



GUIDE

6 Best Practices for Defining Your Business Capabilities

A simple but powerful method for understanding not just where you are, but also where you need to be.



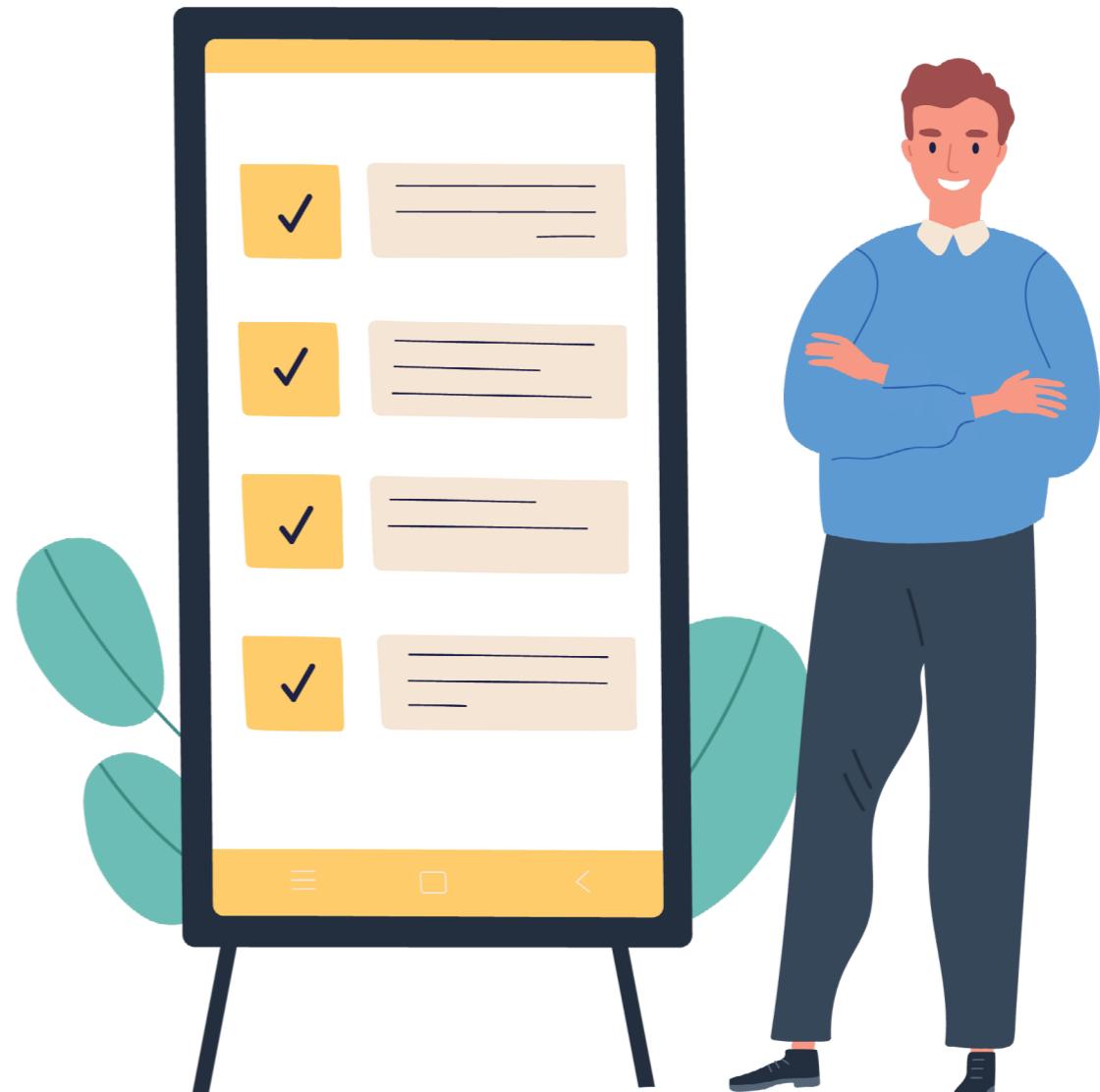
Business Capabilities: The Building Blocks of Your Organization

Organizations are changing fast.

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

It must be 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.

Business Capabilities are that tool. They are a simple but powerful method for understanding not just where you are but also where you need to be.



Business Capabilities are a common language to create cross-departmental understanding of your organization. And they are a lens for creating answers to a host of critical business questions including:



**Where do I
need to drive innovation,
and where do I need to
commoditize?**



**Where do I
need to manage
business and
technology risk?**



**Where do I
need to invest in
people and
technology?**

But before you can answer those questions, you need to define your business capability model. And whether you choose to use one of Ardoq's best practice models, an existing standard, or go your own way, it helps to understand how business capabilities are put together.

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

A Business Capability Model is an abstracted model of your business and IT operations.

Abstracted means it describes *what* needs to be done without saying *how*. And Business Capabilities are a list of

the *activities* your organization carries out – or needs to be able to carry out – to conduct its business.

For example, a Business Capability Model can say your organization needs to ‘Manage Customer Accounts’ – the

what – but it shouldn’t say which *teams* or *departments* manage those accounts, *where they are located*, or *which systems or technologies* they use.

At first it may seem like we're discarding a lot of valuable information. But don't worry - we'll still capture it. But rather than build it directly into our business capability model, instead we model it separately and *link it* to our business capability model.

The processes, systems and departments your organization uses to realize those business capabilities will change. Technologies, economics, communications and customer expectations change *how* we do business. But *what* your organization does – in effect, its core business model – changes far more slowly.

The separation
of 'what' and
'how' is **crucial** for
understanding
transformation



So your business capability names and descriptions should exclude *all references* to specific applications or technologies, business products or channels, people, vendors or projects. This will give you the maximum insight and ensure the model's ongoing relevance.



Sales Planning



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Sales Planning



SalesforceIQ Analytics



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

Your organization exists to provide products or services to its customers and communities. Its primary operations are made up of one or more *value chains* that create those products and services.

And the capabilities that underpin those value chains we define as its *core capabilities*. In effect, they are the reason your organization exists.

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



The organization must process and report on:

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

None of these activities directly create value for customers.

But they are a necessary prerequisite of running an organization.

We define these as your organization's *supporting capabilities*.

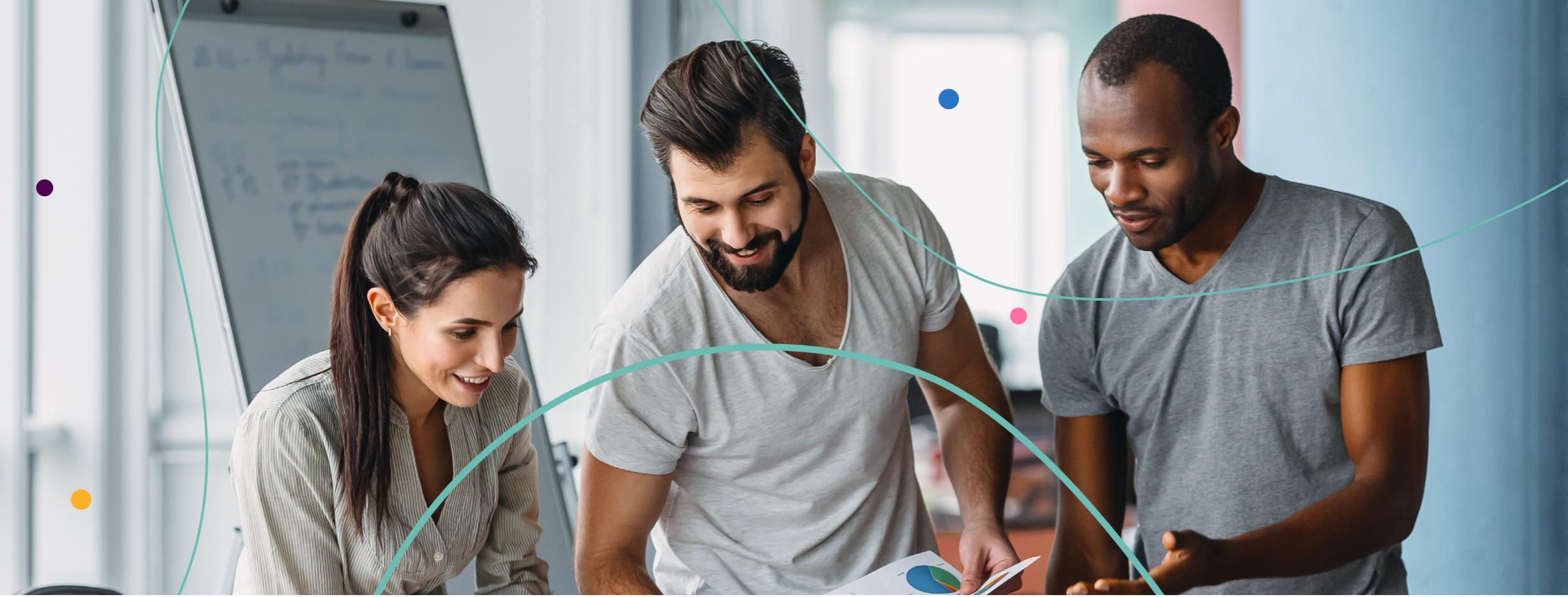
Finally, your organization must also be aware of its own market and communities and its performance within them. It needs the ability to set direction and plan and execute the changes that will move it to where it wants to be.

These are your organization's *strategic capabilities*.

This simple separation of capabilities into *core*, *supporting* and *strategic* does more than just divide the model into manageable portions; it also enables 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.





3: Center Your Business Capabilities on Information, Not Processes

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.

But Business Capabilities are *not themselves* processes. It's a common area of confusion, but the principles are simple and can be easily understood.

In broad terms, think of it this

way: Business processes are recipes, and business capabilities are ingredients. Combining a particular set of ingredients will produce one dish but combining them in a different way will produce another.

How We Define the Ingredients

We start with the fact that most business and IT activities revolve around the processing of *information*.



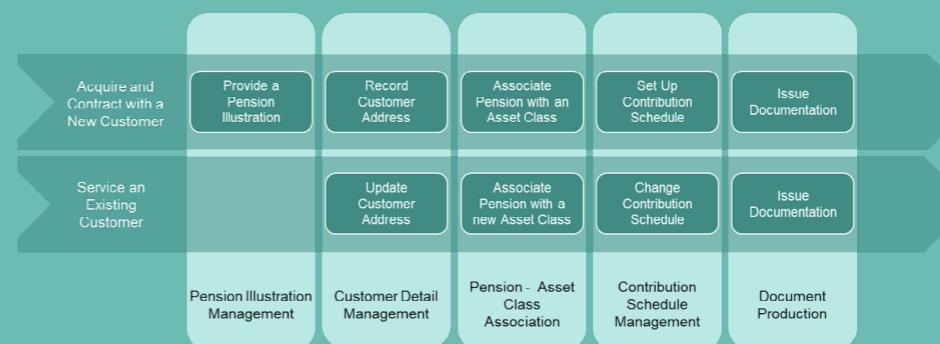
This information may be structured data (for example, a Customer Account record in a database), aggregated information (for example, sales trend analysis from your business intelligence dashboard) or repeatable unstructured content (for example, a press release or a training video).

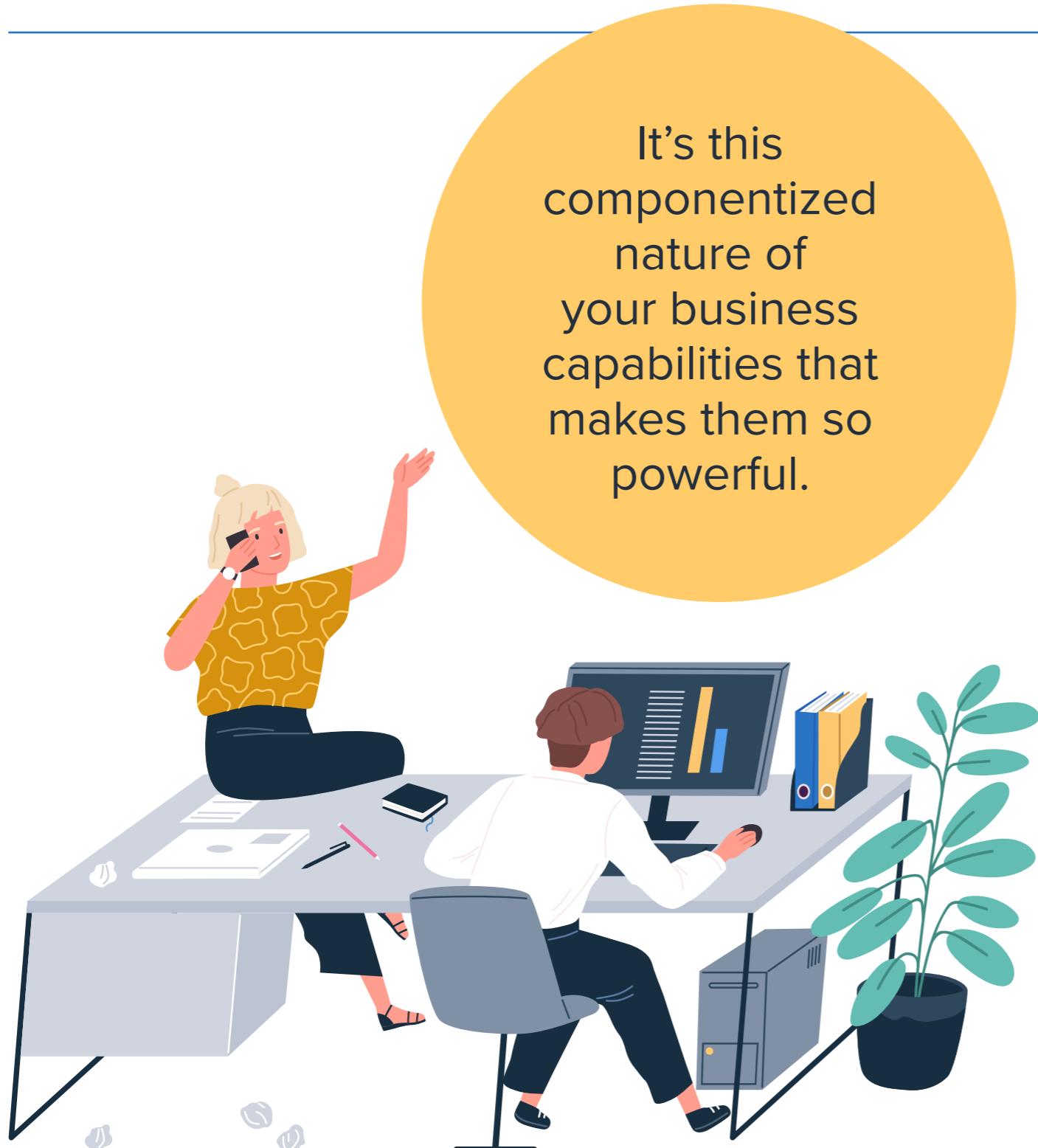


Capabilities are the activities – performed by a person, an application, or both – that *create* or *modify* that information.

Now, let's look at some *example recipes*: In this case, business processes from a pensions provider company.

Different business processes carry out the same *activities* and hit the same *information* at different times.





If we were to build our business capability model around processes and not information it would be full of duplicated activities.

That's a poor foundation for analysing business and IT efficiency.

But because business capabilities are *de-duplicated*, they serve as an efficiency benchmark for your organization's business processes and IT systems. And because they are *modular*, they can be recombined to build new operating models, products and services.

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*.

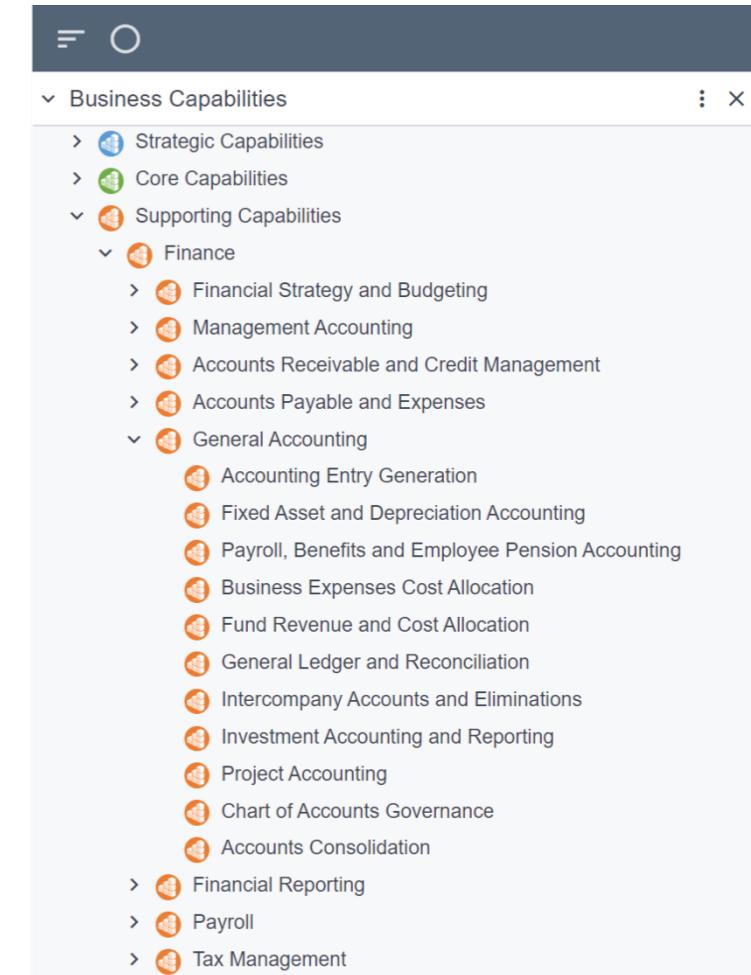
In a hierarchical business capability model the top levels are generalised descriptions of the major functions or activities the organization carries out, while lower levels describe those activities in greater and greater detail.

So a high-level capability might be

Finance. And Finance will consist of several sub-capabilities - for example *Payroll*, *Tax Management* or *General Accounting*.

Each of those sub-capabilities in turn will have sub-capabilities – for example, General Accounting will have sub-capabilities such as *Project Accounting*, *Investment Accounting* and *Reporting*, and *Accounts Consolidation*.

And in this way, each part of your organization's business capability model can be broken down or rolled up.



So How Detailed Should You Go?

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.

But 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!

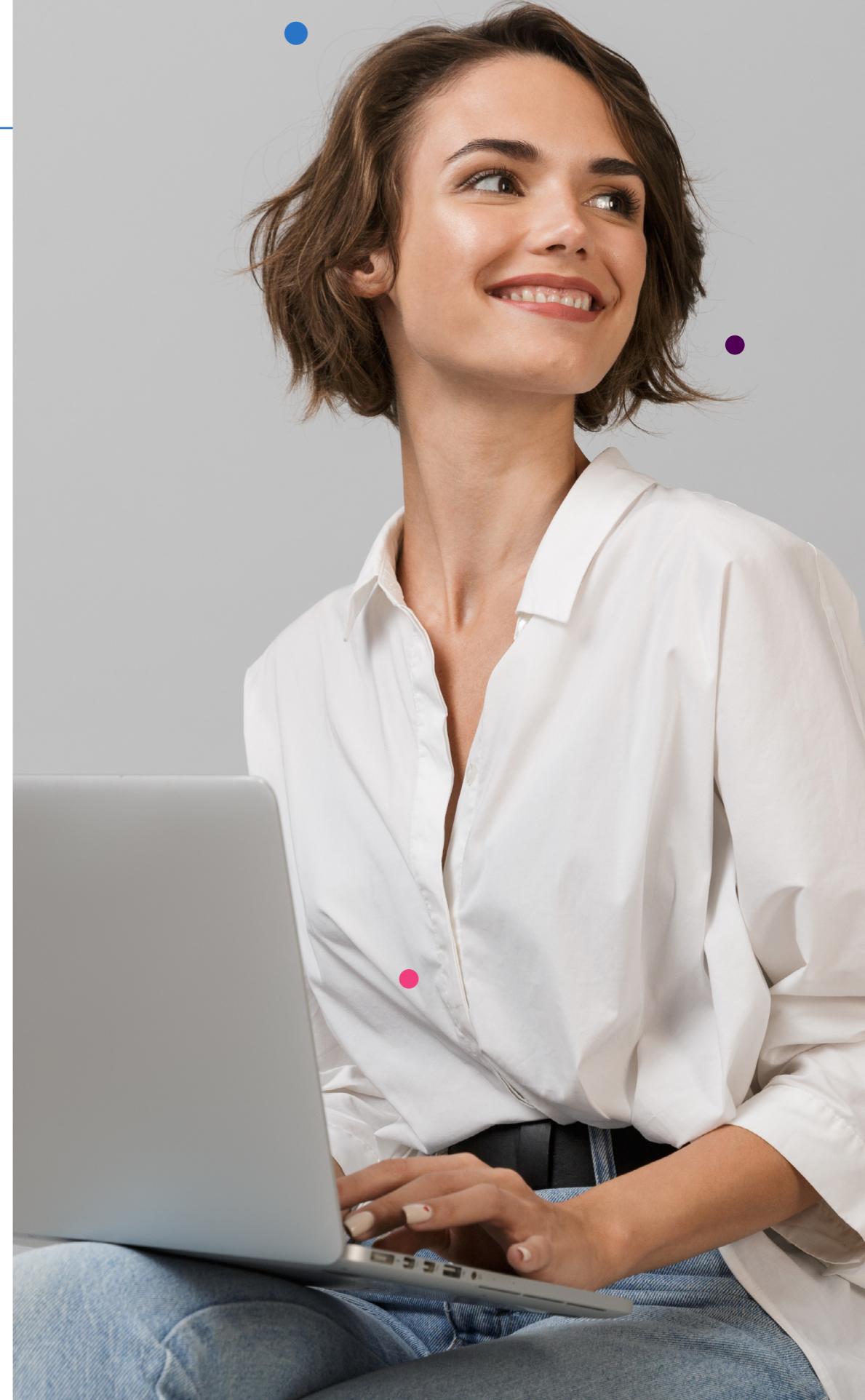
5: Use Your Business Capabilities to Define a Common Language

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. But just as often they are 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.

But to get there, you must give your capabilities meaningful names and descriptions.



Let's start with the name.

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

Why? Because the verb-noun format is commonly used to name processes. And as we've already seen, business capabilities are not processes.

And those nouns are especially important. As we saw above, capabilities should be centred on information, and the best way to check that is to look at the nouns being used.

So the *Accounts Consolidation* capability almost certainly processes an

information object called ‘account’, and *Customer Analysis* will probably process personally identifiable information (PII), and may well be subject to regulation.

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 everybody calls it “our *Finance* capability” rather than the more academic *Financial Management*, we think *Finance* is just fine.

Secondly, every business capability should also have a description. Like the business capability name it should avoid all mention of *how* that capability

is realized. Instead, a good description should reference the scope and key *activities* which take place within the capability.

Some methodologies advise on giving your capabilities elaborate descriptions, including business objectives and performance measures. This is 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.

And context even comes from the business capability model itself: Each business capability is naturally defined by its sub-capabilities.



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 organization's are large and complex. So building them requires a lot of domain expertise.

Now here's the good news: In many cases the work has already

been done for you. Ardoq has its own set of predefined business capability models to meet the needs of different commercial and public-sector organizations.

Next, there's also a wealth of pre-defined standard reference models out there, tailored to the needs of different industries including APQC, BIAN (banking), eTOM (telecoms) and more.

Or you may even have defined your own in-house model. In which case you can either ignore the standards or - as we recommend - use them to validate your own content.

But in each case these models come either pre-loaded or can easily be loaded into Ardoq using our standard integrations. So instead of starting with a clean sheet, concentrate instead on filling the gaps and aligning those models with your own organization's language.

And unless you're concerned with cross-organization interoperability, there are few reasons why you shouldn't tailor these models to meet your own local needs. In the end you are the best judge of your own organization's requirements.





Putting Business Capabilities Into Action

Modeling can be an academic exercise unless you use it to drive real business outcomes. And 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 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.

But the good news is, once defined, most of the hard work is done and now you can reap the rewards.

And because business capability models change slowly 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.

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

**See how Ardoq can help
you use EA to transform your
organization.**

Contact us for a free demo.

Book a demo