Digital Banking: Time to Rebuild Your Organization
(Part III of III)

Digital success begins with revamping your bank's structures and processes. Here's the blueprint for managing those organizational changes.
Executive Summary

For traditional banks, evolving into a streamlined digital business requires the organizational equivalent of a hammer and nail: Structures must be dismantled and rebuilt, and processes need to be deconstructed and reassembled in new ways.

Organizational change management provides the blueprint. It helps banks transform more quickly by reordering their structures and processes, and creating the consistent, multi-channel, fluid and personal customer experiences that are becoming commonplace in other consumer-facing industries. But while readiness for change begins at the top, banking leaders have thus far struggled with digital transformation programs. Factors like unclear ownership, accountability and internal politics have blocked many banks’ ability to operationalize the requirements for change.

Smart change management ends the confusion. A planned and orderly approach to digital transformation translates theory into reality and gives leaders a roadmap for their digital mission.

Part I of our three-part series on the bank of the future looks at how banks can design manageable, consumer-centric experiences that boost revenues and cut costs. Part II reveals how banks can prepare their organizations to embrace customers as individuals. This white paper, the third in the series, details how the following change management techniques will ensure that your bank successfully makes the digital transformation:

1. Define what digital means to your bank. Why is change so hard? Often it’s because in the rush to go digital, banks overlook the basic requirement of defining digital’s role in driving business outcomes.

2. Rethink your reporting structure. To deliver their digital agenda, banks need the right structures, reporting relationships, ownership and governance of digital capabilities.
3. **It’s settled: Everyone owns digital.** Accountability is key. More important than the location of the digital function on the org chart is identification of the key players and the relationships among them.

4. **Break down organizational barriers.** Evolving into an enterprise that supports holistic customer relationships requires dismantling impediments. Cross-functional groups play an important role, as does a complete view of the customer.

5. **Rethink talent.** Redefining job responsibilities is as important to digital banking initiatives as adopting the right technology. Proactive workforce planning is essential.

6. **Develop new incentive structures.** When it comes to motivating employees, multi-channel banking demands that rewards and incentives promote joint accountability within a collaborative environment.

7. **Cultivate a digital culture.** Transforming to a digital bank requires dramatic cultural change. Successful navigation can be the lynchpin to competitive differentiation.
The Promise of Digital Meets the Reality of Banking

At its simplest, becoming a digital company requires acting like one: Harnessing insights from the digital data created by online behaviors (what we call a Code Halo™); using those insights to develop a personalized and contextual customer experience that is consistent across all channels of interaction; identifying digital ways to deliver products and services; and adopting innovation best practices, such as agile and “fail-fast” processes.

Nothing could be further from the dynamics at work in traditional banks.

Call it an organizational reality check. Banks are finding that it is even more challenging to make the organizational changes required to support digital initiatives than to adopt the technologies available to support them, namely social, mobile, analytics and cloud, or the SMAC Stack™. New structures and processes demand as much attention and budget as algorithms and system development. That’s a reality banks haven’t counted on.

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Despite a flurry of effort, most traditional banks are falling far short of their digital goals, and outdated structures and processes are often the culprit. While customers expect the same consistent, fluid processes they experience with other industries, banks remain segregated by channels, products and geographies. Many add digital tools as an after-thought rather than folding them thoughtfully into existing operations. For customers, the result is a jumble of processes that seem decidedly out of step.

Ironically, while banks are brimming with efforts to serve customers, much of it is uncoordinated. Every department that competes for wallet share likes to think it “owns” the customer, and few banks offer incentives that encourage collaboration.

The same unclear ownership and splintered accountability extends to banks’ digital transformation programs. Within most banks, executives throughout the C-suite stake claim to some element of the digital agenda, but lost in the digital shuffle is the ability to create an integrated customer experience. Banks aren’t alone in their disjointed efforts; while 88% of companies report they are undergoing digital transformation efforts, only one-quarter have mapped out the digital customer journey, according to a survey by the Altimeter Group.²

Much of the confusion is understandable. The digital space is vast and encompasses a continuum of opportunities, from duplicating existing capabilities on digital channels, such as mobile phones and social media, to creating new businesses and growth platforms.
Readying Organizations for Digital Success

Organizational change management helps banks end the confusion and place the customer at the heart of their strategy. It translates theory into reality. The following change management best practices will ensure that your bank creates a consistent multi-channel experience.

1 Define What Digital Means to Your Bank

Every bank wants to go digital. But what does digital mean within your organization? The answer to this deceptively simple question is essential, as it establishes clarity of purpose. It’s the job of leaders to define what digital means by gathering input from stakeholders across the organization and remaining open to new and bold ideas.

Once that definition is established, the leadership team should develop a roadmap. Doing so can avoid lengthy debates, false starts, and turf battles. This is also the time to set milestones and goals. The strongest banking leaders challenge their teams to identify digital opportunities that leapfrog incremental and uninspiring improvements. Aim for 10x efficiency gains or 10x growth. Such goals — although daunting — can also be motivational to everyone involved.

Within banks’ historically risk-averse environments, securing buy-in is easier said than done. Because digital initiatives impact the entire organization, they require leadership — and advocacy — across all functions and levels. Senior leaders alone cannot drive digital efforts, so engaging and empowering mid-level leaders to drive the digital agenda is key.

Equally important is identifying your organization’s most effective change leaders and agents. Research indicates that the qualities possessed by the most effective leaders of disruptive, innovative initiatives differ from those of traditional, more structured efforts. Individuals with broad, diverse networks of relationships, for example, often are the most influential.

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2 Rethink Your Reporting Structure

In digital organizations, top-down project planning needs to be replaced by dynamic, discovery-oriented approaches that free teams to quickly test ideas and learn from data and outcomes. To encourage and support agility, leaders need to encourage experimentation while driving performance; display patience while conveying a sense of urgency; and support teams while also challenging them.

To strike this balance, leaders need an organizational structure that enables them with the right reporting relationships, ownership and governance of digital capabilities. Thankfully, banks can make these changes without a massive reshuffling of organizational charts by integrating mechanisms outside of the formal reporting structure. For example:

- **Create a cross-enterprise team** that is responsible for developing and executing strategies and plans that reach across your banking organization, such as customer experience.
- **Form a cross-functional team** to define standards and governance related to customer data, including the exchange of information across channels.
- **Establish a digital center of excellence.** CoEs act as central hubs for optimizing digital capabilities across banking organizations. They can serve as a home to technology councils and other groups that define and deliver the digital technology strategy and roadmap.
- **Launch a “voice of the customer” board** to coordinate activities, such as customer research and a customer journey roadmap.
- **Assemble a cross-functional team** to guide development and execution of enterprise and cross-BU product strategies and plans.

3 It’s Settled: Everyone Owns Digital

Like many organizations, banks often begin their digital initiatives by housing the effort in a separate unit, and at first that can seem like a good idea; in traditional bureaucratic environments, new ventures can be vulnerable to being quashed by metrics, a lack of resources and turf wars. However, banks’ standalone digital initiatives can suffer from the same isolation that affects other lines of business.

In knowledge businesses like banking, digital is the business, and only by integrating digital with the physical business can banks produce the cohesive customer experience they need to establish.

The question of where the digital initiative should be located within the bank also raises the prickly topic of ownership. Which C-suite members should be accountable for the digital initiative? While some banks lead their efforts from the CIO or CMO office, several have designated chief digital officers (CDO), and still others rely on their CEOs’ hands-on leadership.

Each approach incurs risks and benefits. Assigning digital leadership to the CIO or CMO, for example, can result in a digital function that’s overly narrow, while creating the role of CDO risks compartmentalizing digital and inadvertently sending the message that no one else needs to worry about it. As the new kids on the C-suite block, CDOs can also lack the strategic perspective, authority and influence necessary to gain cooperation from other units, a dilemma that can also plague CIOs and CMOs.
CEO leadership confers the greatest stamp of authority on digital initiatives. Active involvement by the top exec provides strategic focus and can galvanize traditionally independent units. But the CEO’s busy schedule and competing priorities can also lead to project neglect.

The truth is, the digital function eludes ownership by a single executive. What matters more than its location in a formal org chart is the identification of the key players and the relationships among them.

It takes senior management’s big-picture perspective to guide digital initiatives and drive cross-functional collaboration. To ensure that everyone does indeed own digital, the best solution for banks is to form a digital leadership team that includes the CEO, and to establish the right operating model and governance to partition roles and responsibilities (see sidebar, below).

The Essential Planning Tools to Connect Strategy and Organization

The operating model connects a bank’s digital strategies to its organizational design. It defines accountability and responsibility for all activities, from business processes and data quality management to application development. Whichever model the bank chooses, it should be aligned with its business goals. For example, banks focused on cost reduction or effective use of scarce talent will want a centralized structure that facilitates planning and decision-making. Organizations seeking greater innovation and agility will prefer a decentralized model that removes layers of bureaucracy.

For most banks, a hybrid federated model works best. It centralizes digital activities within a CoE and allows the bank’s priorities to drive the degree of centralization and decentralization.

The governance model, meanwhile, works in tandem with the operating model to identify decision-making roles, criteria and processes for the CEO, CIO, CMO and CDO, as well as for business units and functional areas. Equally important, governance establishes who must agree to decisions, provide input and execute activities.

Most banks’ digital operating and governance models have a long way to go. Even banks that have established cross-functional groups or digital CoEs often lack the cohesive structure to support an integrated customer experience. One reason for this is the lopsided nature of banks’ digital teams. Digital steering groups frequently fail to include representatives from live channels, such as online chat or social media, as well as key functions, such as compliance, legal and HR. Business-led groups often perpetuate the business-IT divide by excluding critical functions, such as IT architecture and DevOps.

Another problem is focus. Even digital teams with well-rounded rosters typically emphasize long-term planning and leave project execution and daily operations siloed.

To avoid those pitfalls, banks should aim for a mix of representatives that can successfully navigate the current organizational terrain, while also envisioning the art of the possible. Choose a balance of senior, tenured managers and forward-thinking newcomers. Finally, keep the future in mind: Expand the focus of customer experience initiatives beyond the current digital touchpoints and customers.
Break Down Organizational Barriers

To overcome the barriers that exist today, it’s helpful to remember how they formed in the first place. Traditional banks were organized around the original channel: the branch. Because branches “owned” accounts, account revenue and growth was first recognized there – even before the individual lines of business (LoB) recognized fee and interest revenues. With job responsibilities and incentives based on account performance, collaboration was unnecessary.

As banks beefed up their product lines with mortgages, credit cards and consumer loans, each LoB took “ownership” of its accounts and often its call center. Organizational, these structures accreted tremendous power and resistance to change. LoB presidents and their organizations often preferred not to cooperate with other lines, effectively ruling out any chance of customer-centric banking.

Many still compete with each other for budget and recognition. What’s more, navigating the organizational quagmire is difficult for other functions, such as marketing, IT and customer service.

Organizational changes are required to break down banks’ LoB silos and enable sharing of customer data and processes. For instance, cross-functional groups play an important role in uniting the patchwork of fragmented efforts at work in most banks. Breaking down organizational barriers begins by assembling teams from HR, finance, marketing and the branches, themselves.

Some banks are dismantling silo walls by recruiting leaders from customer-focused industries, such as travel and hospitality, as outsiders can offer helpful, fresh perspectives. But banks need to guard against deploying these individuals as tactical SWAT teams, as this approach can run counter to the long-term organizational change that digital transformation demands. Banks can only produce meaningful results when they focus on evolving into customer-centric organizations with a customer-first culture.

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Rethinking job responsibilities is as essential to banks’ digital evolution as is acquiring new expertise. In IT, for example, many banking rosters still brim with Cobol and DB2 developers. Given the demand for technology expertise, banks often face an uphill battle to attract top talent in SMAC technologies, as well as in user interface design and collaboration software. Only 15% of executives in companies with 250 or more employees have the necessary people and skills to execute their digital strategies, according to Forrester.³

Additionally, banks need to upgrade skills throughout their organizations. Rather than processing deposits and withdrawals, branch associates are transitioning into hybrid positions that are part financial advisors, part technology evangelists (think Apple stores). So-called soft skills – consulting, relationship management, communication and leadership – may ultimately differentiate digital leaders.

Proactive workforce planning is essential for organizational change. The following are four talent strategies and key considerations on which banks can draw to support the structures and processes they will need to become digital organizations.

• **Develop talent internally.** In the face of talent shortages, many banks are assigning greater weight to their employees’ potential for assuming more customer-centric roles. Developing internal talent is advantageous for morale and continuity. But evaluation can be tricky, as some banks overestimate employees’ potential to learn new skills, while others shortchange them.

  The flip side of internally developing skills is that it requires banks to step up employees’ work experiences and compensation to a level commensurate with their new digital capabilities. Banks that fail to do so risk losing their training investments as newly skilled employees leave for other opportunities.

• **Recruit and hire.** In the early stages of transformation, many banks require significant lateral hiring to build the critical mass of talent needed to execute ambitious agendas. Because it is essential to attract candidates with highly desirable digital skills, banks need to reconstruct their reputations and employer “brands” in the job market, as well as seek digital talent wherever it resides, including candidates outside the industry and with less traditional backgrounds.

• **Partner.** Partnering helps banks leverage top digital expertise when needed; however, it also requires accurate demand forecasts and a willingness to pay a premium for hard-to-find skills. Another aspect of partnering is the need to mitigate concerns regarding job security and future career paths.

• **Acquire.** Although it’s not right for every organization, targeted company acquisitions can help businesses quickly obtain top-flight digital expertise. Several banks have bought small firms to access skills in mobility and analytics. In early 2014, Madrid-based BBVA bought online banking startup Simple for $117 million. The deal gained BBVA 100,000 new customers in the U.S., as well as access to Simple’s stylish apps, in hopes that it will attract even more.⁴

  Acquisitions demand a clear strategy to assimilate, nurture and eventually integrate the new talent. Without one, banks risk losing much of their investment to attrition or unrealized opportunities.
A key challenge to digital transformation for banks is the need to motivate employees to adopt customer-centric approaches across multiple platforms. Put simply, what's in it for them?

In the short term, banks are replacing traditional metrics, such as average call handling time, with more relevant benchmarks, such as net promoter score, that reward proactive approaches and emphasize activities that help meet customers’ best interests. But employees can be apprehensive about digital services, as well as the metrics that measure them. Branch and call-center employees, for example, often worry that by migrating customers to self-service and digital channels, they may put themselves out of work.

In response to banks’ changed structures and processes, however, incentives will change dramatically in the long term. One barrier that is falling away rapidly is the division between personal bankers and tellers. Banks such as JPMorgan Chase are putting a new spin on branch services by replacing desk-bound personal bankers and window tellers with associates who move about the branch and assist customers with a more roving style.

Organizational change frees banks to work in well-tuned, customer-centric ways, with incentives that reward people for crossing siloed processes, ushering in the advent of the networked employee. More important, failure to create an organization that embraces collaboration is a deal-breaker for banks because it triggers a domino effect: If banks can’t get cooperation across product silos, they will be unable to populate and harness the Code Halos that help them anticipate and meet customer needs and desires, which is essential to digital transformation.

Corporate culture outranks organizational silos and budget limitations as the greatest challenge to digital efforts, according to the 2014 Altimeter Group survey. Instead of being internally focused and regulation-minded, digital-friendly cultures look outward, especially at customers. Communication is open and transparent, and siloed, standalone functions become integrated and collaborative. Instead of slow and hierarchical, decision-making is fast and decentralized.

If those changes sound dramatic for banks, they are. But the effort is well worth it, as successfully negotiating digital’s cultural shifts is a competitive differentiator for banks. An intense customer focus – coupled with the ability to innovate and act quickly – is difficult for competitors to emulate.

Keep in mind that employee resistance to change runs deep. More than three-quarters of workers are skeptical of announced organizational changes, according
Many workers see corporate change mandates as little more than lip service. To overcome this skepticism, bank leaders should be purposeful in what they say and do and reinforce the customer focus at every opportunity. Encourage the question, “How does this impact the customer?” rather than, “How does this affect our unit?” They should also launch formal initiatives, including training programs, to support new mindsets and behaviors, as well as changes in recruiting, job descriptions and promotion criteria.

Bank leaders should also stand up for the value of innovation by green-lighting creative ideas, and rewarding ambitious embraces of innovation. Banks are using a mix of internal programs, start-up investments and incubation projects to think outside the box. Wells Fargo, for example, established its Startup Accelerator program to funnel investments in young businesses developing banking technology. Its Wells Fargo Digital Labs has more of an in-house focus and is located in tech-savvy San Francisco.

Looking Ahead: Three Steps Bank Leaders Can Take to Get Started

Here are three steps your bank can take to begin preparing its organizational structures and processes to transform into a digital banking organization.

1. **Prepare a new approach to leadership.** Digital organizations prize the ability to test new ideas quickly and learn from data and outcomes, which is the essence of Code Halo thinking.

   To succeed in this dynamic environment, banking leaders need to assemble the right teams. They also need to manage the organizational shifts that remove cultural and political roadblocks to collaboration. Establishing clear ownership of customer relationships within the organizational structure is essential. It also demands new metrics, such as wallet share or net promoter score, rather than traditional metrics, such as product sales, that banks use in conjunction with product silos.

   A key challenge for leaders is becoming comfortable with decentralized authority and ceding decision-making to managers and associates who interact more directly with customers.

2. **Start at the top.** Making changes to organizational structures and processes must be pervasive and should be reinforced and measured. The boardroom is no exception – banks need digitally savvy board members who are equipped to ask the right questions.

   So far, banks have been slow to appoint digital talent to their boards, although this practice is already in force among retailers and other industries. But that is slowly changing. Some banks now include at least one director with a digital background and then organize retreats to learn more about digital.

   It takes top-down support for digital initiatives to produce the changes that customers will eventually see. In the end, what matters is customers’ perception of your organization and how you’re organized to treat them.

3. **Believe that you can be quick and nimble and manage organizational change.** In fact, banks need to do both. Organizational change is a long-term process that requires multidisciplinary teams and professional program management. At the same time, banks can also begin becoming customer-centric in the shorter term, even as they work to design the organizational structures and processes to support it. For instance, they can launch a working group immediately that reaches across the organization to instill the sense of collaboration and shared products and services that makes digital businesses tick.
Afterword

We began this series with one goal in mind: to help banks tackle the challenges of staying profitable and relevant in the digital economy. Producing the series has left us more committed than ever to those goals. We thank the clients who have shared their digital journeys with us. We also thank the teams in our Banking and Financial Services Business Unit, as well as in our Cognizant Business Consulting Organizational Change Management Practice for adding their insights to our point of view.


Watch this video of Schmidt, Google executive chairman and ex-CEO, and Rosenberg, former vice-president of products, for a preview.

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Footnotes


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