



Ardoq

GUIDE

6 Best Practices for Defining Your Business Capabilities

Drive Real Value for Your Organization





Contents

Introduction: Business Capabilities Are the Building Blocks of Your Organization	3	3: Center Your Business Capabilities on Information, Not Processes	10	6: Start With What's Already There and Adapt	18
1: Define Your Business Capabilities by What Is Done, Not How It's Done	5	4: Build Your Business Capabilities as a Hierarchy	13	How Ardoq Empowers You With Dynamic Capability Modeling	20
2: Classify Your Business Capabilities As Core, Supporting, and Strategic	7	5: Use Your Business Capabilities as a Common Language	15		



Introduction

Business Capabilities Are the Building Blocks of Your Organization

Organizations are changing fast.

As digitalization, automation, and analytics transform both your organization's operational model and the products and services it brings to its customers and communities, you need a business planning tool that can enable that change.

A tool that is able to generate insight into your current operations, adapt to new missions and unify your understanding of people, process, technology, and information to enable truly integrated business planning.

The tool to enable this? Business capabilities.

Business capabilities are a simple but powerful method for understanding not just where you are but also where you need to be. They are a way of creating a common language to improve cross-departmental understanding of your organization and a lens for creating answers to a host of critical business questions including:

- Where do I need to invest in people and technology?
- Where do I need to manage business and technology risk better?
- Where do I need to drive innovation, and where do I need to commoditize?

Before you can answer any of those pressing questions, you need to define your capabilities and the business capability model for your organization. It is helpful to first understand how business capabilities are put together, regardless of whether you choose to use one of Ardoq's best practice models, an existing standard, or go your own way.

So here are Ardoq's 6 best practices for defining a business capability model that drives real value for your organization:

1: Define Your Business Capabilities by What Is Done, Not How It's Done

2: Classify Your Business Capabilities As Core, Supporting, and Strategic

3: Center Your Business Capabilities on Information, Not Processes

4: Build Your Business Capabilities as a Hierarchy

5: Use Your Business Capabilities as a Common Language

6: Start With What's Already There and Adapt

1: Define Your Business Capabilities by What Is Done, Not How It's Done

When defining your business capabilities, it is important that you exclude all references to specific applications, technologies, business products or channels, people, vendors or projects. Why?

The separation of what the business can do and how the business is able to do it is crucial for understanding transformation. The “what,” which is essentially an organization’s core business model, changes very slowly, while the “how,” processes, systems, and departments your organization uses to realize those business capabilities, will definitely change much faster over time.



1: Define Your Business Capabilities by What Is Done, Not How It's Done (Cont.)

By decoupling the “what” from the “how,” you can ensure the model’s ongoing relevance and maximize the insight you will get out of it.

At first, it may seem like you’re discarding a lot of valuable information. Don’t worry, this information will be captured. Instead of building it directly into the business capability model, it will be modeled separately and linked back to the business capability model.

Key Definitions

Business Capabilities are a list of the activities your organization carries out – or needs to be able to carry out – to conduct its business.

A **Business Capability Model** is an abstracted model of your business and operations. Abstracted means it describes what needs to be done without saying how

Example: Defining a Capability

✓ **Do** - Manage Customer Accounts

⚠ **Avoid** - Customer Account Management By Customer Excellence Team Using XYZ Application, EU

✓ **Do** - Sales Performance & Analytics

⚠ **Avoid** - SalesForceIQ & Analytics

A business capability model should say what an organization needs to do, but it shouldn’t say which teams or departments manage those accounts, where they are located, or which systems or technologies they use.

2: Divide Your Business Capabilities Between Core, Supporting, and Strategic

We propose categorizing capabilities into 3 types: core, supporting, and strategic. This helps divide the model into manageable portions while also enabling business and IT planners to understand how investment in different business capabilities drives different outcomes for your customers, your employees, and your sponsors or investors.



Core Capabilities

Your organization exists to provide products or services to its customers and communities. Its primary operations are made up of one or more value streams that create those products and services. The capabilities that underpin your organization's value streams can be defined as its core capabilities. In effect, they are the reason your organization exists.

Supporting Capabilities

However, the organization can't just exist for its customers – it also needs the ability to run itself.

For example, the organization must:

- Process and report on financial transactions
- Attract, recruit and support employees
- Manage business and IT risk
- Manage relationships with internal and external stakeholders

None of these activities directly create value for customers, but they are a necessary prerequisite for running an organization. These can be defined as your organization's supporting capabilities.

Strategic Capabilities

Your organization must also be aware of its own market and communities, and its performance within them. It needs the ability to set direction and plan and execute the changes that will move it to where it wants to be. These are your organization's strategic capabilities.



Example: Categorizing Capabilities

Let's say we have a company called FranskeBank. They are the largest bank in their country, servicing personal and business customers. If they were to define some of their capabilities, it might look something like this.

How to Categorize Business Capabilities

Type	Core Capabilities	Supporting Capabilities	Strategic Capabilities
Definitions	Exist to provide services or products to consumers, part of value chain/s in primary operations	Exist to keep the business running, do not create direct value for customers	Exist to help the organization set direction and plan
Possible Capabilities	Marketing Analysis Order Management	Financial Reporting Facility Management	Innovation Management Enterprise Architecture Project Portfolio Management



3: Center Your Business Capabilities on Information, Not Processes

Defining Information

You should center your business capabilities on information but what does “information” refer to? Broadly, information can be categorized into 3 major types:



Structured Information

A customer account record in a database



Aggregated Information

Sales trend analysis from business intelligence dashboard



Unstructured Content

Press releases
Training videos

With this understanding of information, we can start to pull apart the key differences between business processes and capabilities and clear up this common area of confusion.



Business Processes vs. Business Capabilities

Business processes are the de facto language of business operations, and business capabilities are the building blocks of your organization's business value streams and business processes. It is critical to remember that business capabilities are not themselves processes.

Key Definitions

Business processes are logical sequences of activities, typically in response to a common event and delivering a defined outcome.

Business capabilities are logical groups of activities. These activities are usually grouped by a common resource that they access, such as a particular type of information.



Example: A Pension Provider

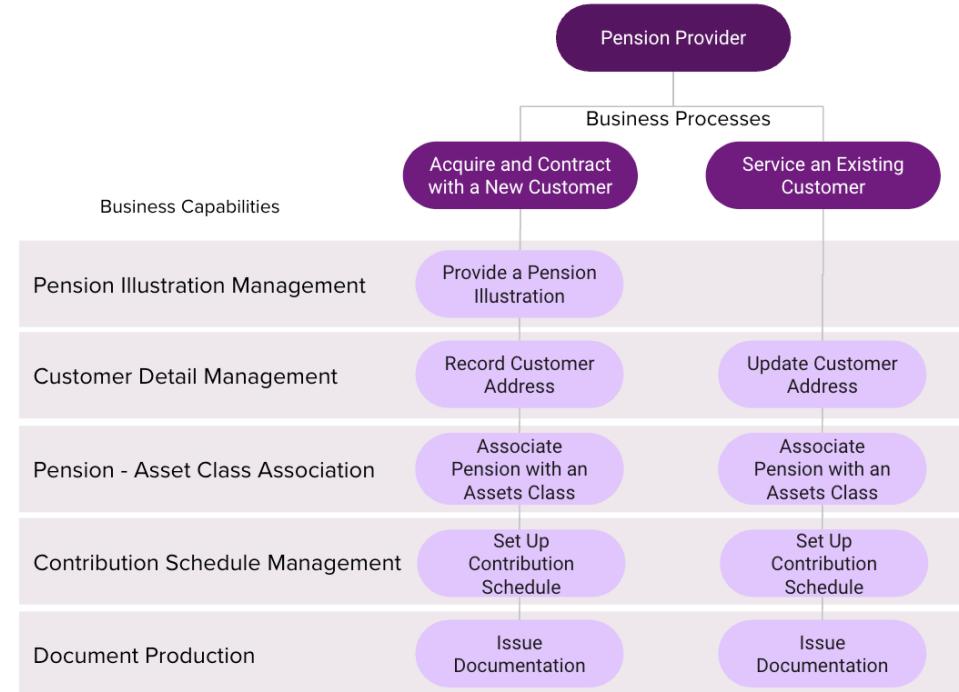
The diagram illustrates some business processes and capabilities of a pension provider. The two business processes illustrated are: “Acquire and Contract with a New Customer” and “Service an Existing Customer.” You can see that the different processes may require the same actions and affect the same type of information at different times.

However, in terms of business capabilities, there is no such overlap. All actions that access or update a specific type of information are grouped together and, therefore, de-duplicated. This is part of what makes a business capability model an effective benchmark for analyzing inefficiency or duplication.

If you were to build your business capability model around processes and not information, it would be full of duplicated activities. That's a poor foundation for analyzing business efficiency.

Business capabilities are de-duplicated, serving as an efficiency benchmark for your organization's business processes and IT systems. They are also modular, meaning they can be recombined to build new operating models, products, and services.

It's this componentized nature of your business capabilities that makes them so powerful.



The Difference Between Business Capabilities
and Business Processes

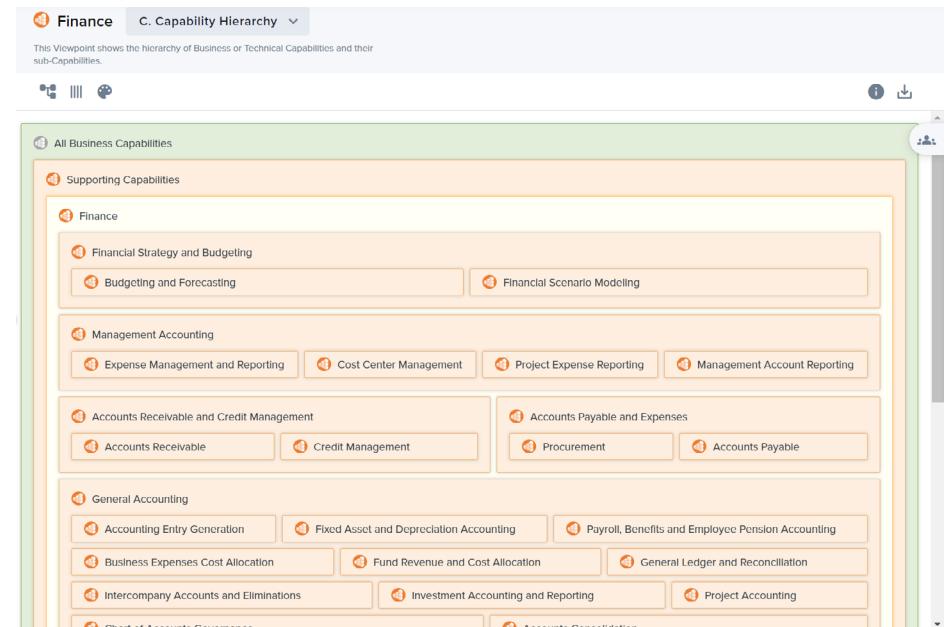
4: Build Your Business Capabilities as a Hierarchy

Organizations are large and complex, so business capability models can get pretty large too. The best way to manage this is to build your model as a hierarchy.

In a hierarchical business capability model, the top levels are generalized descriptions of the major functions or activities the organization carries out, while lower levels describe those activities in greater and greater detail. In this way, each part of your organization's business capability model can be broken down or rolled up.

The diagram illustrates how the high-level Finance capability could be broken down further. This includes information on how each capability is realized and the components contributing to their cost.

When modeled using a data-driven Enterprise Architecture tool like Ardoq, you should then also be able to view the overall performance metrics on the high-level capability.

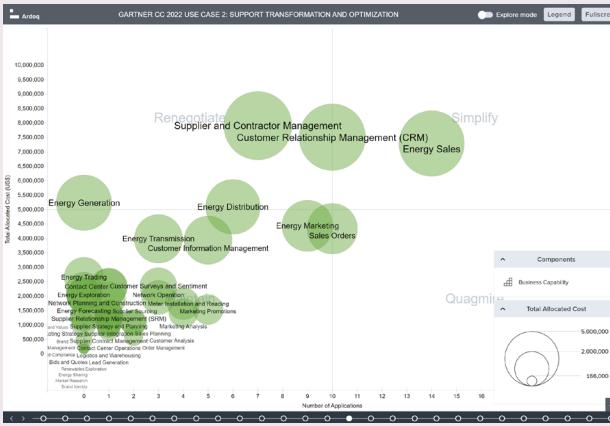


Example: A Hierarchical Business Capability Model

 DO	 AVOID
Detail capabilities to the level needed for decision-making	Detailing capabilities multiple levels down without clear decision-making needs
3 or 4 levels down is a good guideline	8 or 9 levels are likely to confuse, hampering decision-making

Quick Tips for Building Your Business Capabilities as a Hierarchy

When modeled using a data-driven Enterprise Architecture tool like Ardoq, you should then also be able to view the overall performance metrics on the high-level capability.



How Low Do You Go?

Well, some architects say that capability models are always high-level only, but nobody's marking your homework here. **The most important thing is to make sure that they are useful to your organization.**

Our advice is to elaborate them to the level you need to make decisions and then maybe one level below.

Why?

Well, let's say for example, you're discussing General Accounting applications or business processes. You need to go down to that level so you can distinguish your General Accounting applications and business from others that are also related to Finance but not to General Accounting.

Having one level below General Accounting helps everybody understand exactly what makes up the General Accounting capability, and, therefore, what those applications and processes need to do.

In practice, most useful capability models go down three or four levels. Don't feel bound by this rule, but if you do go down eight or nine levels, there's a good chance you're getting carried away!

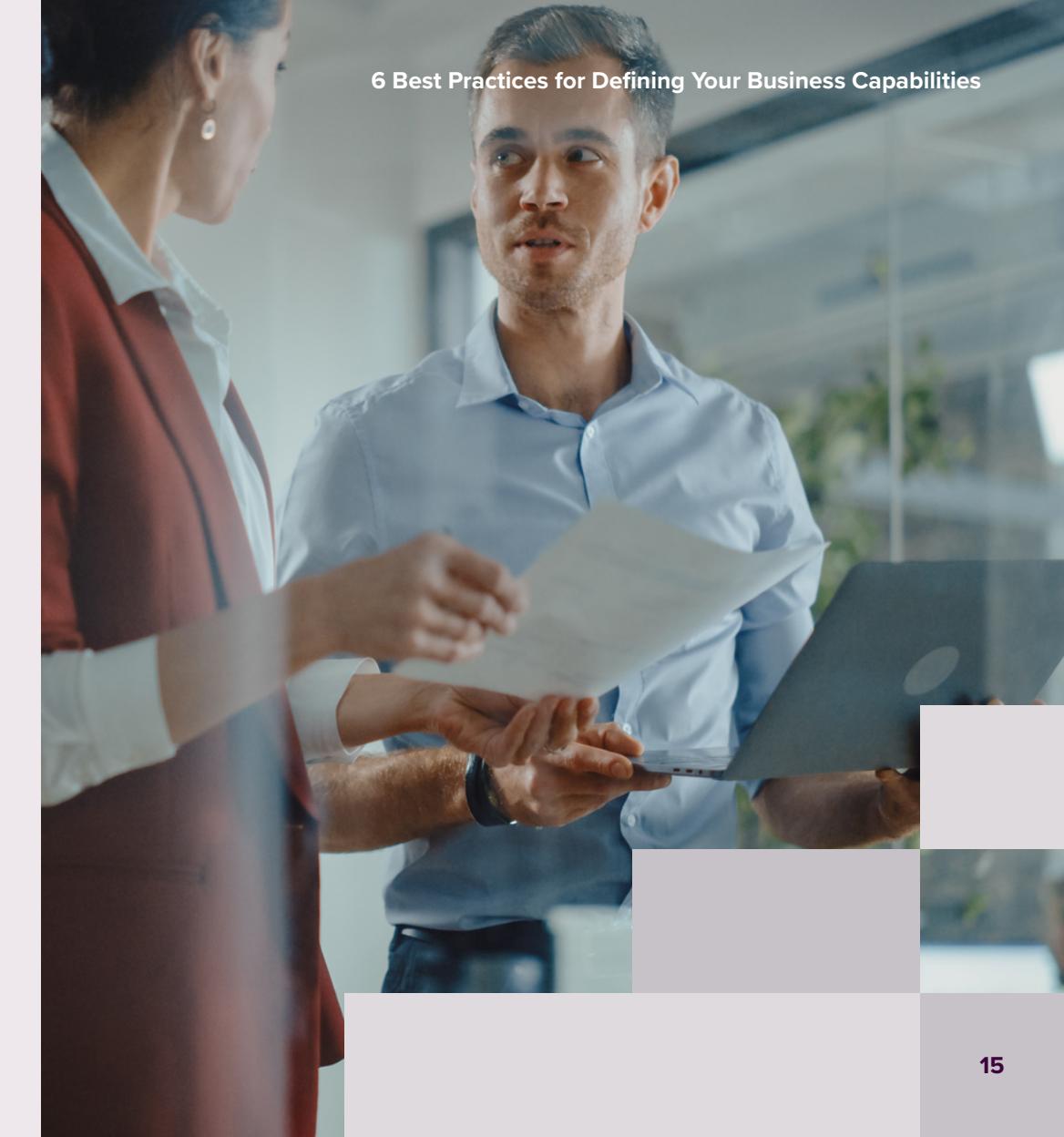
5: Use Your Business Capabilities to Define a Common Language

One of the most powerful qualities of business capabilities is also their simplest: their ability to create a common language.

Business capabilities are often described as a bridging language between business and IT. However, just as often, they are also a bridging language between one department and another because, typically, there is no common business language beyond the organization chart. So business capabilities have the potential to get everyone on the same page.

To get there, you must give your capabilities meaningful names and descriptions that will make sense for the rest of the organization.

Let's start with the name.



Don't Confuse Your Capabilities With Business Processes

Best practice is to name your capabilities using nouns rather than verbs and nouns. So use “Accounts Consolidation” or “Customer Analysis” rather than “Consolidate Accounts” or “Analyze Customers.”

“Consolidate Accounts” or “Analyze Customers” is a format more commonly used to name processes, which adds to confusion instead of aiding comprehension. As mentioned earlier, capabilities should be centered on information, and the best way to check that is to zero in on the nouns being used.

By naming a capability “Accounts Consolidation,” it clearly communicates that the information being handled here are “accounts” while “Customer Analysis”, very likely processes personally identifiable information (PII), and may well be subject to regulation.

Choose Names That Aid Clear Communication

How strict should you be on naming? Well, as we said before, nobody's marking your homework here except your own internal stakeholders. So while it's good to keep these rules in mind, we recommend you put clear communication first.

So if everyone in your organization prefers to call a particular capability “our Finance capability” instead of “Financial Management,” then “Finance” works just fine.

Don't Leave Out Descriptions

Every business capability should also have a description. Like the business capability name, it should avoid all mention of how that capability is realized, such as specific applications, tools, and departments. Instead, a good description should reference the scope and key activities which take place within the capability.

Some methodologies advise giving your capabilities elaborate descriptions, including business objectives and performance measures. This can provide useful context but also bear in mind that as you build out your architecture, much of that context will come from links between your capabilities and other parts of your model. The context can come from the business capability model itself, as each business capability is naturally defined by its sub-capabilities.

Examples: How to Name and Describe Business Capabilities

Name: General Accounting

Description:

- ⚠ **Do** - Accountancy activities that cover accounting entries, business expenses cost allocation, general ledger administration, intercompany accounts, investment accounting, and reporting, project accounting, fixed assets and payroll, employee benefits and pension accounting.

- ✓ **Avoid** - Accountancy activities

Name: Payroll

Description:

- ✓ **Do** - The calculation of employee remuneration in line with the terms of their contract.

- ⚠ **Avoid** - HR, employee remuneration on Workday



6: Start With What's Already There and Adapt

The last rule is also the easiest: start with what's already there.

As you've already seen, business capability models are large and complex because organizations are large and complex. So building models of them requires a lot of domain expertise. **The good news is that, in many cases, the work has already been done for you.**



Using Existing Models: The Recommended Approach

We generally recommend that you adapt from an existing model and concentrate instead on filling the gaps to align those models with your own organization's language. It'll save a lot of time and effort compared to starting with a clean sheet.

1) Use Ardoq's Best Practices

Ardoq has its own set of predefined business capability models to meet the needs of different commercial and public-sector organizations. These come conveniently pre-loaded in the app with the Business Capability Modeling bundle and have been developed based on our years of expertise and customer feedback.

2) Leverage Pre-defined Standard Reference Models for Your Industry

There's a wealth of pre-defined standard reference models out there, tailored to the needs of different industries, including APQC, BIAN (banking), and eTOM (telecoms). Many industry standards can be easily loaded into Ardoq using our standard integrations.

Define Your Own and Validate It Against Standard Models

If you really need to define yours from scratch or use your own in-house model, this is still a possible option. In this case, we would recommend you validate these against industry standards to see where the gaps are and fill them accordingly.

Unless you specifically need to have common models across more than one organization, such as with mergers and acquisitions or supply chain integration with third parties, there are no particular downsides to defining your own model.

In the end, you are the best judge of what would work best for your organization.

How Ardoq Empowers You With Dynamic Capability Modeling

1. Out-of-the-Box Best Practices

Combining years of domain expertise with customer feedback, we've formulated best practice approaches to help you with swift execution and delivering tangible value to the organization. Our [Guides](#) for [Business Capability Modeling](#) and [Business Capability Realization](#) can help you with:

Facilitating collaboration between business and IT to better manage costs and risk as well as enable strategic change

Understanding how the business operates in practice

Clear documentation on who are experts in the organization for key capabilities

2. Dynamic Data-Driven Modeling

The modern enterprise evolves at such a rapid pace that static capability maps are quickly rendered useless. Modeling the organization's capabilities in a data-driven platform like Ardoq means maintaining a clear, up-to-date business context on how systems, processes, and people are connected.

3. An Accessible UI for All With Ardoq Discover

Business capabilities serve as a common language to help collaboration between business and technology teams, minimizing ambiguities. Yet another key cause of silos is technical-only user interfaces and experiences, which can kill this momentum. With [Ardoq Discover](#), teams can get easy access to real-time, contextual insights with a user-friendly and intuitive UI designed for everyone, not just the specialists.



Conclusion

Putting Business Capabilities Into Action

Modeling can be an academic exercise unless you use it to drive real business outcomes. This means that the work in this guide is foundational – the investment of time and effort you need before your models start to deliver true value.

Don't make the mistake of thinking that once you've defined your business capability model, you've finished the job. Now you must use it to provide answers to business questions around cost, investment, risk, and much more.

The good news is, once defined, most of the hard work is done, and now you can reap the rewards. Business capability models change slowly, so your model can generate value for years to come. Even though technology evolves at a bewildering pace, the core truths about your business stay constant.

It's this ability to represent stable core truths about your organization among the confusion of change that business capability models derive their true power.



Ardoq

See how Ardoq's data-driven approach can help you quickly connect systems, processes, and people in the organization.

Contact Us for a Free Demo