Organisational capability – what does it mean?

This fact sheet has been produced as a part of the consortium research Program's research activity 4: Cultures and structures. Its aim is to help VET providers develop a greater understanding of the ways in which they might build their organisational capability.

Organisational capability is rapidly becoming recognised as the key to organisational success. However, the lack of research on it has been well documented in the literature, and organisational capability remains an elusive concept. Yet an understanding of organisational capability can offer insights into how RTOs might work most effectively, always with the understanding, though, that each organisation operates within its own unique environment.

'Capability' is one of the most bandied about words, yet seems to mean all things to all people. It has become a buzz word. Its common domain is the business world, but the vocational education and training (VET) sector is increasingly appropriating it. VET is professing the need to become more business oriented. With the need for agile organisations and adaptable workforces, the search continues for new ways of thinking and acting.

The ferment of change over the past couple of decades has seen considerable restructuring by organisations as they undergo massive cultural change, strive to transform their organisational character and search for competitive advantage. Changes to work and the organisation of work have tended to shift the emphasis from individual competence to organisational capability.

What does it mean?

Its meaning remains opaque. There is quite a deal of confusion in the literature and there do not (yet) appear to be accepted ways in which to define such concepts. So it is hardly surprising that a lack of clarity and consistency persists. Is it any wonder that there remains 'a rather thick terminological haze over the landscape where capability lies' (Winter, quoted in O'Regan & Ghobadian, 2004, p.293)?

From a distillation of definitions, the following is a succinct and useful one: *'organisational capability refers to an organisational ability to perform a co-ordinated task, utilizing organisational resources, for the purpose of achieving a particular end result'* (Helfat, 2003, p.1).

Resources

The issue of resources is an interesting one. Organisations have unique resources, and they are not productive in themselves – they have to be converted into capabilities by being managed and coordinated. So it is how the resources are used that determines performance differences in organisations. These resources include: (a) the tangible – financial, physical, (b) the intangible – technology, reputation, culture, and (c) the human – specialised skills and knowledge, communication and interactive abilities, motivation (OpenLearn 2006). Haertsch (2003, p.1) writes about the alignment of

three different forms of capital. What is 'central to the building of the organisation's capability' is the combination of human capital (people skills and knowledge), social capital (relationships between people) and organisational capital (the organisation's processes), and aligning them such that each supports the others.

Warnings

Organisations differ in fundamental ways as each has its own bundle of resources (O'Regan & Ghobadian, 2004, p.293). We know that there is unevenness and a degree of inertia or resistance to change and some organisations seem particularly difficult to transform (Rifkin and Fulop 1997, p.135). So the race to build capabilities is not an equal race (Bakhru 2004, p.327). Different organisations facing changing operating environments bring with them pre-existing histories and resources. In the face of much restructuring and amalgamation, and the geographical distribution of campuses, isn't this a particularly salient point when considering organisational capability of VET providers in Australia?

Three models

1. Organisational Capability Questionnaire

Hase and colleagues (Hase 2000) constructed this diagnostic, self-report instrument of 35 items. They identified 10 key factors:

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10 key factors in organisational capability:
- recognition by all staff levels of complexity and ongoing nature of organisational change
- a CEO who supports a vision for the future and protects the champions for change
- skilled leaders with excellent grasp of people-oriented skills
- team-based structures that enable people to be involved in decision-making

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- adequate reward systems that provide for intrinsic/extrinsic needs of people
- feeling of empowerment, that their abilities are recognised and used
- opportunities for multi-skilling, commitment to development of competencies
- clear focus and commitment to learning
- performance evaluation, perceived by staff as clear and equitable
- provision of time and resources for staff learning and development.

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2. Model of Organisational Capability

This model was developed by Gill and Delahaye (2004) and is based on three domains – strategic intent, organisational structure and individual knowledge.

3. EFQM (European Foundation for Quality Management) Excellence Model

This third model is widely used in both private and public sector organisations in Europe (Consortium for Excellence in Higher Education, 2003, p.5). Underpinning this model are the principles of knowing where your organisation is at, where it wants to go and how it can get there. The model is based on nine criteria – five 'enablers' (leadership, people, policy and strategy, partnerships and resources, and processes) and four 'results' (people results, customer results, society results, and key performance indicators). What appears useful about this model is its non-prescriptive nature, its holistic approach in examining all areas of an organisation, and that it is a self-assessment process based on obtaining factual evidence to provide a more balanced set (than some other models) of results indicators beyond the financial.

What tools can we use?

Consultants use their own preferred tools for assessing organisational capability. Jay (2000) believes that the top ten ways to build capability are as follows.

> **Top ten ways to build capability:**
> - create a leadership/coaching system that links all business functions
> - right action = reward the right: people, things, ways, time and reasons
> - create the feeling in the organisation that people can fail to succeed
> - create the necessary infrastructure to connect people with metrics
> - become a development organisation and 'teach' at every level continuously
> - enable people with development opportunities to higher levels of function
> - understand appreciative coaching and how to build a culture around it
> - make it fun to work in the organisation
> - make perfectly clear what should be perfectly clear
> - get out of people's way

Nous Group (2006) advertises four key organisational capability improvement services: organisational design (aligning structure, systems, capabilities and culture); HR strategies (devising people engagement strategies that deliver on the strategic imperatives of an organisation); information management (designing knowledge, information and ICT strategies to solve technology-based challenges); and creating organisational change (facilitating such change through developing capabilities of managers and staff).

Another company, Benchmarking Partnerships (2006), offers organisational capability analyses using its Organisational Maturity Framework covering such aspects as internal communications, recognition and reward, knowledge management, innovation, corporate/shared services, leadership, governance, performance measurement and environmental sustainability.

According to another company, iLEAD (2006, citing Ulrich & Eichinger 1997), the seven

most important organisational capabilities are:
- attracting, developing and retaining management talent
- being able to change rapidly and comfortably
- clear vision and shared mindset
- aligning performance measures and rewards to strategic priorities
- being the customer service leader
- effective team processes across boundaries, and
- flexible and adaptable culture

A useful framework

One useful conceptual framework for analysing organisational capability is that proposed by Hong and Stahle (2005, p.2).

> **Three approaches to organisational capability:**
> - competence as resources ('what you have')
> - competence as integration capabilities ('what you know and are capable of')
> - competence as innovative learning processes (emphasis on 'continuous renewal')

The authors refer to these approaches as generational. You could use these as a framework for gauging the progress of an organisation. For example, using this as a conceptual framework, below are some of the foci and characteristics we found in our research recently with RTOs.

Capability as resources – obtaining more finance, how and where to obtain more staff, capital works, procuring up-to-date equipment (e.g. from industry), training, compliance, management procedures

Capability as integration abilities – partnerships/alliances, new HR practices to extend individuals, new PD models, performance management, working in industry, some CI practices, changing

organisational structures, management-leadership

Capability as innovative learning processes
– innovation, taking risks, allowing mistakes, continuous improvement and renewal, learning culture, self-managed / cross-functional teams, knowledge generation at all levels, leadership at all levels

> **So where do think your VET organisation stands at this time?**

Our research

While the concept of organisational capability remains elusive, there are a number of elements that can be identified – like pieces jumbled in a jigsaw box. The trick is to (re)configure the various elements into a shape that 'fits' the unique environment of your VET organisation. Evidence from the Consortium's research suggests that there is a spread of organisations across the conceptual framework described above. There are some exhibiting several of the characteristics of the third category. It is to these organisations that we need to turn for good practice.

> ### Personalising the challenges
> - How can an understanding of organisational capability help your VET organisation make the most of processes for continuous improvement?
> - How can the jigsaw pieces of capability be best aligned in your VET organisation, given its unique history, geography and resources?

Find out more

The consortium research program website is:
http://www.consortiumresearchprogram.net.au

Examples of models

Consortium for Excellence in Higher Education (2003) *Embracing excellence in education*. Sheffield Hallam University, Sheffield

Gill, L. & Delahaye, B.L. (2004) 'Building organisational capability: your future, your business', Proceedings of 18th Annual Conference of the Australian and New Zealand Academy of Management, Dunedin, New Zealand

Hase, S. (2000) 'Measuring organisational capability: beyond competence', 3rd National AVETRA Conference, Canberra, March

Hong, J. & Stahle, P. (2005) 'Workplace learning and competence development', 4th International Conference on Researching Work and Learning, University of Technology, Sydney, 11-14 December, www.projects.education.uts.edu.au/RWL4/RWL4Papers/7410.doc [accessed 5/1/06]

Examples of consultant tools

Benchmarking Partnerships (2006) 'Organisational capability analysis', www.benchmarkingpartnerships.com.au/oca.htm [accessed 20/12/06]

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Nous Group (2006) 'Organisational capability', www.nousgroup.com.au/capability/organisational.php [accessed 20/12/06]

Other references

Bakhru, A. (2004) 'Managerial knowledge to organisational capability: new e-commerce businesses', *Journal of Intellectual Capital*, 5(2), 326-336

Haertsch, M. (2003) 'Building organisational capability', http://community.flexiblelearning.net.au/ManagingFlexibleDelivery/content/article_4... [accessed 20/12/06]

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OpenLearn (2006) 'Understanding organisational capabilities', http://openlearn.open.ac.uk/mod/resource/view.php?id=43214 [accessed 20/12/06]

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