Keys to Digital Transformation – People, Mindset & Culture

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Abstract
Slowly and steadily, digital technology is leveling the playing field for businesses of every size to disrupt their industry. In any given era, technology has always facilitated disruption in one industry or the other and with advent of digital technologies, this disruption has been faster and more nimble than ever. Technology is not only playing a significant role in bringing industry wide changes in business models but also in creation of new products and services. Although technology seems to be the mainstay of digital transformation but it alone is not the only one. New regulatory environment, higher consumer expectation, lower appetite for risk of organizations and evolution of FinTech sector have also fueled the digital transformation of businesses across sectors and the banking industry is not untouched by these changes. The banking industry in itself has undergone a number of transformations over the year. In earlier days banks and other businesses around the world used outsourcing for their non-core business functions. Banking leaders, focused on reducing costs, had started using managed services for “run the bank” processes, but most organizations still remain dependent on their outdated, complex and costly systems. Recent challenges and evolving technology caused the banking industry to rethink the decision to hold onto such legacy systems, processes and business models. The banks took the next step by embracing outsourcing as a strategic extension of the business for managing core processes and “change the bank” projects and business leaders started considering outsourcing an integral function of their operation rather than being strictly a cost-cutting initiative. With the opportunity provided by disruptive technologies, they started to integrate digital transformation initiatives with “Change the Bank” initiative to reach the goal of optimized business performance. In order to effectively embrace the digital transformation, organizations needs to understand the basic elements of digital transformation that includes the right digital mindset, rethinking of business, connectivity, developing digital capabilities and culture. Only by understanding these basic elements and by creating an impactful mix of these elements, organizations can truly capture the values generated by digital transformation. Although technology is the back bone of digital world but for any digital transformation to be a success story, the most critical factor is people. Organizations must articulate and implement people vision along with creating right structure and incentives for people in the organization so that they do not perceive digital transformation as threat but rather participate in it for their personal, professional and organizational growth. The latitude of these changes clearly demonstrates that digitization is not an easy change and could evolve into a complicated journey but if business leaders manage to overcome multiple challenges posed by advances in digital world, aided by focus on people, mindset and digital culture, they can place their organization to compete effectively and capture an evolving growth path for long term.

Introduction
Slowly and steadily, digital technology is leveling the playing field for businesses of every size to disrupt their industry. In any given era, technology has always facilitated disruption in one industry or the other and with advent of digital technologies, this disruption has been faster and more nimble than ever. The swift advancement in technologies is creating opportunities in capital markets to develop products and services that seem to be infeasible in recent past. Such a change is going to disrupt businesses and dramatically change the competitive landscape. The size of business, which was once a competitive advantage in capital markets, is becoming a liability as businesses that were once a market leader are now struggling to keep with the young nimble startups. In this age of digital transformation agile organizations that can proactively envision change, quickly integrate and embed innovation into
business will thrive and succeed – those that don’t are destined to fate similar to Polaroid, watching sales plunge as digital photography flourished.

Technology is not only playing a significant role in bringing industry wide changes in business models but also in creation of new products and services. Although technology seems to be the back bone of digital transformation but it alone is not the only driver.

**Regulatory Environment**
An increasingly complex regulatory environment has led many organizations to revamp their IT platform and processes. Impact of such an environment on revenues and further compliance requirements along with need for real time insight from data will drive further change.

**Higher Consumer Expectations**
With ready access to information, influence of mobile technology, social media, rising expectations for better customer experience and services and lower switching costs for customer to take their business elsewhere have changed competitive landscape for banks significantly. This deriving a shift in market and compelling organizations to develop new interaction models that deliver deeper personalized service and improved customer care.

**Lower appetite for risk**
Recent market volatility and tighter operating margins have caused most leaders to demand cost optimization and efficiency gain from every area of business. Most of the banks are also realizing that their legacy IT systems and manual processes are bringing unwarranted risk to the business.

**Evolution of Fin-tech Sector**
As a driver of digital transformation, the role of fin-tech sector is hard to be ignored. Innovators have created new business models where data is the foundation; large technology companies have already made the move to enter the sector. As a result established players are forced to position themselves in the digital era in two ways: Internally, by establishing digital transformation initiatives to redesign their own businesses and externally, by forging partnership with the innovators and investing in fin-tech through their own ventures and incubators to gain and establish some control in this rapidly changing landscape. This has been complimented by evolution of funding for technology startups, with the rise of alternative finance (e.g. peer-to-peer lending, crowd funding, etc.).

Source: Thefinancer.co.uk

Exhibit 1: How are Banks reacting to Fin Tech?

**Transformation over the years**
Transformation in businesses is not a new phenomenon. In earlier days, banks and other businesses around the world used outsourcing for their non-core business functions. Low cost of getting work done through outsourcing service providers helped fuel the growth of the outsourcing industry. With growth in demand for outsourcing services, the outsourcing marketplace evolved and offered more services and greater expertise.
Technology Outsourcing moved beyond server and data center hosting to include private and public cloud computing, software application development and management, outsourced database and system administrators, software maintenance and enhancement, network management and user support.

Arbitrage in cost of labour fuelled new outsourcing models for both operational and technology needs, including off-shoring, near-shoring and right-shoring.

Outsourcing of Business processes, back-office functions quickly caught on within the financial services industry. Today, mortgage application process is outsourced by top retail banks to service partners who can process them at a lower cost, using industry-standard process flows and technology.

Exhibit 2. Outsourcing Landscape for the Banking Industry

Banking leaders, focused on reducing costs, had started using managed services for “run the bank” processes, but most organizations still remain dependent on their outdated, complex and costly systems. Recent challenges and evolving technology caused the banking industry to rethink the decision to hold onto such legacy systems, processes and business models.

The banks took the next step by embracing outsourcing as a strategic extension of the business for managing core processes and “change the bank” projects. By selecting high-end managed service partners over low-cost options, banks can quickly add scale and flexibility, deep expertise, best-in-class service levels and technology capabilities to their businesses.
Business leaders have started considering outsourcing an integral function of their operation rather than being strictly a cost-cutting initiative. This change is fundamental and it is already evident in banking industry. With the opportunity provided by disruptive technologies such as Google, iPhone, smartphone apps, and “always on” cloud services, banking organizations have started to integrate digital transformation initiatives with “Change the Bank” initiative to reach the goal of optimized business performance. Multi-billion dollar companies like Uber and Airbnb have revolutionized their industries by thinking beyond the binding analog business model with a new digitally driven one.

**Elements of Digital Transformation**

**Digital Mind Set**

Many organizations still perceive digital transformation as series of change for selling products over the internet or cost-cutting, but this perception is not digital transformation in true sense. Digital transformation is a mindset that impacts the entire enterprise. It’s about the approach an organization takes when it assesses risk or how it automates its service functions.

A focus on digital transformation across the organization creates opportunities for all employees to be part of digital innovations. While IT department should be integral to the whole process, it is other business unit like operation, sales, marketing that should also actively participate in the initiative.


**Rethinking Business**

Digitalization of analog processes alone will not lead to complete digital transformation. It also requires businesses to completely reimagine their operations not only to reduce cost and increase efficiency but also to reduce time to market and differentiate their offerings. It also includes understanding from customer perspective how they perceive organization throughout the lifecycle. This approach has led many organizations to evolve their business model, take on new opportunities and bring innovative services in their industry.

**Connectivity**

Connecting every element of a business is the one of the cornerstones of digital transformation. When people, process, data, departments are connected in an organization, it enables it to unearth invaluable insights and provide collaborative experience. With such inter-connectivity, any organization is more nimble, better informed, well placed and prepared to transform itself and its customer relations.
Digital Capabilities and Culture

It is a complex task to develop a digital agenda and drive a digitally focused transformation. It needs very high level of coordination of initiatives across organization regarding prioritization, resource allocation, and collaboration in execution. Moreover, most of the organizations are yet in early stages of capability and culture development and it includes elements like

- **Design of user centered customer journey.** In order to have a compelling and highly differentiated customer journey, it should have combination of personalization, ease of use, simpler processes and speed. Organization need to acquire deep skills in user interface and user experience to achieve capability to delivery such customer journey.

- **Leverage Data and advance analytics.** Most of the data available in an organization still go unutilized. Advance analytics can be applied to create targeted offerings for cross selling and up selling but to achieve that, the data has to be made usable in real time.

- **Agile approach.** Organizations often struggle with trial and testing approach but it is necessary and they need to develop ability to quickly acquire or imitate high value initiatives while showing tolerance for negative outcomes in trials.

While developing these capabilities is important, an equally critical part of the digital transformation is the need to develop a culture that is in-line with the digital transformation. That requires adopting a digitally focused mind-set when it comes to everything from establishing a challenging and coherent vision to acquiring new capabilities and adopting a test-and-learn approach in agile mode. A successful digital transformation requires instilling the following habits in an organization culture.

- **Acquire capabilities.** Hire staff with the right skill set needed for digital transformation rather than only considering industry specific experience. The best people in digital product management of user-experience design might not be available in same industry.

- **Cultivate talent.** Protect digital talent from existing digital operations and nurture it with its own environment and tools.

- **Culture of challenging everything.** Organization leaders must aggressively challenge all aspects of their business—both customer-facing and back-office systems and processes.

- **Value based digital investment.** Invest in digital across the value chain. Identify and grab opportunity for digital investments that create the most value and then double down.

- **Customer focus.** Customers expect the same frictionless experience across all channels and improving customer experience and learning from every customer interaction is the foundation of any digital transformation.

Capturing the value of Digital

There are four fundamental ways through which an organization can create value by using digital capabilities.

Digital technologies enhance an organization’s connectivity—not just external connectivity with customers but also internal connectivity with employees and suppliers. This range from online interactivity and payment solutions to mobile functionality and opportunities to boost organization brands in social media. It provides opportunities for more collaboration and visibility with in organization and could be harnessed to facilitate innovation.

Big data and advanced analytics provide insights for refined decision making. Such analytics are being deployed by the most innovative organizations in many areas, including sales, product design, pricing and underwriting, and the design of truly amazing customer experiences.
Straight-through processing—Digital capabilities help identify, automate and digitizing a number of repetitive, low-value, and low-risk processes that leads to boost in productivity and more efficient work flows.

Finally, digital capability fosters and provides opportunities for innovation across products and business models. Social marketing, crowd sourced support, as well as “digitally centered” business models are the examples of such innovations.

Road map to go Digital
Every time an organization goes Digital, it does not necessarily require million dollars in new investment or significant changes in IT. Some areas might need sizable investment but many of the elements required to exploit transformational opportunity might already be available. Organizations need to utilized them better and invest in a focused manner.

Optimize use of existing technology.
Many organizations have already deployed technological and work-flow systems, software solutions, IVR systems, and other connectivity and work-management technologies throughout the organization but they’re not used effectively or are used inefficiently. The first step is to conduct a systematic evaluation of existing capabilities, their existing usage and barrier to adoptions, if any. This results in effective use of existing resources and no significant investment needs to be done in order to reap benefits of digital capabilities that already exist. The only need is the focus and awareness about already existing capabilities and right mindset for digital transformation.

Prioritize lightweight technology interventions.
Once Organizations are aware of their existing digital capabilities and results from its systematic evaluation, they can generate significant gains in performance by prioritizing technological investments that could be surprising small in size. This can be achieved with relatively simple steps like deployment of tools like e-forms and work-flow systems across the organization that can be achieved relatively rapidly, most of the times without deep integration into complex legacy architectures. This helps organization reap performance gain without coupling new tools with existing legacy systems.

Selective bets for highest return.
There will be areas, technologies or initiatives where one need to pursue more sweeping transformation investments. However, before trying to automate every area related to a product or process, identify the ones that drive highest capacity consumption and give greater returns.

People dynamics
One of the most critical and impactful factor for any digital transformation is people. No technology can help if people issues are not resolved. Success in Digital transformation requires more than rethinking technology, it needs complete rethinking of organization model, especially when it concerns skills, incentives, structure and performance management.

- Create right structure and appropriate incentives. There are multiple ways to structure a digital transformation. Some organizations appoints a head of digital transformation with responsibility of profit & loss while other use COE model to develop products or processes that the rest of organization departments can deploy. Irrespective of the approach taken, there should be concentrated efforts to align incentives in order to ensure collaboration. For example, creation of a Center of excellence without digital targets for the business very often results in limited drive and adoption pull for new technology.

- Focus on business outcomes, not digital activity. To correctly measure the success, right measurement is necessary. Too often organizations manage digital transformation process by
focusing on wrong metrics. Organizations should set clear expectation for value outcome, measure productivity, servicing unit cost and link these. Too often, organizations measure the progress of their digital transformations by tracking activity metrics, such as the number of app downloads and log-in rates. Such metrics are not the true reflection for business value gain. Organizations must set clear focus and aspirations for business value outcomes, measuring productivity, costs by servicing-unit, and lead-conversion rates, and link these explicitly to digital investments. It will be only by measuring the right factor that the collective focus will be on shaping the right actions meant to capture the value available.

- **Articulate and implement a people vision.** Organization needs a vision for the participation of employees in the new digital reality. There are two aspects to it: expectations of activities on which employees spend their time and how they realign their work using new technologies, and clarity on what technology skills they need to develop. Digital transformation will clearly impact the importance of some roles, which is why many employees will perceives this transformation as a threat and can be resistant to the change that digital brings. However, it also shifts the focus of many workers efforts toward higher-value tasks, creating exciting new opportunities for development. For instance, a relationship manager will spend more time giving valuable advice and less time on capturing customer details. This enables them to generate value and focus on right tasks. Additionally, a deeper realization of the technical capabilities available and how they can affect processes will be important to effectively manage in this new digital landscape. Business leaders also need to be acquainted about how technology can be leveraged to overcome commercial challenges. They cannot rely only on acquiring new talent from digitally savvy industries to transform their organization. Although, new talent does provides a critical stimulus, but digital mindset and awareness needs to become a new management competence across the organization.

**Conclusion**

The latitude of these factors clearly demonstrates that digitization is a not an easy change and could evolve into a complicated journey. To capture the opportunities created by digital transformation, it requires investment, detailed planning, and coordinated decision making across the whole organization. Digitization is disrupting industries and rewriting the rules of competition among organizations. Any organization’s success will depend on how they respond to the evolving landscape in long term. This requires not a quick fix but a complete re-imagination of their business. Incumbents that fail to comprehend this, risk lagging behind the competition and nimble new entrants and could damage the organizations built over generations. But if business leaders manage to overcome multiple challenges posed by advances in digital world, aided by focus on people, mindset and digital culture, they can place their organization to compete effectively and capture an evolving growth path for long term.

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