

REASSESSING DIGITAL TRANSFORMATION

The Change Imperative for Financial Services

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At its simplest, “culture” is a shared and implicit understanding among a group of people. It is the way knowledge, processes, and habits are passed from person to person. And outside of Darwinian evolution, culture is the other important means by which humans evolve.

When examined in terms of business, culture is an equally powerful asset. It can define a business, and often directly influences that business’s ability to succeed. As evidenced by this report, many C-suite executives not only recognize this, but struggle to improve or even change at least some aspects of their corporate cultures.

Why Is Culture So Complex?

Cultural habits are ingrained in networks of people, rather than in any one individual or group, and are reinforced and strengthened over time.

There is no single “business culture.” Within a large organization, there can be 60 or 70 different cultures across different departments or offices; any employee who has ever visited a branch office in a different city can certainly attest to this. The logo on the door may be the same, but crossing the threshold into the office itself can feel like entering a foreign country.

Culture across teams can feel vastly different as well. Who leads discussions? Do individuals jump in with ideas or do they wait until the end or use email to give suggestions? Will a request for feedback be welcomed, or is it considered impolite, as is the case in some countries?

How Can Culture Be Changed?

In any organization, people come and go. But culture, such as problem-solving methods or negotiation habits, is sticky.

It takes a long time for a person to change a bad habit, and it can take even longer for a network of people to change a pattern of behavior. As with quitting smoking or learning to play an instrument, progress is strengthened via muscle memory from training, repetition, reinforcement of good behavior, and correction of unwanted behavior.

What Roles Do Leaders Play?

Even though management may initially instigate cultural changes, a leader can’t simply tell employees, “Our culture is going to change today.” Certainly, modeling a desired behavior is much more effective than telling somebody what to do. However, for a group to truly adopt new behaviors, the cultural ingredients for learning and growing must be present—executives cannot expect change overnight.

In addition to leading by example, leaders can create robust systems for providing fast feedback to teams and beginning to reshape their behavior and cultural norms. This involves a shift in mindset—to an understanding that great ideas can come from anywhere in the company—as well as a shift in operations. People need to be in networks that are going to support innovation rather than squash it because “that’s the way we’ve always done it.”

The best leaders find ways to facilitate innovation via meritocracy. They employ a system of reasoned debate, in which individuals have the freedom to share ideas and measure results against reality to see what works.

This process of innovation trains the network to elicit and reward good ideas and good habits. In the process, it changes the company’s culture.

Will It Be Easy?

No. Changing a corporate culture is extremely challenging and requires a lot of time and patience. That’s because culture can feel extraordinarily nebulous. It can be slow to change.

But it can be changed. By taking some initial steps—getting a handle on what culture is, how it is formed, and how to guide it in new directions—leaders can begin the process of changing their corporate cultures and setting their organizations up for a new and better future.

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REASSESSING DIGITAL TRANSFORMATION

The Change Imperative for Financial Services

There is intense pressure on financial services organizations to transform their enterprises to remain more competitive in an age of disruption. Evolving regulatory requirements, rapidly advancing technology capabilities, increasing customer demands, and competition from upstarts are all forcing financial services firms to rethink the way they operate.

“All of a sudden financial services firms are behind the eight ball, and there is a need for them to become more agile and technically adept,” says Jerry Silva, global banking research director with IDC Financial Insights.

This digital transformation imperative requires financial services organizations to improve—and often completely overhaul—their technical capabilities. But true transformation demands more than just new technologies. It requires strategic vision and commitment from the top of the organization to rethink and retool its culture, its processes, and its technology.

Several years into their efforts, many organizations across industries are struggling to truly transform the way they operate, according to a survey of 734 business leaders conducted by Harvard Business Review Analytic Services last year. Just 8% of financial services respondents rated their organization’s digital transformation efforts as very effective. [FIGURE 1](#) Further analysis of responses by industry reveals that financial services firms, specifically, are coming up against even more significant impediments in all three areas than are enterprises in other sectors.

“Digital transformation is particularly difficult in financial services,” says Robert Collignon, a director with Monitor Deloitte focused on digital strategy in the financial industry. “The industry is large and complex with so many interrelated components—more so than in other industries. There are few individuals who can see the whole value chain or network. In addition, the industry—or parts of it—work on such long-term horizons that the impact of transformation and the urgency behind it is not always immediately felt, so some companies think they have more time to get things in order.”

HIGHLIGHTS

—
8%

OF FINANCIAL SERVICES RESPONDENTS RATE THEIR DIGITAL TRANSFORMATION EFFORTS TO DATE AS VERY EFFECTIVE

—
83%

OF FINANCIAL SERVICES RESPONDENTS SAID THAT HAVING A COMBINATION OF THE RIGHT TECHNOLOGY, PROCESSES, AND CULTURE IN PLACE WAS VERY IMPORTANT TO DIGITAL TRANSFORMATION

The rigid, risk-averse, and closed nature of the industry also works against the kinds of cultural shifts toward greater collaboration, adaptability, and transparency that competition in a digital world demands. While financial services firms value—and are adopting—some important processes, like agile software delivery, at higher levels than are companies in other industries, they are also struggling with existing systems that can stand in the way of progress.

Financial services respondents agreed on what could be the best types of metrics

for monitoring digital transformation progress. However, the majority are failing to actually put in place and use specific metrics to monitor their transformation efforts, due in part to the complexity and fractured nature of their businesses. In addition, their investments are having only limited success to date in these areas.

Impediments to Digital Transformation

Financial services respondents are keenly aware of the most important success factors for digital transformation. An overwhelming majority of respondents—83%—said that having a combination of the right technology, processes, and culture in place was very important.

However, financial services firms are struggling in each of these areas, chiefly with cultural impediments and—to a somewhat lesser degree—with putting the right processes and technology capabilities in place. What’s more, they cite these hurdles at slightly higher rates than do other industry respondents. **FIGURE 2** Nearly six out of 10 respondents said that culture has been a significant challenge in their organization’s digital transformation efforts while almost half (47%) said the same for process, and more than a third cited technology as a sizable hurdle. “It is very difficult to change direction and momentum in such a large, heavily regulated industry,” says IDC’s Silva.

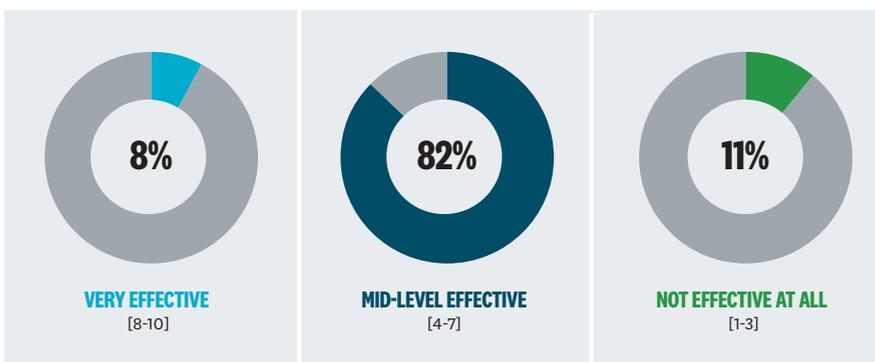
Financial services firms are clear about the most important characteristics of digital culture. When asked to rank the importance of four foundational principles for the digitally transformed enterprise, respondents rated having a culture of collaboration—where there is support for sharing work, initiating projects in group settings, and creating cross-functional teams—most important, followed by adaptability, transparency, and inclusivity. However, only around a quarter to nearly a third rated their cultures highly in these respects. **FIGURE 3** Just 31% of respondents described their organizations as highly collaborative, and only 19% said they were highly adaptable.

FIGURE 1

FINANCIAL SERVICES DIGITAL TRANSFORMATION PROGRESS

How effective would you say your company’s digital transformation efforts have been to date?

[1-10 SCALE: 1=NOT AT ALL EFFECTIVE; 10=EXTREMELY EFFECTIVE]

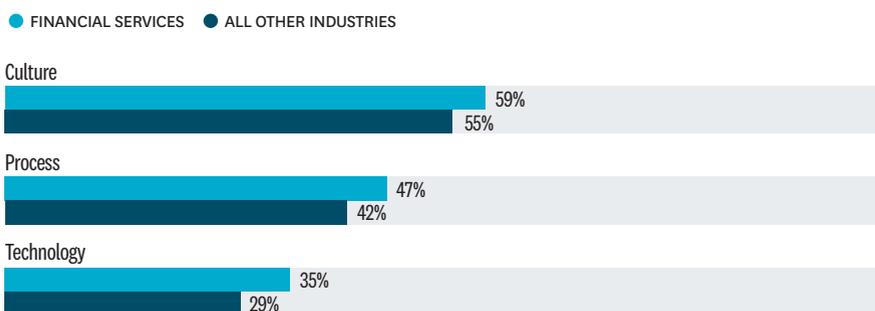


SOURCE: HARVARD BUSINESS REVIEW ANALYTIC SERVICES SURVEY, JULY 2018

FIGURE 2

BARRIERS TO DIGITAL TRANSFORMATION

Percentage of respondents saying the following was a significant impediment/challenge to their organization’s digital transformation efforts



SOURCE: HARVARD BUSINESS REVIEW ANALYTIC SERVICES SURVEY, JULY 2018

That is not surprising. The industry has a long history of not collaborating, lack of transparency, and resistance to adaptability, favoring instead confidentiality, siloed organizational structures, and risk aversion. For many years, that heritage enabled financial services firms to succeed.

“There are certain norms and values that have governed this industry for years,” says Jonas Hedman, professor in the department of digitalization at Copenhagen Business School. “[Financial services organizations] are, by definition, opaque and closed off. Many regulations exist to ensure that banks do not disclose information, and that is the core logic of industry thinking. It’s hard to break that mindset even when you have access to great technology.”

There also tends to be a lack of transparency, even between product lines and distribution channels in a single business division. “Financial services firms have always been very siloed organizations, with each silo measured and compensated for performance differently,” says Silva. “It’s very hard to bring everyone under the same umbrella and start doing things differently.”

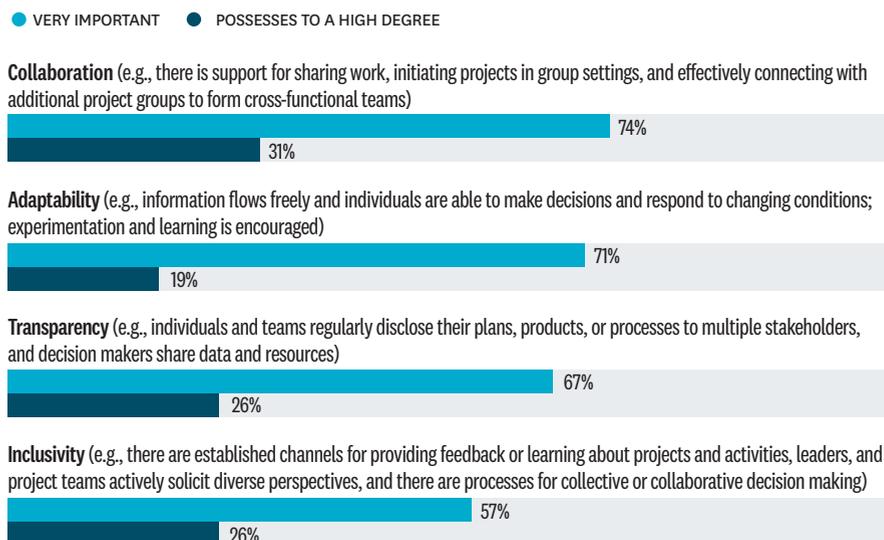
That’s beginning to change in some areas of the organization. “We’re starting to see those silos play nicer and collaborate more around risk management and analytics, for example,” he says. “That’s mostly because efforts to modernize infrastructure must take the entire organization into account. If I’m the CIO or CDO, I need everyone involved as I try to transform.”

Existing cultural, behavioral, and organizational hurdles can be hard to overcome because they are so entrenched. That’s why leadership at the CEO level is critical. “There’s not only legacy technology in these organizations, but also legacy leadership. Changing the culture has to start with leadership,” says Collignon of Monitor Deloitte. “Frequently, financial services leaders aren’t very digital themselves, and that translates into a risk-averse environment where,

FIGURE 3

KEY CULTURAL CHARACTERISTICS

Percentage of financial services respondents who said each of the following cultural characteristics was very important in enabling digital transformation in their organizations, along with the percentage who said their organization possesses each of the characteristics [8-10 ON A SCALE OF 1-10 WHERE 1=DOES NOT POSSESS AT ALL AND 10=FULLY POSSESSES]



SOURCE: HARVARD BUSINESS REVIEW ANALYTIC SERVICES SURVEY, JULY 2018

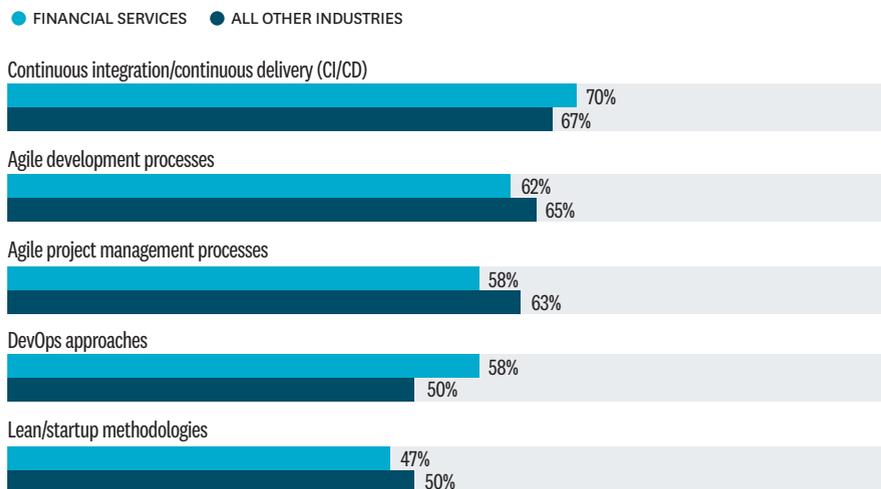


“IT IS VERY DIFFICULT TO CHANGE DIRECTION AND MOMENTUM IN SUCH A LARGE, HEAVILY REGULATED INDUSTRY,” SAYS JERRY SILVA, GLOBAL BANKING RESEARCH DIRECTOR WITH IDC FINANCIAL INSIGHTS.

FIGURE 4

PROCESS ENABLERS OF DIGITAL TRANSFORMATION

Percentage of respondents who said the following process changes were very important to enabling digital transformation

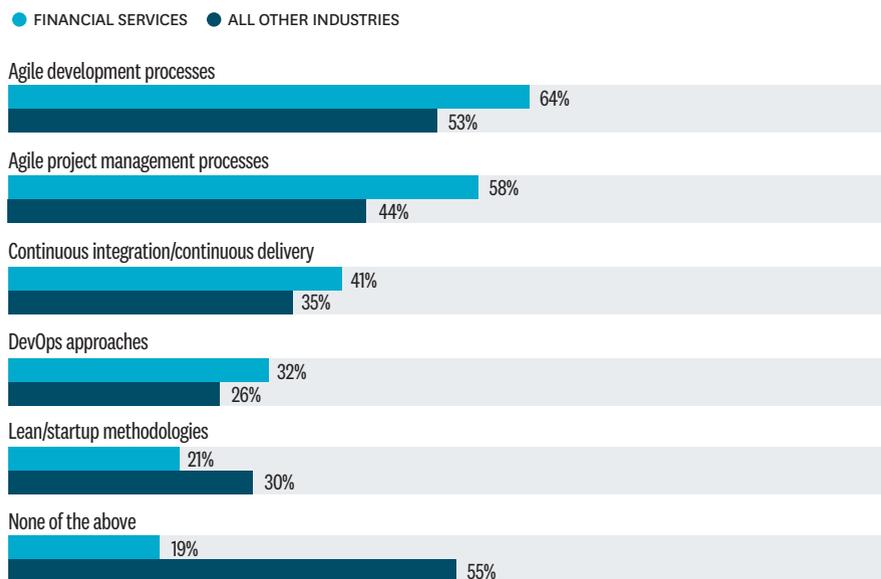


SOURCE: HARVARD BUSINESS REVIEW ANALYTIC SERVICES SURVEY, JULY 2018

FIGURE 5

FINANCIAL SERVICES EMBRACE NEW AGILE PROCESSES

Percentage of respondents who said they had implemented the following process changes to enable digital transformation



SOURCE: HARVARD BUSINESS REVIEW ANALYTIC SERVICES SURVEY, JULY 2018

although there is an appetite for innovation, it is incremental rather than disruptive.” Those financial services organizations that are truly transforming have passionate leaders with clear visions for the future. “They create more agile organizations with different frameworks and structures, and they carefully protect that culture of innovation and digital transformation,” says Collignon.

If you look at financial services leaders who have been successful with their efforts to date, such as BBVA, Bancolombia, and Nationwide Building Society, says Silva, “it all started with the CEO. You need to drive cultural change from the top down.”

The Agile Engine That Powers Transformation

New processes are also necessary for digital transformation within financial services. More than half of financial services respondents indicated that continuous integration/continuous delivery (CI/CD), agile development and project management processes, and DevOps were critical to change efforts. [FIGURE 4](#) In fact, financial services respondents were more apt to say that DevOps was important than were respondents from other industries, and they were also more likely to have implemented agile development and project management processes, CI/CD, and DevOps. [FIGURE 5](#)

It is actually the complexity of the industry and its entrenched bureaucracy and organizational silos that have driven financial services companies to adopt these processes changes at higher levels than those in other sectors, says Collignon. “These practices bring speed and focus to the organization,” he adds.

These types of processes can enable financial services firms to reorganize not around product lines but around the customer experience. “It’s not just the agile approach, but organizing around the customer which helps,” Collignon says. “Those organizations that organize around the customer across product lines are more focused and quicker in delivering results.”

The Technology Capabilities of the Digital Enterprise

These new processes are necessary as financial services firms seek to embrace more open API-based systems and microservices. “The need is there to transform legacy systems from 30-year-old COBOL systems and mainframes to create a more agile technology environment,” says Silva. “The threat from new competition is significant and so the need for change is higher than in other industries.”

Call it the curse of the technology early adopter. “A lot of financial services companies are still using core systems from the 1970s,” says Copenhagen Business School’s Hedman. “They still work well, but they are not designed to be open, and that is a major issue.”

Financial services firms embraced technology earlier on than did other sectors, but they are now still living with many of those decades-old choices. “People who know how to maintain those systems are retiring, so the back office isn’t that easy to modernize,” says Silva. “What banks tried to do first was address as much of the front office shortcomings as they could. But there was only so much they could do before the back office started to become an impediment.”

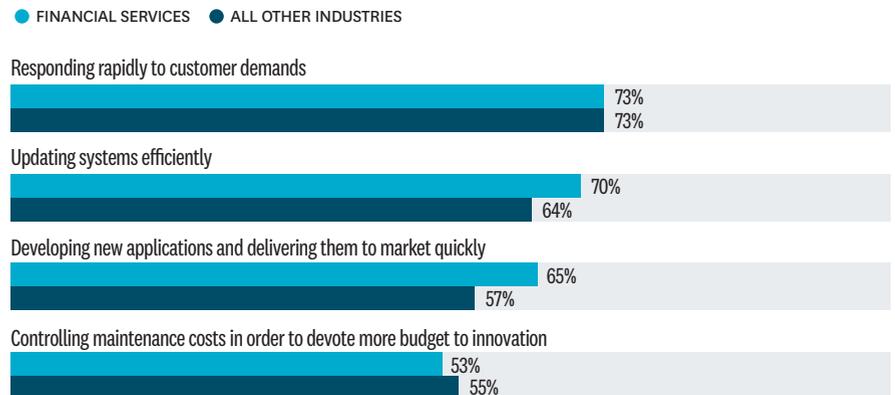
A significant majority of financial services respondents said the ability to respond rapidly to customer demands was important to their digital transformation. They were more likely than other industries to say that updating systems efficiently and developing and delivering new applications quickly were critical capabilities. [FIGURE 6](#) However, very few financial services respondents rated their infrastructure and application architectures highly in enabling these capabilities—even fewer than in other industries. [FIGURE 7](#) “A lot of the banks are trying to replace their old infrastructure and legacy systems,” says Hedman, “but it’s damn difficult to do.”

In the past, financial services newcomers didn’t get much credence from the industry, says Silva. They would appear on the scene but rarely had long-term viability. That’s now

FIGURE 6

TECHNOLOGY CAPABILITIES OF DIGITAL TRANSFORMATION

Percentage of respondents who said the following technology capabilities were very important to their organization’s digital transformation efforts

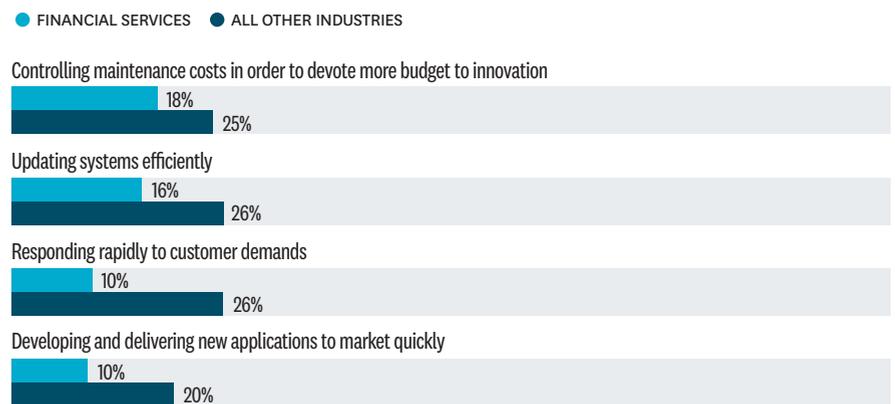


SOURCE: HARVARD BUSINESS REVIEW ANALYTIC SERVICES SURVEY, JULY 2018

FIGURE 7

THE STATE OF INFRASTRUCTURE AND APPLICATION ARCHITECTURE

Percentage of respondents who said their current infrastructure and application architecture is very effective in providing a foundation for the following capabilities

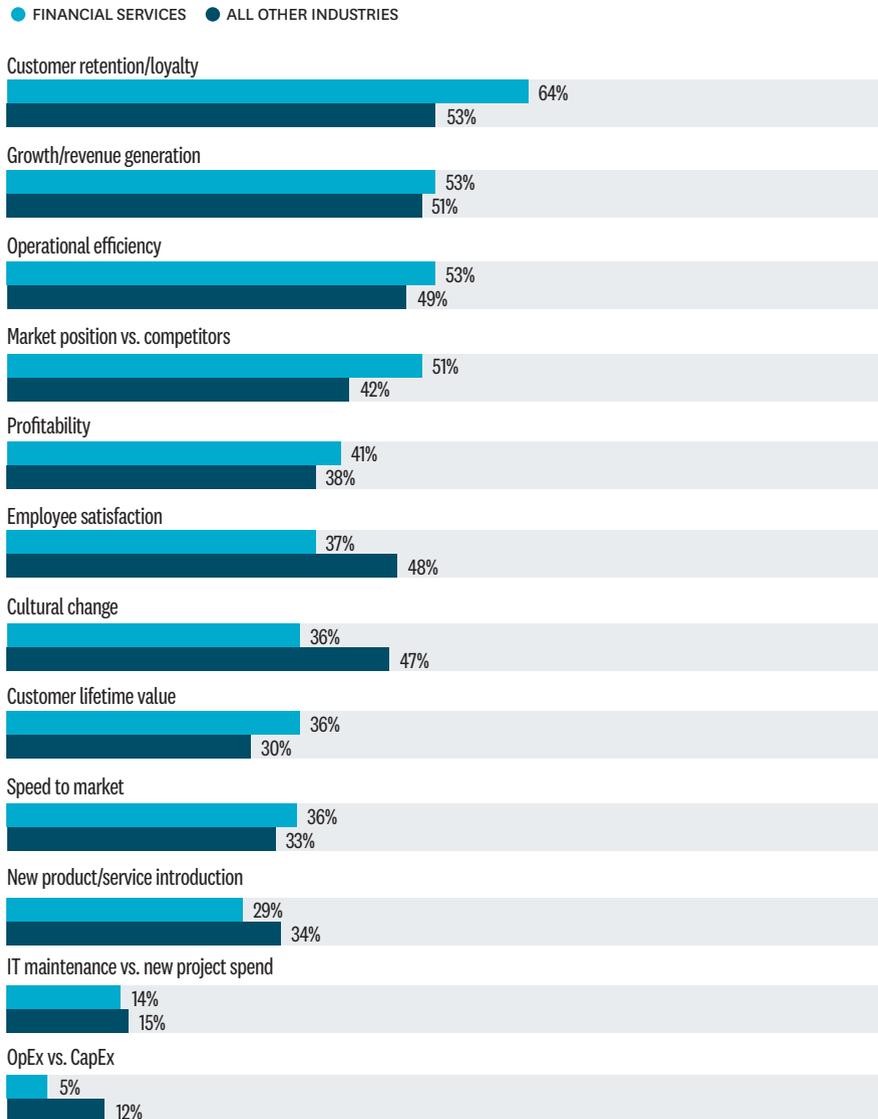


SOURCE: HARVARD BUSINESS REVIEW ANALYTIC SERVICES SURVEY, JULY 2018

FIGURE 8

THE BEST MEASURES OF TRANSFORMATION SUCCESS

Percentage of respondents who said the following key performance indicators would be good measures of success.



SOURCE: HARVARD BUSINESS REVIEW ANALYTIC SERVICES SURVEY, JULY 2018

changed. “There are challengers that have based their fundamental value propositions on open API-based technology that allows them to create value for customers in ways that traditional companies can’t,” adds Silva. “That’s a competitive threat.”

In addition, in many parts of the world, financial services are facing new legislation that intends to increase competition by providing access to customer information held by the organization. The problem is that many banks “have existing systems that aren’t designed to be open,” says Hedman. “And they lack skills in developing and nurturing software ecosystems. Newcomers are already working within that paradigm.” Incumbent financial services firms will need to move in that direction, he says, adding, “They have to.”

Measuring Transformation Success

In order to get there, however, financial services firms will need to get more clarity around their key performance indicators of success. Financial services respondents say that the best measures of transformation progress are customer retention and loyalty. They are also more likely to indicate that growth and revenue generation, operational efficiency, market position, profitability, and customer lifetime value are good key transformation indicators, and less likely to value metrics related to employee satisfaction and cultural change. [FIGURE 8](#)

However, only around four out of 10 financial services firms are tracking growth and revenue generation, just 34% are looking at profitability and customer retention/loyalty, 32% measure market position, and even fewer are tracking operational efficiency, new product introduction, employee satisfaction, or other metrics to determine digital transformation progress. [FIGURE 9](#)

Metrics, in general, have been a problem in the financial services industry for decades, says Silva.

“Outside of the standard Wall Street metrics, it’s very difficult to assign KPIs. Even the cost of retaining a customer is hard to determine. It’s not an easy problem to solve. So when trying to measure something as large as digital transformation, it’s difficult to find the appropriate KPIs.”

One company that has done a particularly good job, says Silva, is Bank of America. “They have gone about scientifically proving the performance of their change efforts,” he says. “But they have thousands of IT people.” For many other firms, it can be difficult to determine what the best practice is.

“It’s an important issue to address and one financial services firms don’t do sufficiently,” says Collignon. “Digital transformation takes some time to see on bottom line reports, so it’s important to track leading indicators as well. If this is not done, some organizations will pull the plug on change efforts because the impact is not visible.”

The complexity and fractured nature of the industry makes it tricky, adds Collignon. “It requires a holistic perspective that doesn’t always exist,” he says. “As a result, there’s a lot of activity tracking, but no real measurement.”

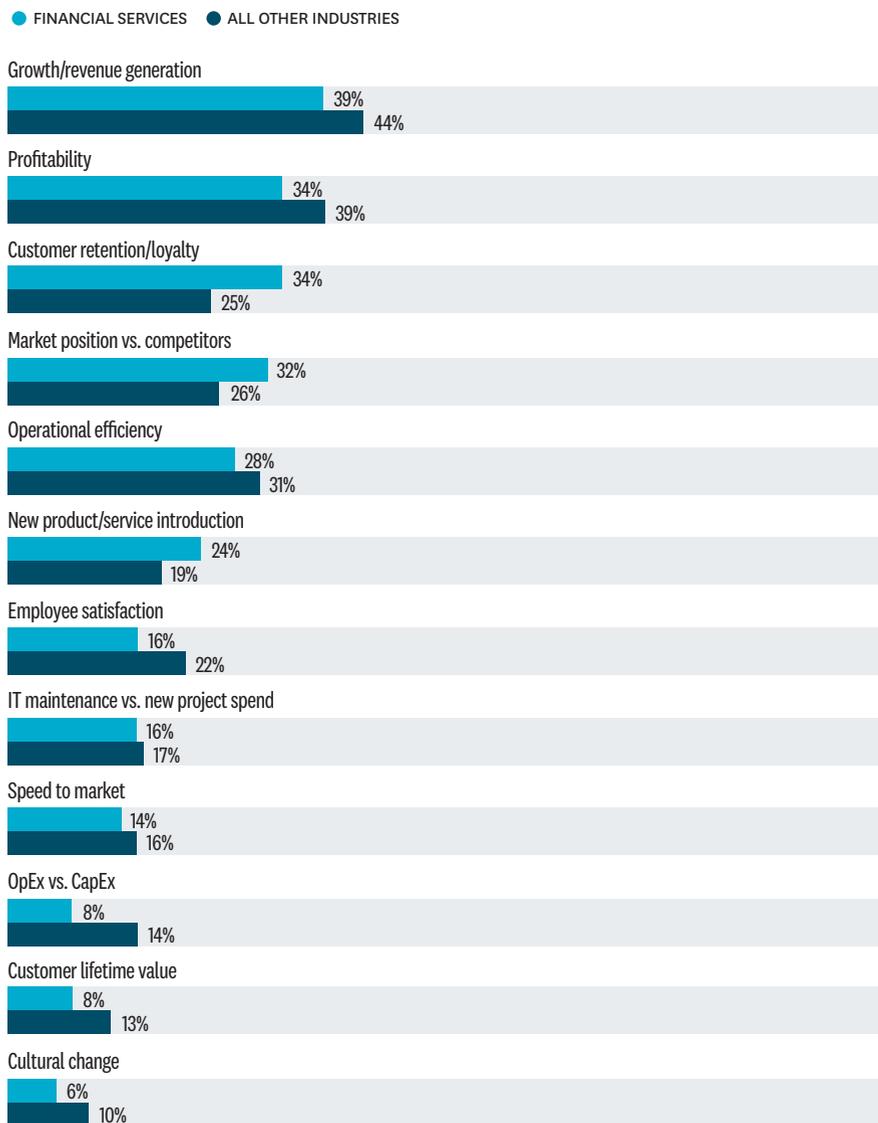
Transformation Results

As a result of the cultural, process, and technology legacies, benefits of digital transformation efforts to date have been somewhat limited among financial services respondents, especially since a lack of new metrics for success means there’s no quantitative way to drive the issue home. Just over a quarter have seen market position increase significantly, a higher number than other industries; 23% have seen significant improvements in new product and service introduction; and 20% have seen an uptick in operational efficiency and customer retention and loyalty. [FIGURE 10](#) Financial services firms are notably lagging other industries in improving the employee experience

FIGURE 9

A LACK OF TRANSFORMATION METRICS

Percentage of respondents who are currently using these metrics to measure their organization’s digital transformation progress.

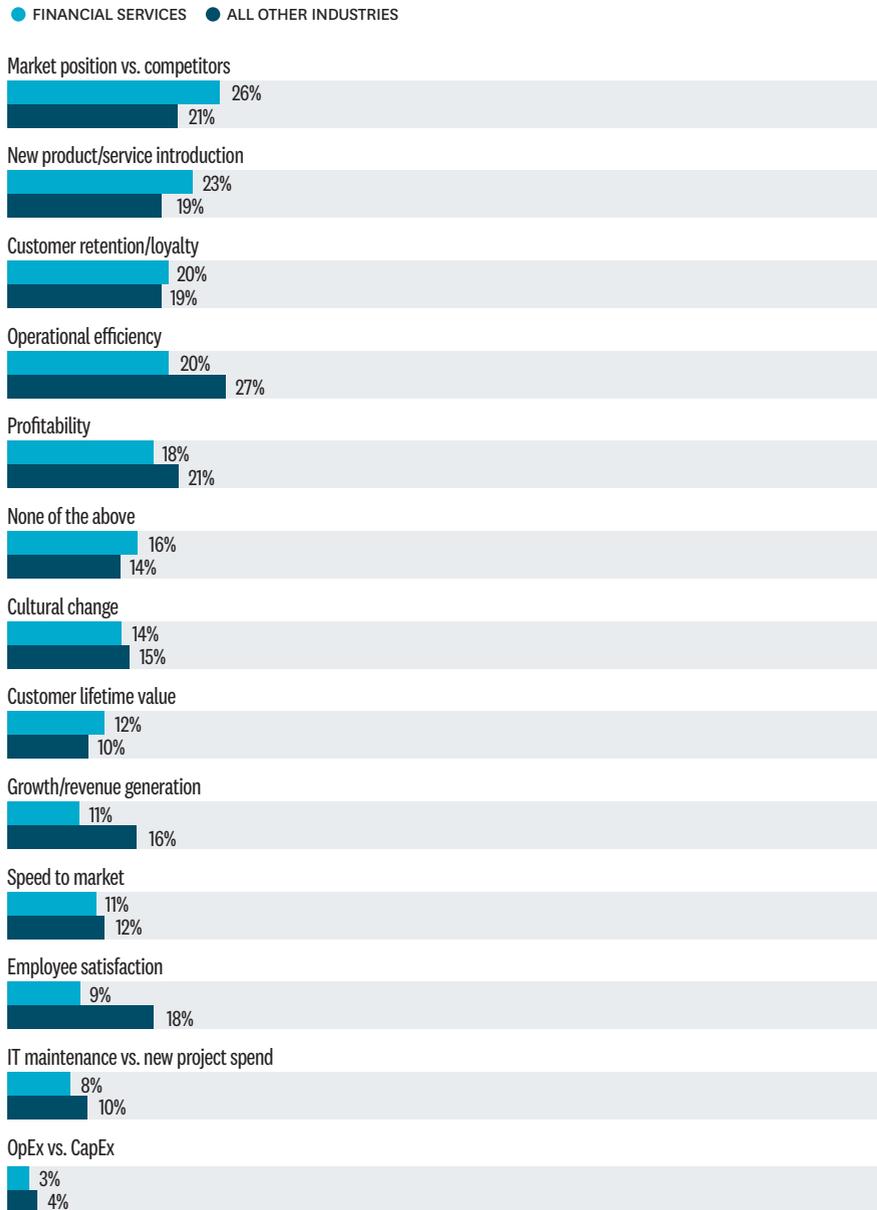


SOURCE: HARVARD BUSINESS REVIEW ANALYTIC SERVICES SURVEY, JULY 2018

FIGURE 10

TRANSFORMATION RESULTS

Which of the following measures of corporate performance have improved significantly as a result of your organization's digital transformation?



SOURCE: HARVARD BUSINESS REVIEW ANALYTIC SERVICES SURVEY, JULY 2018

with transformation, an area they were unlikely to track as a measure of success anyway.

“Most financial services firms are aware of the issues,” says Hedman, “but the question is whether or not they have the capability to do what they need to do. Some will succeed, some will be outcompeted and self-destruct.”

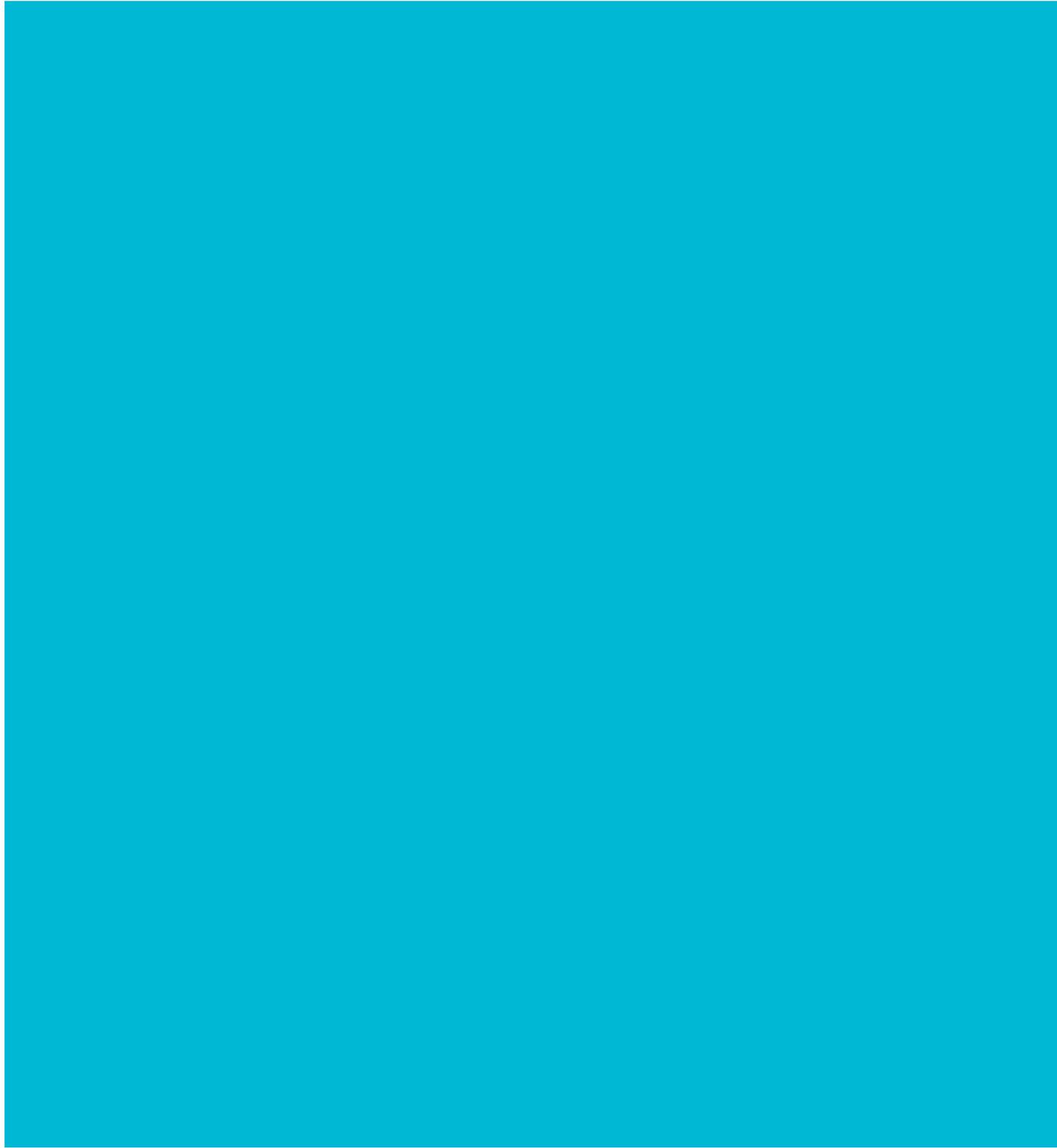
Ultimately, it’s an exciting time for financial services, says Silva, who has been in the industry for more than three decades. “We’ve historically moved at a glacial pace when it comes to innovation and technology adoption. But there is more innovation possible now than since the ATM was introduced in the 1980s,” he says. “We’re at an inflection point, but a very blunted one. It’s going to take time. It’s not trivial. But the momentum is absolutely there.”



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