Putting Business Capabilities to Work

Jeff Scott
VP/ Business & Technology Strategy

OMG
Webinar
January 15, 2014
Who is Accelare?

- **Thought Leadership**
  - Writer:
    - Currently publish the blog: The Business Architect
    - Have written over 50 research reports and articles for Forrester Research, Cutter Consortium and others
  - Speaker:
    - Regularly speak at industry conferences, universities, user groups, and companies on the topics of strategy management, business architecture, and organizational innovation
  - Consultant & Mentor:
    - Work with a small number of business leaders and business architects to facilitate their growth and success

- **Innovative Process**
  - Experts in strategy execution and capability management

- **Powerful Technology**
  - Business Architect Advocate
Business Capabilities
A quick overview
Business capability defined

Business capability definition (one of many)

• A business capability (or simply capability) describes a unique, collective ability that can be applied to achieve a specific outcome. A capability model describes the complete set of capabilities an organization requires to execute its business model or fulfill its mission. An easy way to grasp the concept is to think about capabilities as organizational level skills imbedded in people, process, and/or technology.
Capabilities:

• Define what an organization must be able to do to successfully execute its business model
• Provide a common language for change
• Create a common link between executive intent and operational activities
• Provide a foundation for assessment and prioritization
Capability attributes

• **Each capability is unique.** A capability is a fundamental element of the organization and as such is clearly different from other capabilities. A capability might be applied throughout the organization and can be applied in different ways to affect different outcomes but it is still a single capability.

• **Capabilities are stable.** Well-defined capabilities rarely change. They provide a much more stable view of organizations than do projects, processes, applications, or even strategies. Capabilities only change when there is a significant shift in the underlying business model or mission which might occur through a business transformation initiative or in conjunction with a new merger or acquisition. This stability is a major part of their appeal.

• **Capabilities are abstracted from the organizational model.** Capability models are not just a simple restatement of the enterprise’s organizational model. They are organizationally neutral which means that changes in the organizational structure don’t require a change in the capability model. In simple organizations, the capability model may indeed look similar to the corporate organizational structure; however, in more-complex organizations capabilities both common to and unique to organizational units are found.
 Capability attributes

• **Capabilities can be defined for any organizational unit.** Though most architects think of capabilities at the enterprise level, every organization, large or small, has a set of capabilities it applies to fulfill its mission. Since capabilities represent the organization’s leader’s interest, each organization will have a unique set of capabilities not seen in the rest of the organization. Therefore, each organization will have a unique capability map.

• **Individual capabilities do not have a purpose.** Since capabilities represent what an organization can do and not what it actually does they can be viewed as potential. This means capabilities can be applied in multiple ways, for different purposes. This also means they must be assessed in terms of their application - measured on a fit-for-purpose scale not a maturity scale.
Capability corollaries

- **First and foremost capabilities capture the organization’s interest.** The primary value in defining capabilities lies in their ability to create new insight and perspective for business leaders. To accomplish this, capabilities must be defined in a way that resonates with business executives’ thought process. Creating meaning is the goal. Coherence and completeness are not as important as resonating with business thinking.

- **Capability models are not hierarchical.** Though capabilities can often be decomposed into lower level capabilities the model is not entirely hierarchical. A lower level organization’s capability model cannot be derived from the higher level model. Since capabilities represent the organization’s leader’s interest, each organization typically has a unique set of capabilities not seen in other organizational units as well as a set that is common with other organizations. Therefore, each organization within a single company typically has a unique capability map.
Putting capability models to work
Capability models facilitate strategic decisions

- Which are our strongest and weakest capabilities?
- Which capabilities provide strategic differentiation?
- Which capabilities can be leveraged in new markets?
- Where should we invest our resources?
- Where can technology add more strategic value?
- Where can technology be used to lower cost?
Capability models facilitate operational efficiencies

• Where do we have multiple processes and technologies supporting one capability?

• Which capabilities are costing too much to support?

• Which capabilities should we outsource?

• Where do we need more employee education?

• Where do we need process improvement?
Assess capabilities on value first

Capabilities are not all equal in their VALUE to the customer and/or financial performance

- **Advantage** capabilities create distinction in eyes of customers AND drive financial results
- **Strategic Support** capabilities with high customer value but little Financial Impact
- **Essential** capabilities drive financial performance but not customer Value
- **Business Necessity** capabilities are necessary but are not seen as creating value for customers or driving financial performance
Capability assessment - IT Inc.
UNDERSTAND EACH CAPABILITY’S VALUE CONTRIBUTION

1. Business Partnership Management
   - 1.1 Divisional Planning
   - 1.2 Support Business Process Reengineering
   - 1.3 Publish IT Performance (to Customers)
   - 1.4 Manage Customer Relationships
   - 1.5 Maintain Current State Models

2. IT Planning & Controls
   - 2.1 Manage Enterprise Architecture
   - 2.2 Manage IT Standards
   - 2.3 Manage IT Governance
   - 2.4 Create Annual Plans
   - 2.5 Plan & Manage Research & Innovation
   - 2.6 Manage IT Policy

3. Program & Project Management
   - 3.1 Plan Portfolio
   - 3.2 Deliver Portfolio
   - 3.3 Manage Program & Project Standards, Methods & Governance
   - 3.4 Manage Requirements, Project Standards, Methods & Governance
   - 3.5 Govern Portfolio & Delivery

4. IT Administration & Management
   - 4.1 IT Resource Management
   - 4.2 IT Performance Management
   - 4.3 Execute IT Controls
   - 4.4 IT Operational Tactical Planning
   - 4.5 Manage IT Services/Products

5. Solutions Delivery
   - 5.1 Deliver Solution Estimation & Impact Analysis
   - 5.2 Define & Manage Solution Architecture
   - 5.3 Conduct Requirements Management
   - 5.4 Conduct Solution Analysis
   - 5.5 Design Solutions
   - 5.6 Construct Solutions
   - 5.7 Test Solutions
   - 5.8 Design Audit, Review & Harvest
   - 5.9 Deploy Solutions
   - 5.10 Decommission & Remove Solution

6. Deliver Operations Infrastructure
   - 6.1 Define & Manage Service Levels
   - 6.2 Manage Performance & Capacity
   - 6.3 Ensure Security
   - 6.4 Service Desk Management
   - 6.5 Manage Configurations
   - 6.6 Manage Problems
   - 6.7 Manage & Administer IT
   - 6.8 Enable Business Recovery (DR)
   - 6.9 Coordinate & Accept Releases
   - 6.10 Event Management
   - 6.11 Incident Management
   - 6.12 Deploy & Manage Service Levels

Capability Value Index
- Business Necessity Capabilities
- Essential Capabilities
- Strategic Support Capabilities
- Advantage Capabilities

Applying capability models
Example 1: Build the strategic portfolio of work
IDENTIFY CAPABILITY GAPS NECESSARY TO CLOSE TO REALIZE STRATEGIC PRIORITIES

Identify strategies

Identify capabilities

Assess capabilities

Gap analysis

Root cause analysis

Identify solutions

Strategy: Bring more products to market

Repeat for each strategy

<table>
<thead>
<tr>
<th>Strategy</th>
<th>Strategic planning</th>
<th>Idea sourcing</th>
<th>Rapid prototyping</th>
<th>Engineering</th>
<th>Market shaping</th>
<th>Sales</th>
</tr>
</thead>
<tbody>
<tr>
<td>Today: working 5 new ideas per year</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Future: need at least 25 ideas per year</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Gap: increase idea generation 5 fold</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Relegate idea generation to a small team of three product developers

Use university research groups, outsource to overseas labs, crowd source from current customer base
Example 1: Build the strategic portfolio of work

CONSTRUCT THE STRATEGIC PORTFOLIO OF CAPABILITY ENHANCING WORK

1. Market Analytics
   - 1.1 Market Analysis
   - 1.2 Market Shaping
   - 1.3 Sales Management

2. Request to Service
   - 2.1 Relationship Management
   - 2.2 Incident Management
   - 2.3 Product Education
   - 2.4 Repair Services

3. Concept to Product
   - 3.1 Idea Sourcing
   - 3.2 Rapid Prototyping
   - 3.3 Engineering
   - 3.4 Packaging Design
   - 3.5 Channel Placement

4. Manufacturing to Distribution
   - 4.1 Schedule Management
   - 4.2 Fabrication
   - 4.3 Applied Robotics
   - 4.4 Line Management
   - 4.5 Inventory Control
   - 4.6 Distribution Logistics

5. Order to Cash
   - 5.1 Order Management
   - 5.2 Order Fulfillment
   - 5.3 Billing
   - 5.4 Payments

6. Corporate Management
   - 6.1 Human Resources
   - 6.2 Financial Management
   - 6.3 Facilities Management
   - 6.4 Contract Management
   - 6.5 Strategic Planning
   - 6.6 IT Management

Strategy aligned capability enhancements create the portfolio of work
Example 2: Build a project funding filter
CREATE FUNDING POOLS BASED ON CAPABILITY CONTRIBUTION

<table>
<thead>
<tr>
<th>Advantage</th>
<th>Essential</th>
<th>Necessary</th>
</tr>
</thead>
<tbody>
<tr>
<td>Idea sourcing</td>
<td>Packaging design</td>
<td>Channel placement</td>
</tr>
<tr>
<td>Rapid prototyping</td>
<td>Quality control</td>
<td>Scheduling</td>
</tr>
<tr>
<td>Engineering</td>
<td>Incident management</td>
<td>Fabrication</td>
</tr>
<tr>
<td>Market shaping</td>
<td>Applied robotics</td>
<td>Inventory control</td>
</tr>
<tr>
<td>Relationship management</td>
<td>Line management</td>
<td>Order management</td>
</tr>
<tr>
<td>Strategic planning</td>
<td>Distribution logistics</td>
<td>Billing</td>
</tr>
<tr>
<td></td>
<td>Sales Management</td>
<td>Payments</td>
</tr>
<tr>
<td></td>
<td>Order fulfillment</td>
<td>Market analytics</td>
</tr>
</tbody>
</table>

Allocate 50% of available funding
Allocate 30% of available funding
Allocate 20% of available funding

Example 2: Build a project funding filter
USE FUNDING POOLS AS THE FIRST LEVEL PROJECT FILTER

Advantage 50%
- Business project 1
- Business project 2
- Business project 3

Essential 30%
- Business project 4
- Business project 5

Necessary 20%
- Business project 6
- Business project 7
- Business project 8
- Business project 9
- Business project 10
- Business project 11
**Example 3: Create a strategic sourcing map**

**ASSESS CAPABILITIES FOR PROPRIETARY KNOWLEDGE AND LEVEL OF INTEGRATION**

<table>
<thead>
<tr>
<th>Value Contribution</th>
<th>Knowledge &amp; Integration</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td><strong>Proprietary</strong></td>
</tr>
<tr>
<td>Advantage Capabilities</td>
<td>Retain</td>
</tr>
<tr>
<td></td>
<td>Develop/build the best internal capability possible</td>
</tr>
<tr>
<td>Strategic Support Capabilities</td>
<td>Retain</td>
</tr>
<tr>
<td></td>
<td>Develop/build the best internal capability possible</td>
</tr>
<tr>
<td>Essential Capabilities</td>
<td>Retain &amp; Maintain</td>
</tr>
<tr>
<td></td>
<td>Manage internal capability to meet cost and quality standards</td>
</tr>
<tr>
<td>Business Necessity Capabilities</td>
<td>Retain</td>
</tr>
<tr>
<td></td>
<td></td>
</tr>
</tbody>
</table>
Example 3: Create a strategic sourcing canvas

USE VALUE CONTRIBUTION AND PROPRIETARY KNOWLEDGE TO MAP SOURCING OPTIONS

<table>
<thead>
<tr>
<th>Proprietary Knowledge &amp; Integration</th>
<th>Not Sharable</th>
<th>Non-proprietary &amp; sharable</th>
</tr>
</thead>
<tbody>
<tr>
<td>High</td>
<td>1.1 Market Analytics</td>
<td>1.8 Launch Products</td>
</tr>
<tr>
<td>Value Added</td>
<td>1.4 Identify Customer Needs</td>
<td>1.5 Obtain Regulatory Approval</td>
</tr>
<tr>
<td>Essential</td>
<td>1.2 Analyze Environment</td>
<td>1.3 Forecast Membership</td>
</tr>
<tr>
<td>Business Necessity</td>
<td>1.6 Develop Business Plans...</td>
<td>1.7 Pilot or Test Products....</td>
</tr>
<tr>
<td>Low</td>
<td>Good Candidate for Alternative Sourcing</td>
<td>Possible Candidate for Alternative Sourcing</td>
</tr>
</tbody>
</table>
Example 3: Create a strategic sourcing map

Use value contribution and proprietary knowledge to prioritize sourcing options.
Example 4: Project portfolio assessment
MAP PROJECTS TO THE CAPABILITIES THEY AFFECT
Example 4a: Project portfolio assessment
IDENTIFY THE MOST IMPORTANT PROJECTS

**Advantage**
- Idea sourcing
- Rapid prototyping
- Strategic planning

**Essential**
- Incident management
- Distribution logistics
- Order fulfillment

**Necessary**
- Scheduling
- Billing
- Finance

**Projects**
- Business
  - Strategy Process Redesign
  - Lean Processes
  - Investment Management

- Application
  - Logistics Enhancement
  - Innovation Management
  - Order Management

- Infrastructure
  - Master Data Management
  - Business Intelligence
Example 4b: Project portfolio assessment
IDENTIFY THE LEAST IMPORTANT PROJECTS

Capabilities

Advantage
- Idea sourcing
- Rapid prototyping
- Strategic planning

Essential
- Incident management
- Distribution logistics
- Order fulfillment

Necessary
- Scheduling
- Billing
- Finance

Projects

Business
- Strategy Process Redesign
- Lean Processes
- Investment Management

Application
- Logistics Enhancement
- Innovation Management
- Order Management

Infrastructure
- Master Data Management
- Business Intelligence
Example 4c: Project portfolio assessment
IDENTIFY PROJECT EFFECTIVENESS AND EFFICIENCY

- Are all of these projects necessary?
- Do any of these projects overlap?
- Are these projects synergistic?
- Are we creating resource collisions?
- How much money are we spending overall for this capability?
Example 4d: Project portfolio assessment

ORGANIZE PROJECTS INTO CAPABILITY ENHANCEMENT PORTFOLIOS

**Capabilities**

**Advantage**
- Idea sourcing
- Rapid prototyping
- Strategic planning

**Essential**
- Incident management
- Distribution logistics
- Order fulfillment

**Necessary**
- Scheduling
- Billing
- Finance

**Projects**

**Business**
- Strategy Process Redesign
- Lean Processes
- Investment Management

**Application**
- Logistics Enhancement
- Innovation Management
- Order Management

**Infrastructure**
- Master Data Management
- Business Intelligence

**Strategic planning project portfolio**

**Business projects**
- Strategy Process Redesign
- Investment Management

**Application projects**
- Innovation Management

**Infrastructure Projects**
- Business Intelligence
# Example 5: Application portfolio assessment

**IDENTIFY THE TOTAL COST OF CAPABILITY SUPPORT AND PORTFOLIO HEALTH**

## Capabilities

<table>
<thead>
<tr>
<th>Advantage</th>
<th>Essential</th>
<th>Necessary</th>
</tr>
</thead>
<tbody>
<tr>
<td>Idea sourcing</td>
<td>Incident management</td>
<td>Scheduling</td>
</tr>
<tr>
<td>Rapid prototyping</td>
<td>Distribution logistics</td>
<td>Billing</td>
</tr>
<tr>
<td>Strategic planning</td>
<td>Order fulfillment</td>
<td>Finance</td>
</tr>
</tbody>
</table>

### Rapid Prototyping Application Assessment

- **Cost**: $2,000,000
- **FTEs**: 5
- **Capabilities**
  - Complexity
  - Currency
  - Stability
  - Skills
  - Redundancy

<table>
<thead>
<tr>
<th>Function</th>
<th>Module</th>
</tr>
</thead>
<tbody>
<tr>
<td>Specification</td>
<td>Specification Manager</td>
</tr>
<tr>
<td>Blueprint</td>
<td>Blueprint Analyzer</td>
</tr>
<tr>
<td>CAD-CAM</td>
<td></td>
</tr>
</tbody>
</table>

### Scheduling Application Assessment

- **Cost**: $1,500,000
- **FTEs**: 7
- **Capabilities**
  - Complexity
  - Currency
  - Stability
  - Skills
  - Redundancy

<table>
<thead>
<tr>
<th>Function</th>
<th>Module</th>
</tr>
</thead>
<tbody>
<tr>
<td>Scheduler</td>
<td>Scheduler</td>
</tr>
<tr>
<td>Schedule Planner</td>
<td>Schedule Planner</td>
</tr>
<tr>
<td>Plan-IT</td>
<td>Plan-IT</td>
</tr>
<tr>
<td>Workflow Builder</td>
<td>Workflow Builder</td>
</tr>
<tr>
<td>Route Designer</td>
<td>Route Designer</td>
</tr>
</tbody>
</table>

**Questions**
- Does the level of dollar investment make sense?
- Does the level of people investment make sense?
Example 6: Small organization assessment

USE SWOT ANALYSIS TO IDENTIFY CAPABILITY DEVELOPMENT OPPORTUNITIES

**STRENGTHS**
- Strategy clarification and articulation
- Investment prioritization
- Technical assessment

**WEAKNESSES**
- Strategy development
- Organizational assessment

**OPPORTUNITIES**
- Strategy development
- Opportunity analysis

**THREATS**
- Consultant influence
- Lack of executive relationships
Example 6: Capability SWOT
FOR SMALL ORGANIZATIONS IDENTIFY CAPABILITY DEVELOPMENT OPPORTUNITIES

STRENGTHS
- Strategy clarification and articulation
- Investment prioritization
- Technical assessment

WEAKNESSES
- Strategy development
- Organizational assessment

OPPORTUNITIES
- Strategy development
- Opportunity analysis

THREATS
- Consultant influence
- Lack of executive relationships

Leverage
Improve

New capability?
<table>
<thead>
<tr>
<th>Capability</th>
<th>Action</th>
<th>Priority</th>
</tr>
</thead>
<tbody>
<tr>
<td>Marketing &amp; relationship development</td>
<td>Create</td>
<td>1</td>
</tr>
<tr>
<td>Strategy Development</td>
<td>Improve</td>
<td>2</td>
</tr>
<tr>
<td>Investment prioritization</td>
<td>Expand</td>
<td>3</td>
</tr>
<tr>
<td>Technical assessment</td>
<td>Expand</td>
<td>3</td>
</tr>
<tr>
<td>Strategy clarification and articulation</td>
<td>Maintain</td>
<td>4</td>
</tr>
<tr>
<td>Organizational assessment</td>
<td>Identify gaps</td>
<td>5</td>
</tr>
</tbody>
</table>
The bottom line

- Capability models resonate with executives
- Capability models create the foundation for multiple types of analysis
- Capabilities can provide both strategic and operational investment guidance
- Capabilities can be easily and subjectively assessed
- Once assessed, capability analysis can be applied to a wide variety of problems
Stay in touch

Jeff Scott

Email: Jeff.Scott@accelare.com  Phone: +1-704-275-1725
LinkedIn: www.linkedin.com/company/accelare
          www.linkedin.com/in/logicalleap
Web: www.accelare.com  Twitter: @accelare

Subscribe to The Business Architect @ http://thebusinessarchitect.accelare.com/
Questions and discussion

QUESTIONS?
THANK YOU