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FOUR PRINCIPLES FOR REALIZING STRATEGY WITH INNOVATION

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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 initiatives' deliverables (i.e., features and capabilities) and how deliverables relate to strategic objectives and KPIs.

This was certainly the case at the global financial services group, BBVA.[1] In 2016, a decade into a digital transformation journey during which the company implemented Agile methodologies and built data monetization capabilities,[2] 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 (SDA) to better align the company's investments in digital innovation initiatives to its strategy.[3] This process evaluates and prioritizes more than two thousand 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 percent of BBVA's total investments in initiatives went toward strategic priorities, up from 60 percent 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 percent, from an average of around 7.5 quarters in 2018 to 5.6 quarters in 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: (1) Portfolio Strategy, (2) Prioritization and Planning, (3) Resource Allocation, and (4) 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

1 Banco Bilbao Vizcaya Argentaria, S.A. (BBVA) in 2021 operates in more than twenty-five countries, with €720 billion in total assets, and 122,000 employees serving eighty million customers. "BBVA in brief," BBVA.

2 E. A. Martínez, J. M. Arias, F. Girardin, B. H. Wixom, and I. A. Someh, "BBVA Fuels Digital Transformation Progress with a Data Science Center of Excellence," MIT Sloan CISR Working Paper No. 430, April 2018.

3 The authors studied BBVA's SDA process from late 2020 through July 2021, including conducting formal interviews with ten process participants. A forthcoming MIT CISR case study will articulate the SDA process in greater depth.

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 1350 staff who are primarily responsible for executing initiatives dedicate on average six days per quarter to the SDA process. And 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 that 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. And it enables top-level executives to realize the company's strategy more effectively and efficiently than before.

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, [it] has created a competitive advantage for us vis-à-vis our peers.

CARLOS TORRES VILA, CHAIRMAN

FOUR PRINCIPLES

We believe four key principles underpin the success of BBVA's SDA process.

1. 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 deliverables' 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. And 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 initiatives' 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.[4]

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,"[5] for which a key KPI is new customers acquired through digital channels. In the company's 2021 Q1 shareholders meeting, BBVA announced that this KPI had increased to 35 percent, up from 23 percent the year before.[6]

Linking initiatives to a common set of strategic KPIs ensures that initiatives are always working toward 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.

2. 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

4 Carlos Torres Vila, "BBVA presents the Group's six new strategic priorities to employees," BBVA, February 19, 2020.

5 BBVA. (December 2019). "E&O Portfolio Management." Unpublished internal presentation.

6 BBVA, *1Q21 Results*, April 30, 2021.

and learn how individuals contribute best to the success of initiatives and how to help individuals develop professionally.

3. 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.

4. 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 it does not receive the talent it needs, then it does not execute in the next quarter.[7]

Greater transparency in the SDA process has changed the culture of BBVA.

In order to be able to prioritize across the entire company, it was very important that we only have one single development agenda and not ten. 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.

JAIME SÁENZ DE TEJADA, CHIEF FINANCIAL OFFICER[8]

STOP BENCHMARKING—GENERATE YOUR OWN EVIDENCE

The development and use of digital technologies have put many aspects of realizing value in constant flux, and 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.

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.

LUISA GÓMEZ BRAVO, GLOBAL HEAD OF CORPORATE AND INVESTMENT BANKING[9]

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.

7 Each quarter, about ten percent of initiatives are stopped because they are insufficiently valuable, and another ten percent are paused and placed into the backlog because of insufficient people.

8 Jaime Sáenz de Tejada was promoted to Head of Global Risk Management at BBVA in mid-2021.

9 Luisa Gómez Bravo led the global rollout of BBVA's SDA Process from 2017 to 2018 as Global Head of Cost and Investment Management. She was promoted to Global Head of Corporate and Investment Banking at the company in 2018.

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