



THE BUSINESS CAPABILITY MAP:

a critical yet often misunderstood concept when moving from program strategy to implementation

*The use of business capabilities for planning and analysis has been on the rise in recent years, yet the value they provide is not fully understood. For most critical initiatives at large firms, the transition from vision to strategy to implementation is a multiyear program involving numerous stakeholders. During the early inception phases—amidst aggressive timelines, pressure to produce estimates, budget constraints and other challenges—project teams tend to jump into execution without truly comprehending the overarching business strategy. It is difficult to visualize end-to-end risk and business value without a business capability map. In this article, **Shiva Nadarajah** and **Atul Sapkal** show where business capabilities fit into the overall program cycle and how and when they can be used to drive meaningful decisions to gain alignment from strategy through execution. Additionally, they illustrate the value of the business capability map using an example from the wealth management industry.*

Business unit (BU) heads typically focus on new markets, products and customers on the revenue side and operational challenges on the cost side. Most capital budget projects for large companies follow a top-down approach that begins by defining a program vision, the business strategy and then finally, the IT strategy and execution roadmap. For a multi-year initiative, the business case may be revisited every year only to find that costs keep increasing and that the initiative fails to achieve its desired value either due to delays, higher costs or lost business opportunities, which can have a real impact on a company's short-term and long-term profitability.

Information technology plays an important role in actualizing the business strategy. Because many CIOs are gaining more visibility with their boards and BU heads, they are well-informed of upcoming strategies and can begin evaluating the IT impact and plan accordingly. Despite this partnership between business and IT, a large percentage of projects do not meet their schedules and/or budgets and ultimately fail to deliver the anticipated value.

Though each failed project is unique, a common theme among most unsuccessful projects is the inability to manage risk and determine clear priorities for delivering value. The vision and goals articulated by the business do not reach IT in the right framework, causing information and priorities to get lost along the way. Also, IT may not communicate the platform and technology risks to the business in a timely and comprehensive manner. But who is to blame — business or IT? Ultimately, it's neither. These problems stem from a lack of a common language or an effective method of communication. This is where business capability mapping can help.

WHAT ARE BUSINESS CAPABILITIES?

Business capabilities define “what” a business does, not the “why” or “how.” Business capability mapping is about structuring the functional capabilities of a business in a hierarchical fashion. Business capabilities are a good way to connect the vision of various stakeholders to the execution value chain. Capabilities are a great communication tool across the organization, and breaking down capabilities to the appropriate level of granularity can help bridge the gap between different functional and IT groups. The key is to map capabilities to strategic components and the vision as the initiative moves up the strategy chain, and to map them to requirements and IT initiatives as the project moves through the execution chain (see Figure 1).

Consider an example from the wealth management industry. Taking a holistic view of the business unit or organization, the BU head and corporate strategy team together define the vision for the business unit. The next step involves the corporate strategy team working with the front office and other stakeholders

to define the strategic components that may include the business case and the underlying business model needed to realize the vision. Once the high-level business strategy has been identified, business product managers, in collaboration with consultants, corporate strategy and relevant stakeholders, create the business capability map, which connects the high-level strategic components to granular and actionable business capability areas.

At this stage, the business capability (such as Insurance Planning) may be aligned to a strategic component (such as Asset Protection). Ideally, every strategic component should have relevant business capabilities identified. Some examples include: linking the strategic component “Asset Transfer” to the capability “Estate Planning,” or linking the strategic component “Financial Plan” to the capabilities “Client Profile Management” and “Multi-goal Planning.” Once the capability map is complete, it can be linked to business processes and services. At the end of the exercise, relevant IT projects and initiatives can be identified.

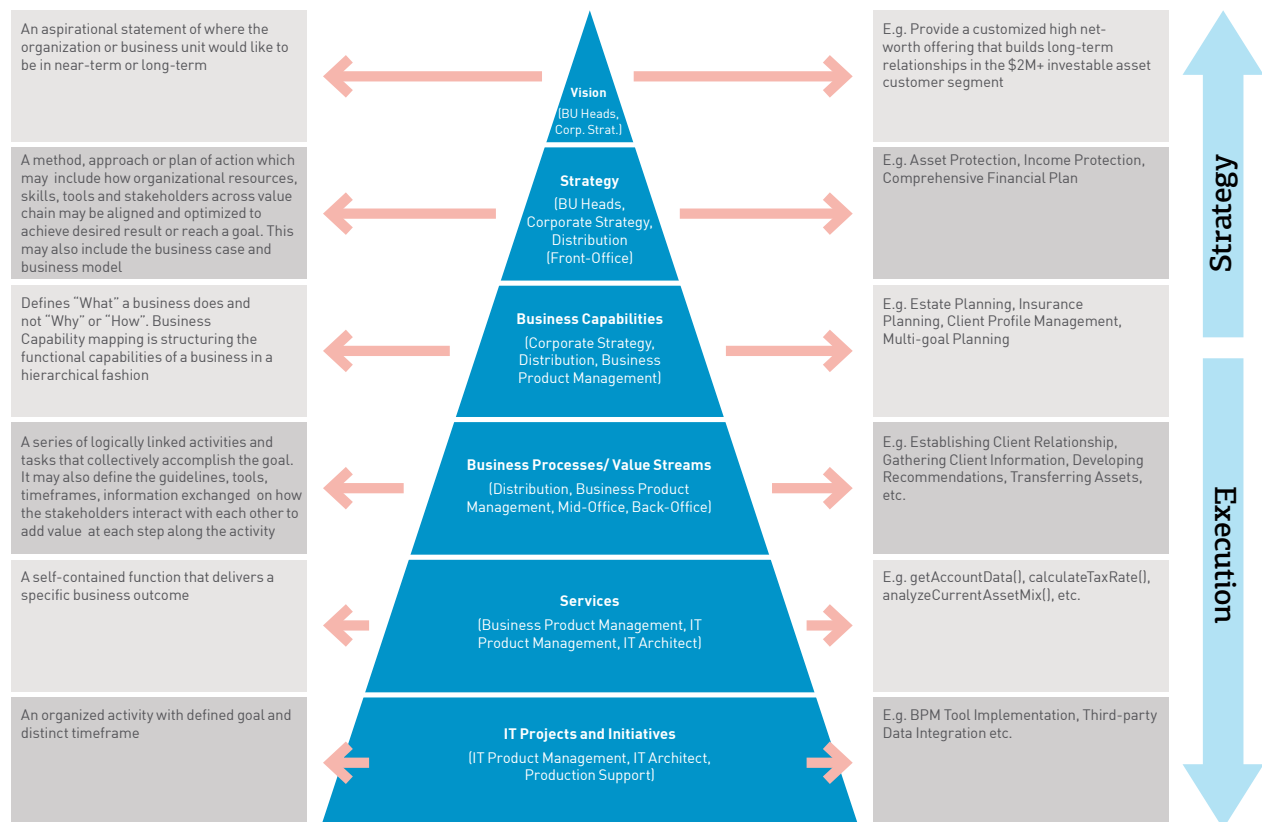


Figure 1. Where business capability fits within the organizational/program context.

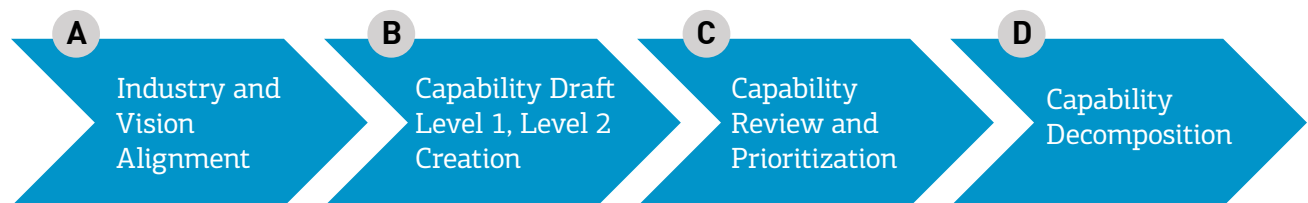
HOW AND WHERE CAN BUSINESS CAPABILITIES BE USED?

Business capabilities can be used across the board in a variety of business situations, such as:

- › **Post merger and acquisition (M&A) IT consolidation.** For M&A integration projects where cost synergies can be achieved by consolidating certain core and support functions, a business capability map for both organizations can act as a starting point to identify areas of overlap.
- › **Strategic planning and IT investments.** Business capabilities provide a foundation to the capital budgeting exercise for multi-year, long-term planning. A gap between current-state and future-state business capabilities can identify key areas of investment and allocate planning dollars appropriately.
- › **Product definition and roadmap.** A new service, product or offering that needs to be launched can use a capability map to conceptualize the overall offering. In an agile- and Minimum Viable Product (MVP)-based product culture, a capability map can keep the final product vision in perspective while defining and articulating the product roadmap.
- › **Application portfolio rationalization.** Many instances of the same functionality may be duplicated by different applications within different business units of the same organization. Any business case for application portfolio rationalization could benefit from a business capability map as the primary input.

HOW TO DRAFT BUSINESS CAPABILITIES

While there is no one-size-fits-all approach, firms can use a top-down or bottom-up approach, or a combination of the two. Figure 2 illustrate a four-step, top-down approach.



Step	Sub-Steps	Outcome
A. Industry and Vision Alignment	<ol style="list-style-type: none"> 1. Understand the key industry drivers and company strengths and how those feed into the program vision 2. Create a program vision canvas to understand various components, such as: <ol style="list-style-type: none"> a. What is the value being created? b. Which customer segments see the highest value? c. How does the business model change the relationship with existing customers and what new ones will be established? d. Who are the key stakeholders in the value chain? e. What channels are used to interact with customers and stakeholders? f. What are the key activities performed? g. What are the key costs that could impact the program in the long run? h. What are the key sources of revenue? i. What are the key strategic components and what are the key performance indicators (KPIs) for these components? 	Program Vision Canvas (Optional)
B. Capability Draft Level 1, Level 2 Creation	<ol style="list-style-type: none"> 1. Create a Level 1/Level 2 capability map. Start with a Level 1 capability map by focusing on the following areas: <ol style="list-style-type: none"> a. Activities related to the customer such as onboarding, account access, etc. b. Activities related to stakeholders such as lead management, book management, etc. c. General activities applicable to the industry domain such as custody services, account aggregation, etc. d. Specific activities related to the key product/service/offering such as investment planning, tax planning, insurance planning, etc. e. Distribution channel related activities such as client service management, relationship management, etc. f. Business support activities such as accounting, risk, compliance, etc. g. Shared service-related activities such as customer data warehouse management, infrastructure management, etc. 	Level 1, Level 2 Capability Map
C. Capability Review and Prioritization	<ol style="list-style-type: none"> 1. Review Level 1/Level 2 with key business and IT stakeholders to identify any missing capabilities 2. Prioritize Level 2 capabilities in a 3 by 3 matrix of "Customer Value" vs. "Business Unit Strength" Group level 2 (see Figure 3) <ol style="list-style-type: none"> a. Capabilities with high customer value and BU strength can have a high priority on the roadmap b. Capabilities with lowest customer value and BU strength can have a low priority on the roadmap 	Prioritized List of Business Capabilities
D. Capability Decomposition	<ol style="list-style-type: none"> 1. Focus on capabilities that have high customer value and start distilling them further into Level 3 and Level 4 capabilities wherever applicable 2. These Level 3 and Level 4 capabilities can be translated into business requirements and mapped to services 	Level 3, Level 4 Capability Map

Figure 2. A four-step approach to draft business capabilities.

Business Capability		Business Unit Strength		
		High	Medium	Low
Customer Value	High	Higher priority on the roadmap	Medium-to-Higher priority on the roadmap	Medium priority on the roadmap
	Medium	Medium-to-Higher priority on the roadmap	Medium priority on the roadmap	Lower-to-Medium priority on the roadmap
	Low	Medium priority on the roadmap	Lower-to-Medium priority on the roadmap	Lower priority on the roadmap

Figure 3. Prioritizing business capabilities for the roadmap.

BUSINESS CAPABILITY CHALLENGES

Creating and maintaining business capabilities is not necessarily a straight-forward process.

A major roadblock is that oftentimes stakeholders have less clarity and awareness on the use and advantages of business capabilities, which leads to less support for the initiative across the organization. Teams have a difficult time appreciating the business capability effort until they see something tangible. To address this issue, the business capability team should consider educating the audience on the benefits of business capabilities using case studies and examples.

Another hurdle is confusion over capability governance. This occurs when there is no clarity in the organization about who is responsible for creating and managing the capability map. To resolve this, the business sponsor should identify the appropriate owners for the business capability map. The capability owners should act as champions for the organization-wide initiative for the business capability effort.

Additionally, some capability discussions move into the “how” instead of “what” too early in the process, thereby derailing the core objective of the business capability effort. The team tasked with the effort should create business capability guiding principles early on to align the group toward the long-term objective of the initiative.

Wealth management example

When an asset manager wants to enter the private wealth management space, its corporate strategy team builds a business case that includes the operating model (e.g., broker/dealer with a hub-and-spoke model) and major strategic components (e.g., asset protection, income protection) on how the new business unit will operate within the overall organization.

The business product manager and corporate strategy team work in collaboration to take the strategy to the next level. At this stage, the business product manager makes sure the offering/service that needs to be defined and built aligns with the overall program vision. The product manager understands the key industry drivers, such as the importance of technology in financial planning, fee transparency and evolving demographics; recognizes the company's strengths, such as strong distribution and economies of scale; identifies the key customer segments (e.g., →\$2M in investable assets, specific geography, etc.); and studies the proposed operating model. Also, key stakeholders in areas such as risk, legal and distribution are identified and the strategic components are clearly defined.

The next step is creating Level 1 (e.g., Planning, Advisor Support, Customer Engagement) and Level 2 (e.g., Advisor Support broken down to Level 2 capabilities, such as Lead Management, Book Management and Alerts) business capabilities and prioritizing them with key stakeholders. The priority is based on the customer value and company/business unit strength. Once the key capabilities that need further definition are identified, the team delves into Level 3/Level 4 capabilities. The next logical step is defining business requirements and linking these to existing business services, such as `getAccountData()`, `calculateTaxRate()`, etc. This can lead to further definition of other IT projects, including implementation of business process management (BPM) tools and third-party data integration.

Once the business capability definition is complete, it becomes clear that the business capability map plays an important role in bridging the gap between strategy and implementation. The business product manager can use this capability map to communicate status to business stakeholders and senior executives during quarterly or semi-annual executive updates. An example of a status update could be: *the project is on track to deliver "Advisor Dashboard → Book Management" and "Advisor Dashboard → Lead Management" capabilities, but it is behind schedule to deliver "Third-Party Services" capabilities.* The key decision maker can use this status update in the context of the overall capability map to understand what projects need further investments depending on the capability delivery schedule. In this capacity, the capability map acts as a decision-making tool for prioritizing IT investments.

At the same time, IT clearly knows what business capabilities they are delivering and how they fit into the context of the overall program. An example from an IT perspective could be: *the project "BPM Tool Implementation" that is delivering "Shared Services" and "Advisor Support" business capabilities is on track, but the project "Third-Party Data Integration" that is delivering the business capability "Third-Party Services" will not meet its schedule.* Depending on the priority of the business capability, IT would know how to realign and reprioritize IT projects as needed. Also, the capability map helps IT understand the business rationale and priority for investment. Though IT is working on delivering specific business capabilities, they can relate their project to the overall business context and accelerate specific sections of the project as needed. Here, the capability map acts as a prioritization tool to reallocate IT resources and link it to business value. Essentially, the detailed capability map becomes the de-facto communication tool between business and IT as IT begins implementation.

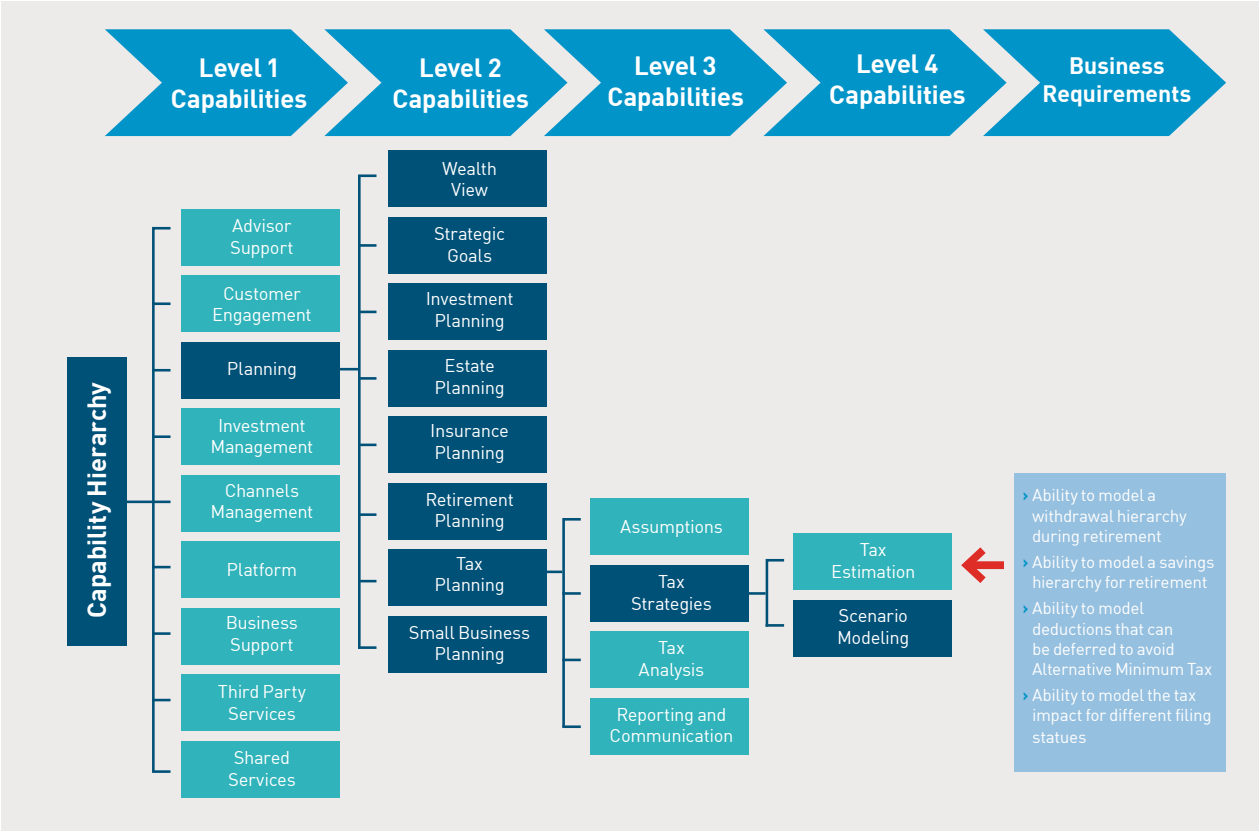
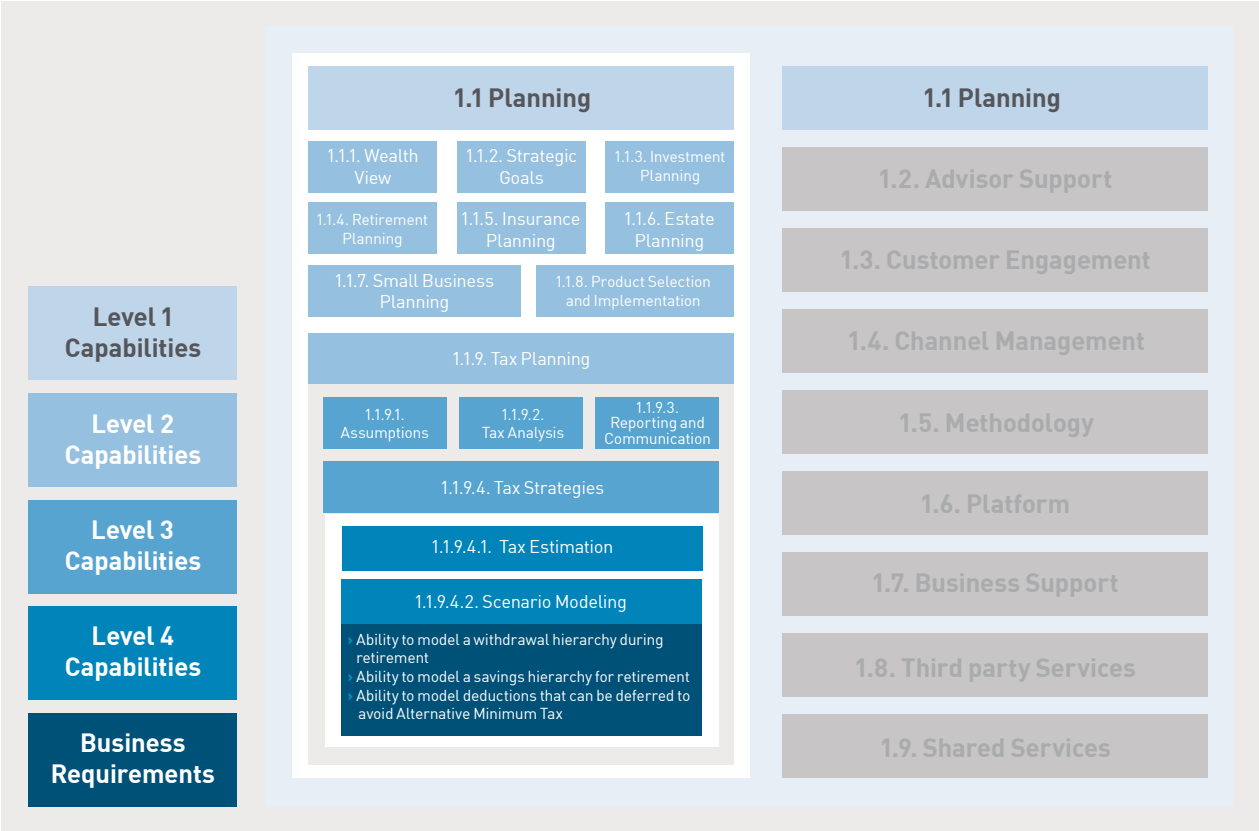


Figure 4. Preview of a sample capability map for private wealth management.

CONCLUSION

The use of business capability maps is on the rise, but “business capabilities” as a discipline will take some time to become a mainstream tool for planning, communicating and actualizing business strategies. The key to success is the increased adoption by mid-level executives from both the business and IT. In an era when time to market becomes a priority for new products and services, business capability maps, when combined with the Agile methodology, can be an important tool to articulate, realize and balance both short-term and long-term organization and project goals.

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