Announcer: Welcome to the MIT CISR Research Briefing Series. The Center for Information Systems Research is based at the Sloan School of Management at MIT. We study digital transformation.

Nils Fonstad: Hi, I'm Nils Fonstad, a research scientist with MIT CISR. Today, I'm pleased to share with you the September 2021 research briefing that I co-authored with Jukka Salonen, Four Principles for Realizing Strategy with Innovation.

 To realize organizational strategy better and faster, companies want the resources they have, funding and people, to go to those initiatives that are most likely to have the greatest strategic impact. But most executives struggle to prioritize their initiatives. Why is this so difficult? In large part, because of what is not known. Most portfolio management processes generate too little, if any, evidence of how investments in an initiative relate to the initiative's deliverables—such as features and capabilities—and how deliverables relate to strategic objectives and KPIs.

 This was certainly the case at the global financial services group, BBVA. In 2016, a decade into a digital transformation journey during which the company implemented Agile methodologies and built data monetization capabilities, company executives realized that they needed to know a lot more to ensure scarce resources went to the initiatives with the greatest potential impact on the bank's strategic objectives. They also needed to increase their pace of learning in order to have a more dynamic grip on the company's investment portfolio and its impact.

 Starting in 2016, BBVA executives created an evidence-based process they called the Single Development Agenda, or SDA, to better align the company's investments in digital innovation initiatives to its strategy. This process evaluates and prioritizes more than 2,000 initiatives every quarter. In creating a single investment model for the entire bank, the executives significantly improved their capacity to learn from initiatives and allocate talent to the most strategically promising ones.

By the second quarter of 2021, 75% of BBVA's total investments in initiatives went towards strategic priorities, up from 60% in 2018. During the same period, the SDA process helped strategic initiatives realize value sooner, in significant part because it ensured that the most impactful initiatives were allocated the talent they needed. The average duration of initiatives that generated strategic impact was reduced by 25%, from an average of around 7.5 quarters in 2018 to 5.6 quarters in the second quarter of 2021.

 BBVA's experience illustrates four principles that MIT CISR has come to believe, based on several years of research, all companies should follow to realize their strategy with innovation initiatives.

 Realizing strategy at BBVA. Building on the Agile methodologies that the company introduced early in its digital transformation journey, BBVA executives took a test-and-learn approach to developing the SDA process. They designed the process to be iterative and evidence-based with activities pursued on the same cadence as Agile. Over a five-year period the SDA process evolved, as executives continuously improved it. What started as a capital expenditure prioritization framework expanded into an execution framework. Then the executives added talent allocation and, later on, impact monitoring.

 Today, the SDA process consists of four activities that run in parallel and are synchronized quarterly. The first activity is portfolio strategy. The second, prioritization and planning. The third, resource allocation, and the fourth, execution. Together, the first two activities are a top-down approach to prioritizing initiatives for the next quarter. Senior executives, functional experts and initiative leaders work together to rank initiatives based on data that initiatives must submit quarterly. The third activity manages the allocation of talent to initiatives. The fourth activity represents the execution of initiatives that the quarter before executives selected to receive talent.

 The SDA process is BBVA's single accountability framework, applied transparently and uniformly throughout the organization. It requires the active participation of a significant number of people representing a variety of stakeholder groups. Each quarter about 320 staff are dedicated full-time to running the process. Around 40 staff are based in the SDA offices globally, with the others based in and funded by BBVA's organizational units. Whereas before these staff were involved in disparate initiatives, their present roles are transparent and standardized. Approximately 1,350 staff who are primarily responsible for executing initiatives dedicate on average six days per quarter to the SDA process. Top management team members of each organizational unit participate in key meetings throughout the process.

 Yet despite the commitment it requires, all the executives we interviewed believe the SDA process is well worth their time. The process helps initiative leaders both create deliverables more efficiently and intentionally contribute to the company's strategic objectives. It enables top level executives to realize the company's strategy more effectively and efficiently than before.

 Carlos Torres Vila, who was CEO at the time and is now BBVA's chairman, noted, "The SDA helps us reduce time to market in offering new solutions to our customers and to do things only once, which is especially relevant when you operate a global company with multiple local banks. In sum, the process has created a competitive advantage for us vis-à-vis our peers."

 Four principles. We believe four key principles underpin the success of BBVA's SDA process. The first principle is generate evidence related to value, not simply to deliverables. Before the SDA process, BBVA's portfolio management process generated too little evidence of value too late. Almost all evidence pertained to the production of initiative deliverables rather than the deliverable's strategic impact. Any evidence of strategic impact typically arrived after the initiative was completed, too late to stop or pivot the initiative. For an organization to ensure that its most strategically promising initiatives are prioritized and receive scarce resources, first it must know what type of and how much value each initiative aims to generate and/or has generated. It must learn this continually as each initiative advances.

 To accomplish this at BBVA, on a quarterly cycle every strategic initiative reports its accomplishments from the preceding quarter and its plans for the one ahead using a standard single-page online template BBVA calls the SDA Project Canvas. To complete this template, initiative leaders report both on their progress in executing deliverables and in realizing the initiative's target value.

 The initiative leaders describe value in terms of a defined set of KPIs that comprise the SDA portfolio, a one-page depiction of the company's six strategic pillars. For example, one pillar, reaching more clients, is focused on addressing traditional needs of customers in better ways. Each pillar consists of one or more value streams. To measure strategic impact each value stream includes a set of KPIs. Within the pillar about reaching more clients, one value stream is open market, for which a key KPI is new customers acquired through digital channels. In the company's 2021 first quarter shareholders meeting, BBVA announced that this KPI had increased to 35%, up from 23% the year before.

 Linking initiatives to a common set of strategic KPIs ensures that initiatives are always working towards value that is relevant to BBVA's strategy. It also allows executives to see a holistic, value-based, and current view of initiatives across the organization. Overall, the quarterly flow of data from initiatives enables multiple stakeholder groups to gradually learn how their applications of resources relate to deliverables and how deliverables relate to strategic impact. These insights are fundamental to better aligning initiatives with strategic priorities and changing investments more rapidly into initiatives with greater impact.

 The second principle is hold individuals accountable, rather than committees. Many organizations rely on steering committees to allocate budgets and execute initiatives. Yet almost no one holds these committees accountable for realizing value from investments. BBVA executives redesigned the portfolio management process so that each initiative has two leaders, one who is accountable for delivering a technological solution and another for creating value for the initiative's client, either internal to BBVA or an external customer. Initiative leaders are regularly assessed on both progress on executing deliverables and success in realizing strategic impact.

 During quarterly evidence-based challenge sessions, the initiative leaders work together with experts, called Shapers, from functional units such as Legal, IT, and Risk and Compliance to ensure the viability of initiatives. Each Shaper is held accountable for both their functional responsibilities and helping initiatives deliver and advance the bank's strategy. With clear accountability for individuals and quarterly data on initiatives' deliverables and strategic impact, it is easier to assess and learn how individuals contribute best to the success of initiatives and how to help individuals develop professionally.

 The third principle is allocate talent to initiatives, rather than funds. Most portfolio management processes allocate financial resources to initiatives. But even if an initiative receives the requested funding, it does not guarantee that the initiative's leaders will be able to access the expertise the initiative needs to thrive. In contrast, the SDA process prioritizes the most promising initiatives first, awarding them needed talent in the allocation of talent and funding. The heads of organizational units must make the case that their proposed set of initiatives deserves requested talent.

 BBVA staffing experts, called Staffers, are responsible for allocating talent to initiatives. Staffers analyze data provided quarterly by initiative leaders on the talent their initiatives need, such as the role and cost of each individual and whether they are internal or external. Staffers assign individuals to initiatives based on their strategic priority, the abilities required and the availability of talent. Once an initiative receives the staff it needs, the costs of the staff are calculated and the sponsoring organizational unit is given a budget to cover only costs for the quarter. Staffing data are also analyzed to identify and track capacity gaps and prepare talent for future initiatives.

 The fourth and final principle is rely on one transparent process, not politics. Portfolio management processes are notorious for being subject to politics. BBVA executives significantly enhanced the transparency of their resource allocation process, and in doing so built enthusiasm and support for it. Today at BBVA, every strategic initiative follows the same transparent, uniformly applied, evidence-based process. There is only one way to execute a strategic initiative: the SDA way. If an initiative is ranked too low or does not receive the talent it needs, then it does not execute in the next quarter.

Greater transparency in the SDA process has changed the culture of BBVA. Jaime Sáenz de Tejada, who was then BBVA's Chief Financial Officer and today is Head of Global Risk Management at BBVA, said the following: "In order to be able to prioritize across the entire company, it was very important that we have one single development agenda and not 10. Having one changed completely the dynamics among the global management committee. It forced us to act more as a team. Now the team as a whole makes decisions for the well-being of the bank."

 Stop benchmarking—generate your own evidence. The development and use of digital technologies have put many aspects of realizing value in constant flux. As a result, the value to companies of benchmarking is less than ever before. Instead of benchmarking, companies need to emphasize learning from their own experience. To develop your own evidence-based strategy realization process, consider to what extent your portfolio management process practices the above four principles. For each strategic initiative across your organization, what kind of value is it generating and how much? Most companies we've studied can no longer afford their current lack of knowledge, accountability, talent, and fairness. Ensure support and active participation from the entire top management team. At BBVA, the CEO gave a clear mandate for the collective effort, communicated often that it was a top priority, dedicated time to it in multiple key meetings, and provided reinforcement whenever anyone resisted going through with changes that they had committed to.

 Luisa Gómez Bravo, who led the global rollout of BBVA's SDA process from 2017 to 2018 and was promoted to Global Head of Corporate and Investment Banking at the company in 2018, noted the following: "The success of the SDA stemmed from the CEO, the management committee, and with regards to my role, surrounding myself with a team of individuals from the different areas who really helped push things through. It was a strong team effort."

 To start putting the four principles in practice, consider the following actions: Create a holistic view of what value initiatives are currently generating. Articulate the KPIs initiatives should seek to deliver in order to achieve strategic targets. Agree on the value-related data that initiatives should report and how frequently. Design a process for allocating talent to the highest priority initiatives. Insist that there is only one way.

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