

# **Organisational Capabilities: The Essential Ingredient to Strategy Implementation:**

*Terry Meyer 2010*

## ***Introduction:***

One reason that many good strategies fail is the inability of the organisation to translate the strategy into action.

In turbulent times, for many organisations, strategy is not simply extrapolating the past into the future. Changes in the environment and the imperative of growth mean that new strategies are required and this in turn means that change is necessary.

Yet for many organisations, the connection between new strategy and the design of the organisation is not evident. Furthermore, for many organisations, the connection between new strategy and learning and development activities is at best tenuous.

Take the case of a medium sized financial services organisation moving from a local to regional strategy. This resulted in acquisitions in foreign countries and the need for some turn around strategies.

Whilst the numbers made the strategy viable and potentially successful, management had significantly underestimated the capabilities required to operate in different cultures, manage difficult acquisitions and turnaround poor performing organisations. Simply replicating the home model of business was insufficient and a steep learning curve was required. When embarking on the strategy the organisational capabilities that were required to achieve the strategy were not available resulting in prolonged implementation of the strategy and high costs of business.

This article will argue that there should be a direct link between strategy, organisational design and the learning and development activities of an organisation and that this has significant implications for Learning and Development functions within organisations.

## ***Establishing the Connections:***

In 2009 a global Business School conducted a survey amongst its global clients to establish what was different about learning and development (L&D) after the financial crisis.

It is interesting to note that approximately 96% of respondents indicated that, post the crisis, L&D would be either somewhat different or dramatically different.

Three of the most significant changes found were the following in respect of the focus of L&D projects:

- ✚ They would be connected more directly to company strategy
- ✚ They would shift the focus from individual competency to organisational capability
- ✚ They would target their investments to groups that are most strategically important

The shift towards a more direct connection to strategy and the shift from individual competency to organisational capability are particularly significant.

In many large organisations the responsibility for strategy, organisational development and change and talent management and training are located in separate functions, frequently resulting in different priorities.

In order to build the organisational capability which is necessary to achieve the organisations strategy, these functions need to be directly aligned. This has significant implications for learning and development in particular.

### *What is Organisational Capability?*

Organisational capability extends well beyond the sum of the skills and talent that an organisations has in its ranks.

Firstly, it is about the chemistry between the different people (with the skills and talent) and functions within the organisation and the way in which the organisation is designed to facilitate optimal functioning. The whole, in other words, is greater than the sum of its parts.

Secondly, it is about the combination of organisational processes, technology and systems, structures, leadership and culture and governance that enable organisational capability.

It therefore follows that a focus on individual talent management and competence building will be a necessary but not sufficient requirement for building organisational capability. What is necessary, is the orchestration of all of the elements involved in organisational performance.

There are many examples of where organisational capabilities are very clear. Global manufacturing companies are able to manufacture and market very effectively in a variety of countries. Companies such as Standard Bank and MTN have a strong ability to function effectively in emerging markets. Other companies have a capability to rapidly manage mergers and acquisitions. It is excelling in these capabilities that give them their competitive advantage.

## *How do Organisations Build Organisational Capability?*

Whilst all successful organisations have capabilities which have grown over time, new strategies often demand new capabilities which have to be built over a relatively short period of time. There are a number of ways in which organisations acquire such abilities.

### **Mergers & Acquisitions:**

Organisations moving into new markets, products, geographies or technologies often acquire new capabilities by merging with or acquiring organisations that have such capabilities.

Obviously organisational integration and ensuring that the combined organisation is able to leverage the new capabilities is essential. Unfortunately, all too often, the acquiring organisation makes the purchase and then tries to impose itself on the new entity in a way that destroys the new capability available to it. This is particularly true when a large organisation acquires a small, focussed business.

### **Strategic Recruitment:**

Recruiting individuals with new skills, particularly at senior levels, is also a common practice to access new capabilities.

The extent to which people with new skills and abilities will have the desired impact on an organisations total capability will depend upon the extent to which new staff are able to institutionalise their acquired skills and abilities. Strongly embedded business practices, management mindsets and organisational culture are some of the potential barriers to effective institutionalisation of new capabilities and change management becomes an integral component of building new capabilities.

All too often, the correct strategic recruitment results in a new “group” emerging in the organisation which has its own sub culture and an “us and them” situation emerges.

### **Action Learning:**

Although less common, action learning is a powerful way for existing staff to develop new capabilities and integrate them into the organisation. Some leading companies identify the future strategic challenges and then assign multi disciplinary project teams the task of developing the way forward and implementing their recommendations.

The value of this approach is that it institutionalises learning and problem solving processes in the organisation which becomes part of the culture of change.

Problems arise when team processes break down or they are not given the time and resources to properly research the issues.

### *What are the Implications for Organisations?*

The key implication for organisations is the need for alignment between those people and functions responsible for strategy formulation and implementation, organisational design and learning and development.

There are a number of ways in which organisations can achieve this:

#### **Structures and Processes:**

Traditionally, strategy is either a separate function or falls within the realms of the CEO or CFO. In some companies, the HR Leader is closely involved.

The problem often emerges when the OD, talent management and Learning and Development functions are separated. The OD professionals will have responsibility for change initiatives whilst the talent and L&D functions are completely focused on individual development, often without reference to the change initiatives.

To resolve this structures and processes need to be created in which the talent and L&D activities are driven by the strategy and change initiatives.

#### **Level of HR Professionals:**

It is my experience that, regrettably, the HR professionals who are typically responsible for talent management and L&D do not function at the level required to align strategy and their activities. Often well qualified in Industrial Psychology the focus of their efforts is on individual rather than organisational effectiveness within a more macro perspective.

What is required is further development of HR and L&D professionals to enable them to take a more strategic perspective on the business and its strategy.

#### **Chief Learning Officer:**

In the US the role of Chief Learning Officer is quite common and provides a potentially powerful solution to the problems identified.

The CLO role, when properly applied, combines organisational and individual development in a way that is aligned with strategy. The CLO is responsible for learning at an organisational level through effective organisational design and change facilitation. He or she is largely responsible for influencing organisational culture. In addition, the CLO is responsible for, or has strong influence over, high level succession, leadership development and what is currently termed talent

management. Such a role is in the unique position to align all of these processes with the business strategy.

Generally the CLO is at an Executive level and does not report within HR but to the CEO.

### **Corporate Universities:**

One of the legacies of Jack Welch was GE's corporate university at Crotonville which he used as a key vehicle for transforming the business on an ongoing basis.

Many companies have corporate universities. In my experience, however, many are simply a repackaging of the traditional training function rather than a vehicle for organisational transformation. Too often the Centre markets its training programmes to managers for individual development, most of which is provided by partially customised business school courses run for the company at their venue. Hence the opportunity to build strategic organisational capabilities which require a critical mass of knowledge and skill is missed. The technology, processes and systems changes required to facilitate the capability are not dealt with.

An effective corporate university will be central to organisational transformation at all levels and individual development will be contextualised within such a process.

In addition, such an institution has the potential to create centres of excellence through managing alliances with external partners, such as universities and other institutions, to act as the conduit for access to R&D, best practice and innovation globally. This should not be the realm of Training Managers but of top level talent focused on business needs and opportunities.

### ***Conclusion:***

This article is based on two essential propositions:

- Strategy implementation is largely dependent on organisational capabilities and as such the building of these capabilities is central to the role of a CEO
- Building organisational capabilities to enable strategy implementation has a profound effect on how the strategy, OD, HR and L&D functions should operate and be designed.

In the post crisis world, organisations are going to have to look closely at how they build their organisational capability and at how the different functions contribute to the achievement of these.

This requires a shift from focusing on building human capital to the imperative of building organisational capital which is significantly greater than the sum of its talents and skills.