveals substantial need for action.

A heat map shows where quality and quantity are in line with the target picture vs. where biggest needs are. Often, these are in the areas of AI and digital development, where neither enough nor good enough people are on board to build the products needed in the future. Also, the analysis may show capabilities (like outdated IT development capabilities) that are not needed in the future and may need to be reduced in capacity.

Build a realistic plan for action

In line with the staged development of the digital operating model, a step-by-step hiring and training plan needs to be set and acted upon. Building digital and AI capabilities typically requires a substantially adjusted hiring approach, using different channels (such as social media) and different messaging (e.g. designed for generation Z). The criticality and availability of talent for each capability needs to be assessed and an internal/external sourcing decision made. Often, critical capabilities – such as AI engineers or data scientists – may not be readily available, making partnerships and targeted upskilling programs equally important levers.

The following visual shows an example heatmap of existing and lacking digital capabilities necessary to transform the operating model.

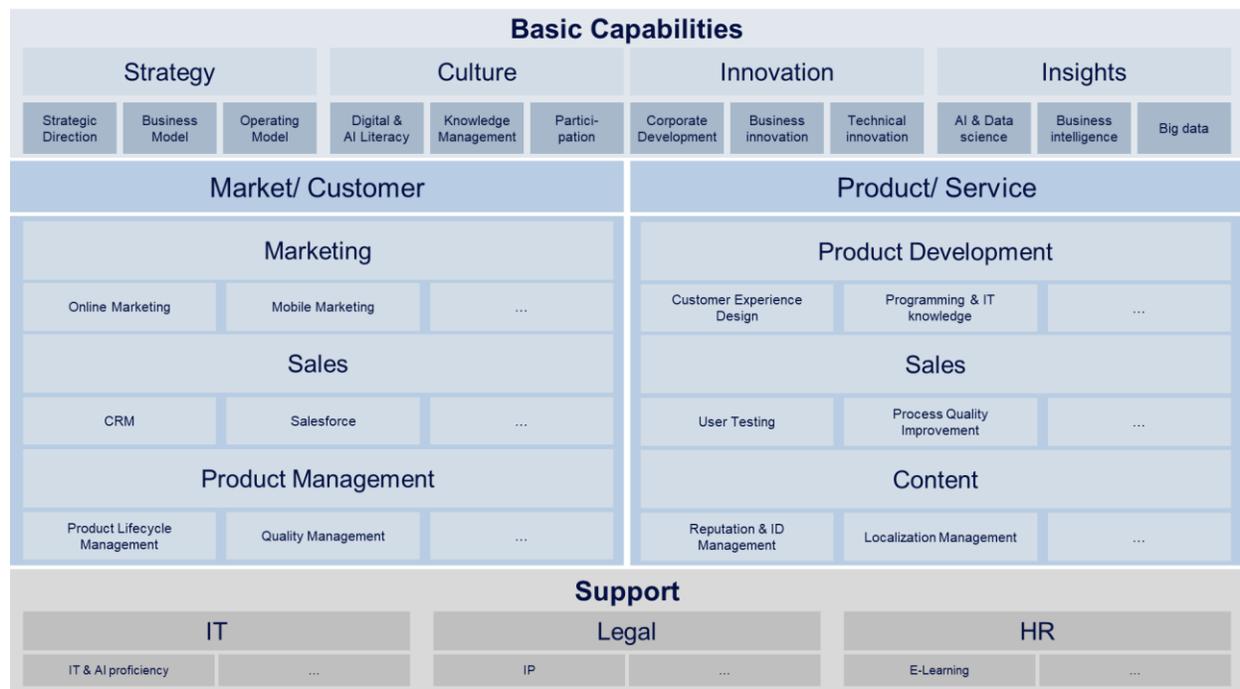


FIGURE 4: MAPPING REQUIRED VS. CURRENT CAPABILITIES CREATES A ROADMAP FOR CAPABILITY DEVELOPMENT

Incentives

The right capabilities are of little relevance without adequate incentives to put them into action. Many leaders treat culture as a mythical, intangible concept. In reality, culture is shaped by what an organization consistently rewards, measures, and tolerates.

This makes incentives the primary mechanism through which company culture is built in practice—through tangible and targeted (not necessarily monetary) ways to recognize, reward and challenge teams. We perceive incentives as key drivers of execution, despite the common narrative of “we love to change the world,” often used to describe what motivates tech founders in Silicon Valley.

What to incentivize on?

Contrary to the team- and company-based incentives currently en vogue, we believe individual performance-linked bonuses to be a stronger motivator in high performing organizations. When incentives are solely set for revenue growth or bottom-line impact, few employees will initiate innovation projects or dedicate time to building digital and AI capabilities. Thus, bonuses should be strongly connected to innovation efforts, team performance and capability build-up. These are not always easy to measure and require a thoughtful leader to assess individual contributions, e.g. How well did a leader provide freedom to work in a new and/or more demanding way? How effectively did team members build up digital development capabilities (quality/quantity)?

How to incentivize?

With our clients, we usually work out individual incentivization schemes, composed of fixed and variable compensation elements, the latter ideally represented by equity/phantom shares. This model is very effective to foster entrepreneurial motivation and is often applied in innovative corporates, though not yet mainstream. We typically see a spectrum between the classic fixed + bonus structure and a fully equity-based model. What we generally do not see work well are models in which employees only enjoy the upsides without experiencing the inherent risks.

Figure 5 describes this spectrum and illustrates how companies vary in balancing fixed compensation, bonuses, and equity to drive entrepreneurial behavior.

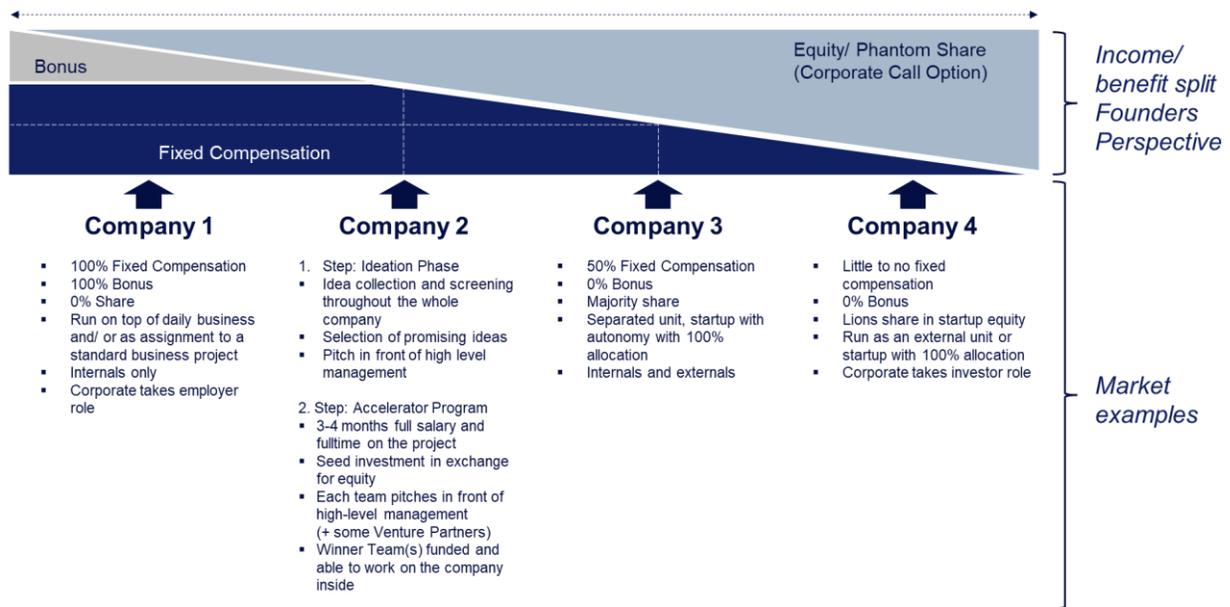


FIGURE 5: PERFORMANCE-LINKED INCENTIVES ARE ESSENTIAL TO ENSURE EFFECTIVE CAPABILITY BUILD-UP

Organization

Contrary to common corporate intuition, adapting the organizational structure should follow, not precede changes to the previously discussed operating model elements. Too often we see new units being set up before a clear picture has been developed for which processes and decisions are to be run how. Once these are clarified, the roadmap for new roles, boards and organizational units emerges.

Organizational changes can be more or less substantial. At a minimum, they may involve defining new committees, such as a steering committee chaired by a senior executive and composed of heads of marketing, sales, business units and other functions. Increasingly, these committees must be equipped to govern not just people and processes, but also AI systems – understanding where AI is used, what decisions it influences, and where human judgment must remain in control. This requires committee members to bring a baseline of AI literacy, and organizations to establish clear escalation paths for AI-related decisions.

An operating committee, in turn, translates the strategies of the steering committee into specific activities and may take ownership of innovation and AI adoption projects. It meets more frequently, typically with 4–5 full-time members who report to the board and the steering committee.

At the maximum, companies may establish entirely new units to drive transformation and innovation, tasked with managing the portfolio of new business models and AI initiatives, often smartly separated from the core business to allow focused experimentation.

Implementation – The DIPOC action plan

After outlining how the DIPOC elements should be designed, we will now give an overview on how to implement them. This depends on the individual organization, but there are general best practices we can share.

Making any change to a company’s operating model is difficult and goes against the human nature to protect the status quo. Thus, the transformation needs a board-level sponsor and full backing by top management. This process should not be started unless there is a clear commitment to make painful changes. Ideally a management board member takes the sponsor role and allocates sufficient time to it.

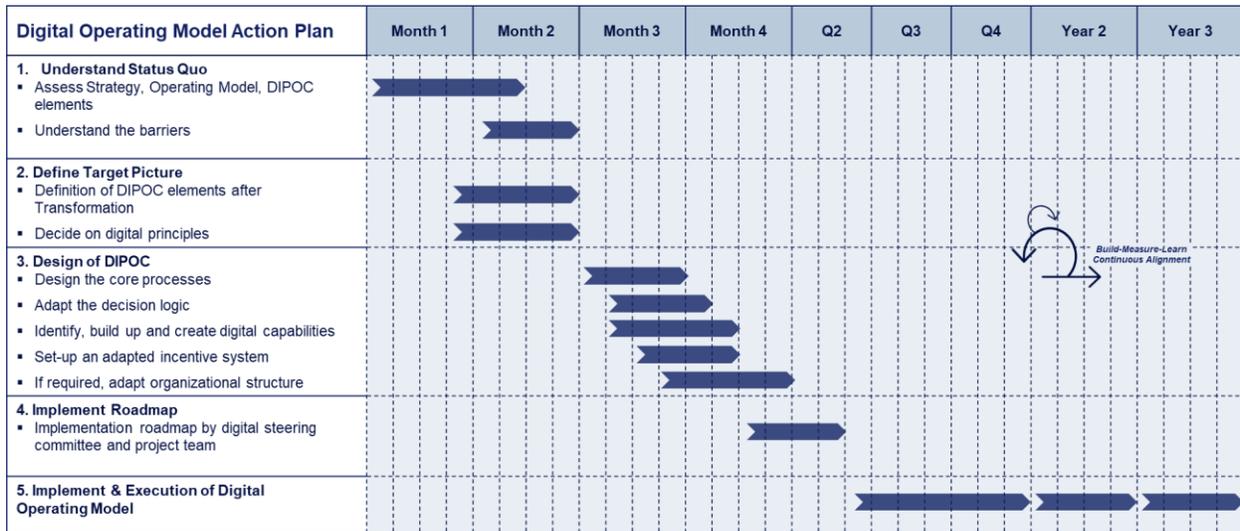


FIGURE 6: PHASED DIPOC ACTION PLAN TO DRIVE TRANSFORMATION THROUGH STAGED EXECUTION AND CLEAR OWNERSHIP

In the first project phase, focus should be on fully **understanding the status quo**. The current operating model, digital measures and DIPOC components are assessed via interviews with key stakeholders, customers, employees and executives as well as analysis of existing materials. The project team then crafts a **target picture** of the future state and its development over time. At this stage, it is vital to define design principles, fitting with the organization’s DNA and vision. These can refer to a working mode e.g. “make decisions as low in the organization as possible, as high as necessary”, express a focus on “customer-centric design” or values such as consistency, speed, accountability. These should be reflected in the design of each DIPOC element.

After defining the DIPOC elements’ target picture, the specific **design of DIPOC** can then be tackled. An **implementation roadmap** should guide the implementation over a time horizon of 2-3 years, following an agile build-measure-learn approach. Rather than overanalyzing every detail in the beginning, a quick implementation start and flexible adjustments based on initial learnings are more effective – we typically allocate not more than 5-6 months for this first phase. At the start of implementation, it is crucial that the agreed digital units or committees take clear ownership of the process.

Overall, successfully setting up a modern operating model is a hairy endeavor. It requires the smart design of operating model elements in line with the digital/AI strategy, which often still is a moving target, and needs stakeholders to make difficult changes to how they operate day-to-day – thus, it must be tackled with a sufficient level of empathy.

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