



How Organisational Capabilities Anchor You to Your Current Trajectory

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Ironically, the very capabilities that your organisation has developed over time, and that have made it successful in the past, can be the same ones that are anchoring it to its current trajectory. If the purpose of strategy is to change an organisation's trajectory – to one that leads to an improved future – then the influence of these potentially 'anchoring' organisational capabilities needs to be assessed and actions taken to weaken some and eliminate others.

All organisations have a set of organisational capabilities; they are the 'muscles' that an organisation has built up over time that enable it to do specific things very well. Examples include process management, innovation, compliance, acquisition integration, cost control, service management, and health and safety. While all organisations need a set of generic organisational capabilities, like the examples given above, they also need organisational capabilities that are specific to their industry. For example, exploration in the oil and gas industry, merchandising in retail, fleet management in car rental, patient care in health services and fundraising in the charity sector. Developed over time organisational capabilities enable the organisation to do what it does, well.



Organisational capabilities versus individual competencies

It's important to make a distinction between organisational capabilities and individual competencies. Whereas competencies are possessed by individuals, capabilities reside within organisations. Obviously, it's not possible for an organisation to have capabilities without having competent people. But not everyone in an organisation needs to be highly intelligent or deeply experienced, as organisational capabilities develop over time, through application and practice. As previously said, in many respects they are the muscles of the organisation, which become stronger through use. Also, the more embedded they become, the greater they define organisational culture. They are also the source of what Charles Duhigg, in his book *The Power of Habit*, calls an organisation's habits, where employees instinctively and collectively do things in a particular way without consciously knowing how or why.

Organisational capabilities are formed from a combination of shared mental models and frameworks, common language, beliefs and mindset, processes and practices, conventions and norms, shared experiences and individual skills developed over time. Significantly, as they become embedded within an organisation, they are not lost when key individuals leave.

It's also important to make the distinction between organisational capabilities and other types of capabilities. For example, IT departments now focus on building business capabilities rather than developing technical capabilities, as was previously the case. An example is the business capability to run a credit check on an individual, as opposed to the technical capability to interface with an external credit rating agency. While this is a positive shift of focus, these IT-enabled business capabilities should not be confused with organisational capabilities, as they provide only one component of an organisational capability – the technology platform on which they can be executed.

Anchoring organisational capabilities

Organisational capabilities create organisational habits that become the source of what organisations instinctively do. And, if an organisation has been successful in the past it's reasonable to assume that these organisational capabilities played an important role. To put it another way, if an organisation's capabilities have been the source of its past success, it's often assumed that they'll be the source of its future success. But if future success depends upon changing trajectory, then this is certainly not the case. As Tracy Goss argues in her book *The Last Word On Power*, "it's natural for people and organisations to fall back on what they know and do best when the going gets tough". She calls this their "winning strategy". It's a bit like doing more of the same but at a higher volume. As Goss puts it, "we may not recognise that we have our winning strategies, and we may not be able to describe them, but we instinctively act in the belief that they will continue to deliver us success". Over time, our winning strategies become part of who we are. It's the same with organisations; when the going gets tough, the default reaction is to fall back on its winning strategy, a strategy that's enabled by its existing organisational capabilities.

The world of IT offers a common example of this where its existing organisational capabilities anchor it to its current trajectory. Most IT organisations deliver what is expected of them; they keep the systems running, fix faults when they arise, deliver enhancements when requested and manage the risks that come with a complex – often legacy – installed base. They do everything they can to prevent the systems from going down. Continually meeting these same, unwavering expectations results in a set of organisational capabilities that are entirely appropriate for the context as the IT team sees it – keeping the business running and minimising the risk. Should the context change – for example, following a decision to replace core legacy systems with a modern, more integrated platform – existing organisational capabilities are likely to be out of line with those that are needed. Add to this a decision to use an offshore IT services provider, and you create a context where most IT organisations struggle, particularly when they are also expected to maintain legacy systems during the transition. It's therefore not surprising that a vast number of IT transformation projects overrun their budgets and miss deadlines, with many ultimately failing to deliver their intended outcomes.

By their very nature, organisational capabilities become omnipresent as they pervade the organisation, so much so that it can be hard to recognise that they exist. In many respects, they act like invisible currents, keeping the organisation on its current trajectory. The challenge comes when an organisation acknowledges that it needs to change its trajectory, but its existing organisational capabilities are so strong that it's difficult, if not impossible, to change direction.

The Blockbuster example

The classic example of an organisation whose organisational capabilities prevented it from changing trajectory was Blockbuster, the once highly successful video rental business established in the 1980s. At its peak it employed more than 60,000 people globally and was opening a new store every 17 hours. The organisational capabilities it developed during its growth included the ability to locate, open and run stores; establish franchise agreements; manage warehouses and ship video cassettes, and later DVDs and video games. When its context dramatically changed with the advent of broadband these organisational capabilities were not the ones needed for an online video-streaming business. As a result it was not able to change its trajectory and in 2010 the once 8 billion dollar business sought protection against bankruptcy.

Changing trajectory requires new organisational capabilities

If existing organisational capabilities can anchor an organisation to its current trajectory then it is axiomatic that different organisational capabilities will be needed to 'pull' an organisation onto its target trajectory. Equally, the influence of some of the existing capabilities will need to be either weakened or eliminated.

We welcome your thoughts.

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We work with people who want to improve their organisation's future. We provide thought leadership and thought partnership on all aspects of formulating and operationalising strategy.

About David and Peter

Dr David Trafford and Peter Boggis help executives and leadership teams to develop strategy and deliver successful change, specifically technology-enabled change. They are founding partners of Formicio and authors of the book *Beyond Default*.