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OF FINANCIAL TRANSFORMATION

ORGANIZATION

Value streams – a future-proof
way to organize your firm

ROBERT ORD | ALLA GANCZ
DANIELLA CHRYSOCHOU
ANA NIKOLOVA | RAYMOND TAGOE

**NEW WORKING
PARADIGMS**

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DEAR READER,

Welcome to edition 52 of the Capco Institute Journal of Financial Transformation.

Transformation has been a constant theme in our industry for several decades, but the events of 2020 have accelerated change in employee working patterns, and in the very nature of the workplace itself. This Journal examines three key elements of these new working paradigms – leadership, workforce, and organization.

As we explore in this edition, a key part of any firm's transformation agenda centers around digital leadership and how to tackle the novel challenges created by changes within organizations and society. Leaders need advanced organizational skills to build teams that use digital technologies, as well as to inspire millennial workers who have grown up in a digitally transformed world. They also need deeper technology skills to lead, and a broader understanding of the ethical paradigms introduced by the challenges created through new technologies such as AI. These enhanced skillsets will help today's leaders and their teams fully realize the benefits of new working models.

The topics reviewed in this Journal offer flexibility for employees, increased agility for teams, and a combination of both for organizations. When supported by the right technology, these can create collaborative, outcome-driven environments. Through the resulting remote or hybrid models, organizations can transform their workforce and operations to boost productivity, cost effectiveness and employee engagement, while enhancing resilience and customer experiences.

As always, our contributors to this Capco Journal are distinguished, world-class thinkers. I am confident that you will find the quality of thinking in this latest edition to be a valuable source of information and strategic insight.

Thank you to all our contributors and thank you for reading.

A handwritten signature in black ink, appearing to read 'Lance Levy', with a stylized, flowing script.

Lance Levy, **Capco CEO**

VALUE STREAMS – A FUTURE-PROOF WAY OF ORGANIZING YOUR FIRM

ROBERT ORD | Managing Principal, Capco

ALLA GANCZ | Partner, Capco

DANIELLA CHRYSOCHOU | Senior Consultant, Capco

ANA NIKOLOVA | Senior Consultant, Capco

RAYMOND TAGOE | Senior Consultant, Capco

ABSTRACT

In this paper, we look at the emerging trend towards value stream led operating models for organizations. The benefits of value streams include a sharp focus on end-products and services that drive value for the organization, resulting in both monetary gains as well as improvements to the efficiency, morale, and status of the organization as a leading employer. We argue that if one looks beyond the hype, there are genuine benefits to focusing on a clear “path to value”. We explore the key challenges to implementation and offer the key measures needed to make the abstract concepts of value streams a pragmatic reality for financial services organizations.

1. THE PATH TO VALUE: MAKING VALUE STREAMS WORK IN PRACTICE

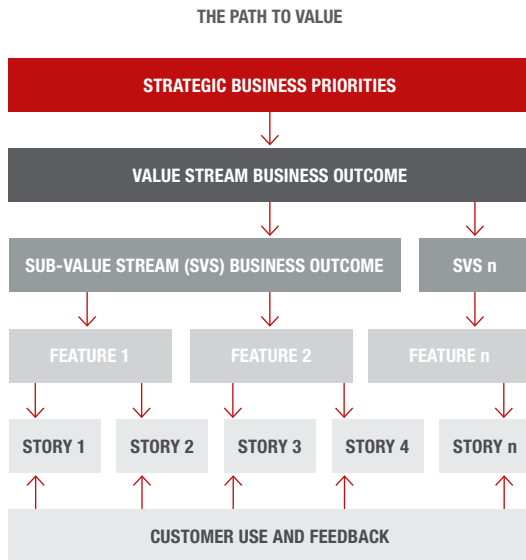
There is a lot of hype surrounding the so-called agile enterprise. Management theory across leading academic and business literature¹ highlights the promise of a leaner, more flexible organization, rooted in agile theory. While the effectiveness of specific models is debated, what is certain is that organizations are responding to this type of agile-led change: 63 percent of organizations have moved to scaled agile models, 21 percent are about to start the change, and only 1 percent have abandoned this approach entirely [Gartner (2019)]². What is also clear is that the root concept behind scaled agile models and value streams is here to stay for the foreseeable future, and those that do not explore how it could drive future business models will be left behind, and face their own “Kodak moment” as they become irrelevant against market trends.

Most moves to greater agility focus around one core concept – path to value, from strategic business direction through to customer outcomes. The base concept is that business process and functions align their operations to focus on the value-generating outcomes for the business, whether this is a product, service, or end-to-end lifecycle. This path to value has become a key premise for understanding what is important to the organization, and what waste or low value-add steps should be dispensed with. We have seen similar concepts proliferate with Lean, Six Sigma, and others, but what is different here is putting strategic decision making as close to the customer as possible; building clear feedback loops and market testing of what resonates with the customer base, and building the business value from this point. Figure 1 demonstrates the typical path to value for value-stream delivery.

¹ <https://bit.ly/3IT3zqf>; <https://mck.co/2SWsTz1>

² <https://gtnr.it/3j2F9Zx>

Figure 1: The path to value



Set by the **business**, clear strategic direction and allocation of funding to drive the right work. The **value stream business outcome** owner drives the right work to align to strategic goals.

The **SVS business outcome owner** is accountable for the value-stream outcome. The shape is flexible, focused on value-adding features to drive products and services, and moves with the market.

Supported by the **SVS lead**, who leads and drives engagement, and the **technology lead**, who owns the technical authority and alignment with long-term technology roadmap.

Delivery pods are the engine of the SVS, taking features and stories and delivering them to completion, encouraging feedback, and continuously reiterating. They are supported by **change agents** who help with the adoption of positive behaviors and working patterns.

2. WHY DO WE DO IT?

At its core, a value stream facilitates the flow of work. It promises to isolate non-value adding steps in the production chain, thereby making for a leaner enterprise, where resources are not wasted on activities with little or no impact on the end goal.

Businesses have researched incarnations of value stream theory since Michael Porter. What has evolved with current thinking is the way in which we apply value streams to specific business and customer outcomes. Value streams are not just a representation of the whole enterprise anymore, they are

focused on the specific value-generating products, services, and lifecycles that mean something to the top-line, and in turn, adjust the structures, norms, and behaviors to refocus resources. Table 1 presents the key differences between traditional and value stream organizations.

The faster pace of societal progression and rates of technology innovation are driving this focus. Exploring productivity and efficiency to drive growth and margin, through smarter allocation of resources and shared platforms to expedite delivery, helps create standard practices and remove the need to rethink every challenge. We produce more unstructured data points now than at any point in history, giving a wealth

Table 1: Traditional versus value stream organizations

	TRADITIONAL ORGANIZATION	VALUE STREAM LED ORGANIZATION
STRATEGIC FOCUS	Individual functional goals that compete as much as they complement	Common business outcomes across the value stream
SUCCESS MEASUREMENT	Volume of outputs, cost of sales, and financial metrics for a function	Quality of outcomes, impact to growth and margin, of the value stream
TECHNOLOGY	Point solutions and legacy technology to support functional aims	Common platforms and standards that solve common value stream and enterprise challenges
DATA	Fragmented data that does not connect or allow true E2E insight on organizational and customer behavior	Principle and standard-led data ownership, which is connected and allows deep insight into data-led decision making
CAREER PATHS	Line management hierarchy, with promotion based on merit and organizational structures	Reward and recognition for outcomes and promotion on specialization and SME advantage for the value stream
DELIVERY FOCUS	Processes and activities that are streamlined and structured to allow standard and repeatable outputs	Collaboration, trust, and autonomy that uses processes where they add value, but focuses on the outcomes they enable

of indicators for where organizations need to focus on improvements to value. We have also recently seen how unpredictable volatilities (e.g., COVID-19, the rise of China as an economic powerhouse, the 2008 crash, etc.) have shown the need for greater flexibility in how we do business and pivot to customer expectations. As just one example among many, millennials are 60 percent more likely to switch who they do business with because of price and are far less dependent on brand loyalty than previous generations [Forbes (2019)].³ The value stream organization is far more sensitive to these fluctuations.

If we follow systematic analysis of processes and activities to understand waste, we see that the real prize for value stream organizations is the tie-in between minute enhancements to delivery with greater business agility. Consequently, the value stream path to delivery enables the organization to respond more effectively to changes in strategic direction. The workforce is both empowered and viewed as capable of responding to even the toughest market conditions. This happens through well-managed and defined backlogs (accumulation of incompleting work) that focus attention on outcomes, not outputs.

With this approach, we see a closer alignment of customer feedback with the direction the business takes, clear and honest measurement throughout the path to value that is

actionable and expressed through real-world customer usage, and an ability to clearly see when dependencies matter across the organization. In other words, a clear framework for multiple delivery teams to operate in parallel with the same release and deployment points. The enterprise scale adjustment required to achieve this gives rise to a new set of challenges. These will be explored in the next section.

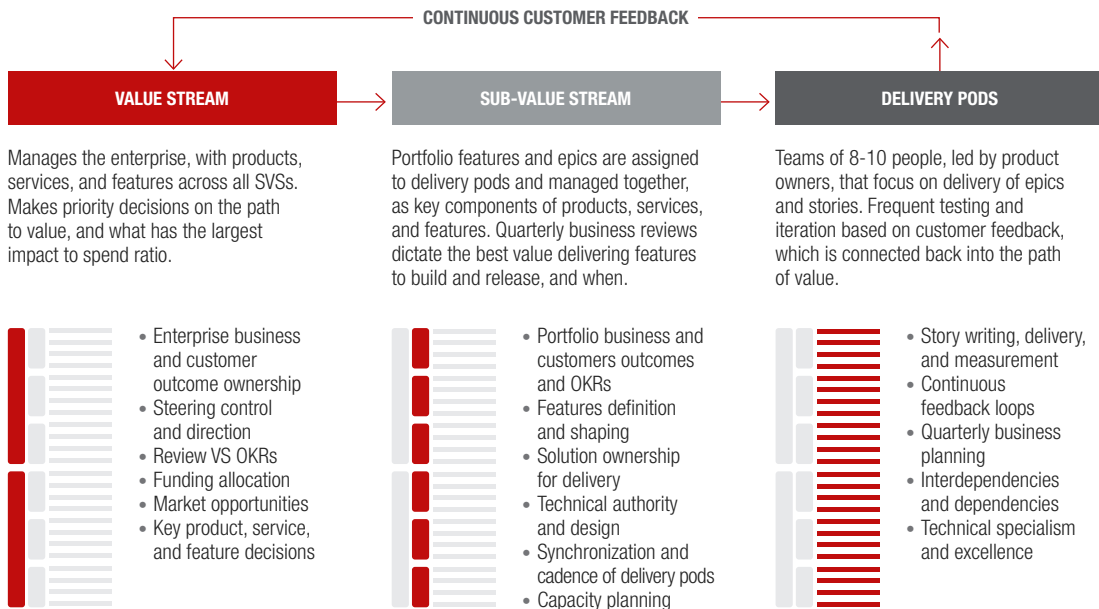
3. THE CHALLENGES WITH VALUE STREAM IMPLEMENTATION

On paper, value streams have a clear *raison d'être* and structure, but the pivot from today's organizational norms is substantial. The market has tested many approaches to successful implementation, from "big bang" cut-overs to small "test and learn" pilots. From this, we have learned the common challenges that organizations face when implementing the value stream approach.

3.1 Challenge 1: Art or science?

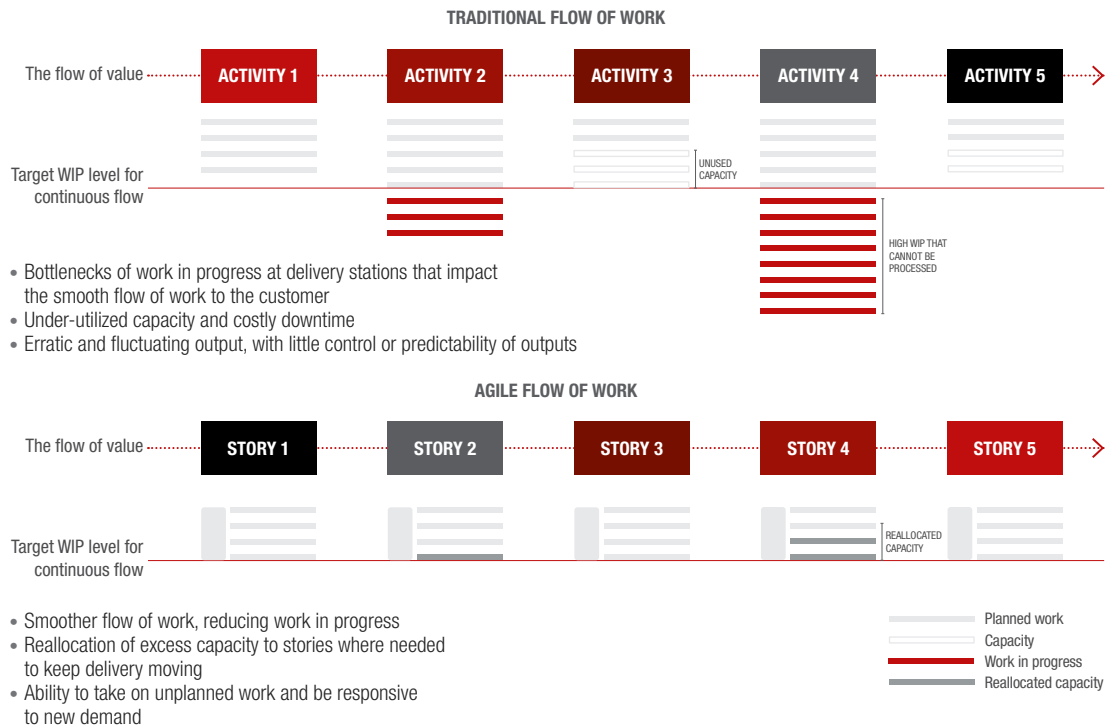
Value stream mapping is a scientific activity, forcing you to focus on the steps to value and recognizing the waste along the way. The outputs of value stream mapping show delivery teams how they can better deliver new products and services. This generates results and gives business leaders a model answer for a lean and efficient way of "doing", but it comes with

Figure 2: The flow of value across the value stream backlog



³ <https://bit.ly/3I0yfJ1>

Figure 3: Delivery cycles of planned and unplanned work



operational challenges. Excessive focus on waste is a trade-off with the actual problem businesses are trying to solve. Many get so entrenched in the depths of a specific activity, that they lose sight of the problem. Examples are everywhere – removing clicks for a digital experience moves you towards a “one-click” solution for information seeking, but if the problem is complex site navigation, this is not the whole answer and will not provide the desired outcome. What is needed, rather, is a combination of “doing” and “being”; a re-imagining of the value stream, where the mindset shifts explicitly to the experience a customer has and how the business can better respond to changes in needs. Analyzing and documenting the culture of the organization is a very different type of work to scientific analysis. Gauging an appropriate balance between the two enables both operational realignment and cultural integrity of the workforce.

3.2 Challenge 2: Omitting unplanned work

Forecasts are educated assumptions: guesses at what the world will look like in the future. We know through intelligent analytics how long core business processes and value chains take to complete, but this is often an idealized view of the

world that is isolated from day-to-day disruptions. Unplanned work and work in progress damage processes’ forecast integrity, causing costs and delay. Value stream design needs to account for unplanned work by recognizing fluctuations and changes in direction; this flexibility is key to success. Whether organizations build contingencies in budget, slack in delivery plans, or flexible resource deployment across delivery teams, they all take account of the same root concept; unplanned work will happen and we need contingency to manage it. Figure 3 illustrates how unplanned work negatively impacts traditional delivery models, and how value streams are better positioned to manage fluctuations.

A truly resilient value stream manages fluctuations in demand and supply. A harmonious point may never be reached, but unplanned work does not break the business or fail to meet customer expectations. Modern technologies and processes are built for these fluctuations, with examples such as elastic-storage and processing demand, or flexible service level agreements for repeatable skills. With value streams, we take the same principles of managing flow and prepare for what we cannot forecast.

Table 2: Root cause analysis approaches

	ISHIKAWA ‘FISH BONE’	ART IDENTIFICATION (SAFE)	ROOT CAUSE ANALYSIS (RCA)	FAULT TREE	SIX SIGMA
WHAT IS IT?	Provides a full system’s view of a problem and its various root causes. This approach assumes there are multiple factors that explain why something happens and analyzes the depth of each.	Scaled agile framework’s approach to identifying value streams and Agile Release Trains. Their approach uses standard canvases and methods to understand the root causes of activity in the business.	The foundation for most root cause analysis. Structured questioning lets the group understand what is happening and why, to reach a root cause.	Based on Boolean logic, this approach gives a simple true or false reasoning behind a step. Causes are branches on a tree, which helps identify the root.	Manufacturing-led approach to reducing defect rates. Six Sigma is comprehensive and the gold standard for removing variations.
MOST EFFECTIVE USE	Larger problem statements where there are multiple functions involved to create an outcome, for example, customer complaints handling.	New solutions where value streams are being established and a fresh perspective on why things happen is needed.	Flexible approach that can be applied in a variety of places; the key is not getting stuck with over-analyzing and calling time to progress a solution.	Problems with logical processes in an organization; for example, technology platforms that support determined outcomes.	It is burdensome, complex, and most suited to specific processes of repeatable tasks and outcomes.

3.3 Challenge 3: Silos still proliferate

Removing silos is critical to successful value chains. Let us be clear, value streams cannot work if teams do not work together. But, as is often attempted, removal of a silo is not accomplished by updating a value stream map or organization chart. Whether people sit in the same delivery pod or not, it is their perception of organizational reality that makes the difference: Who do they report to? How are they remunerated? Where do they receive support? The much referenced “Spotify Model”⁴ attempted to remedy this challenge with common role chapters, and other scaled agile frameworks are beginning to look at this challenge more seriously. It makes little sense for an individual to focus their work on one thing but be rewarded for another, unless they are a true altruist in Nirvana. Designing value streams too often focuses on the process steps to value and not the people steps to value. We need to be more mindful of individuals’ changing appetite and manage their expectations and opinions. We need to look beyond a person as a capability label and really understand their motivation to support the business outcome, and how they are rewarded for doing so.

3.4 Challenge 4: Embracing the fabled “experimental mindset”

Embracing an experimental mindset means accepting that people are not perfect, and leaders should not expect constant perfection from their workforce. Great discoveries and societal progressions have come from mistakes, and it is only through

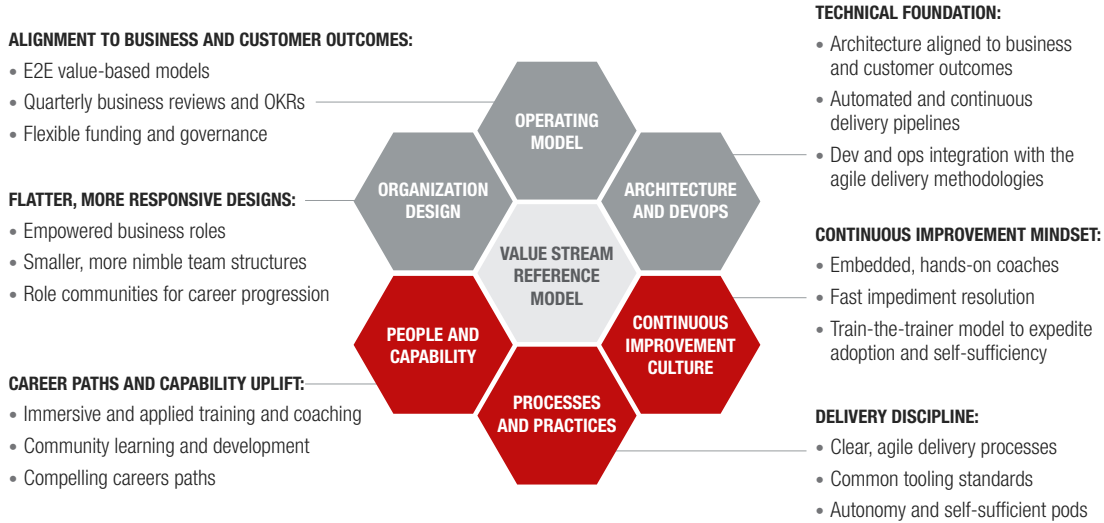
creating psychologically safe spaces for innovation that we are able to truly uncover the value to be gleaned from mistakes or failures. Moving to a value stream that is dependent on each actor mechanically delivering to their role specification is not a recipe for success. Just as we account for variations in supply, demand, technology, and so forth, so too must we account for the inevitable variation in how people deliver. A culture of expression and innovation helps to make this happen, but it is not the complete answer. What we do with failures is the key here. We should not just consider the flagship failures of new product launch, or market exploration exercise. We also need to consider the minutiae of daily challenges, such as work in progress being stuck in queues, people’s diaries being bombarded with important meetings, annual leave commitments, illnesses, and so forth. We need to understand why a failure happened, what we learn from it, and how we build the lessons into the future, which brings us to the fifth and final challenge.

3.5 Challenge 5: Root causes, not culprits

Root cause analysis looks for the root causes of problems in order to help us better manage their potential impacts in the future. Sounds simple, and to a large extent it is. However, root cause analysis often proves ineffectual in application. More often than not, when teams explore problems they seek to find a fault and where to place blame for what happened; this limits our ability to really understand what has happened and how we can work better in the future. This natural behavior

⁴ <https://bit.ly/37ddhzt>

Figure 4: Value stream reference model



damages leaders’ reliance on root cause outputs and limits response. Typically, the real cause of a problem is not an individual or one team, it is a systemic failure and collection of factors that lead to an undesirable outcome. When seeking true root causes, organizations should be asking why something has happened. Why does something work as it does? Why do we get these results? Why have we built it like this? Six Sigma is excellent at root cause analysis and isolates very specific effects in production processes. Value streams can take lessons from here, and from complementary approaches, to lift the constraints of the “blame-game”, and become more effective in finding true root causes that can be solved as a cohesive group. Table 2 illustrates the key lessons we can learn from popular root cause approaches.

4. THE STEPS TO MOBILIZATION

As we have explored, the merits of moving to value-stream delivery are clear; however, the journey to getting there is not. The inherent complexity and scale of value streams need proper consideration and an approach that is rooted in the same principles we are trying to implement: great business agility with an environment of free thinking, innovation, and one which reimagines the world as it could be. It is a bold and exciting journey.

As part of our work, we have brought together human-centered design, lean product development, and emerging technologies to solve this problem. Our solution to the right value stream has a simple formula: customer centricity + engineering excellence + new ways of working = a new value

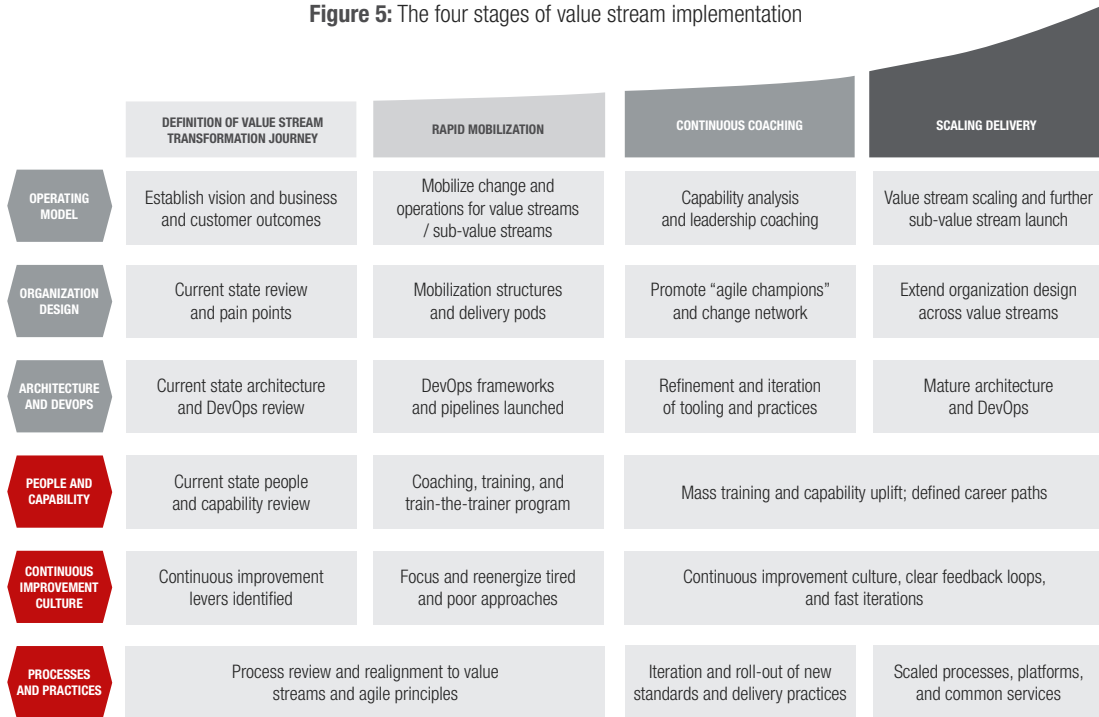
stream blueprint. Our reference model, shown in Figure 4, tackles each of the components that drive this formula:

To really understand what customers want, we look at features and functions that influence and drive the right behaviors. We turn this into a product vision through techniques, such as user journey and experience mapping, to model the overall journey. Key to this is understanding what the customer thinks, feels, and does, with supporting real-world feedback of experiences, pain-points, and opportunities. The product vision, therefore, provides the indicators for the business and customer outcomes that demonstrate success.

Getting the optimal architecture and engineering discipline in place to drive solutions, as part of a comprehensive technology platform or value-stream specific delivery pod, makes this a reality. We explore the right blend of vendors and internal teams to build and revamp legacy technology assets, to exploit the advances in the marketplace, and prepare to build the new features of the future.

Truly believing that enterprise agility enables better outcomes, further and faster, we embrace new ways of working as the heart of value stream discipline. Our clients organize projects around multi-functional teams that are trained to deliver quickly and iteratively, but also in a way that fundamentally shifts belief in the value stream, where we can learn more quickly to succeed faster. This approach affords the flexibility to try, learn, and iterate key designs and delivery, responding to data-led insights, and scaling the elements that work, while quickly pivoting from those that do not.

Figure 5: The four stages of value stream implementation



There are four stages of value streams implementation: definition of value stream transformation journey; rapid mobilization; continuous coaching; and scaling delivery (Figure 5).

4.1 Stage 1: Definition of the value stream transformation journey

The need for a clear strategic direction is not a new or surprising concept; however, it can be incredibly difficult to create a vision that truly galvanizes people at all levels of an organization, particularly when it is not supported by a network of effective coaching and feedback. Within value streams, business and customer outcomes are delivered through dynamic backlog management that pushes work from key product, service, and feature decisions through to the work completed in delivery pods. Decision making is, therefore, kept as close to the customer as possible by leveraging continually iterating customer feedback loops.

In this stage, we identify the core business and customer outcomes and their ownership, key product, service, and feature decisions, steering control for mobilization, and the value stream objectives and key results (OKRs) to measure success. We prepare to manage the portfolio of features and epics, which are assigned to delivery pods and managed together with delivery cadence and release synchronization.

Quarterly business reviews show us where we are generating value against these features and epics, and where we need to work differently to create more value.

Finally, the delivery pods are defined with key roles formalized: the product management network to own the end-products and services; capability-led roles needed to design, build, and test new features; coaching roles to embed the right behaviors; and supporting platforms and service teams providing common commodities and tools to execute quickly.

4.2 Stage 2: Rapid mobilization

Mobilization is a critical step in today's fast-paced, digital environment. And, with the rate of change constantly increasing, rapid mobilization can make the difference between being a success or a failure.

Mobilizing quickly and safely means delivering value from day one, while also building real belief in the change through diverse engagement and communication methods. It is essential that a compelling vision pulls people towards creating a new and better future, while allaying fears and concerns by addressing challenges head on, in order to build an iterative and flexible path towards business and customer outcomes.

We start the transformation with a clear plan and guidelines for business outcomes, first feature and story delivery, and a focus on the key drivers of value. Through the value stream vision, we create decentralized decision making and empower the people closest to the customer to drive the definition of success and the path to reaching it. In alignment with the core agile principles, we deliver this change iteratively and in response to business needs. By leveraging this approach, we are able to create value quickly and simultaneously instill feedback loops that continually align with market shifts.

Objectives and key results are brought to life, with data-led decision making, as a way to accurately measure what is working. Through regular reviews, we align and realign teams and leaders behind areas that need the most support, and recognize achievements to celebrate success and see the impact coming to life.

4.3 Stage 3: Continuous coaching

Coaching is a tool for empowering and driving positive behaviors that promote transparent and authentic communication and an uninterrupted flow of value across the organizational network. Through continuous coaching, stakeholders have an opportunity to co-create new possibilities, explore the foundations of their beliefs, and divest themselves of unhelpful presuppositions that block the exploration of new and valuable approaches.

Through one-on-one relationships at the executive, leadership, and team levels, we move stakeholders towards adoption and acceptance of new ideas, ways of working, and processes. We use reflective inquiry to challenge individual and team

behaviors and beliefs, where individuals and teams explore their deeply-held assumptions and jointly challenge their thinking. This approach generates highly valuable insights that open doors to areas of innovation that were previously hidden potential in the organization.

Through creating psychologically safe environments for open dialogue, people feel more able to open up and be vulnerable. The exposure of previously hidden concerns leads to a more deeply integrated and effective team, better able to express their opinions without the fear of misunderstanding or reprisal, and, therefore, significantly more likely to create impactful ideas and successful outcomes.

We use individual and team action plans to focus and turn moments of deep insight into transformational outcomes. This works by solidifying ideas and concepts uncovered during the team's moments of realization and simultaneously defining the next steps towards value, while also drawing implicit and explicit commitment from the team as they articulate the path to value.

4.4 Stage 4: Scaling delivery

We have a tried-and-tested method for scaling delivery. We tackle both delivery and capability uplift across business executives, leadership, and delivery pods. We scale what works, quickly, allowing organizations to become self-sufficient and autonomous in their journey.

We are bold and not afraid to dispense with ideas that do not generate value and focus on the ones that do; it is how we operate and forms part of our DNA. Backlogs are transparent

Figure 6: The range of capabilities in a delivery pod

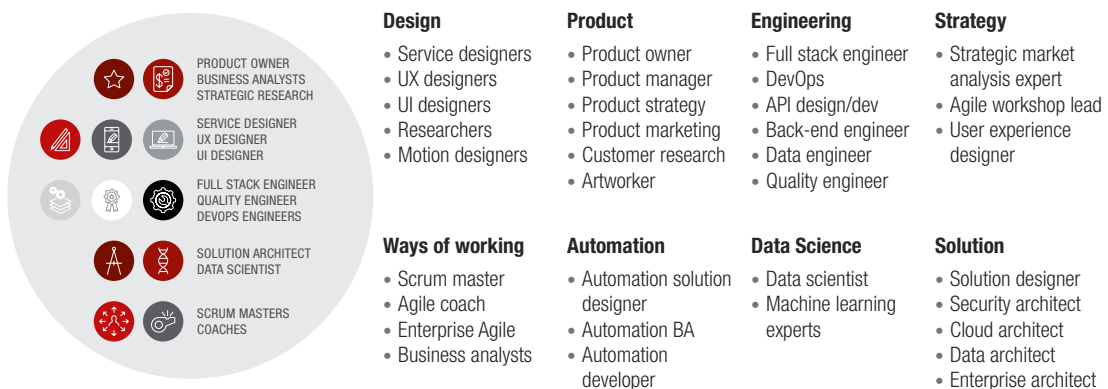


Figure 7: Train-the-trainer approach



and we involve stakeholders to ensure that what resonates is scaled, and has the support needed to be successful. We do this across a range of capabilities that are needed in delivery pods to deliver a variety of solutions, as outlined in Figure 6.

Our engagement does not stop there; we make it real and answer the “what does it mean for me” question. This is a fundamental change and when colleagues get to their desks on the first new Monday morning, they need to know what to do differently. This is achieved through our unique style of coaching that focuses on the individual and how their role is performed in the wider organization. We turn managers into leaders and practitioners into true experts, so that they are ready to join the delivery engine of the value stream. Training is adapted to the specific needs of roles, focused on the business context, and offers certification routes for career progression, with the result being a highly-skilled and sustainable workforce.

We use a train-the-trainer model, where shadowing and reverse shadowing ensures that the organization’s own trainers are able to take on future business needs. Those who

undertake the training path have the opportunity to learn the key concepts of enterprise agility and deliver them with action in mind. This ensures lessons are experienced as well as simply repeated, allowing for a deeper and more long-lasting learning impact.

By first training members of the executive and leadership team responsible for impacting and delivering outcomes, we are able to create a deeply resonant and authentic vision of the change that will empower the whole organization. It is essential that leaders truly embody the agile values and imbue the change agenda with an energy of belief and commitment.

Finally, by providing applied courses that are pragmatic and focused on value delivery, we ensure that all learning undertaken within the organization is practical and adds value immediately. This approach ensures that people are equipped with the correct mindset and tools to embrace positive change and ensure customer-centric value delivery is always at the heart of their work.

5. GETTING IT RIGHT: KEY LESSONS LEARNED

There is no one-size-fits-all playbook for value streams. Moreover, this type of change is specific and nuanced to the structures, norms, and culture of the organization. Taking a principle-based view of value stream implementation, we can apply grounded theory when planning and executing the change. To do this, we follow these principles:

1. Use design thinking to reimagine the future.

Empathizing with the problem and the people involved gives a perspective that few other approaches can provide. What does the business outcome look like to the customer? How do they feel about your organization? What is the perception of the key people in your teams who will make this a reality? Getting under the skin of the problem, removing constraints, and thinking through the art of the possible is a critical starting point.

The workforce may have hunches and intuition, but it is important to play this against the power of the group mind.

2. **Agility is principle-, not rules-based.** If we try to only follow rules, we will inevitably break them or come to irrational decisions that satisfy the rule but are not in the best interests of the outcome. Let principles guide the value stream to its design and fruition, but do not overly constrain by banning documentation, removing processes, and only honoring one outcome. Be flexible and find what works for the context you are in.

3. **Think big, start small.** Value streams are not an exclusive technology story, or a single product, they are an end-to-end process across the entire enterprise. While this is daunting at first, when we start to see the organization as a network of nodes that interplay to create value, it is less difficult to imagine how a change to your node's value delivering capabilities will ripple through the organization. The biggest changes in society happen this way, and so too should your move to value streams. Brave organizations have done it all at once, and some have pulled it off. However, more often than not the risk trade-off just does not stack up.

4. **Include all relevant capabilities and functions.** Agile, engineering, design and development, operations, legal, HR, etc., are all interconnected. Value stream delivery is a story of all the people and capabilities needed to deliver value. Do not let organizationally dictated silos diminish potential. Think beyond them and really look at what is needed to make the better outcome a reality.

5. **Build belief, not just consent.** There is much hype around the “agile mindset shift”. While this is not a false premise, it is abstract. What is important is building true belief in the value stream and what it offers. Forcing consent will invariably diminish the semblance of value, because there will be firm resistance to change. If we build genuine belief in the change ahead, we fight tooth and nail to make it happen. Empathize, coach, and understand the people affected by the change.

6. **Align funding to value streams** so that there is flexibility and financial backing to make the change a reality. Negotiating for slices of budgets from multiple teams not only delays any progress, it hampers innovation and lowers morale. If a move to value streams is real, successful companies put their money on the line and believe in the outcome. Payback has been well documented, but so have losses. If you are not bold and do not put the budget on the line, nothing will change. Be flexible with funding allocation and prove the return on investment in shorter, quarterly cycles.

There are, of course, a plethora of factors to get right. In our experience, getting these six principles right dramatically increases your chances of success and implementing market-leading value streams.

6. CONCLUSION

Value streams offer a wealth of potential to financial services organizations. As the market has seen with the fables and realities of agile transformation, this journey is challenging, takes time, and often results in fewer benefits than expected. Success can be found through boldness and willingness to take on the challenges directly, with a sense of pragmatism, optimism, and solid grounding in the delivery outcomes being achieved. Value streams do not happen overnight, but if financial services firms surround themselves with knowledgeable people who understand the finer nuances of business agility, can relate to the problems “on the ground”, and offer true insight into what is working and what should be dispensed with, the journey to value streams can result in success and a change that sticks.

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