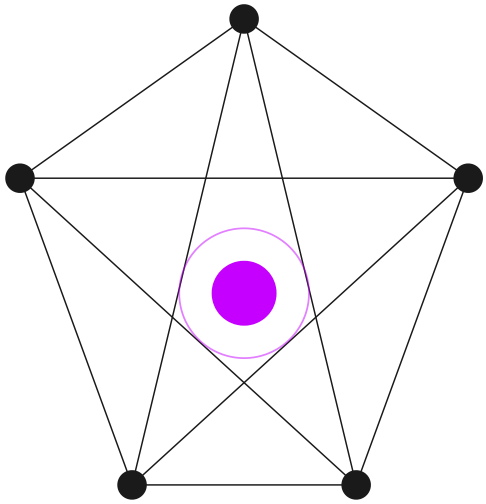

INSIGHT · ORG DESIGN FOR AI

From Operating Model to AI Operating Model.

What changes, what stays — and how to redesign. The elements of classical organisation design remain relevant. AI rewrites the content of every single one, because humans and AI systems now share accountability.

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EXECUTIVE SUMMARY

An operating model is more than an org chart.

Five findings management should weigh before the next AI investment decision.

01

The classical elements of organisation design remain relevant — AI rewrites the content of each one.

Strategy, structure, processes, people, incentives stay mandatory under AI. What changes: humans and AI systems now share accountability.

02

AI hits all elements simultaneously.

Strategy now plays on a broader field. Structures must adapt to autonomous decisions. Processes need redesign, not overlay. People must primarily supervise work, not execute it. Incentives become decoupled from work that is actually steerable.

03

70 % of AI value comes from people and processes.

BCG · Transforming with AI 2025: 70 % from People & Process, 20 % from technology integration, only 10 % from algorithms. Anyone budgeting AI as "90 % technology" has inverted the arithmetic.

04

Six domains, two layers, one core.

The HandsOn AI Operating Model: D01–D03 Foundation Layer (Strategy, Structure, Governance) — what leadership architects from above. D04–D06 Activation Layer (Decision, Process, Capabilities) — what people experience day to day. At the centre, connected to every domain: the Human-AI Interface.

05

Three Monday-morning decisions turn a framework into an operating model.

Name the Human-AI Interface as a design object. Choose a structural model for the next 18 months. Install a classification governance protocol. None of these three decisions requires new technology — instead, they set the direction for further technology decisions.

CONTENTS

What you'll find here.

SECTION

01

What an operating model really is.

Long before AI entered the conversation: the classical operating model is half a century older than AI — and describes the complete system within an organisation.

The first slide in most AI operating model decks is an org chart.

A central AI team, reporting to the CIO, dotted lines into the business units. The slide is usually titled "Operating Model". In reality, it's mainly a staffing decision with a thin governance layer on top.

A real operating model describes the complete system: how value is created, who decides, how work gets done, how people are organised, what behaviour is rewarded. These five elements remain relevant in the age of AI. What AI changes is the content of each element.

Jay Galbraith formalised the leading model in the 1970s as the Star Model — five interlocking design levers that any functioning organisation must keep coherent: strategy, structure, processes, rewards, people.

The model travelled from organisation theory into the boardroom because it captures one simple, uncomfortable truth: you cannot optimise one element in isolation. Change strategy, and structure must follow. Change structure, and processes break. Change processes, and the reward system must be re-tuned.

Coherence across the five levers produces results. When they drift apart, performance falls — and the need for action emerges.

In the mid-market we see this in a recurring pattern. Strategy on one floor. Roles & org charts on another. Process documentation sitting in a Confluence space nobody reads. Incentives designed by HR with no link to the other elements.

Even before the AI era, the challenge was to align the five elements cleanly.

Five levers. One truth: change one, and you'll watch the others break in turn.

Strategy WHERE TO PLAY · HOW TO WIN	Which markets, which customers, which basis of competition. The lever that sets the frame. Without strategy, no effective structure can emerge.
Structure REPORTING LINES · SPAN OF CONTROL	**Who reports to whom, who decides what.** The formal anatomy of the organisation. It works when it follows strategy — not the other way around.
Processes VALUE STREAM · HANDOVERS	How collaboration works. Every handover has an owner, a quality check, an escalation path. Processes build on structure.
People CAPABILITIES · ROLES	Who does the work. Role profiles, competencies, career paths. Without the right people, structure and process have no effect.
Rewards COMPENSATION · RECOGNITION	**What behaviour is rewarded.** Couples individual incentives to organisational outcomes. The system that brings every other lever into focus — or destroys them.

"You cannot optimise one lever in isolation. Change one, and you'll watch the others break in turn."

JAY GALBRAITH · STAR MODEL · 1970S

SECTION

02

All five elements. Simultaneously. Asymmetrically.

When AI is introduced into an operating model designed for pure human work, it doesn't just affect one element. It hits all five — at the same time, with differing severity.

What AI changes at each of the five Galbraith levers.

- **Strategy.** The Galbraith model assumes strategy answers "where to play, how to win". AI broadens the playing field. What is AI's impact on the business model? What does the organisation actually want to achieve with AI? Above all: *how autonomously should AI act?* What do we automate, and at which autonomy level?
- **Structure.** Traditional structure is a function of reporting lines and span of control. AI introduces a structural object no pre-AI operating model ever had to accommodate: a system that makes decisions without necessarily reporting to anyone.
- Processes. Processes are defined by human handovers. AI making decisions on its own now turns the system upside down. Processes must be rethought accordingly. The value sits in the redesign, not in the overlay.
- People. The pre-AI operating model asked "who can do this work?". The AI operating model has to answer a different question: who can supervise work an AI system performs — and at which autonomy level? That requires different roles with new competency profiles.
- **Rewards.** The reward system couples individual incentives to organisational outcomes. AI makes this coupling harder: when an AI system influences the result and a human is incentivised on the result, the incentive becomes detached from the work the human can actually steer.

THE POINT

Coherence across all five Galbraith elements breaks simultaneously.

This is why an "AI strategy" without operating model work rarely survives contact with day-to-day operations. Anyone who optimises one lever without thinking through the other four isn't buying an AI operating model — they're breaking the system from the start.

70/20/10 — anyone budgeting AI as technology hasn't understood the challenge.

BCG · Transforming with AI 2025 measures where AI value actually comes from. Seven tenths sit in people and processes — that is, in the Galbraith levers AI simultaneously destabilises. Anyone investing on the wrong side of this split is buying models nobody can lead.

70%

Of AI value comes from people and processes.

BCG · TRANSFORMING WITH AI 2025

20%

From technology integration: data, platforms, MLOps.

BCG · TRANSFORMING WITH AI 2025

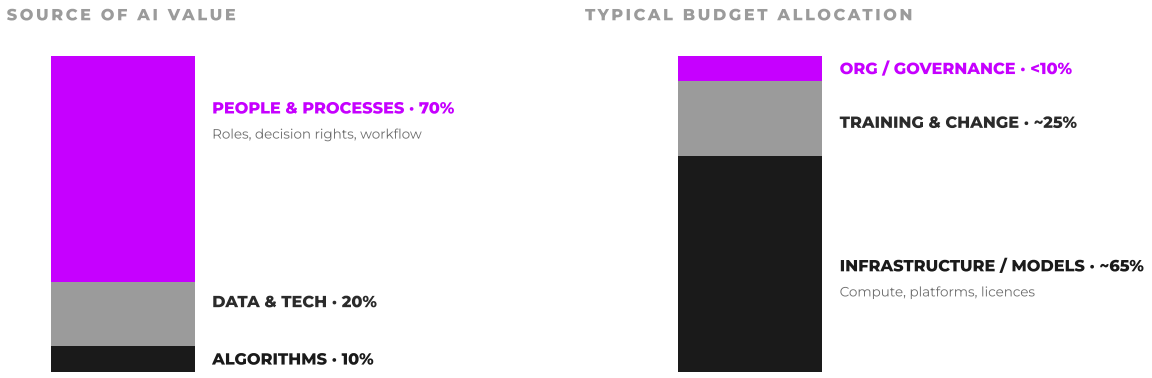
10%

From the algorithms themselves. The smallest share — usually the biggest budget line.

BCG · TRANSFORMING WITH AI 2025

Fig. 01 · Where AI value comes from — and where most budgets flow.

Two stacks should match. They don't.



SOURCE · BCG TRANSFORMING WITH AI 2025; HANDSON ANALYSIS OF EUROPEAN MID-MARKET BUDGETS

McKinsey · *The Agentic Organization* (September 2025) sharpens the finding. **89 % of organisations** still operate with operating models from the industrial era; only **1 %** act as decentralised networks. BCG's AI Radar 2026 adds: only **15 % of CEOs** couple AI investment to organisational transformation. The other 85 % invest in AI without redesign.

SECTION

03

Two layers. Six domains. One core.

The HandsOn AI Operating Model is a specific extension of the operating model concept for AI-enabled organisations. It builds directly on Galbraith — augmented by one central design object: the Human-AI Interface.

Foundation Layer · What leadership architects from the top down.

Three design domains that shape the system for everything below. Wrong decisions here compound — every additional AI system built on the wrong strategy, structure or governance accumulates legacy cost.

D01 · FOUNDATION

01

Strategy & Value Architecture

Where does AI create lasting competitive advantage, where merely operational efficiency? The principle of *autonomy cost*: every increase in AI autonomy carries a cost burden that scales non-linearly. **Output:** use-case portfolio scored by business value, feasibility, readiness and autonomy cost.

D02 · FOUNDATION

02

Organizational Structure

The structural model must follow the autonomy level. **Stage 1:** central CoE. **Stage 2:** Center-Led Hybrid (AI Hub plus Embedded AI Leads, dual reporting line). **Stage 3:** federated. Wrong structure = pilot success does not convert into regular operations.

D03 · FOUNDATION

03

System Governance

Home of the EU AI Act requirements and the decision on compliance with other AI governance models (ISO 42001, NIST/RAF). Covers risk assessment, system-level accountabilities, lifecycle governance, feedback-loop architecture.

METHODOLOGICAL FOUNDATION

Galbraith · Kates & Kesler · Worren — translated for the first time into an AI-native context.

The Star Model, Center-Led structures and axiomatic design principles are established building blocks of organisation theory. The HandsOn AI Operating Model is the synthesis — tailored explicitly to AI-enabled organisations, with the Human-AI Interface as the connecting design object.

Activation Layer · What people experience in their daily work.

Three domains in which design decisions from the Foundation Layer are translated into operational behaviour. This is where it becomes clear whether the architectural work has effect — or whether it stays on the slide.

D04 · ACTIVATION

04

Decision Architecture

Where the four autonomy levels become operational. Core artefact: the **Decision Rights Registry** — a formal record of every AI-enabled decision type with autonomy level, named authority, evidence standard, recalibration trigger. Classification governance is the most frequently skipped step of all.

D05 · ACTIVATION

05

Process & Workflow Architecture

Three modes of process change: **AI Overlay** (10–20 %), **AI-Integrated Redesign** (40–60 %), **AI-First Process Design** (80–100 %). Every human↔AI handover designed explicitly — where, with which quality criteria, with which exception protocol, with which named accountability.

D06 · ACTIVATION

06

Capabilities & Culture

The most underestimated domain, with the longest lead time. A multi-year programme, differentiated across five target groups — board, middle management, subject-matter experts, technical AI teams, the wider workforce — and calibrated to the respective autonomy level. **12–24 months of investment**, not a quarterly budget line.

WHY THERE IS DELIBERATELY NO TECHNOLOGY DOMAIN

Technology is infrastructure — like electricity. It is not the design domain in which organisational behaviour emerges.

Making technology a domain invites precisely the mistake most AI transformations make today: first design the tech architecture, then knit the operating model around it. The model puts the organisation first, technology second — exactly what the most robust studies say works.

SECTION

04

The Human-AI Interface.

Every AI implementation creates interfaces — the point where human judgement ends and AI agency begins. The interface answers the following questions: Where does the interface sit? How is it governed? Who carries accountability across it?

Four design questions are mandatory for every AI system.

The Human-AI Interface (HAI) is the design object HandsOn assigns to the interface. It is structured around four questions. Anyone who has not defined these four answers for an AI system in one place, with named people behind them, is running AI on an operating model designed for a different era.

01

Who decides?

Who is authorised to use AI output as the basis for their own action — at which autonomy level and under what conditions.

02

Who is accountable?

Who is accountable for the outcome when AI is involved. *Accountability cannot be delegated to a model.*

03

How does the system learn?

How errors are detected, how performance signals are collected, how the AI system is recalibrated.

04

What are the boundaries?

The operational conditions under which AI may work without review — and the triggers that pull humans back into the loop.

"The real challenge isn't the technology — it's redesigning workflows, leadership and culture for an agentic world."

MCKINSEY · THE AGENTIC ORGANIZATION · APRIL 2026

Every AI-enabled decision type sits on one of four autonomy levels.

The level you set is a design decision with knock-on effects on cost and capability. Depending on the use case and the targeted autonomy level, the necessary preconditions must be created across the six domains of the operating model so the system can work successfully.

L1
Critical Consumer

AI recommends; humans decide every time. Safe by design. Governance load is low, not scalable in high-volume processes.

L2
Supervised Executor

AI executes; humans review samples and handle exceptions. Appears cheap — carries the heaviest hidden cost in the model.

L3
Monitored Autonomous

AI runs continuously within policy; humans monitor at system level. Named accountability — AI Owner, AI Steward — becomes load-bearing.

L4
Human-in-the-Exception

AI orchestrates multi-step workflows; humans only step in for escalations. Highest governance load; EU AI Act documentation scales here.

A SIMPLE TEST

Take any AI system in production and ask four questions.

Which autonomy level is it running on? Who is accountable? How does it learn? What are its boundaries? If these four answers don't sit in one place, with named people behind them, AI in this organisation is still running on an operating model designed for a different era.

SECTION

05

Three decisions that turn a framework into an operating model.

A framework becomes an operating model only when its individual elements interlock and leadership decisions are taken — and lived.

Three decisions for the next stage of your operating model.

DECISION 01

Name the Human-AI Interface as a design object.

For every AI system in production and every one planned: assign one of the four autonomy levels. Name an AI Owner and an AI Steward. Document the boundary conditions under which the system may act. **Result: a one-page Human-AI Interface register.** In most engagements this exercise alone surfaces 5–15 production systems for which nobody is named accountable.

DECISION 02

Choose the structural model for the next 18 months.

Stage 1 central CoE, Stage 2 Center-Led Hybrid, or Stage 3 federated model with dual reporting line. **This belongs at board level, not at CIO level** — the decision has headcount, budget and reporting-line consequences that span functions. The wrong structure compounds: every additional AI system in the wrong structure raises the cost of later redesign.

DECISION 03

Install a classification governance protocol.

Who is authorised to lift an AI system from L1 to L2 or from L2 to L3 — and against what evidence standard? The most frequently skipped step in AI governance, and the one from which regulatory exposure emerges when systems quietly drift into higher autonomy. **A one-page protocol** — named authority, named evidence standard, named cadence — closes the gap.

None of these three decisions requires new technology. All three are cheaper now than after the first regulatory incident.

Galbraith's five elements still apply. Coherence now runs across a boundary.

An AI Operating Model is the coherent redesign of strategy, structure, process, people and rewards around one central design object the pre-AI operating model never had: the **Human-AI Interface**.

What changes isn't the set of design levers — it's the boundary they all have to run along to stay coherent: the boundary where human judgement ends and AI agency begins.

Two concrete next steps. **If you lead strategy, transformation or the AI portfolio:** take the five largest AI initiatives, map each one against the six domains of the HandsOn AI Operating Model, and identify the weakest domain. That map is the starting point for a redesign.

If you sit at board or supervisory-board level: put the three Monday-morning decisions on the agenda for the next two cycles. Human-AI Interface register. Structural model. Classification governance protocol.

"Coherence now runs across the boundary where human judgement ends and AI agency begins."

CONCLUSION · FROM OPERATING MODEL TO AI OPERATING MODEL

ENGAGEMENT

If you're rethinking your organisation's operating model for AI, talk to us.

HandsOn works with leadership teams on exactly this transition — from the Galbraith operating model to the HandsOn AI Operating Model. Strategy and structural work, Decision Rights Registry, classification governance, capability programmes along the four autonomy levels.

ABOUT THE PUBLISHER

HANDSON

HandsOn Insights.

Pillar 02 · Org Design for AI

HandsOn is an independent advisory firm working with European mid-market and enterprise leadership teams on the organisational design of AI. The Insight series publishes proprietary research and field-tested frameworks on the strategy, structure and governance of AI in large organisations.

The HandsOn AI Operating Model defines the Human-AI Interface as the central design object of an AI-enabled organisation. This whitepaper translates Galbraith's Star Model into the AI context and lays six design domains over it — three in the Foundation, three in the Activation Layer.

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