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Here's something that's already known: Businesses thrive because they sell as much of their *value* as they can to as many customers as possible. "Thriving" means setting realistic goals and meeting (or exceeding) them.

Businesses meet their goals because they have a good business model supported by good strategies (or good strategies supported by a good business model), *and* – this is important – businesses that thrive *make them work*. And the way they make them work is to make sure their *resources and capabilities* always has the right qualities needed for the markets they want.

Unfortunately, making business models and strategies work is complex. Lots of different resources, capabilities, and activities must be coordinated to be developed it into market solutions. Plus, there's the constant assault on the business from change; change in strategies technology, markets, skills, and customer requirements, among other things. The effect: "Good" and "right" are constantly being re-defined.

And that brings up a problem: How *will* companies keep business models and strategic initiatives working? By periodically asking and answering questions about the most volatile part of the "thriving" equation; *resource and capability assets*. Business models and strategies do change, but not as quickly as the *assets* needed to make them work (think technology). Plus, customers don't buy business models and strategies; they buy and use the company's solutions.

Since *resource and capability (R&C) performance* is so important, business needs a measure - and a process to get it - that explains its ability to identify new or improved value that customer's need – *strategically enhance the value proposition* – and its ability to create and deliver the value that satisfies those needs – *execution*. And the answers to the questions that get the measure's rating should also help predict the business' future performance.

The *Resources & Capabilities Performance Index (RCPI)* is that measure!

It's a measure that, essentially, describes the effectiveness of a business' ability to create a proposition and shows how much *execution assets* can be improved. This information gathered to create the measure is useful for making proactive decisions about managing strategies, initiatives, projects, and programs (*collectively known as "initiatives" here on out*) and understanding why customers are buying and will continue to buy.

When a company decides to measure its resources and capabilities, using a framework focused on finding *ideas* for new or improved ones, it's also deciding to answer questions like the following:

- Is the value proposition effective enough to capture the markets targeted or keep existing ones?
- Do *hidden proposition opportunities* exist? Where should they be searched for?
- "Resource and capability" wise, where's the business now and where does it need to go? Are the right asset strategies and tactics in place or is there a need to change direction? What's known about the company, its execution assets, and, more importantly, what *isn't* known?
- What assets must be changed or eliminated? Are the current value sources *worn out* – i.e., is the business attempting to *fit* established products and services to contemporary problems?
- Does the business have a resource and capability creation process? Knowing that these assets are the input to activities, is everyone in the business actively creating (new) ideas for new or improving existing ones? How are decisions about execution abilities made?

It's the answers to questions like these that help predict the company's future performance.

Measuring RCPI: The Framework

To get a complete, profound picture of a company's R&C performance position, a wide range of components that make up its assets are used to measure RCPI. Components like customer operations knowledge, the company's skills and resource management capabilities, among others, help define performance. RCPI should also reflect the relationship between these components (e.g., good products rely on skills and enough people with them).

Measurements are taken to answer pre-determined questions. Successfully evaluating RCPI requires asking critical questions that *focus* on activities and assets that are related to *producing value*. Therefore, an accurate RCPI depends on picking the right R&C execution components and the criteria which *questions their present and future performance*.

Although they can be unique for each business, the components selected should cover "customer needs" knowledge – like quality goals, geographic considerations, and custom requirements – as well as knowledge about company's operations – like project management skills, innovation process, communication tools, and time management.

RCPI is found by rating each component (against "non-basic" performance criteria) in each of the following groups:

- *Customers' requirements (CR)*,
- Company's ability to *create value (CV)* that satisfies the requirements, and
- Company's ability to *manage value (MV)*.

The ratings, when multiplied together, define RCPI and the Relationship between the three groups (see the cube to the right, a *visual* representation of RCPI).

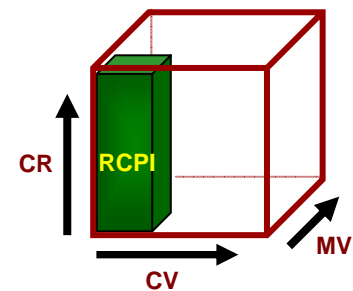
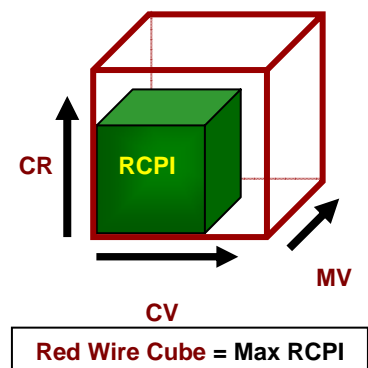
The results of a RCPI evaluation will give the business at least two valuable insights to its R&C performance:

1. Resources and capabilities component balance. For example, the business is trying to do too much with too little. The company totally understands the needs of the customer but doesn't have the strengths needed to develop or properly manage its development (see cube to the right).
2. Component strong points and weak points, which identifies R&C opportunities. Using this information, initiatives can be developed that, e.g., turn into new benefits for customers or improve the weaknesses because they are vital to the business' overall objectives.

By organizing the components into more focused, congruent value sub-groups, the evaluation process can produce even more revealing results. For example, the "Creating Value" group can be broken into skills, processes, and tools sub-groups.

Regardless which components and associated *non-basic performance questions* are selected, they need to be asked frequently enough to create a continual process of the R&C assessment. Periodically asking these questions helps apprise the company of any change in the business' execution abilities and its customers' needs!

A successful RCPI evaluation also depends on the *evaluation standards* used to get "ratings." Picking more than one can add to the usability of the measure. Therefore, each value component should be assessed with regard to:



- Effort applied to make it successful (E),
- Compliance to the performance criteria (C), and
- Impact of performance on customer results (I).

Combining ratings *across* value components, to get E, C, and I totals, and a little analysis, something can be learned from the relationships between the standards (E vs. C, E vs. I, and C vs. I). This analysis can point to initiatives that might be missed by just using the results that produced the cube and answer questions like those that follow:

- Is there a relationship between the standards? For example, does effort track with compliance? Are there unexpected ones (i.e., low effort, high compliance)? Why?
- Is the company applying enough effort to meet the performance criteria of its R&C components?
- If the company applies more effort to a component, will it mean higher impact to customer results?
- If the company meets more of the component's criteria, will this compliance add impact value?
- The company is applying lots of effort across the board but it's not meeting criteria or getting expected results. Why?

Wouldn't this knowledge about the standard's relationships be useful in predicting the business' future performance? Low effort, low compliance and low value have to tell the business something, as do high ratings for each.

Also, it would be interesting to correlate the ratings of effort, criteria compliance, and value contribution with other measures like EPS, ROI, profit margin, and product quality. It seems that the three standards used in assessing for RCPI can go a long way to explain the ratings of these other measures, which could help business analysts better understand their company's overall performance, past and future.

RCPI Process and Benefits

A successful RCPI assessment process uses personnel from up and down and across the business (those who best know the R&C components). Since each participant gets to challenge ratings and observations, these different perspectives and experiences increase their accuracy. The assessment(s) can either be facilitated, consist of surveys, combinations of the two or any other method that allows assessors to collaborate.

RCPI programs can be as simple as assessing a business unit or a group of functions within the unit. Or they can be made a little more complex by including customers, suppliers, and partners. Programs can be planned at the beginning of major initiatives, like implementing CRM or ERP systems or forging into new markets. Or they can be conducted during troubled projects to discover possible roadblocks.

Regardless of the program, the five step process outlined below, or a modified version of it, is used to find the company's Resource and Capabilities Performance position.

1. Find a RCPI "champion," someone to lead the process, set program goals, lead the selection of the components and performance criteria, and choose participants.
2. Identify business objectives and strategic direction – used to guide component selection and, later, focus selecting performance improvement initiatives.
3. Assess the components per program requirements. Note differences of opinions and other information that will help in defining R&C advantages.
4. Analyze the results using "The Cube" and information gathered from the evaluation and define potential initiatives.
5. Brainstorm the "content" of each initiative – high level answers to the "why, what, how, who, where, and when" questions. Prioritize, select and plan the most promising initiatives for adding R&C advantages to the company's abilities.

Answering the questions outlined in each of the following sections helps define the benefits RCPI programs can provide.

Company

In addition to rating the RCPI's components, the evaluation process outlined above gets answers to questions like the following:

- Are the company's existing initiatives the right ones? What initiatives should the company undertake next? What new R&C components will make a difference to the company's *and* its customers' value positions?

Future performance depends on the right initiatives being implemented, which a robust RCPI evaluation process helps identify. And because market conditions change frequently, what was right yesterday may not be so today. Also keep in mind, internally focused initiatives like...

- A skills improvement project,
- Applying more effort to an important, but weak, R&C component,
- Planning to better meet the criteria of a group of R&C components, or
- Developing and implementing training plans to utilize new technologies,

...provides *value* to customers. Don't just focus on market solutions for opportunities! Customers depend on how well their suppliers *operate* as well.

- Does the company have right knowledge resources strategically placed across the organization for effective decision making? Are resources and capabilities *assigned* to the *right* initiatives?

By evaluating for RCPI, particularly if people from all parts of the business participate, confusion about goals, customer issues, company assets, and other information concerning value propositions and capabilities will be eliminated. In other words, *alignment* happens, which leads to better decisions across the board.

For example, economic shifts forces management to make some tough decisions like:

- Should personnel be added, subtracted, or shifted and by what magnitude? How should spending be adjusted and in what functions?
- Which resources should be consolidated or divided (e.g., departments, business units) and how?
- How do suppliers, partners, allies, and customers get involved in the "value" offering decisions (e.g., costs and features)?

What could be a better indication of future performance than having everyone in the business pulling in the same direction?

- Does the company need to look for alliances, partnerships or acquisitions to complement competencies (e.g., for increasing operational effectiveness or venturing into new markets)?

Companies are made up of competencies. They have core competencies, those needed to innovate, develop and deploy their main source of *value* and competencies, like HR, training, manufacturing, IT, and others, that support their core activities. By evaluating for RCPI, companies obtain information about these competencies and identify the ones "core" to their success.

Sometimes using outside resources is the solution to improving competencies. Future competitiveness could depend on the business' ability to acquire and quickly align those resources with the organization's programs. For example, your company may be better off partnering with a customer or competitor in order to build a shipping department rather than staffing and training inside resources to build one.

- Can current products and services, from across business units, be combined to make "new" ones? Do customers need customized value propositions? Does the business have the right knowledge so it can produce innovative solutions?

Innovation initiatives partly depend on a company's deep knowledge of their customers' needs, risks, and constraints. Evaluating for RCPI, the business obtains the knowledge that begins to answer the questions stated above, focusing on what makes customers succeed or fail which, in turn, leads to value creating opportunities.

Innovation can also be the result of producing a solution to a problem that customers don't know they have or to customer problems that the company has "yet to discover." In both cases, an effective RCPI rating process can uncover what's known and, more importantly, what's unknown about customers and their problems, viable indicators of future company performance.

- Is the vision and mission of the company still sound? Is the business properly organized? Does the business have a competitive value position reference point? Is it possible to detect problems before they cause trouble? What are the failed "R&C components?"

One of the biggest problems companies face when developing new initiatives is that they don't completely know their present performance of their R&C components. They don't know what's working and what isn't or what new value components – like skills, processes, or tools – are needed. RCPI is a benchmark that is helpful in answering these questions by basically answering this question: "What's changed?"

Customers

Another performance predictor for companies is the future prospects of their customers. Any customer's ability to buy depends on *their* resources and capabilities. A RCPI rating for representative customers in well defined segments – categorized by, e.g., profitability, revenue generation, service costs, or others – can be useful. (Segment definitions will depend on the goals of a RCPI program.)

RCPI programs for customers provide insight to their needs, their core competencies, why they succeed and why they fail. This is useful information for planning purposes and, more importantly, for identifying value opportunities, such as forming training programs that focus on non-product issues, but are based on factors common to the segments, like HR operations.

A formal RCPI evaluation of customers can provide answers to questions such as:

- What's making customers succeed or fail (e.g., right markets, wrong markets, service)? Is it because of or in spite of their suppliers' products and services? What can be done to help customers?
- What operational activities do customers excel at? What activities should they excel at but don't? What are their core competencies?
- How do customers feel about their suppliers? What do they expect from them? What do they think is important for their suppliers to pay attention to? Will providing more value, beyond existing products and services, prompt more buying?
- What's important to customers and is it *as important* to the company? Is the answer known for each customer, customer segment, product line, or by any other customer classification that makes sense for each market served?
- Who are the low margin-high maintenance customers? What are the characteristics of a "right customer," e.g., high profitability? What's being done to keep them, other than giving them a good price? What "value" needs to be offered that creates a "bond" that can't be broken?
- Will insight to customers' customers help value creation efforts? What are the customers' value propositions?
- Will a partnership with customers bring new value to their customers? Are customers' customers doing things that point to new value opportunities for both them and their suppliers?

For Your Suppliers and Competitors

The business' suppliers have a profound affect on its future performance. And, of course, so does the competition. Comparing the business' RCPI to theirs can certainly shed some light on future performance, not to mention getting insight to theirs.

Caveat

How about if RCPI shows that the business has an outstanding R&C components but its financial measures (or other performance metrics) are poor? It could be that there was an error rating RCPI. This is an evaluation measure. It requires a *fair, thoughtful assessment* of the criteria by people with different perspectives in order to provide *its* intended *value*. The output will only be as good as the input.

Why RCPI is a Good Measure

Besides being easy to understand, the RCPI metric has the following characteristics of a good measure:

It Produces Actions: Business models and strategy turn into financial value because of strong value propositions and execution abilities. By performing the process to get RCPI, companies will have a clearer picture (the "cube") about which value components need strengthening and what actions are needed to accomplish the task. Good measures highlight "improvements" and action, not just problems.

Focuses on the Organization: RCPI is based on the company's R&C components which connect jobs, people, departments, and other company units; generally speaking, they are not independent of one another. Well planned RCPI assessment programs can show all participants in the business a picture of the value system and how they affect the quality of that system.

Sensitive to the Time it takes to Calculate: Some may think that evaluating for the RCPI rating will take too much time. But, by using a well-defined framework and committed personnel, getting the RCPI rating will be efficient.

Some perspective: How much time (and other resources) is taken to calculate the results of your company's financial position? How much time do managers spend on managing *to* financial measures, most which communicate *what has been done*?

But, how much time does the company *proactively* spend managing, adjusting, and measuring their propositions and execution abilities, two key business model components that *define company actions*? Remember, the quality of the company's value drives the quality of the financial results.

Summary

A value proposition that doesn't work or execution gone awry: Think about how either turns a well thought out initiative into an experience the company or its customers weren't expecting! Think about the implication: The actions taken to "repair" these results take away from the actions that could be applied to other value creating initiatives. Think about how asking questions, like those in this paper, could have made a difference.

This is a paper of questions because measures are the result of answering well thought-out ones. It's a paper about value because value shapes the experiences that compel customers to buy. It's a paper about questioning value because the answers help prepare business for the expected and the *unexpected* so it can minimize misdirected, unproductive actions.

Predicting a company's future performance requires finding out what's known and unknown about performance. It requires finding out what's known and unknown about customers.

Getting a RCPI rating is a good way to find these things out.