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**Generating Greater Value Faster:
Three types of data-driven leaders**

12 October 2022

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Teck Resources Ltd.
Tetra Pak
Trinity Health
Truist Financial Corp.
UniSuper Management Pty Ltd
USAA
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Westpac Banking Corp.
WestRock
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Founded in 1974 and grounded in the MIT tradition of rigorous field-based research, MIT CISR helps executives meet the challenge of leading dynamic, global, and information-intensive organizations. Through research, teaching, and events, the center stimulates interaction among scholars, students, and practitioners.

2022 MIT CISR Research Projects
- Building Relational Ecosystems for Innovation
- Developing a Digital-First Workforce
- Generating Compelling Returns from Data Liquidity
- Guided Decentralized Decision Making
- Learning to Create More Strategic Value Faster with Digital Innovation
- Managing AI Scale: Identifying Approaches that Work
- New Forms of Networked Collaboration Using Blockchain
- Sharing Data Within and Beyond the Organization
- Solving the Organizational Rubik's Cube to Unlock Value from Digital

1 September 2022

DEFINITIONS

DIGITAL INNOVATION

A digital innovation is a new (from the point-of-view of your organization) or significantly improved offering or capability that relies on digital technologies.

INNOVATION INITIATIVE

An investment of resources over time intended to generate business value through innovation.

Organizations are generating more strategic value faster by redesigning themselves around three learning imperatives

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1.

Innovation teams are expected to build a successful digital innovation – i.e., one that is valuable to both end-users and the organization.

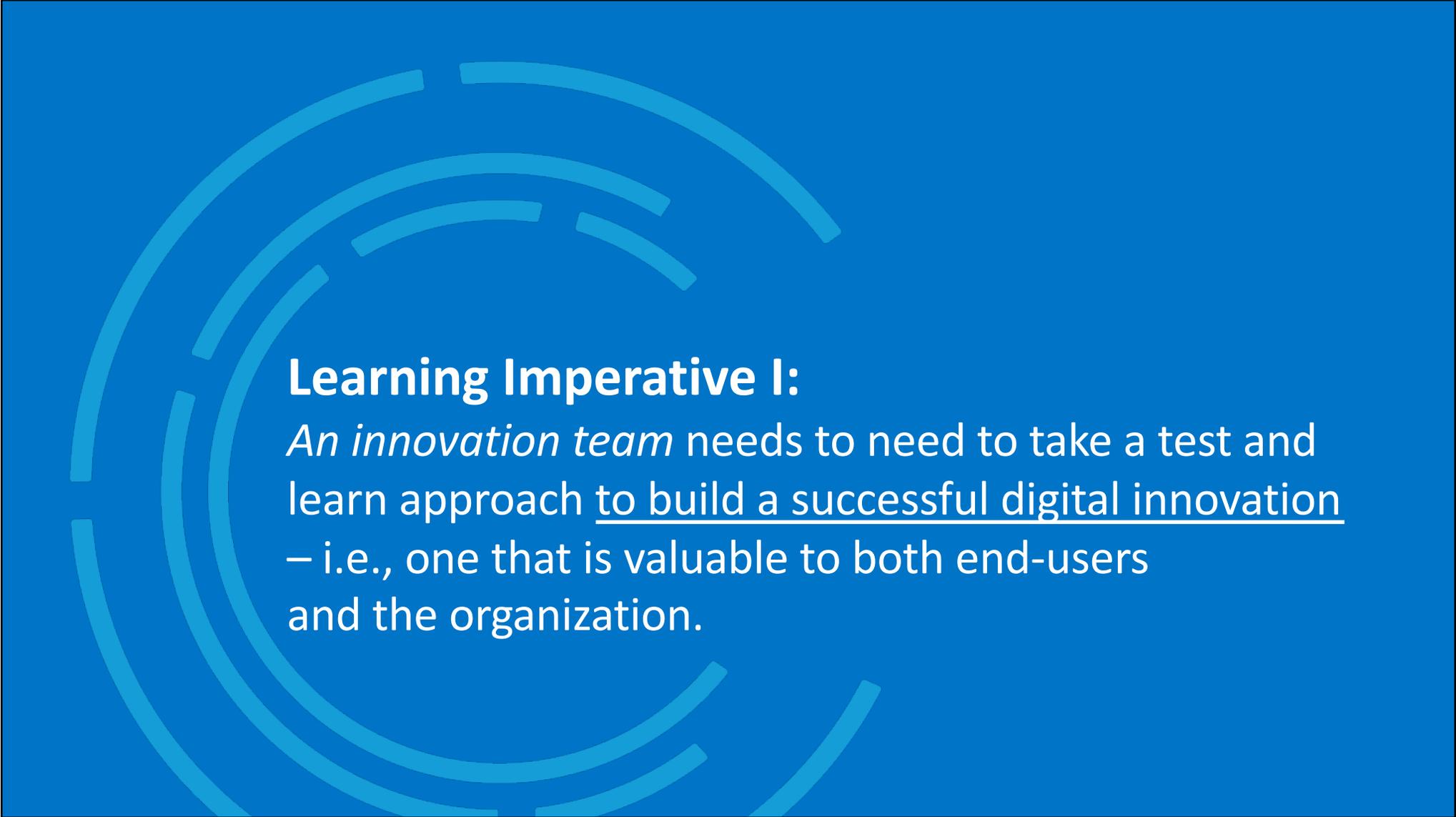To succeed, they need to take a test and learn approach.

2.

Top-level management is expected to build a portfolio of initiatives that meets both immediate needs and longer-term strategic objectives better and faster.

To succeed, they need to learn from initiatives to assess progress and dynamically allocate their scarcest resources (e.g., talent).

3.

Functional experts (e.g., IT architects; IT security; legal) are expected to build shared resources that propel multiple initiatives.

To succeed, they need to learn from sets of similar initiatives to identify common challenges and ways to address them.

Learning Imperative I:

An innovation team needs to need to take a test and learn approach <u>to build a successful digital innovation</u> – i.e., one that is valuable to both end-users and the organization.

Before:
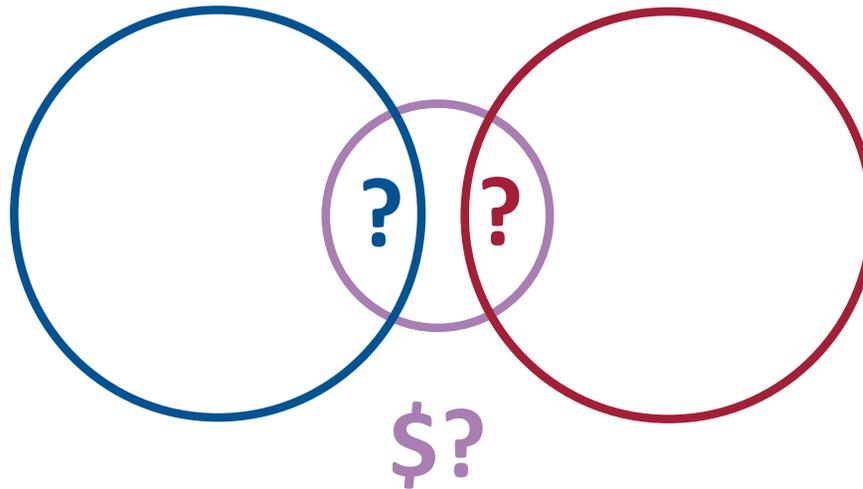**Anticipate a solution, then build it on time, within budget, within scope**

An initiative got funding based on a business case for a solution…   … and a team was rewarded for building the solution on time, within budget, within scope…   … whether or not the solution was desirable, feasible and viable.

Desirable:
What customers want

?   **?**

Feasible:
What is possible

$?

Viable: What is profitable

Sources: Fonstad, N. (2020). "Innovating Greater Value Faster By Taking Time to Learn." *MIT CISR Research Briefing*. Vol. XX: No. 2. February 2020.
Fonstad, N. (2020). "Innovating with Greater Impact at Posten Norge," MIT Sloan CISR Working Paper, No. 440, January 2020.
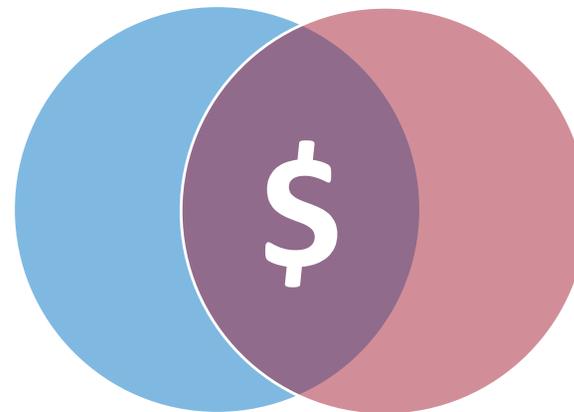
Now:
The goal is to develop a digital offering

Digital offering:

A solution that leverages digital technologies to address customer needs and one or more strategic objectives of the organization
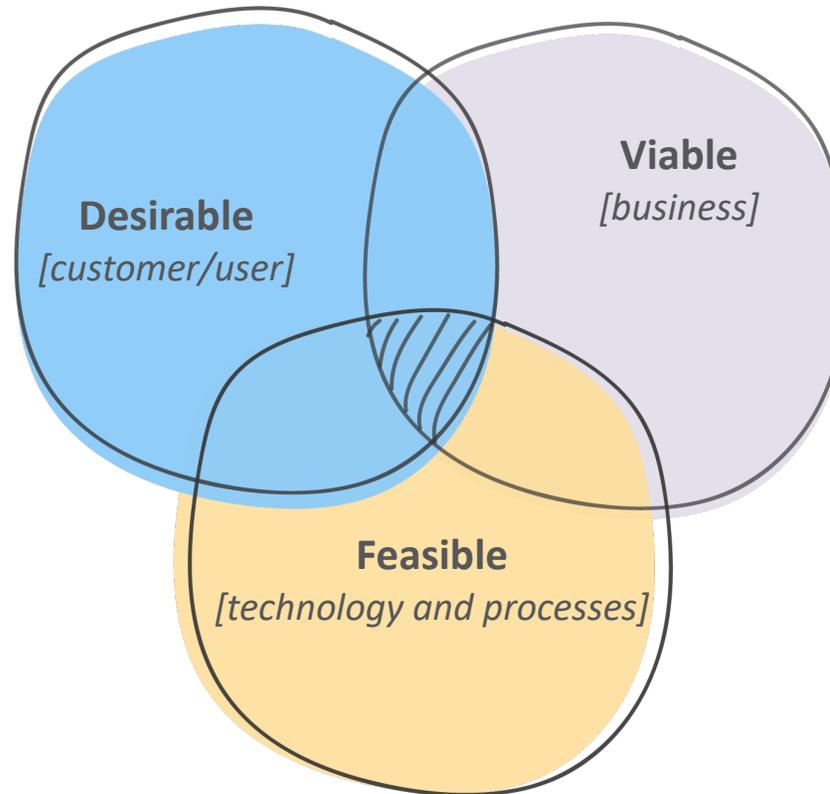
Desirable:
What customers want

$

Feasible:
What is possible

Viable: What is profitable

A digital offering represents the intersection between what is desirable, feasible and viable.

Source: J.W. Ross, M. Mocker, C. Beath, "Let Your Digital Strategy Evolve," MIT CISR Research Briefing, Vol. XVIII, No. 10, October 2018.

The new goal of an initiative at Norway Post

Desirable
[customer/user]

Viable
[business]

Feasible
[technology and processes]

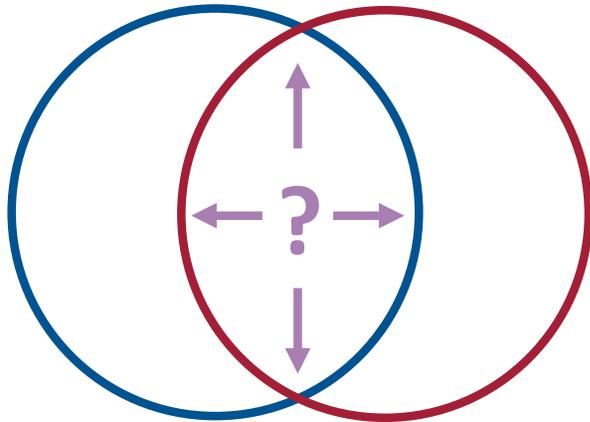Sources: Posten Norge (2019) (used with permission)
Fonstad, N. (2020). "Innovating Greater Value Faster By Taking Time to Learn." *MIT CISR Research Briefing*. Vol. XX: No. 2. February 2020.
Fonstad, N. (2020). "Innovating with Greater Impact at Posten Norge," MIT Sloan CISR Working Paper, No. 440, January 2020.

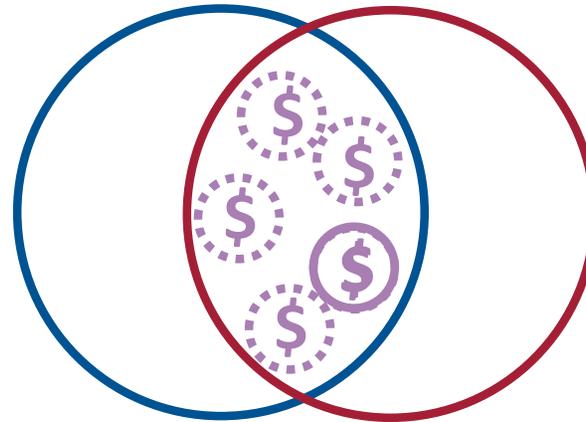# To develop a digital offering requires a test and learn approach
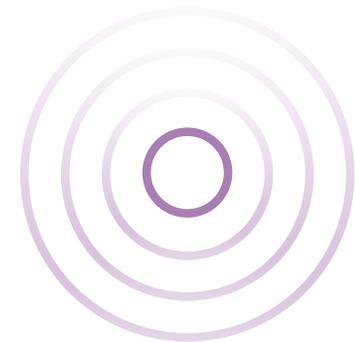
Boundaries of an Opportunity

What do end-users want?
What is feasible for the organization?
Is there an overlap?

Offerings within an Opportunity

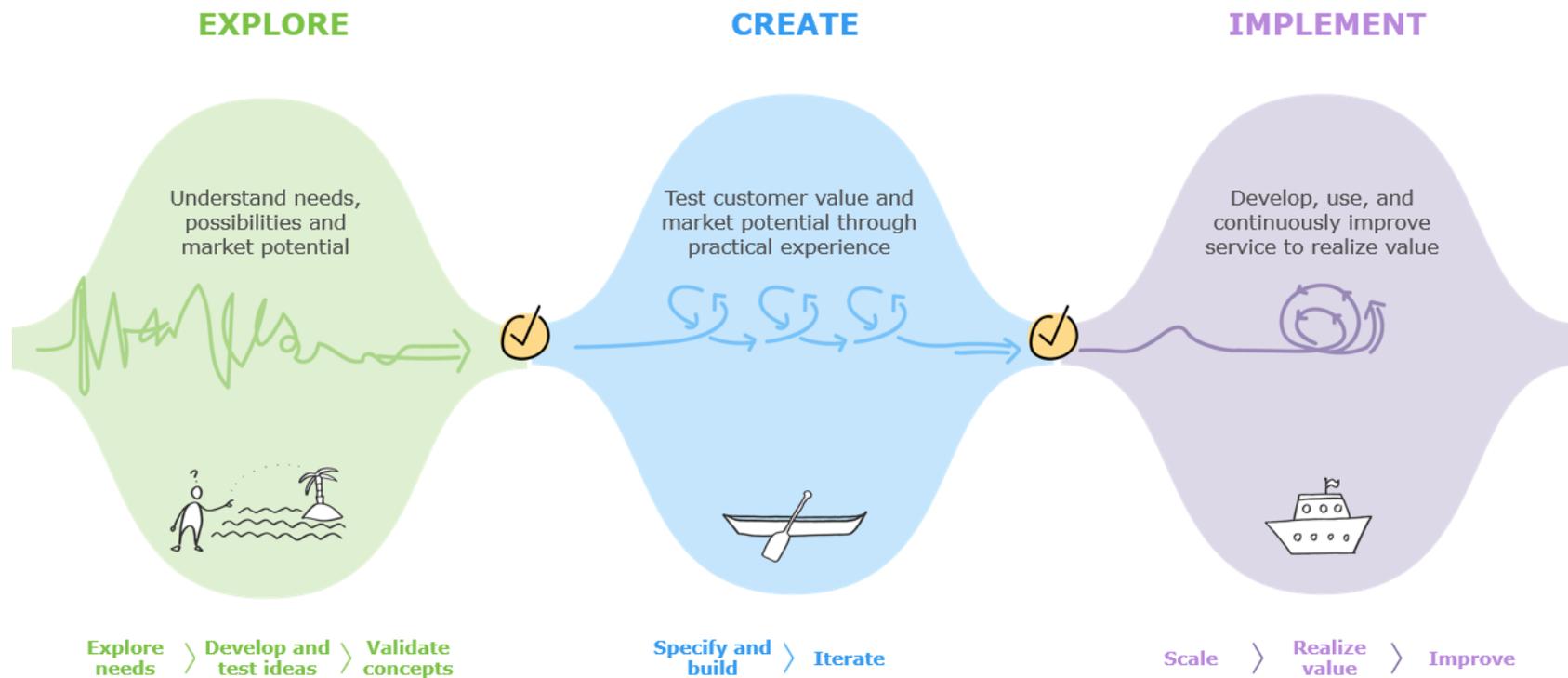What services are desirable, feasible *and* viable?

Limits of an Offering

To what extent is an offering scalable and profitable?

Sources: Fonstad, N. (2020). "Innovating Greater Value Faster By Taking Time to Learn." *MIT CISR Research Briefing*. Vol. XX: No. 2. February 2020.
Fonstad, N. (2020). "Innovating with Greater Impact at Posten Norge," MIT Sloan CISR Working Paper, No. 440, January 2020.

Norway Post's Helix Model: Increasing the speed and value of innovating by taking the time to learn

EXPLORE

Understand needs, possibilities and market potential

Explore needs › Develop and test ideas › Validate concepts

CREATE

Test customer value and market potential through practical experience

Specify and build › Iterate

IMPLEMENT

Develop, use, and continuously improve service to realize value

Scale › Realize value › Improve

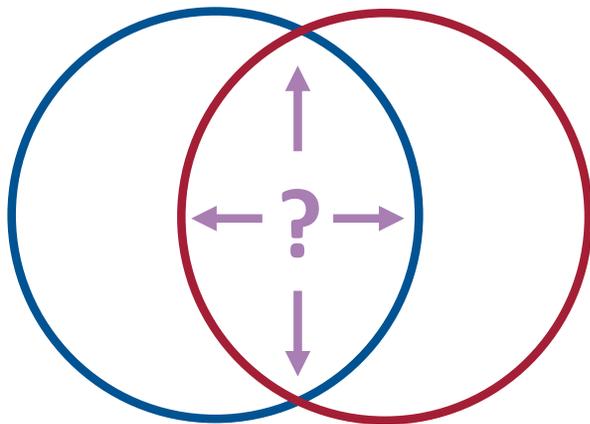Sources: Posten Norge (2019) (used with permission)
Fonstad, N. (2020). "Innovating Greater Value Faster By Taking Time to Learn." *MIT CISR Research Briefing*. Vol. XX: No. 2. February 2020.
Fonstad, N. (2020). "Innovating with Greater Impact at Posten Norge," MIT Sloan CISR Working Paper, No. 440, January 2020.

Who leads digital innovation initiatives? Are the accountable for deliverables and/or for generating value from deliverables?
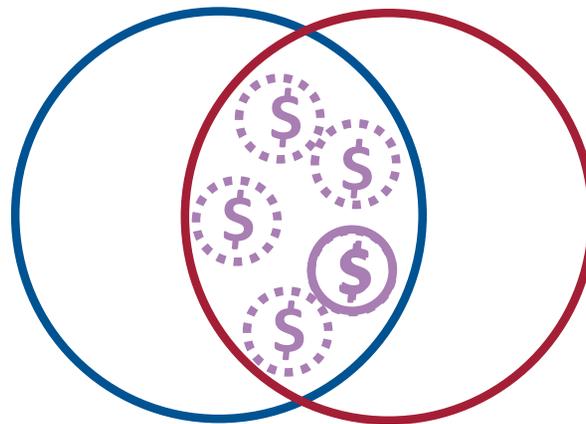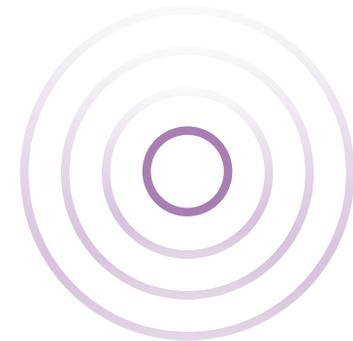
Boundaries of an Opportunity

What do end-users want?
What is feasible for the organization?
Is there an overlap?

Offerings within an Opportunity

What services are desirable, feasible *and* profitable?

Limits of an Offering

To what extent is an offering scalable?

Sources: Fonstad, N. (2020). "Innovating Greater Value Faster By Taking Time to Learn." *MIT CISR Research Briefing*. Vol. XX: No. 2. February 2020.
Fonstad, N. (2020). "Innovating with Greater Impact at Posten Norge," MIT Sloan CISR Working Paper, No. 440, January 2020.

Learning Imperative II:
Top-level management needs to learn from initiatives to dynamically allocate resources – most notably talent – and <u>build a portfolio of initiatives</u> that meets both immediate needs and longer-term strategic objectives better and faster.

An essential capability to building the right portfolio:
Allocating your scarcest resources to the initiatives with greatest impact.

BBVA's Single Development Agenda (SDA) process

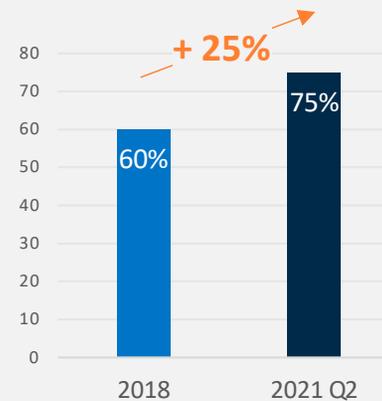## KEY ASPECTS

Initiatives: >2K

Agile

Every Quarter

"The SDA way or no way"
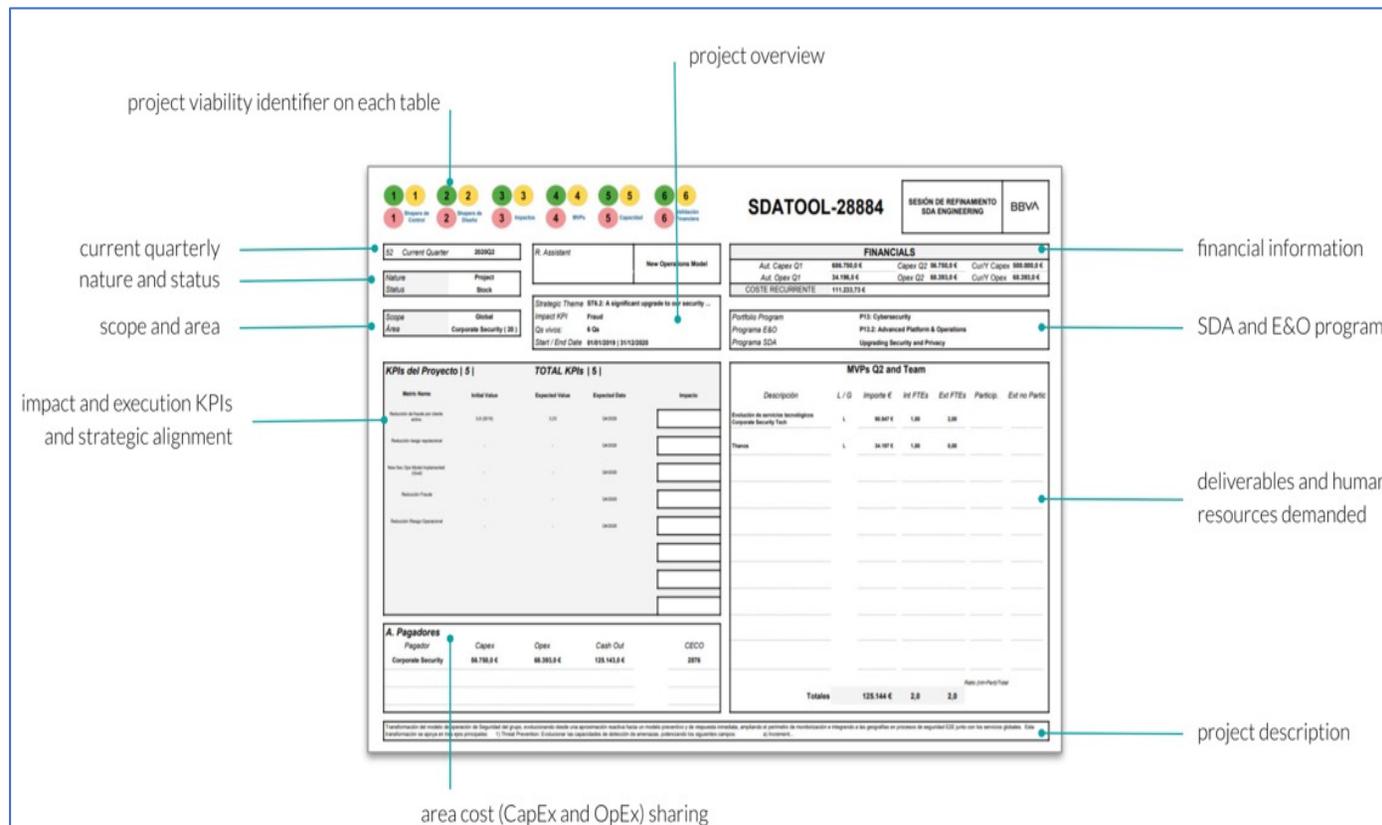
KEY BENEFITS

+ 25%

	2018	2021 Q2
	60%	75%

% Of Total Investments In Strategic Initiatives

- 25%

	2018	2021 Q2
	7.5	5.6
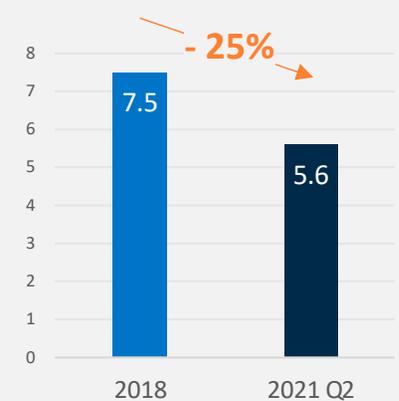
Average Project Duration *(Quarters)*

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BBVA's Project Canvas:
Every quarter, BBVA learns from over 2K initiatives

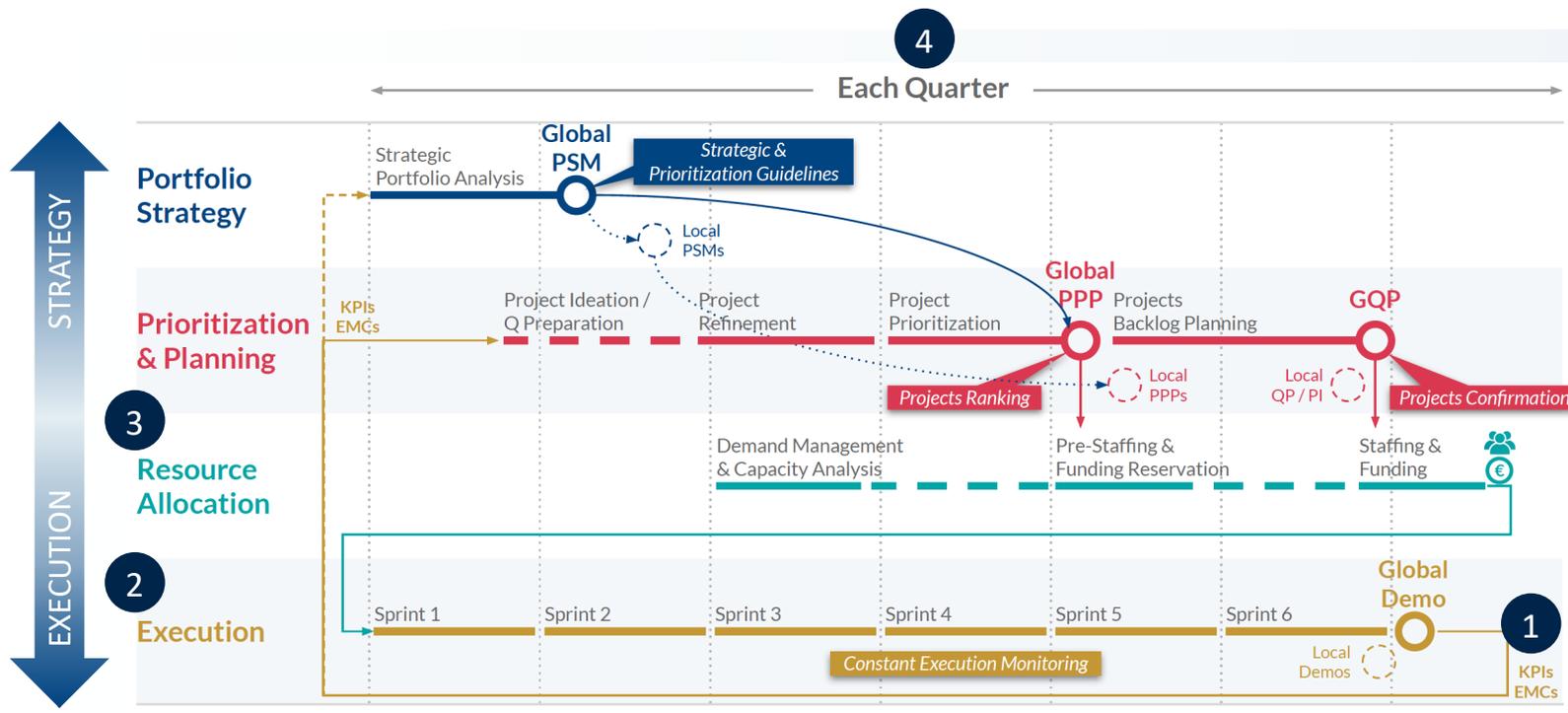Sources: N.O. Fonstad, "Designing a Competitive Innovation Portfolio." MIT CISR Research Briefing. Vol. XVII, No.7. July 2017.
N.O. Fonstad and J. Salonen, "Four Principles for Realizing Strategy with Innovation," MIT CISR Research Briefing, XXI, September, 2021.
N.O. Fonstad and J. Salonen, "Four Changes: How BBVA Generated Greater Strategic Value," MIT CISR Working Paper, No.452, October, 2021.

Four Principles for Realizing Strategy with Innovation: BBVA's Single Development Agenda Process

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4 Each Quarter

STRATEGY

EXECUTION

Portfolio Strategy

Strategic Portfolio Analysis

Global PSM

Strategic & Prioritization Guidelines

Local PSMs

Prioritization & Planning

KPIs EMCs

Project Ideation / Q Preparation

Project Refinement

Project Prioritization

Global PPP

Projects Backlog Planning

GQP

Projects Ranking

Local PPPs

Local QP / PI

Projects Confirmation

3 Resource Allocation

Demand Management & Capacity Analysis

Pre-Staffing & Funding Reservation

Staffing & Funding

€

2 Execution

Sprint 1 | Sprint 2 | Sprint 3 | Sprint 4 | Sprint 5 | Sprint 6

Global Demo

Constant Execution Monitoring

Local Demos

1

KPIs EMCs

1. **Generate evidence related to value (not simply to deliverables).**

2. **Hold individuals accountable (rather than committees).**

3. **Allocate talent to initiatives (rather than funds).**

4. **Rely on one transparent process (not politics).**

Key: *EMCs: en manos de los clientes (Spanish for "deliverables in customer hands"); Global/Local PPP: global/local project portfolio prioritization; Global/Local PSM: global/local portfolio strategy meeting; GQP: global quarterly planning; KPIs: key performance indicators; Q: quarter; Q+1: next quarter; QP/PI: quarterly planning/program increment.*
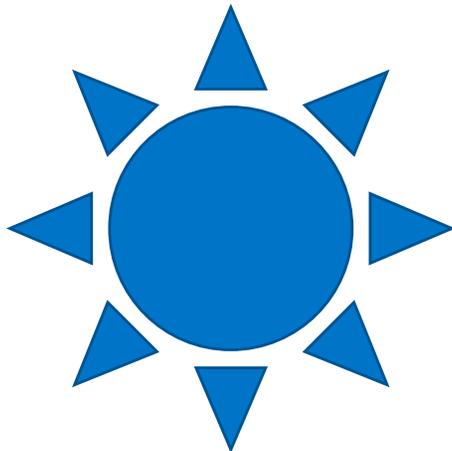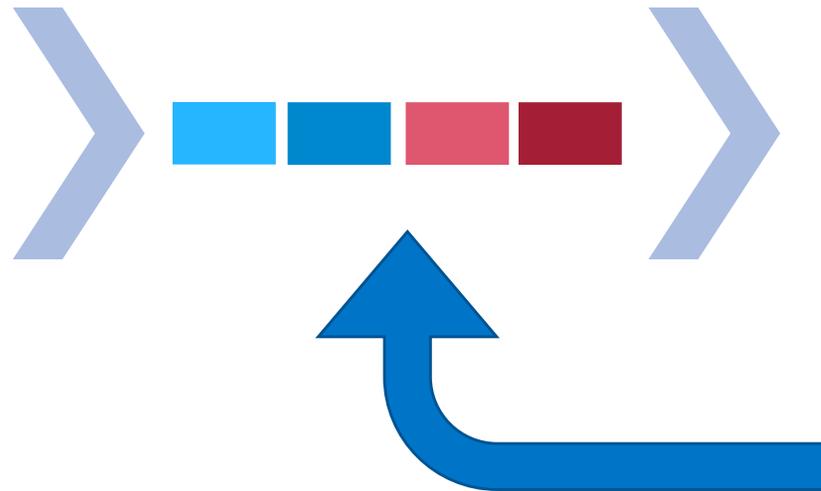
Insights generated from initiatives provide evidence for how to create value and realize vision

Vision

Target portfolio of business value

Innovation initiatives

Source: J.W. Ross and N.O. Fonstad, "Learn from Hypotheses Not Failures," MIT CISR Research Briefing, Vol. XIX, No. 5, May 2019.

Four Principles for Realizing Strategy with Innovation

1.
GENERATE EVIDENCE RELATED TO VALUE

(not simply to deliverables)

@BBVA:

SDA project canvas

2.
HOLD INDIVIDUALS ACCOUNTABLE

(rather than committees)

@BBVA:

Project Sponsor and Project Owner

3.
ALLOCATE TALENT TO INITIATIVES

(rather than funds)

@BBVA:

Staffers allocate talent

4.
RELY ON ONE TRANSPARENT PROCESS

(not politics)

@BBVA:

"The SDA or no way"

Learning Imperative III:
To build shared resources that propel multiple initiatives, experts from central functions (such as legal, risk and compliance, HR, and IT) need to learn from initiatives about common challenges and whether resources help multiple initiatives make better innovations faster and cheaper.

Companies have to develop multiple digital offerings – The challenge is how to scale at scale?
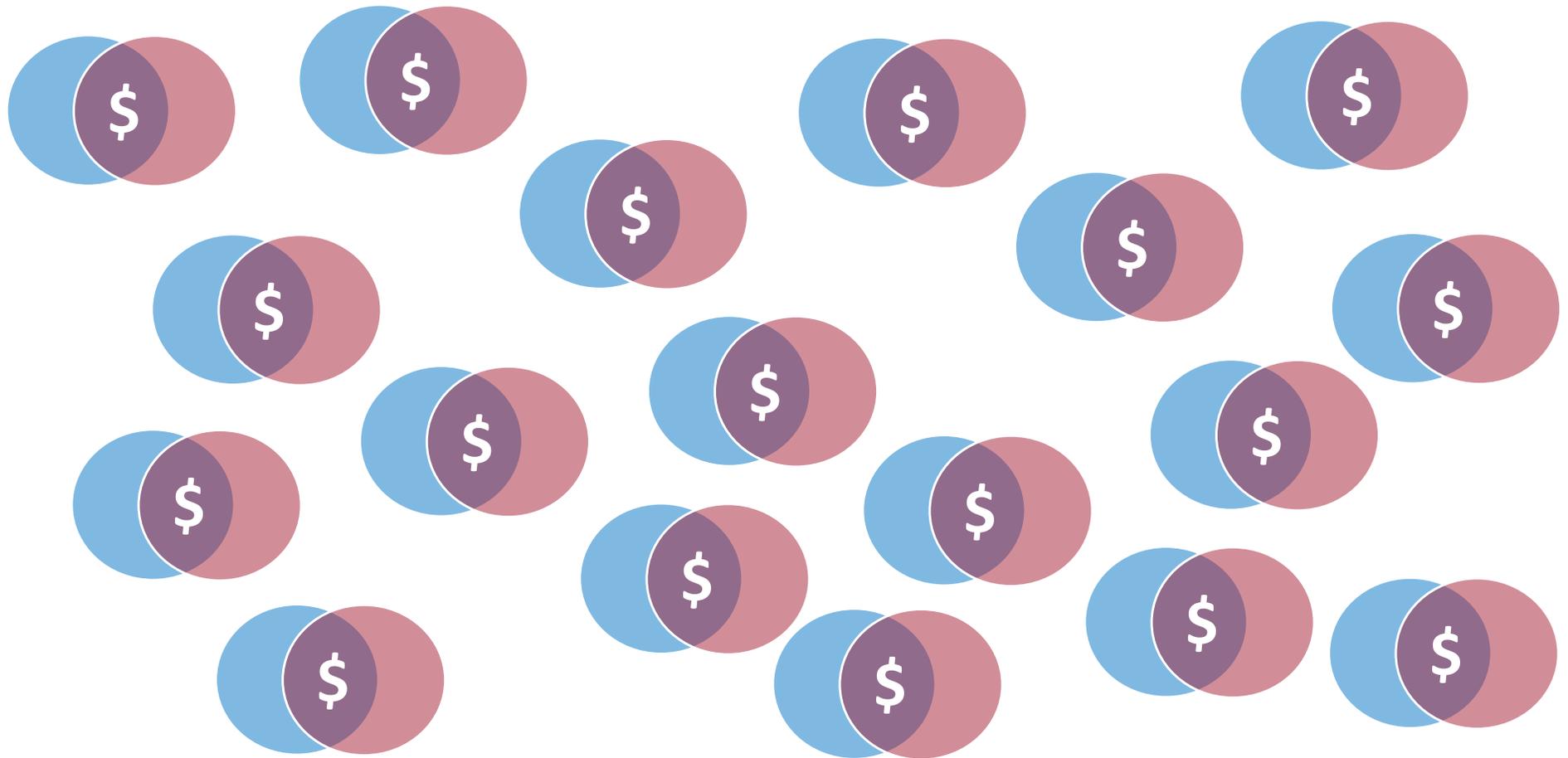
Based on common challenges, Munich Re changed three resources to continue learning from initiatives

FUNDING
- Define **targeted portfolio** of digital offering initiatives
- Make **innovation fund** accessible in non-bureaucratic fashion
- Extend **funding in stages** based on progress along jointly agreed goals

EXPERTISE
- Install **architect as a co-founder**
- Pool of dedicated **experts fully dedicated to the initiative's success**

TECHNOLOGICAL CAPABILITIES
- Build **digital platform** bottom-up, from initiatives
- **Entice** (rather than impose) initiatives to use platform

Sources: Fonstad, Nils and Martin Mocker. (2020). "Becoming a Serial Innovator of Digital Offerings." *MIT CISR Research Briefing.* Vol. XX, No.9. September 2020. Fonstad, Nils and Martin Mocker. (2020). "Munich Re: Building a Foundation for Innovating Digital Offerings.

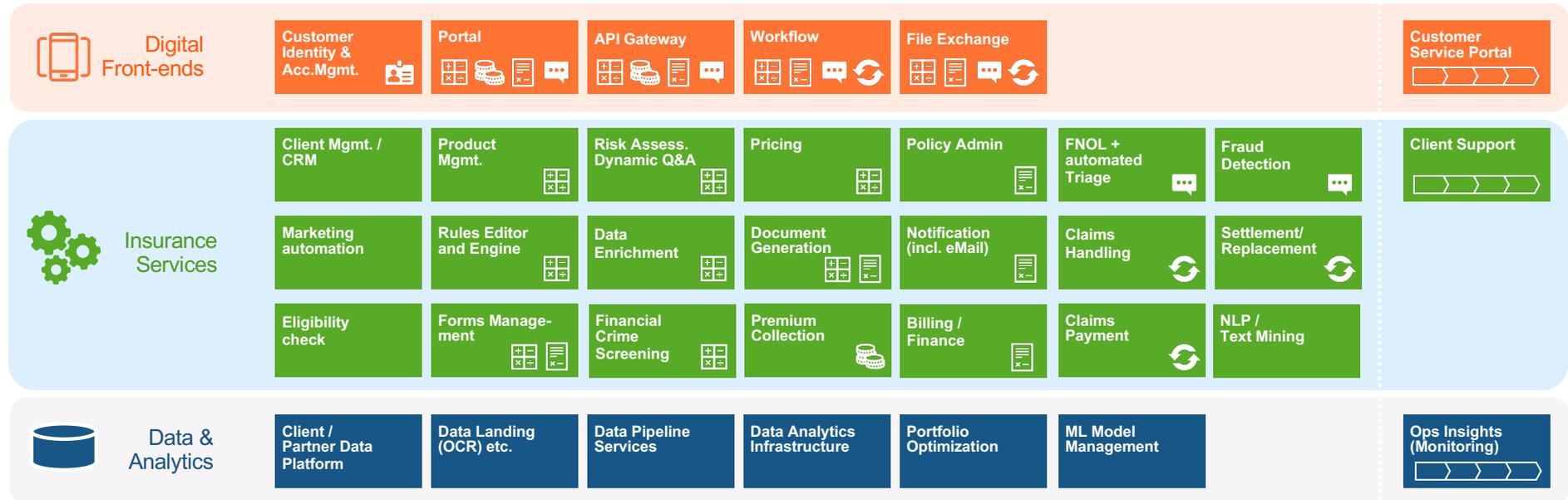# Technological Capabilities: Munich Re's Digital Platform EXCITE

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Multi-Channel, self-service driven Digital Customer Experience

Web App

Mobile (IOS / Android)

Cognitive Services (e.g. Amazon Alexa, Google Assistant)

| Authenti-cate | Rate / Quote / Bind | Issue Policy | Collect Premium | Submit Claim | Update Claim | Amend / Renew Policy | Overall Support |

Digital Front-ends

Customer Identity & Acc.Mgmt.	Portal	API Gateway	Workflow	File Exchange		Customer Service Portal

Insurance Services

Client Mgmt. / CRM	Product Mgmt.	Risk Assess. Dynamic Q&A	Pricing	Policy Admin	FNOL + automated Triage	Fraud Detection	Client Support
Marketing automation	Rules Editor and Engine	Data Enrichment	Document Generation	Notification (incl. eMail)	Claims Handling	Settlement/ Replacement	
Eligibility check	Forms Manage-ment	Financial Crime Screening	Premium Collection	Billing / Finance	Claims Payment	NLP / Text Mining	

Data & Analytics

Client / Partner Data Platform	Data Landing (OCR) etc.	Data Pipeline Services	Data Analytics Infrastructure	Portfolio Optimization	ML Model Management		Ops Insights (Monitoring)

Source: Munich Re internal document. Used with permission.

Munich Re's digital foundation evolves as it learns what it takes to help initiatives

FUNDING
- Define **targeted portfolio** of digital offering initiatives
- Make **innovation fund** accessible in non-bureaucratic fashion
- Extend **funding in stages** based on progress along jointly agreed goals

EXPERTISE
- Install **architect as a co-founder**
- Pool of dedicated **experts fully dedicated to the initiative's success**

TECHNOLOGICAL CAPABILITIES
- Build **digital platform** bottom-up, from initiatives
- **Entice** (rather than impose) initiatives to use platform

Value Objectives:
- Accelerate time to market for digital offerings
- Improve customer experience with digital offerings
- Revenue growth
- Cost savings with service reuse

Sources: Fonstad, Nils and Martin Mocker. (2020). "Becoming a Serial Innovator of Digital Offerings." *MIT CISR Research Briefing.* Vol. XX, No.9. September 2020. Fonstad, Nils and Martin Mocker. (2020). "Munich Re: Building a Foundation for Innovating Digital Offerings.

To generate greater strategic value faster from digital innovation, three groups take time to test and learn

1. Innovation teams test and learn to build successful digital innovations
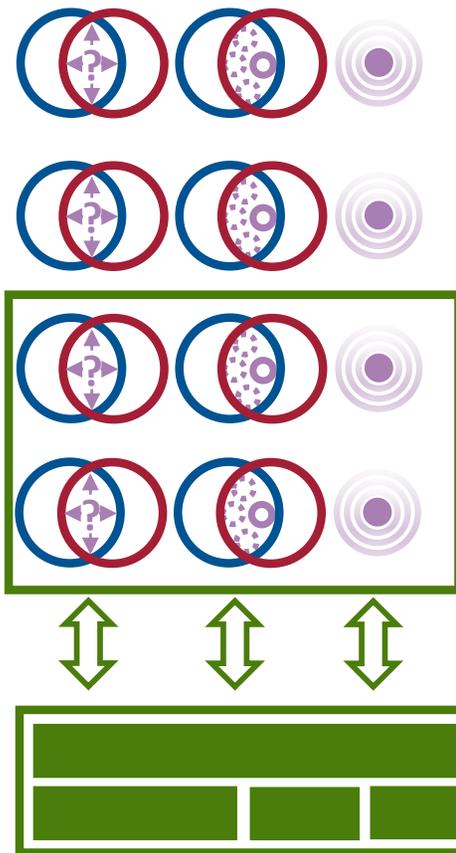
2. Top management tests and learns to build a portfolio of initiatives that meets more strategic objectives faster
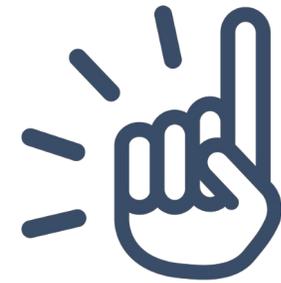
3. Functional experts test and learn to build and maintain shared resources that propel multiple initiatives

Discussion with neighbors

**Pick one of the
three learning imperatives.**

**Propose one action to make it easier
to learn more from what was done
to do even better going forward.**

**Please prepare a
brief summary
to share**

What to do next: Make it safe to learn

Invest in creating value
(rather than in building solutions)

- <u>Initiative teams</u>: Build offerings that are valuable to both end-users and the organization
- <u>Top management</u>: Build a portfolio of initiatives that covers four value streams
- <u>Functional experts</u>: Build shared resources that are valuable to multiple initiatives

Hold each accountable accordingly

## Learn more and more often from initiatives

Generate evidence to continually test hypotheses related to key aspects
- End-user insights (customers and employees)
- Measuring value (of initiatives, portfolio and shared resources)
- Talent needs and development

Adapt based on evidence

Articulate your hypotheses for
- Better offerings
- A better portfolio
- Better metrics for value
- Better shared resources
- Better employee experience
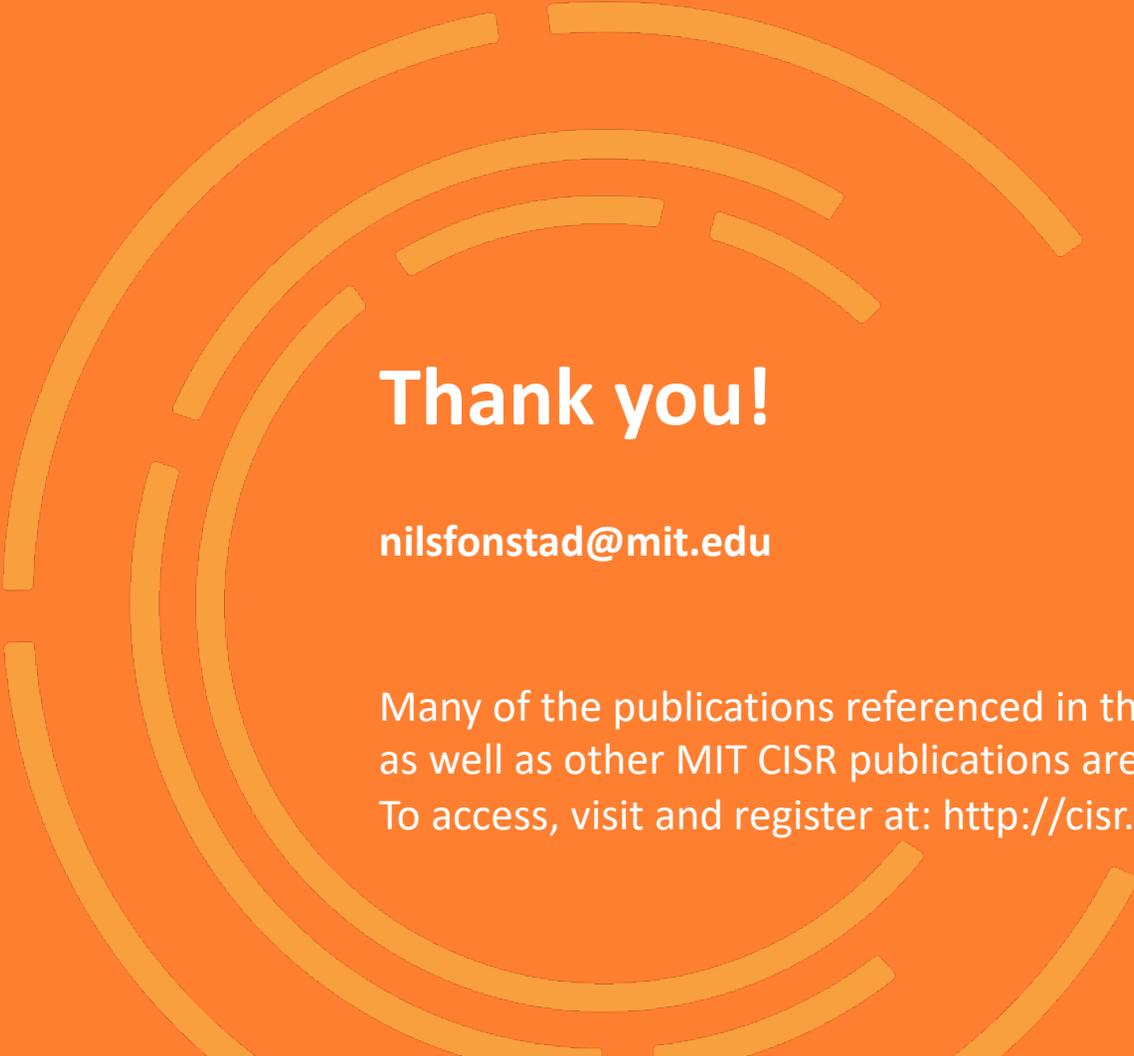
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Thank you!

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Many of the publications referenced in this presentation,
as well as other MIT CISR publications are available for free.
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REFERENCES available at **https://cisr.mit.edu**

Three learning imperatives – an overview
- https://cisr.mit.edu/publication/2022_0301_ThreeLearningImperatives_FonstadMocker

Test and learn to build successful innovations
- https://cisr.mit.edu/publication/2020_0201_InnovatingGreaterValueFaster_Fonstad

Test and learn to build a portfolio of initiatives that advance strategic objectives
  Value-based Innovation Portfolios to test and learn across the organization
  - https://cisr.mit.edu/publication/2017_0701_CompetitiveInnovationPortfolios_Fonstad
  Learning from initiatives to ensure scarce resources go to the initiatives with greatest impact
  - https://cisr.mit.edu/publication/2021_0901_FourPrinciples_FonstadSalonen
  - https://cisr.mit.edu/publication/MIT_CISRwp452_BBVA-SDA_FonstadSalonen

Test and learn to build shared resources that propel multiple initiatives
- https://cisr.mit.edu/publication/2020_0901_SerialDigitalOfferings_FonstadMocker
- https://cisr.mit.edu/publication/MIT_CISRwp445_MunichRe_FonstadMocker
- https://cisr.mit.edu/publication/conversations-cisr-becoming-serial-innovator-digital-offerings