



UNLOCKING NEW DIGITAL VALUE

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How many major organizational changes has your company been through in the last five years, and did those changes create value? In new MIT CISR research, we studied over 700 companies to understand how companies unlock new digital value.¹ We found that a company must perform organizational surgery,² also known as restructuring or reorganization, often many times to create such value. The companies in our research underwent on average 7.2 major organizational changes in the last five years—but the results were worth the disruption, as the companies grew well above their industry average.

The top-performing companies on growth in our study used four distinct organizational levers to unlock value. We found that the companies in the top quartile of effectiveness at performing organizational surgery using these four levers were also top financial performers, growing at almost 12 percentage points above their industry average; and leaders in innovation, with 45 percent of their annual revenue coming from new products introduced in the last three years.

In this briefing we describe the four levers and illustrate them with examples from financial services companies ANZ and Standard Bank Group.

THE FOUR LEVERS TO CREATE NEW DIGITAL VALUE

We began this research by interviewing eight CEOs and some of their colleagues to learn what organizational levers they leveraged to create new digital value. Four levers emerged as key

to unlocking value, supported by relentless CEO involvement to drive the necessary changes in company and employee behavior. Then in October 2022 we surveyed respondents from 721 companies to gain an understanding of best practices and the impacts of employing the levers on company performance.

Companies focused on these four levers to unlock new digital value:

1. **Customer:** Identifying unique customer types
2. **Capability:** Driving a shared capability as a service across customer types
3. **Commercialization:** Commercializing what the company is great at
4. **Component:** Embedding, nurturing, and reusing digital modules of self-contained business capabilities

Each lever produced a specific type of value:

1. **Value from Customer:** Delivering tailored customer journeys
2. **Value from Capability:** Generating consistency and efficiency
3. **Value from Commercialization:** Creating new revenues
4. **Value from Component:** Moving faster to market using best practices

Let's go into more detail on each of the levers.

Identifying Unique Customer Types

To unlock new digital value from customers, a company's senior executive team must first identify a set of unique customer types to focus on, describing each type's persona, customer journey, data model, channels for engagement, and more. In financial services, customer types typically include home buyers, small business enterprises, corporations, and high wealth individuals and families. Developing an understanding of its customer types helps a company to really empathize in meeting customer needs. The top quartile performers on growth in our research focused on an average of 8.9 unique customer types, typically describing for each type how it wanted to

1 This research is based on the MIT CISR 2022 Future Ready Survey (N=721) plus interviews with eight CEOs conducted in 2021–2022 and case vignettes of five large companies in manufacturing, medical technology, financial services, and real estate.

2 As part of a digital transformation journey, organizational surgery is one of four "explosions"—significant, disruptive changes—that a company must anticipate and manage. Surgery involves changes that remove organizational complexity and help the company focus on producing integrated customer offerings. For more, see S. L. Woerner and P. Weill, "Update on the Four Pathways to Future Ready," MIT CISR Research Briefing, Vol. XXI, No. 2, February 2021, https://c isr.m it.edu/publication/2021_0201_PathwaysUpdate_WoernerWeill.

engage with the company, the typical products it needed, the kinds of offers it found attractive, and the associated data profile and systems that made the customer journey easy. In our interviews, some of the CEOs reported that parts of customer journeys at their company were supported by providing curated access to an ecosystem of complementary service providers.

Driving a Shared Capability as a Service

Leveraging business capabilities as a shared service helps a company to generate speed and efficiency. Here, senior executives must first identify what capabilities are common across customer types. Standardizing, automating, branding, and reusing these capabilities allows the company to drive consistency, which both provides the customer with a common experience across products and increases efficiencies for the company. Shared capabilities can lead to better insights because the data collected from them is more consistent. For example, a key shared capability in banking is a unified customer profile that details a customer's current

A company can unlock the most value when it uses all four of the levers together, but this requires iteration, governance, measurement, and top management leadership.

assets and a forecast of their future needs along with their identity, credit score, risk tolerance, and other factors.

The top quartile companies we studied provided an average of 6.3 separate business capabilities as a service. Because this lever can be hard to implement politically, top performers were selective about which services to share across customer types, thereby ensuring that the services were strategically important.

Commercializing What the Company is Great At

A company can select an internal capability it is really great at and commercialize it as a service to produce a new revenue stream. This anything-as-a-service model, known as XaaS, is becoming an important growth area for many companies. Examples of XaaS that some banks have developed include anti-money laundering (AML), payments, know your customer (KYC), and foreign exchange (FX). Often such services are essentially selling compliance as a service, allowing the company to drive more value from its own efforts to address increasing compliance costs.

Australian bank ANZ has recently focused on providing XaaS in areas including international payments and AML. CEO Shayne Elliott described the bank's AML efforts:

We saw one major player exit this business as a result of some AML issues which meant their customers had sixty days to find another provider. Of those, there were seventeen major mandates and we won sixteen of them. That took our [AML] market share from the low 40s to 58 percent.³

**SHAYNE ELLIOTT, CHIEF EXECUTIVE OFFICER,
ANZ BANK NEW ZEALAND LTD.**

In our top quartile companies on growth, an astounding 56 percent of revenues were generated using the XaaS approach.

Embedding, Nurturing, and Reusing Digital Modules

Embedded digital modules, sometimes called components, create new digital value for the company by driving consistency and speed to market. Digital modules are "atomic" business capabilities in that they are fully self-contained. They are fine-tuned, automated, and reused in every possible application in the company, and nurtured by their owners to ensure they maintain best practice.

In financial services, typical examples of such modules would be establishing the customer identity, onboarding a new customer, establishing a customer's credit score, assessing risk, assessing compliance, and many other often reused business capabilities. Modules are built into the other three value-unlocking levers—customer types, shared capabilities, and XaaS—as well as other opportunities for reuse. The top quartile companies in growth were 80 percent effective at digital module reuse, improving their time to market and helping to generate an industry-leading percentage of revenues from new products introduced in the last three years.

Once a company has identified which business capability to modularize, it typically uses an API or some other kind of digital service to create the module and share it easily.

AN ASSOCIATION BETWEEN COMBINED LEVER EFFECTIVENESS AND GROWTH

In our research, companies that were more effective at using the four levers individually grew faster than their peers. And the companies that were in the top quartile of effectiveness of all four levers combined grew even faster, at 11.7 percentage points above industry average.

³ Shayne Elliott, "Elliott: Accelerating Our Strategy," bluenotes, May 27, 2021, <https://bluenotes.anz.com/posts/2021/05/anz-ceo-shayne-elliott-banking-future>.

Standard Bank Group, the largest financial services group in Africa,⁴ has used all four levers to unlock new digital value as part of the bank's digital business transformation.

Unlocking New Value at Standard Bank Group

In its strategic transformation plan, Standard Bank Group describes serving the needs of clients in financial services and beyond by “banking the ecosystem”—i.e., providing financial services in all the ecosystems the bank is targeting. Behind this vision is Standard Bank's purpose: “Africa is our home, we drive her growth.”⁵

The bank started by focusing on three client segments (Customer lever): consumer and high net worth, business and commercial, and wholesale clients. It identified client acquisition and engagement as the drivers for sustainable growth. The bank also initially targeted ten ecosystems to operate in (Customer lever)—five that it would drive, such as agriculture and trade, and five it would participate in, such as energy and education. It has since narrowed its focus to ecosystems where it is able to achieve the most competitiveness, including trade and home services. Standard Bank's participation in an ecosystem typically involves offering B2B financial services the bank is great at (Commercialization lever), such as FX and payments.

To enable shared capabilities as a service (Capability lever), the bank created a new group called Client Solutions that serviced the client segments with banking, insurance, and investment services. However, as the transformation progressed, the bank found that it was more efficient to provide these services within the client segments and reverted the segments to being more traditional business units.

Finally, a great deal of effort went into architecting modularity (Component lever). Standard Bank's modularity relies on standardization and simplification, as well as the technological capability to connect both internally and with partners, enabled by API readiness and integration and scalable and interoperable platforms. The bank calls developing modularity in this way “unpacking the honeycomb,” and it tracks the number of digital solutions as a percent of total solutions it has achieved: in 2021, 24 percent of the bank's banking solutions and 22 percent of all solutions were digital solutions, and it was aiming for a target of 50 percent across all solutions by 2025.

Standard Bank is making great progress toward its transformation goals, with the bank's 2022 results demonstrating record revenue and earnings.⁶

THE IMPORTANCE OF LEVER GOVERNANCE IN UNLOCKING VALUE

You need to govern and nurture each lever differently to unlock its value. The Customer lever is typically owned and governed by business unit heads with responsibility for engaging each customer type. The governance of the Capability lever, because it spans different customer types, is typically owned by a shared services group or a COO or CIO who operates those services for the rest of the company, perhaps on a chargeback basis. We have also seen leader-follower models where one business unit takes the lead on a particular service and then offers it to the other business units. The ownership of the Commercialization lever frequently belongs to a combination of people who sell business-to-business solutions and the specific business service owner (e.g., payments), often using a two-in-a-box model.⁷ Finally, regarding the Component lever, components are typically owned and governed by the business owner of the business capability embedded in the module, such as risk management (owned by the head of risk), know your customer (the head of compliance), credit scoring (the CFO), or payments (the head of the payment service), often in partnership with a technology leader.

THE KEY TO REALIZING VALUE FROM THE FOUR LEVERS

We found that to be a top quartile growth company in the digital era requires focusing on four levers to create digital value. But companies have to iterate to get the levers to work together in order to unlock that value. And they have to implement an ownership and governance model that encourages nurturing and reuse of the four levers. They also need very good real-time metrics that measure the effectiveness of the levers, their impact on performance, and the capabilities needed to deliver them, shared widely via a dashboard. Finally, they need the support and vision of the CEO and top management team, along with the board, to help exploit the levers throughout the company.

6 See “Overview of Financial Results,” Investor Relations, Standard Bank Group, <https://reporting.standardbank.com/overview-financial-results-2022/>.

7 Two-in-a-box is a management model in which two (or more) people are given equal leadership authority and responsibility for a task or set of tasks, often in complementary roles. Read about a two-in-a-box model in use in S.K. Sia, P. Weill, and M. Xu, “DBS: From the ‘World's Best Bank’ to Building the Future-Ready Enterprise,” MIT CISR Working Paper No. 436, March 19, 2019, https://c isr.mit.edu/publication/MIT_CISRwp436_DBS-FutureReadyEnterprise_SiaWeillXu.

4 Standard Bank Group was the largest financial services group in Africa by revenue in 2021; see “Top 10 Banks in Middle East and Africa in 2021 by Revenue,” GlobalData, <https://www.globaldata.com/companies/top-companies-by-sector/financial-services/middle-east-and-africa-banks-by-revenue/>.

5 “Purpose and Values,” Standard Bank Group, <https://www.standardbank.com/sbg/standard-bank-group/about-us/who-we-are/purpose-and-values>.

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MIT CISR is funded by Research Patrons and Sponsors, and we gratefully acknowledge their financial support and their many contributions to our work.

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