# BUSINESS CAPABILITY MODELLING GUIDE

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DESIGN4SERVICES.COM

# PURPOSE OF GUIDE

- The purpose of this guide is to provide an introduction to Business Capability Modelling and the use of Business Capabilities for strategic planning and enterprise design

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# WHAT IS A BUSINESS CAPABILITY?
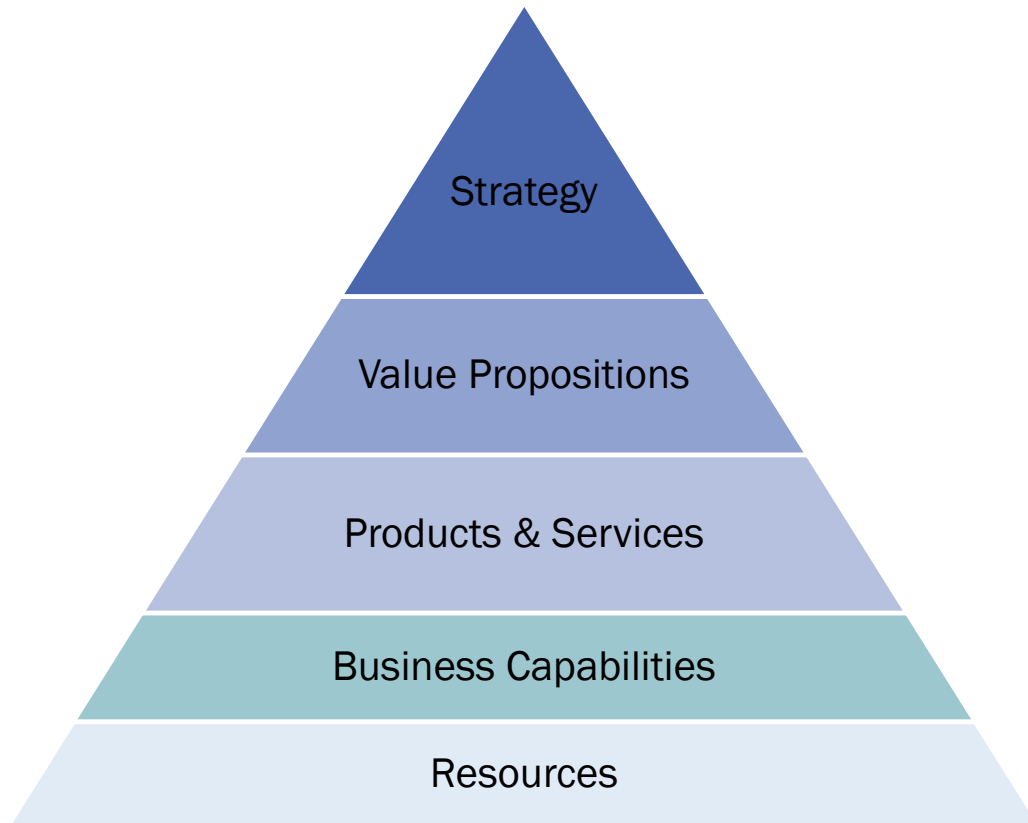


- A Business Capability is 'an ability an organisation requires to deliver its business model and strategy'. Conceptually, they are an application of the "Resource-based View of the Firm (RBV)" [1]

- Business Capabilities are not concerned with the specific activities of the organisation or how or where these are performed, but with the underlying abilities that these activities require and their associated resources

- Business Capabilities are used to drive the strategic elements of enterprise design, providing the bridge between strategy and execution and are used to drive the development of a 'strategic architecture'

- The Business Capabilities of an enterprise are used to create its value propositions and associated products and services, and to perform all of the associated activities of running the business

- Business Capabilities are created by combining the resources required by the capability - skills, knowledge and experience, behaviours, technology, infrastructure, information, processes, materials and location. Most importantly, the sum is greater than the parts

- Business Capabilities may exist physically, but often are only manifested through the products, services and activities to which they are applied

[1] An essential read "Competing for the Future" by Gary Hamel and C.K. Prahalad

Pyramid diagram layers (top to bottom): Strategy, Value Propositions, Products & Services, Business Capabilities, Resources

# BUSINESS CAPABILITIES ARE BEST EXPLAINED THROUGH A SIMPLE EXAMPLE

| Step | Detail |
|---|---|
| **Business Strategy** | Sell handmade cakes to order within a defined geographic area |
| **Identify Business Capabilities** | Cake Making, Marketing, Order Management, Procurement, Logistics… |
| **Identify Resources for each Capability** | Cake Making: Assets (Cake making equipment, Facilities), Skills (cake making, fine motor skills), Knowledge, Experience, Behaviour (attention to detail, patience), Materials (ingredients), Information (recipes), Location (central location), core processes (standard process for making butter icing) |
| **Design Product & E2E Value Stream, Build & Deliver** | [Receive Order] [Make Cake A] [Deliver Order]<br>[Receive Order] [Make Cake B] [Deliver Order]<br>Service consists of two standard Value Streams, with a specific process for each recipe.<br>Each process is designed, including when and how each resource is used as part of the process flow |
| **Business Strategy** | The cake making business is a success. The strategy is now to offer handmade biscuits, leveraging some of the existing Business Capabilities and associated resources. Perform Gap Analysis….. |

# SOME KEY CHARACTERISTICS OF A BUSINESS CAPABILITY

- Business Capabilities are relatively stable, only changing in response to major business model changes, i.e. the abilities a business requires change less often than the activities to which they are applied. This stability is central to their use in business strategy development and enterprise design

- Business Capabilities are delivered by a set of tangible and intangible resources:

  - Tangible: Processes, Technology, Information, Materials, Infrastructure and Location

  - Intangible: Values, Behaviours, Skills & Knowledge and Experience

- There are two basic types of Business Capability:

  - Operational - directly enable the physical delivery of products and services

  - Organisational - capabilities that underpin the success of the organisation and apply more generally, e.g. business agility and adaptability, psychological safety, customer-focus, or a specific management style

- Business Capabilities can be further classified as general or "ordinary capabilities" and "Core Competencies" (also referred to as Core or Strategic Capabilities), The distinction is that Core Competencies, individually or in combination, provide the organisation with a sustainable competitive advantage and/or are critical to the success of the organisation – part of the organisation's DNA

- Yet a further type of capability are what are referred to as "Dynamic Capabilities". This type of capability has come to the fore in recent years, with the need for organisations to become more agile, adaptive and resilient to an increasingly volatile, uncertain and changing world; and to help drive innovation and avoid stagnation. Dynamic Capabilities "help an enterprise to profitably build and renew resources, reconfiguring them as needed to innovate and respond to (or bring about) changes in the market and in the business environment more generally" (Pisano & Teece, 2007).

- Business Capabilities are defined independently from any organisation structure or function, logical or physical

- Business Capabilities can be decomposed to lower level capabilities to fully understand the nature of the capability and the resources required

- When suitably decomposed, the individual resources and their capabilities can be defined. This forms the basis for subsequent enterprise design

- Business Capabilities only occur once in the model, at any level.  Business Capabilities that occur in multiple areas of the business (termed "Capability Instances") are combined into a single capability e.g. Project Management, Risk Management and Case Management

# NAMING AND DEFINING BUSINESS CAPABILITIES

- A Business Capability has three parts – a title, definition and outcome:

- Title:

  - Expressed as a noun, or compound noun, e.g. Marketing, Fulfilment, Creativity, Strategic Planning, Brand Management, Sales Management, Customer Management and Legal Enterprise Management

  - Should reflect the standard terminology used within the particular industry/profession. The terms used by technology vendors and researchers, e.g. Gartner, can also be a useful guide and their use can aid subsequent mapping to the enabling technology resources

- Definition:

  - Should be clear, unambiguous and comprehensive, expressed in the form "the ability to do x"

  - Should be aligned to the capability as generally described e.g. by the profession, in the media and by technology vendors and researchers. Very localised descriptions should be avoided as they can be difficult to map across to the individual resources

- Outcome:

  - Defines the measurable outcome that is required from the ability. Used subsequently for strategic planning, investment decision making and performance improvement

# BUILDING THE BUSINESS CAPABILITY MODEL

- The starting point for building a Business Capability Model can vary (current state, future state, part or whole enterprise) but the basic process is the same

  - Identify each Business Capability, i.e. the abilities required now and/or in the future. If doing current state modelling this would be against the current products, services and activities of the organisation. If future state, this would be against the business strategy

  - Group these to provide some logical structure, independently of any 'how' structures, e.g. organisation or process

  - Decompose each Business Capability further to identify specific aspects of the Capability that are unique, well bounded and warrant being called out in their own right

  - Check for duplication across the model and opportunities for consolidation (referred to as "normalisation")

  - Avoid over-normalisation – If unsure, identify the core resources required across the candidate capabilities. If identical, then they can be combined. If not, keep separate

- If only covering part of the enterprise be prepared for some rework later only

# USING 'ACCELERATORS'

- Industry reference models can be used to help accelerate the development of your Business Capability Model.  The Business Architecture Guild have developed a fairly comprehensive set of Business Capability reference models for different industry sectors, but you can also 'reverse engineer' capabilities from other design domains, e.g. Process and Technology.  A range of examples is provided in the Appendix

- Reverse engineering capabilities is also a good way of identifying any gaps, i.e. through cross-checking.  If you have a process called "Resolve Incident" but no Business Capability called "Incident Management", then you probably have a gap

- Utilising industry reference models in this way also facilitates the subsequent definition of the 'how'

- But use reference models with care – be guided, not ruled by them.  It is important that the Business Capability Model reflects your business, not some generic view of the capabilities required

- Generally, external reference models will not help you to identify those Business Capabilities that are unique to you and are likely to form the basis of your success.  These can only be identified from within your organisation

# AN EXAMPLE OF A CAPABILITY DECOMPOSITION FOR ENTERPRISE LEGAL MANAGEMENT

| L1 Business Capability Group | L1 Business Capability Group Description | L2 Business Capability | L2 Business Capability Description | L3 Business Capability | L3 Business Capability Description |
|---|---|---|---|---|---|
| Enterprise Legal Management | The ability to manage the execution of enterprise legal activities, including Legal Matters, Contracts and external spend | Legal Matters Management | The ability to centrally organise and track all the information relating to a Legal Matter (case or legal issue) throughout its lifecycle, across the extended enterprise, i.e. in-house and external suppliers of legal services | Legal Matter Profiling | The ability to build Legal Matter profiles and validate data using intuitive entry forms and automated data validation |

Capability Group aligned to how the capability is described by the profession, in the media and by technology vendors

A clear description of the Business Capability, including the scope of the capability

Level 2 Business Capability aligned to how the capability is described by the profession, in the media and by technology vendors

Business Capability decomposed to the point where individual resource capabilities can be identified, e.g. Technology Logical Application Component (LAC)

# AN EXAMPLE OF A BUSINESS CAPABILITY DECOMPOSITION FOR BRAND MANAGEMENT

| L2 Business Capability | L2 Business Capability Description | L3 Business Capability | L3 Business Capability Description |
|---|---|---|---|
| Brand Management | The ability to develop a positive perception of the company and its products and services in the marketplace | Brand Identity Management | The ability to define the inherent features of the brand and how it is different from competing brands |
| Brand Management | The ability to develop a positive perception of the company and its products and services in the marketplace | Brand Image Management | The ability to establish the desired perception or image of the brand in the minds of our customers and to re-enforce that image through the collective activities and actions of the organisation |
| Brand Management | The ability to develop a positive perception of the company and its products and services in the marketplace | Brand Awareness | The ability to establish a strong brand awareness in the marketplace, to ensure for example that it is automatically considered as part of any buying decision |
| Brand Management | The ability to develop a positive perception of the company and its products and services in the marketplace | Brand Associations | The ability to create strong associations with the brand against key attributes of the product class, e.g. technological superiority |
| Brand Management | The ability to develop a positive perception of the company and its products and services in the marketplace | Brand Equity Management | The ability to establish and increase the equity or value of the brand, both tangible and intangible, e.g. price premium and brand extension into new products and services |

An example of a Business Capability that is largely created through a set of intangible resources, covering a broad range of skills, knowledge and experience, across a range of disciplines. The principal tangible resource is Technology that enables you to project your brand into the marketplace, across multi-channels and for customers to interact with the brand through social media.

# OTHER 'CAPABILITY'-BASED DESIGN APPROACHES

- The term 'capability' is used in many different contexts, not least within the fields of enterprise design and operations management.  Examples include Statistical Process Control (SPC) and "Capability Maturity Modelling (CMM)".  It's important not to confuse these different usages, nor the associated methods, with Business Capability Modelling

- The area that causes the most confusion is "Capability-based Planning".  Capability-based Planning is about the things an organisation needs to be able to do to deliver it's business model and strategy, i.e. the activities, not just the abilities required

- The focus is still only on the 'what', not the 'how' and the resources required.  Typically, related activities are grouped into logical "Business Functions", the capability of the function defined and the required resources identified.  The activities and their associated capabilities can also be decomposed and you can have conversations around importance, investment priorities, sourcing, and to some extent around rationalisation (although this is more at the resource level)

- The approach is superficially very similar to Business Capability Modelling, but the give-away is the function-orientation and the titles and/or capability descriptions used, which are usually activity-based, not ability-based.  Also, the capability model will often be used within a broader function-orientated design approach, e.g. processes decomposed by function, rather than by process group, as is the norm today

- Most of the material you will find on-line relates to Capability-based Planning, or variants of, including most of the 'Business Capability Model' examples.  If choosing to use Business Capability Modelling, you are likely to engage in many a confused conversation, particularly with those from the world of IT, as they will generally be talking about Capability-based Planning, which is found in the IT Enterprise Architecture methods framework TOGAF®.  This includes most major business and IT consultancies, software vendors and enterprise design tool vendors

- **Forewarned is forearmed!**

# BUSINESS CAPABILITIES AS PART OF ENTERPRISE DESIGN

*The following slides cover 3 use cases, which demonstrate how Business Capabilities are applied to Enterprise Design*
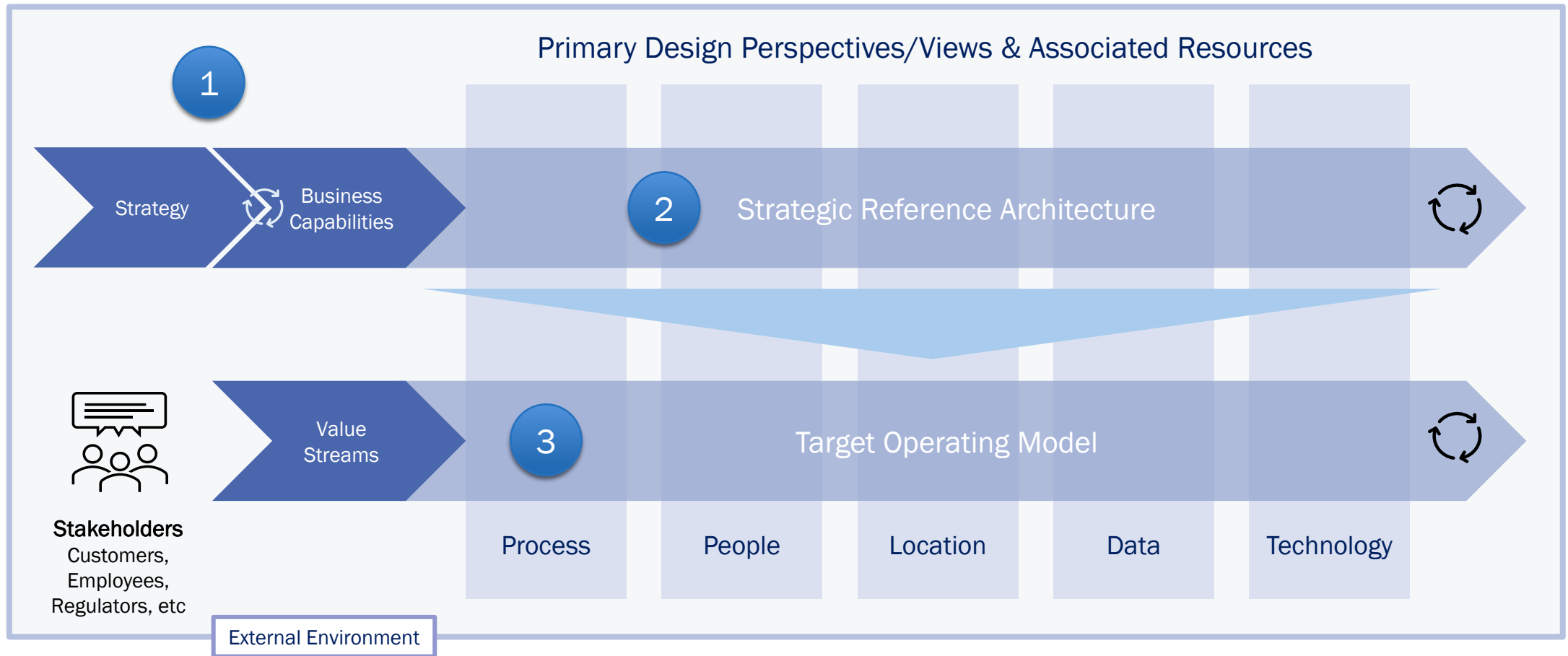
# USE CASE 1

USING BUSINESS CAPABILITIES AS PART OF BUSINESS STRATEGY & PRODUCT DEVELOPMENT

# SUPPORTING STRATEGIC SOURCING AND INVESTMENT DECISION MAKING

- A key application of Business Capabilities is to identify the importance of each Business Capability (individually or in combination) to the organisation in relation to its business strategy - is this capability part of our "secret sauce" (a "Core Competence"), i.e. does it contribute to our sustainable competitive advantage?

- This understanding can then be used to inform the making of strategic sourcing decisions, i.e. should the capability exist in-house or can it be safely and sensibly outsourced to a strategic partner (who is better at it than us).  Note "inform", just because the capability is not core does not mean you should outsource it.  Many other factors need to be taken into account, e.g. systemic complexity, business resilience, security, etc.

- It can also be used to drive the prioritisation of strategic investment decisions, coupled with an understanding of the performance of the Business Capabilities.  If the capability is critical to the delivery of the Business Strategy but its performance is not providing the outcome required, then the capability should be a high priority for future investment

# PRODUCT DEVELOPMENT & BUSINESS MODELLING



- Business Capabilities are useful when designing new products. They allow new products to be evaluated against the organisation's existing capabilities and any gaps to be identified, i.e. a product may need a capability to be improved or a new capability to be created internally or through the use of a partner

- This is best illustrated using the Business Model Canvas – a commonly used business model design framework

- Business Capabilities replace the definition of the resources (in the form of key partners, activities and other resources). Again focusing on the what, not the how, when, where, and who.

- Against the right-hand side you identify the Business Capabilities required

- Also remember to spin it on its head – What capabilities do we have and how can we leverage these to enter new markets and create new products and services?
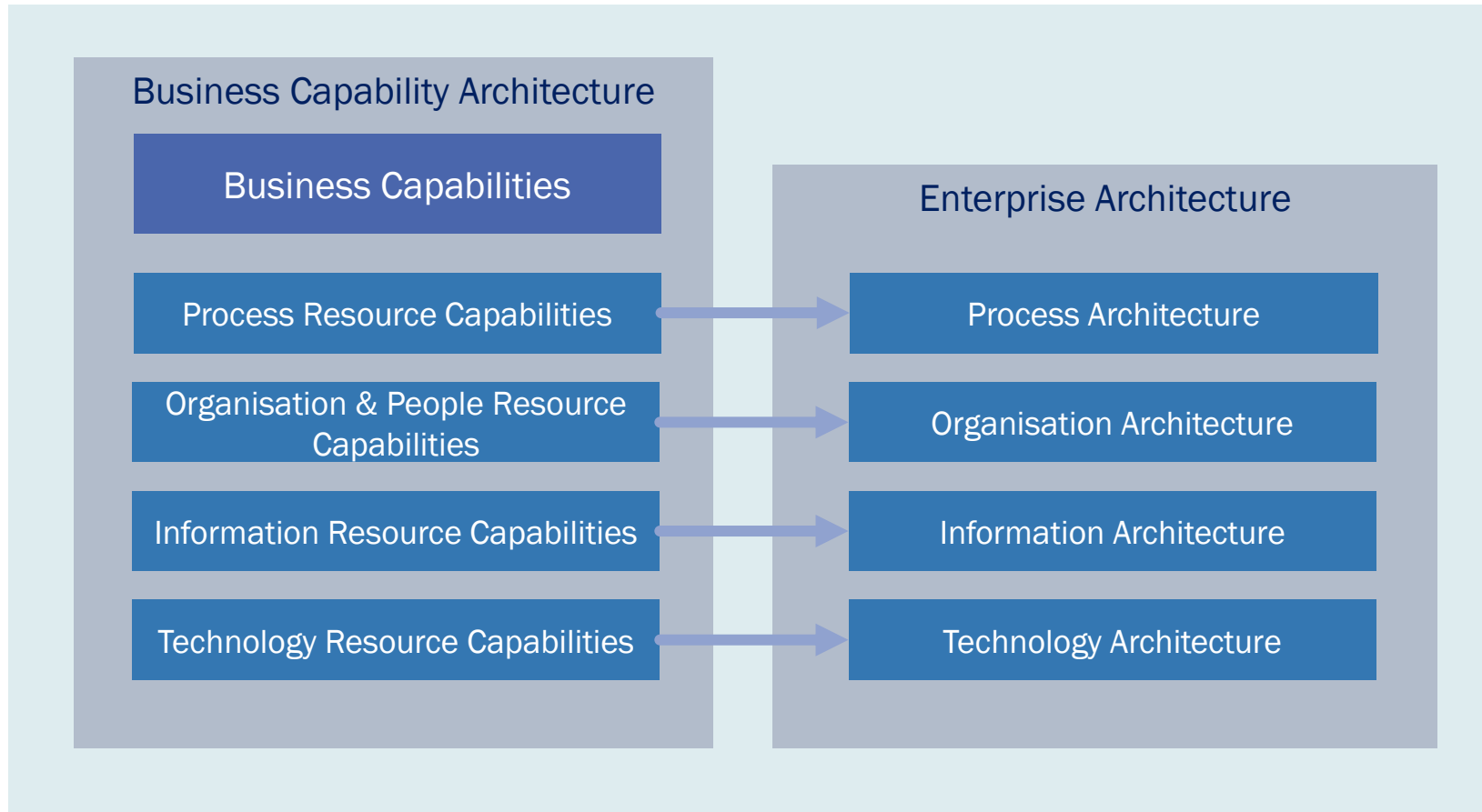
# USE CASE 2

USING BUSINESS CAPABILITIES AS PART OF ENTERPRISE ARCHITECTURE

# USING BUSINESS CAPABILITIES TO DRIVE THE DEFINITION OF YOUR ENTERPRISE ARCHITECTURE

**Business Capability Architecture**

Business Capabilities

Process Resource Capabilities

Organisation & People Resource Capabilities

Information Resource Capabilities

Technology Resource Capabilities

**Enterprise Architecture**

Process Architecture

Organisation Architecture

Information Architecture
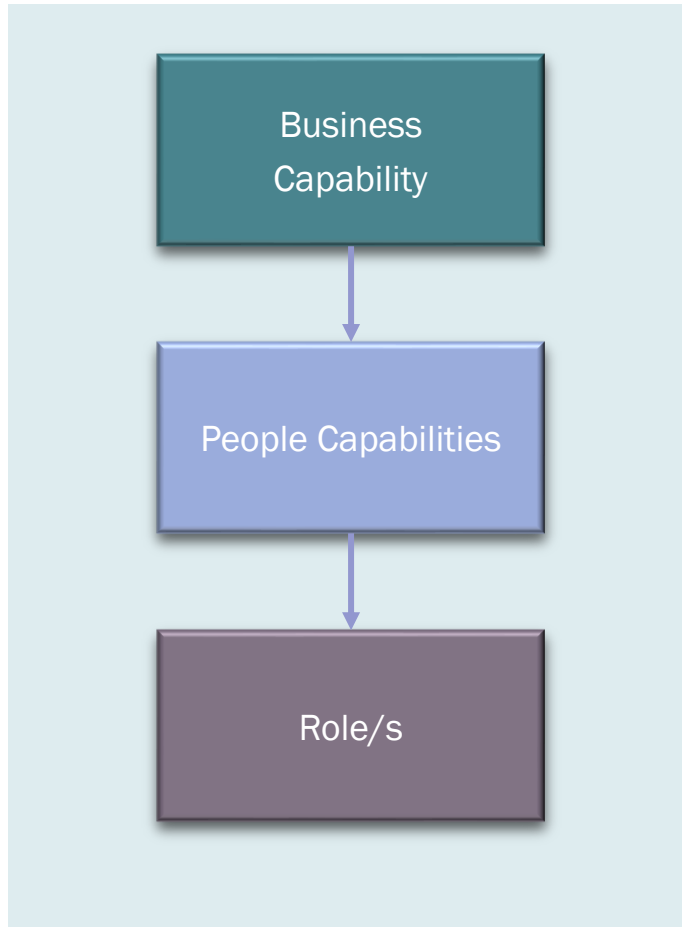
Technology Architecture

- Business Capabilities can be used to drive the design of an organisation's strategic, or enterprise architecture, which in turn forms the high level design for the operating model

- The 'Resource Capabilities' required to deliver the individual Business Capabilities are identified and used to drive the enterprise architecture design for each design domain

# RELATIONSHIP BETWEEN BUSINESS CAPABILITIES AND THE BUSINESS PROCESS DESIGN DOMAIN
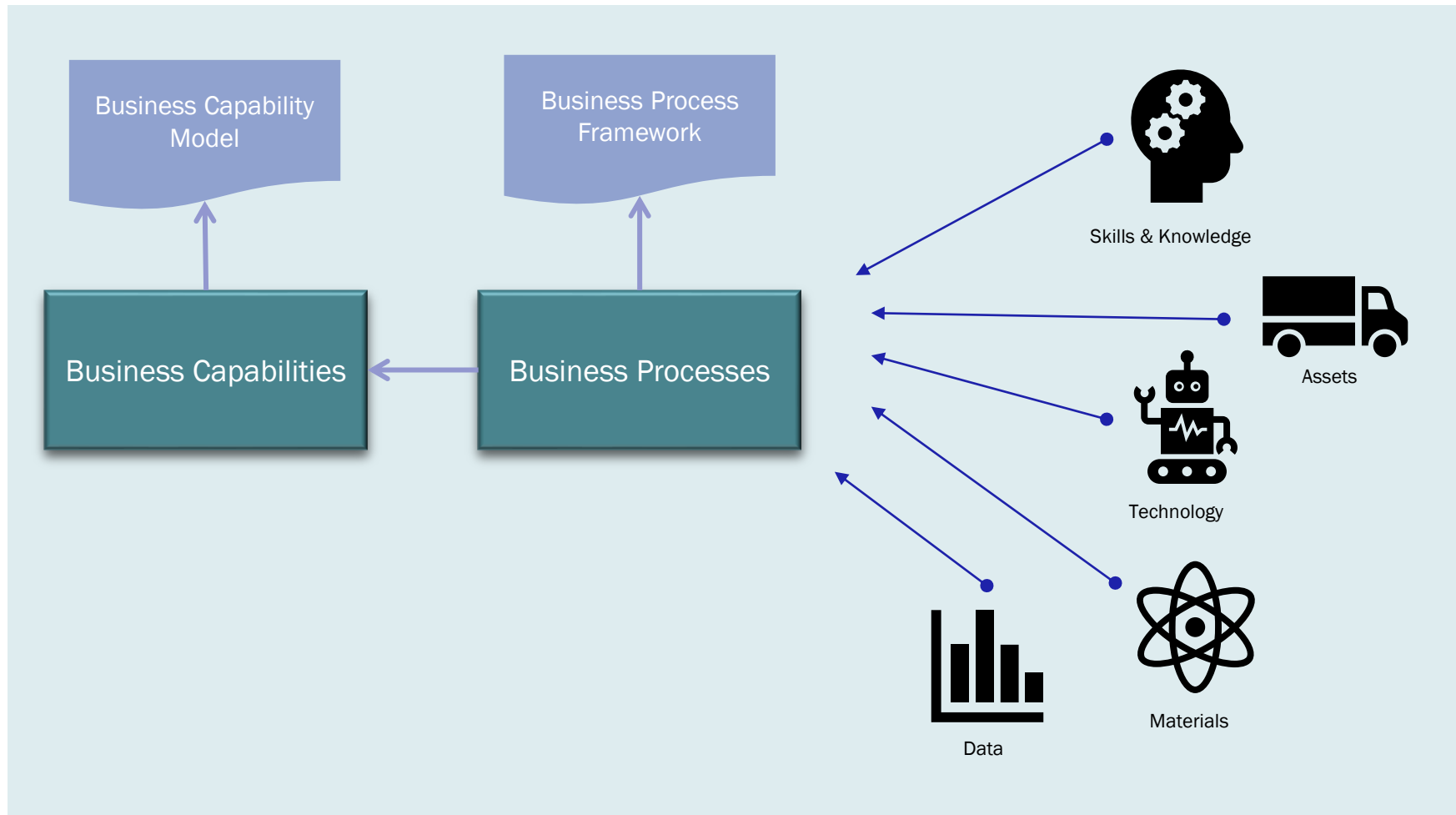


- A Business Capability frequently involves the use of a process resource

- Business Processes are frequently the means by which other resources are brought together to realise the Business Capability

- Business Processes represent the building blocks for the Value Streams (E2E processes) of the organisation

- As part of the Enterprise Architecture these business processes are logically grouped to create a process reference architecture

- Industry reference models can be used to help identify these process building blocks, APQC being the most well known.

# RELATIONSHIP BETWEEN BUSINESS CAPABILITIES AND THE ORGANISATION DESIGN DOMAIN

```
┌─────────────────────┐
│      Business       │
│     Capability      │
└─────────────────────┘
          │
          ▼
┌─────────────────────┐
│ People Capabilities │
└─────────────────────┘
          │
          ▼
┌─────────────────────┐
│       Role/s        │
└─────────────────────┘
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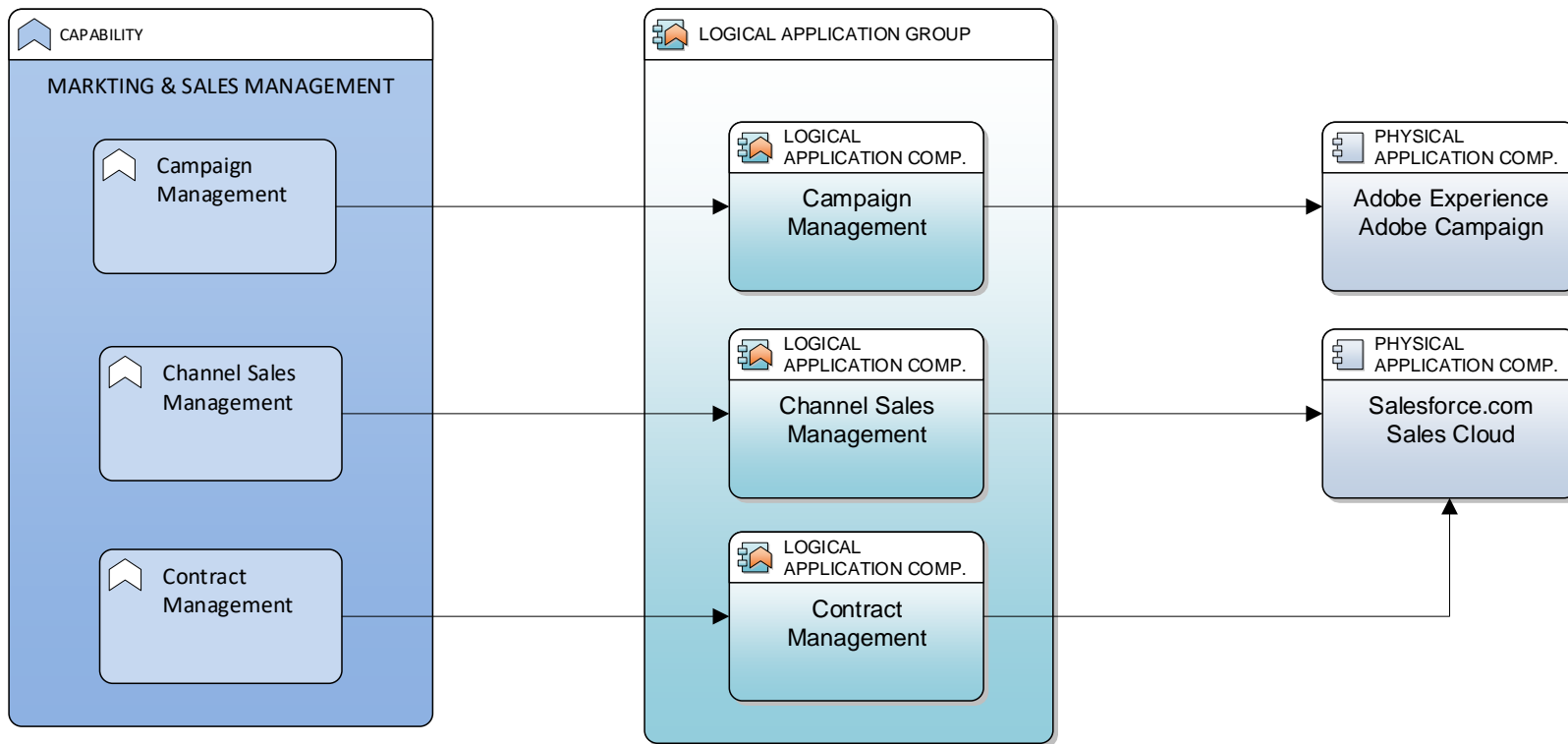
- The organisation and people enterprise architecture design is typically expressed as a high level view of the type of organisation structure that will be applied to the design and delivery of the organisation's products, services and supporting business services, e.g. a network organisation structured around the products and services and the associated Value Streams.

- Business Capabilities are chiefly associated with the definition of the logical roles within the organisation. These can be directly linked to the skills, knowledge and experience required for a given Business Capability, i.e. the 'People Capabilities'. This enables a role catalogue to be developed as part of the enterprise architecture, that can then be used as part of job design, when designing the Value Streams and consolidating roles into jobs.

- Business Capabilities and the corresponding people capabilities can also be used to drive learning & development and as part of a wider competency-based approach to human resource management.

# RELATIONSHIP BETWEEN BUSINESS CAPABILITIES AND TECHNOLOGY DESIGN DOMAIN
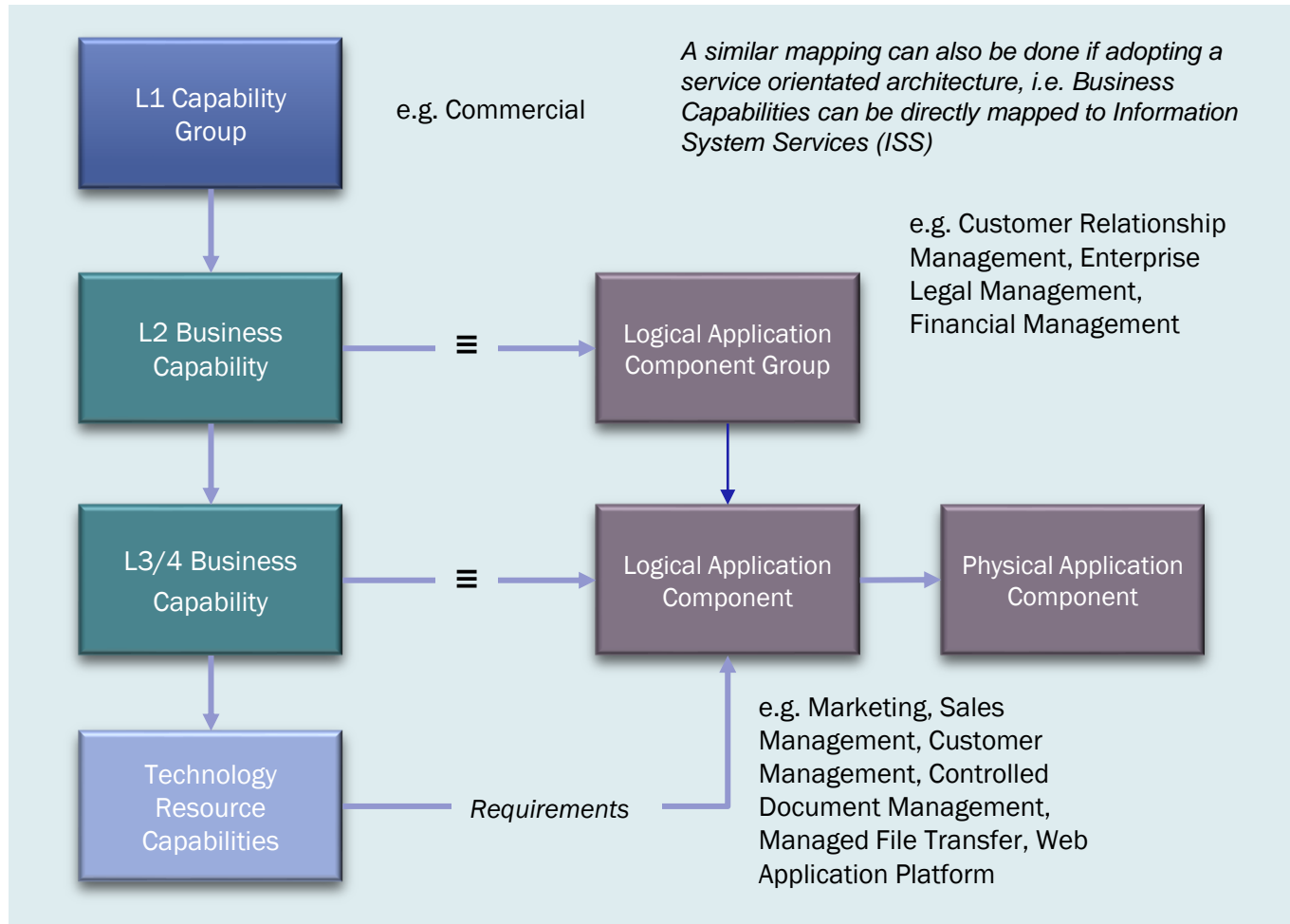


- Where information technology is an enabling resource for a capability, Business Capabilities allow the identification of the software application technology groups and components, which form part of the Technology enterprise architecture and/or Logical Information System Services

- If well structured, there is typically a one-to-one mapping between the Business Capability and "Logical Application Component (LAC)"

- The application technology resource capabilities can then be modelled, representing the high level requirements for each component

- An internal and external market assessment can then be conducted, to identify candidate "Physical Application Component (PAC)" solutions

# BUSINESS CAPABILITY TO TECHNOLOGY DESIGN EXAMPLE

CAPABILITY

MARKTING & SALES MANAGEMENT

Campaign Management

Channel Sales Management

Contract Management

LOGICAL APPLICATION GROUP

LOGICAL APPLICATION COMP.
Campaign Management

LOGICAL APPLICATION COMP.
Channel Sales Management

LOGICAL APPLICATION COMP.
Contract Management

PHYSICAL APPLICATION COMP.
Adobe Experience Adobe Campaign

PHYSICAL APPLICATION COMP.
Salesforce.com Sales Cloud

- In this example a Capability Group combining Marketing and Sales related capabilities has been created and several Business Capabilities identified

- The Business Capabilities have been directly mapped to Logical Application Components in the Technology design domain

- Against the Logical Application Component, the Physical Application Component/s have been identified after a market assessment using the high level technology resource capability requirements identified against the Business Capability

Worth noting here that there may have been a temptation to normalise "Sales Contract Management" and "Supplier Contract Management" but they require different resource capabilities, e.g. different skills, knowledge, processes, technology and integration data services.

# RELATIONSHIP BETWEEN BUSINESS CAPABILITIES AND THE DATA DESIGN DOMAIN
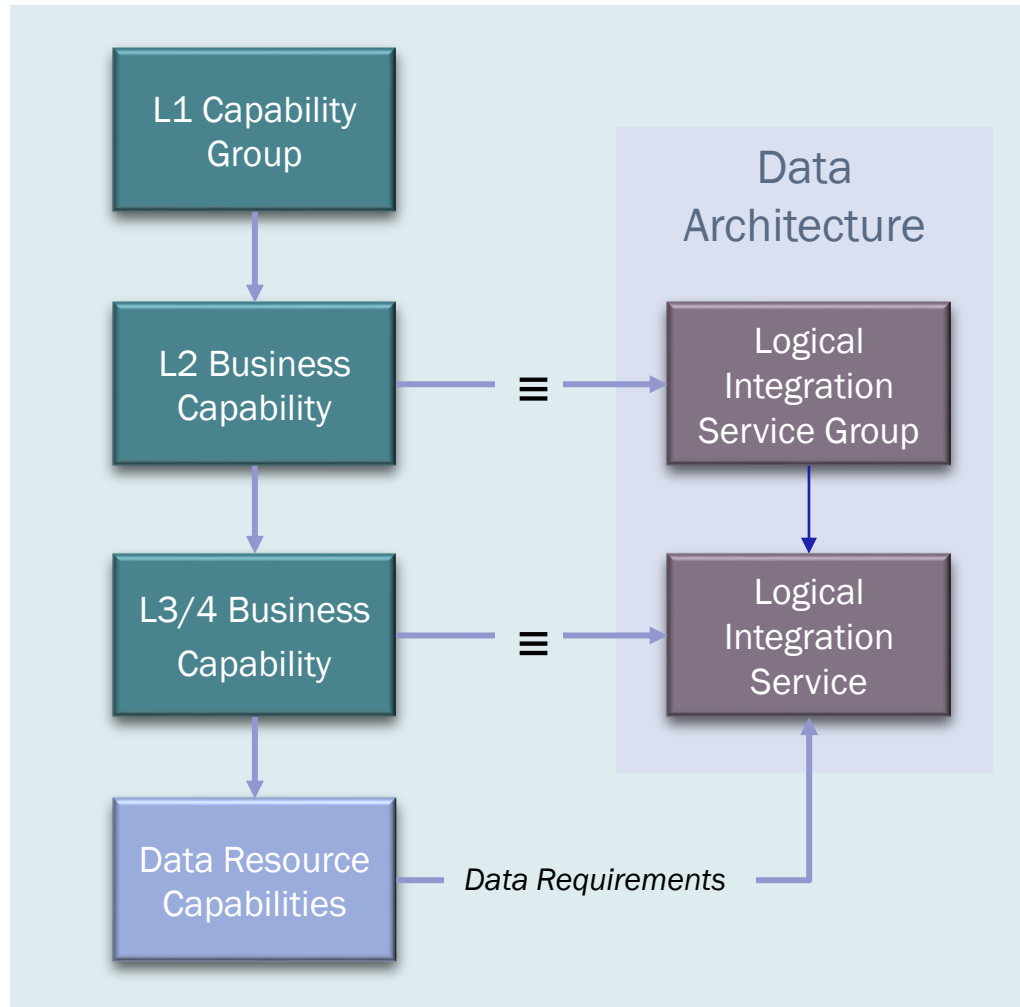


- Where a Business Capability is enabled by data it can be used to identify the Logical Data Service as part of the Data Architecture design domain

- The data resource capability requirements for the Business Capability represent the high level requirements for the Logical Data Service

- This Logical Data Service will ideally translate to a single physical data service or API, that supports all the requirements of that capability and all the instances where it is required across the organisation

- An example might be the Business Capability "Customer Details Management", supported by an API that allows the creation and maintenance of customer data across multiple business units and operational areas, using common data structures, technology and processes

# USE CASE 3

THE APPLICATION OF BUSINESS CAPABILITIES TO DETAILED ENTERPRISE DESIGN

# BUSINESS CAPABILITIES AND DETAILED ENTERPRISE DESIGN

- Having modelled the organisation as a set of Business Capabilities and identified the resources that they require, there is a tendency to want to use them to drive more detailed aspects of enterprise/operating model design

- But it's important to remember that Business Capabilities can be used across multiple Value Streams and share resources with other Business Capabilities, including processes, and that they are typically applied in combination

- Given this, Business Capabilities are not well suited to driving detailed design.  Rather, the 'design anchor' should be moved from the Business Capability to the Value Stream view, i.e. operating model design should be performed against the individual Value Streams and the associated Business services and processes

- The design of the Value Stream draws on the individual Business Capabilities that have been defined at a strategic level (the WHAT) and determines HOW these will be applied within that particular capability instance

- An example would be a Case Management technology resource.  A common resource has been defined to deliver the required Business Capability "Case Management",  the Case Management technology is then configured to the specific needs of the Value Stream

# APPENDIX A

USING REFERENCE SOURCES TO HELP IDENTIFY AND DEFINE BUSINESS CAPABILITIES

# APPENDIX A – USING REFERENCE SOURCES TO HELP IDENTIFY AND DEFINE BUSINESS CAPABILITIES (1 OF 2)

*Below is a list of example reference sources that can be used to aid the identification and definition of Business Capabilities. These can act as an accelerator and aid architectural alignment across the individual operating model components.*

| Reference Source | Area of Application |
|---|---|
| APQC Process Classification Framework | Comprehensive categorisation of Business Processes across a range of industries. Can be used to help identify those Business Capabilities that are enabled by a business process resource. |
| TM Forum Business Process Framework (eTOM) | Comprehensive list of Business Processes applicable to Communication Service Providers, but also useful more generally. Can be used to help identify and define the associated Business Capability for those that include a process resource. |
| TM Forum Application Framework (TAM) | Comprehensive list of Technology services for Communication Service Providers, but also useful more generally. Can be used to help identify and define the associated Business Capability for those that include a Technology resource. |
| COBIT | Specialist framework for IT Service Management. The practices, activities, and processes identified can be used to help identify the corresponding Business Capabilities for Technology Service Management. |
| ITIL | Specialist framework for IT Service Management. The practices, activities, and processes identified can be used to help identify the corresponding Business Capabilities for Technology Service Management. |
| DEMA – Data Management Body of Knowledge | Specialist framework for Data Management. The practices, activities, and processes identified can be used to help identify the corresponding Business Capabilities for Data Management. |
| ISO/IEC 27001 Information Security Management | Specialist framework for Information Security Management. The practices, activities, and processes can be used to help identify the corresponding Business Capabilities for Information Security Management. |

| Reference Source | Area of Application |
|---|---|
| APM Body of Knowledge | Specialist framework for Portfolio, Programme and Project Management.  The practices, activities, and processes identified can be used to help identify the corresponding Business Capabilities for Portfolio, Programme and Project Management. |
| Data Protection Act 2018 | Regulation relating to Data Protection.  The requirements stated in the regulation, alongside specific policies within your organisation, can be used to help identify and define those Business Capabilities relating to Data Protection.  Regulations are generally a useful and essential point of reference when defining Business Capabilities that relate to areas of regulatory compliance. |
| Gartner Critical Capabilities | As part of their research, Gartner identify the critical capabilities associated with Technology products and services.  These technology resource capabilities can be used to help identify the associated Business Capabilities that are enabled by the relevant technologies. |
| Professional Bodies and Articles | APM Body of Knowledge is a good example of using a professional body to help define the Business Capabilities associated with the profession.  How a profession talks about their subject is a useful source of information, use this information alongside any industry reference models that are available. |
| Business Capability Industry Reference Models | These have started to appear, e.g. from the Business Architecture Guild.  Useful reference, particularly if needing to build an initial 'strawman' version to help drive internal discussion.  Watch out for those that are related to Capability Planning.  These may look similar but aren't. |

*Be guided by reference sources, not ruled by them.  Ultimately, Business Capabilities need to be something that the business recognise, identify with and ultimately own*