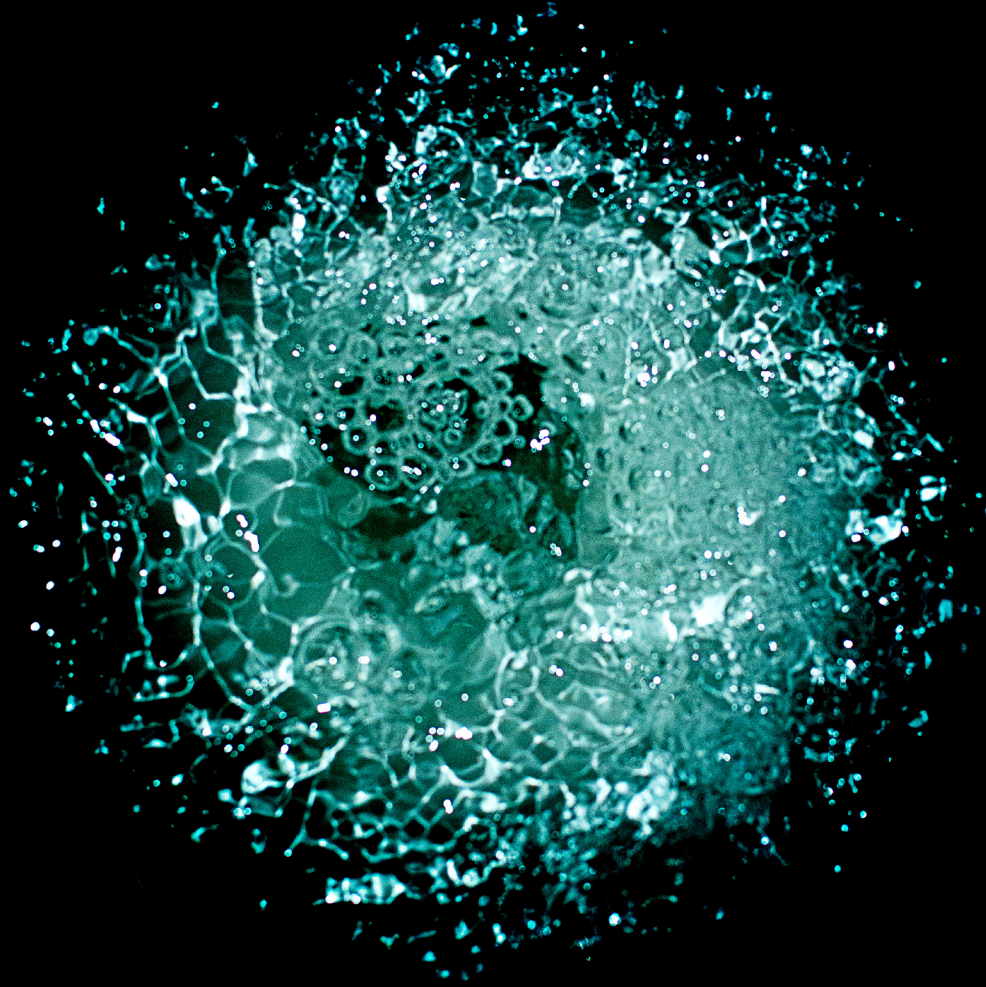


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The BIG question:

What do we need to improve and how do we improve it to achieve transformation objectives?

When transformations are focused on capabilities, they tend to be more focused, more disciplined – and in the end, more successful. But which deserve your focus? Which will have the biggest impact? And what do you do with them?

Transforming? Focus on *capabilities*.

Acknowledging the need for a transformation is a big step. But the next step – deciding what to transform and how to transform – can be even more daunting. This is a routine obstacle for business leaders weighing their choices at the outset of a transformation initiative. After all, there are many different paths in the pursuit of business transformation – being deliberate in focusing on the right transformation targets, rather than simply diving in, is a hallmark of a mature, thoroughly considered transformation strategy (really good!).

Based on our direct experience leading hundreds of transformations spanning industries and business functions, business capabilities have a major role to play in any serious transformation. Why? Leading with capabilities helps companies address


all aspects of the work required to achieve the outcomes and results they're seeking. Without a holistic understanding of how all the pieces fit together in support of a larger strategy, you're likely leaving value on the table.

For many, a capabilities-led transformation represents a departure from the norm. And that naturally leads to questions. Here are some of the most important questions you should consider asking when contemplating a business transformation journey.

What's the point?

Transformation is a big topic—one that encompasses business processes, regulations, the workforce, technology, external stakeholders, and more. It's also a topic that comes with big questions. The Deloitte Business Insights and Guidance (BIG) on Transformation series seeks to help leaders rapidly understand the issues at play—one big question at a time—so they can make big, bold changes that allow them to own the disruptions taking place in their markets.

The big question right now: I know we need to transform. But what exactly should be improved to achieve the transformation objectives?

 Still have questions after reading this piece? We can help. We're big on transformation. Contact us to get the conversation started.

How can we make sure we're not just skimming the surface with our transformation – that the improvements we make will actually 'move the needle'?

Start by defining enterprise capabilities. It's a key step in developing a roadmap to the transformation that will build the organizational muscles required to truly transform. Along the way, it can change how your organization thinks about its business, providing a common language across the organization for how the business operates and creates value for customers and shareholders.

Simply put, a capability defines how work gets done in an organization to drive value for customers and shareholders. Pricing, order management and demand planning are examples of capabilities.

Traditionally, executives refer to people, processes and technology as the key dimensions of a capability that defines how it operates. But in our experience, while important, these dimensions are not wholly sufficient. We define six dimensions of a capability: Mission, Insights, Integration, Process, Technology, and Talent. These dimensions offer a holistic picture of how work gets done in an organization, and can help directly link the desired outcome of a transformation to the improvements required to achieve those outcomes.

Said another way, focus only on a handful of these dimensions, and you're likely opening the door to unnecessary risk in the transformation. For example, even the best designed processes, supported by good talent and enabled by an effective technology will likely go 'off the rails' if

The Deloitte Capability Hexagon™ provides a comprehensive approach to defining and designing enterprise capabilities across six dimensions:

- **Mission.** The purpose of a capability, how it will operate, and what value it will deliver. The mission is derived directly from—and supports—the company's strategy.
- **Insights.** The decision flow, information, and analytics that drive informed and timely decision-making.
- **Integration.** Clear roles, decision rights, and policies that facilitate integration within and across capabilities, functions, and partnerships.
- **Processes.** An integrated and efficient set of processes designed to achieve the desired outcomes.
- **Technology.** The software, hardware, and tools required to enable the capability.
- **Talent.** The competencies, skills, talent infrastructure, and workforce planning that enable an optimal talent base to execute the capability.

This broader viewpoint allows organizations to frame and link execution to the value defined in the transformation ambition.

clear decision rights are not in place to ensure strong governance and effective integration across capabilities. Or consider a new technology deployment with a focus on changes to existing processes and accompanied by workforce training. These efforts alone can frequently fall short of delivering targeted outcomes since a new technology is often implemented to support a broader strategy – one which may require new missions or objectives to be set for the impacted capabilities. For example, a global chemical company who recently implemented a new pricing tool first aligned around the new mission of the pricing capability (price to maximize profitability by customer segment) before defining the process, analytics and technology configuration in support of this new mission. If you're just focusing on people, processes and technology, you may be blind to these needs – and you may miss the mark with the transformation.

How can we make sure that our improvement efforts are focused on the capabilities that can have the biggest impact? All capabilities are not created equal. In capability-led transformations, leaders are able to identify the handful of critical capabilities that 'really matter.' For these capabilities, referred to as strategic capabilities, superior performance creates competitive advantage and leadership in the marketplace. For other capabilities, good is 'good enough.' Adopting industry best practices and driving to standard processes become the objectives in order to deliver a highly reliable and cost competitive outcome, while reserving organizational capacity to focus on the strategic capabilities that will drive competitive advantage.

Companies should consider a segmented approach – one that prioritizes investment in capabilities that hold the potential to differentiate and create a competitive advantage, while focusing on more constrained goals (such as low cost and high reliability) in less strategic capabilities. Start by clearly identifying these segments, and you can be better prepared to govern scope, design capabilities and make customization decisions based on clear, quantitative guardrails that are set for each segment at the very beginning of the transformation journey.

A water and hygiene solutions provider focused its business transformation by leading with capabilities

A global leader in water and hygiene solutions looked to transform its business and build a platform for continued profitable growth. Critical capabilities lagged best practice and the current business was architected in a way that did not effectively take advantage of economies of scale across business units.

In collaboration with Deloitte Consulting, the company identified strategic capabilities driving competitive advantage by business unit and also isolated the capabilities with the most significant gaps. The company then evaluated these capabilities across the six integrated dimensions to identify and prioritize improvement opportunities.

This process allowed the company to quickly focus and direct the transformation effort – driving prioritization of future investments and initiatives to fuel profitable growth and optimize the overall enterprise-level operations.

Executive leadership is currently transforming the company with the support of Deloitte Consulting to achieve the program ambitions, and the leadership has integrated the concept of capability into their day-to-day business operations.

Let's talk

We have a strong record of helping organizations navigate effectively through the challenges of transformation to deliver new value. Our global network of business and technology professionals, as well as extensive industry-specific experience, means we can rapidly collaborate with you to develop a transformation vision and strategy that makes sense for where you want your business to go.

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Want to know more?

Want more answers to big questions about transformation? Contact us to get the conversation started.

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