

CAPABILITY – THE FOUNDATION OF BUSINESS PERFORMANCE

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Abstract. We propose a generic model for describing the capability of organisations to achieve their objectives. Here performance relates to achieving objectives and capability to what an organisation is, has and can do. The capability model presented has three characteristics of interest: a) it has features derived from the way organisations succeed in competitive markets, b) it is in line with contemporary management practice as it has evolved in the past decades, and c) it has been successfully tested over three years in an Australian mining company. The case study reported shows that managing capability correlates strongly and positively with performance. This highlights the importance of managing capability in order to maximise performance.

1. Introduction

The emergence of globalised, deregulated markets has challenged traditional business models and practices. Firms operating in these markets have had to adapt in order to remain competitive; restructuring, business process reengineering, change management are examples of adaptations. From hierarchical, command-and-control type organisations, firms now need to be more decentralised with devolution of responsibilities, and empowered knowledge workers are a new competitive weapon.

Table 1 below summarises the differences between a competitive market environment (the economy) and how people and teams experienced organisations before any of the changes described above took place. The tension was evident.

Table 1

THE ECONOMY	INSIDE THE OLD ORGANISATION
Market based	Command and control model
Few controls on agents in the market	Many controls on teams and people
Direct market rewards	No direct market rewards
Respond to market	Respond to management
Law of supply and demand applies	Law of supply and demand not directly felt
Rapid change and innovation	Difficult change and innovation process

* J. Williams' contribution centred on client relation, data acquisition and initiative management

In response to the challenges, competitive markets and their dynamism have been used as a source of inspiration as to how firms could be re-energised; this has provided a template for the type of structures that firms could adopt internally in order to remain competitive.

The model described in the next section is inspired by the above considerations. It seeks to codify in a compact form the essential features that organisations need to possess in order to succeed in competitive markets; it seeks to produce, inside organisations, the dynamism, performance and success one associates with competitive markets. The origin of the model and its general applicability to the economy should ensure that it is generic in nature. It should also ensure that it is compatible with empirical management models and practices that have been found to play an important role in helping firms achieve success. Because the model seeks to describe what can make organisations more capable of achieving success, we call it a capability model of performance.

The next sections describe the model (section 2), its compatibility with current management trends (section 3) and with management literature (section 4). This is followed by experimental evidence (section 5).

2. Generic capability model of performance

The proposed model establishes a parallel between organisations in a market with people and teams inside organisations; it integrates the different dimensions embodied in competitive markets with a view to achieving enhanced flexibility, dynamism, innovation and performance in organisations. The main features of the model are summarised in Table 2.

Table 2

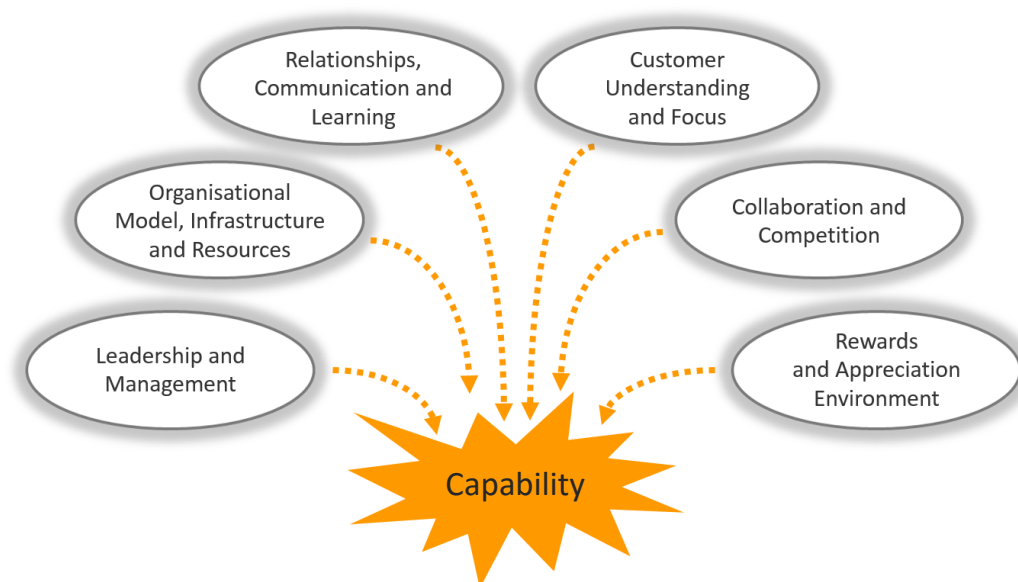
FEATURES OF A GENERIC CAPABILITY MODEL
Clear strategic direction
Flexible internal environment
Ability to establish relationships
Answerable to stakeholders
Directly exposed to competition
Rewards related to market success

2.1 Capability dimensions and sub-dimensions

Capability refers to the quality of the work environment, including infrastructure, processes and resources, and the skills and attitudes of people and teams working in that environment.

A visual representation of the capability model is shown in Figure 1. The six bubbles identify the six dimensions of the model (see Table 2). The generic validity of these dimensions is clear.

Figure 1



In addition to the dimensions, the capability model specifies three sub-dimensions to each dimension, as shown in the Table below, with each sub-dimension addressing between 2 and 4 issues.

Table 3

Only a small part of Table 3 displayed. Please contact P. Guignard for more information.

LEADERSHIP AND MANAGEMENT	RATIONALE - ISSUES ADDRESSED
Leadership	Clarity of purpose, direction and plan for execution, with impact on motivation
Meta-management (support for initiative and motivation)	Whether clear work guidelines exist with enough room for exercising initiative
Management	The quality of management for execution and senior management support

3. Compatibility with current management trends

The idea that organisations should somehow internally mirror firms in competitive markets is of course not new (consider for example the introduction of bonuses in reward packages, as a way to bring the profit incentive into the organisation).

Table 4 below lists several contemporary trends in management and compares them with the characteristics listed in Tables 1 and 2; Table 4 clearly shows how far the parallel with competitive markets has progressed in practice in the past few decades.

Table 4

CURRENT MANAGEMENT PRACTICES	COMPATIBILITY WITH CAPABILITY MODEL
Emphasise leadership	Very high
Networks, decentralisation, adaptation, rapid response	Very high
Empowered employees, personal accountability	Very high
Focus on customers and stakeholders	Very high
Competition within the workforce, benchmarking	Very high
Flexible reward system	Very high

4. Compatibility with current management literature

There is a large number of studies and models that support the capability model presented here. Table 5 shows some references with extracts that support the statement that organisation are becoming, internally, more similar to, or inspired by, competitive markets. Table 6 shows, for each dimension listed in Table 4, some significant references, again with some extracts. These represent a small sample of the support that can be found in the literature.

Table 5

EMERGING ORGANISATIONAL MODELS	
The Changing Nature of Organizations, Work, and Workplace J. Heerwagen, K. Kelly, K. Kampschroer, 2010 (1)	In today's world, you will also be working for an organization that is likely to be very different due to competitive pressures and technological breakthroughs. Organizations today are: <ul style="list-style-type: none"> • leaner and more agile • more focused on identifying value from the customer perspective • more tuned to dynamic competitive requirements and strategy

	<ul style="list-style-type: none"> • less hierarchical in structure and decision authority • less likely to provide lifelong careers and job security • continually reorganizing to maintain or gain competitive advantage.
Creative destruction R. N. Foster, S. Kaplan, 2001 (2)	We believe that corporations must be redesigned, from top to bottom, on the assumption of discontinuity. Management must stimulate the rate of creative destruction through the generation or acquisition of new firms and the elimination of marginal performers, without losing control of operations.

Table 6

LEADERSHIP AND MANAGEMENT	
Dun & Bradstreet A. Loren, 2005 (3)	Leadership development is virtually the most important control lever you have for achieving success... if you have leaders who are adaptable and capable of leading just about anything, you can be successful. To make better leaders, we have to modify their behavior, not their personality.
The new 21st century leaders B. George, 2010 (4)	In the 21st century the most successful leaders will focus on sustaining superior performance by aligning people around mission and values and empowering leaders at all levels, while concentrating on serving customers and collaborating throughout the organization.
ORGANISATIONAL MODEL, INFRASTRUCTURE, PROCESSES AND RESOURCES	
Managing the 21st Century Organization V. Krebs, 2007 (5)	In the knowledge economy, the organization structure has changed. The hierarchy is not gone. It still represents the authority structure and the division of functional responsibility. The hierarchy of old now shares the organization structure with emergent networks that respond to dynamic environments. A new structure – representing information flow and knowledge sharing – reveals how things really get done in the information age.

From push to pull: The next frontier of innovation J. S. Seely Brown, J. Hagel III, 2005 (6)	<ul style="list-style-type: none"> ▪ Most companies now mobilize resources by deploying push systems, in the mistaken belief that they promote efficiency. ▪ Push systems—characterized by top-down, centralized, and rigid programs of previously specified tasks and behavior—hinder participation in the distributed networks that are now indispensable to competitive advantage. ▪ More versatile and far-reaching pull systems—characterized by modularly designed, decentralized platforms connecting a diverse array of participants—are now starting to emerge in a variety of arenas.
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RELATIONSHIPS, COMMUNICATION AND LEARNING

Clear direction in a complex world Towers Watson, 2012 (7)	<p>Effective communication and financial performance are strongly related. Companies that are highly effective at communication are 1.7 times as likely to outperform their peers.”</p> <p>Highly effective companies convey a direction for the business and for employees to contribute.</p> <p>Managers and leaders are more important than ever in delivering effective communication.</p>
How the fundamentals have evolved and the best adapt Towers Watson, 2013 (8)	<p>Companies with high effectiveness in change management and communication are three and a half times more likely to significantly outperform their industry peers than firms that are not effective in these areas.</p> <p>The most effective companies build a differentiated employee value proposition (EVP), and are three times more likely to focus on behaviors that drive organization success instead of focusing on program cost.</p>

CUSTOMERS UNDERSTANDING AND FOCUS

We are all marketers now T. French, L. LaBerge, P. Magill, 2012 (9)	<p>Engaging customers today requires commitment from the entire company—and a redefined marketing organization.</p>
What is customer focus? 3rdview consulting, 2013 (10)	<p>Customer focus is an approach to achieving organisational success by aligning systems, processes and activities around a common purpose – the customer. Organisations can choose to focus on a range of things – manufacturing efficiency, internal processes, new product development. These things are important, however only customer focus ensures that the organisation is delivering to the changing needs of those people that will keep them in business.</p>

COLLABORATION AND COMPETITION

<p>Collaboration and Competition in Business Ecosystems R. Adner, J. E. Oxley, B. S. Silverman, 2013 (11)</p>	<p>Rapid technological change, globalization, and the recent period of financial turbulence have brought us to a point in history where managers are painfully aware that “no man [or firm] is an island.” Success, in both the profit and nonprofit sectors, increasingly relies on collaboration with a broad set of stakeholders no less than it does on the firm's own actions, or those of its traditional rivals.</p>
<p>Designing for Innovation through Competitive Collaboration H. Carpenter, 2009 (12)</p>	<p>The #1 source of competitive motivation for employees will be the desire to see their company do well in the market. But recognize that employees are human, and there will be natural human tendencies toward individual and team competition. An organization can spend time trying to dampen those human characteristics, or it can integrate them into its collaborative process.</p> <p>The key principle of competitive collaboration is this: Recognize and reward people for contributions that help advance ideas as much as you do for people originating the ideas.</p> <p>Channel the competitive energies of employees toward an ethos of helping one another.</p>

REWARDS AND APPRECIATION ENVIRONMENT

<p>Strategic reward and total reward CIPD, 2014 (13)</p>	<p>The concept of total reward encompasses all aspects of work that are valued by employees, including elements such as learning and development opportunities and/or an attractive working environment, in addition to the wider pay and benefits package.</p>
<p>Aligning your total rewards strategy with your business goals K. Gilbert, S. Cornish (14)</p>	<p>Attitudes toward reward programs have changed in recent times. ... Today, organisations acknowledge the important role reward programs play in contributing to business success. Put simply, an effective total rewards strategy enables organisations to deliver the right amount of rewards, to the right people, at the right time, for the right reason.</p>

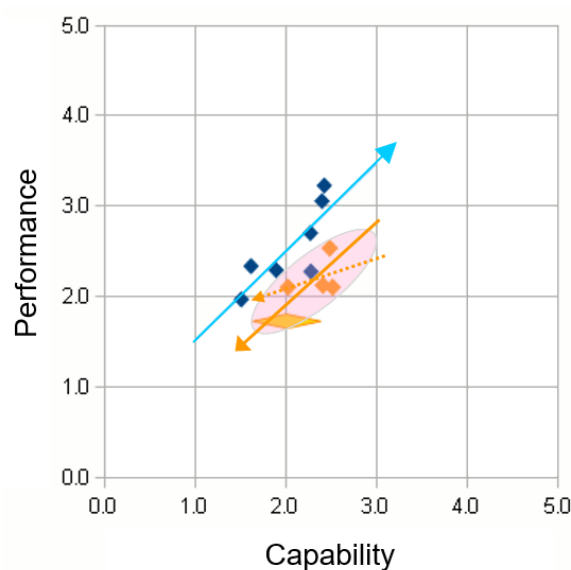
5. Experimental evidence

The capability of a business group in a large mining company was measured quarterly over three years and correlated with KPIs. Working with a consultant, the group also defined initiatives aimed at increasing capability in the group where needed and at leveraging the new capability towards improving the KPIs.

Capability was measured using surveys with the dimensions and sub-dimensions as specified in Table 4. There were three questions per sub-dimension, giving a total of 54 questions in the survey.

The results are summarised in Figure 2. A complete description of the methodology used with results analysis is provided in 'The impact of capability on performance – experimental evidence'.

Figure 2



Capability is expressed as the aggregate of the survey scores along the six dimensions. All results (capability and performance) are reported using a common scale from 0 to 5, thus enabling comparisons.

Two data sets can be seen. The first one in blue shows the results for 7 consecutive quarters, from left to right, during which there was an active initiatives program. During this period, there was a total of 13 initiatives of which 10 were judged successful (6 aimed at improving capability, 4 aimed at performance). The upward trend is evident. In addition, the plot shows the 7 quarters going from lower left to upper right. That is, the

trend over time for capability was up and this was accompanied with a corresponding upward trend in performance.

The second set, in orange, relates to a period characterised with a change in market conditions, in the direction of the company and a new set of KPIs. Three initiatives took place during the second period, all aimed at capability and all unsuccessful. The scores, from right to left for the 6 quarters clearly show a downward trend. The elongated diamond corresponds to 2 quarters for which only the KPI results were recorded as for the previous quarters. The capability was not measured with a survey but estimated by management. Although less reliable than the first set, the downward trend is evident, especially if one considers that the last 2 KPI measurements dropped significantly. When the last 2 quarters are ignored, the downward trend is still present (see dotted line) although less steep.

Both sets show significant variations in capability and performance from one quarter to the next, indicating that capability, as a driver of performance, ought to be managed with the same priority and frequency as performance. Table 7 summarises the results.

Table 7

PERFORMANCE VERSUS CAPABILITY
Increasing capability correlates with increased performance
Low capability correlates with low performance
Capability can be used as a predictor of performance success
Effective performance management implies managing capability
Managing performance without managing capability is sub-optimal

The results do not categorically establish that capability causes performance. However, there is strong indication that it plays a very important role:

1. The majority of the initiatives in the first 7 quarters were aimed at increasing capability.
2. The capability addressed related to the following dimensions or sub-dimensions:
 - a. Leadership and management
 - b. Rewards and recognition
 - c. Infrastructure.
3. Improved capability in these areas is likely to have played a very positive role in the successful KPI initiatives that targeted:
 - a. Sub-contractor management
 - b. Job closure
 - c. Work order management
 - d. Safety risk management.

4. The KPI initiatives started at about the same time as the capability initiatives but lasted longer, thus the former were able to take advantage of the increased capability becoming available.

In addition, capability as defined and used here (see Figure 1) packages the main elements of contemporary management practices that are found empirically to impact positively on KPIs.

6. Conclusion

The model for describing the capability of organisations to achieve their objectives proposed in this paper has links to competitive markets and is supported by contemporary management practices. On the experimental side, the capability was found over more than three years to correlate very strongly with performance measured with a set of KPIs. The correlation held when capability increased through the application of initiatives, most aimed at improving capability and some at improving performance. When no initiatives were successfully implemented both capability and performance decreased. The generic aspects of the model, the links to current management practices and the experimental results indicate that effective performance management implies actively managing capability by measuring it and by taking action to improve it when it is found wanting in some areas. Conversely, managing performance without managing capability is sub-optimal.

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