

Success factors for digital transformation in banks

Research shows that the winning formula involves agile, adaptable, and curious finance leaders.



Banking has gone digital

Digitalization on a global scale has revolutionized traditional banking.

Whether the goal is to enhance the customer experience, reduce bottom-line costs, or grow reach and market share, digitization plays an important part in achieving banks' ambitions. Digitization promises banks greater productivity, lower transaction costs, greater capital efficiency and stronger operational resilience.

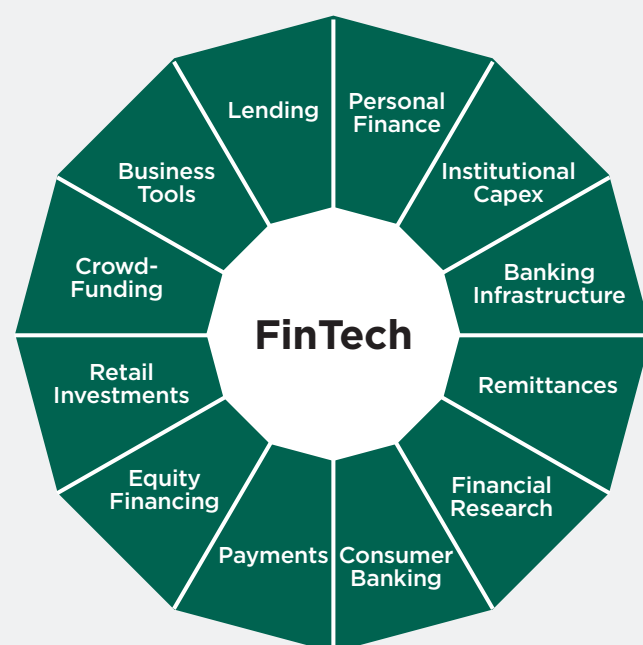
To deliver on these promises, banks have invested in FinTech—the industry that applies digital technology to all financial activities, impacting processes, products, and business models of financial services organizations. In fact, FinTech investment has increased from US\$2.5 billion in 2012 to US\$12.7 billion in 2016 (CB-Insights, 2017). Of note, US and Japanese banks occupy seven out of top 10 spots in terms of number of FinTech deals between 2015 and 2016 (CB-Insights, 2017).

Organizations that invest in FinTech look to address a broad range of transactions, such as electronic payments, online remittances, crowd funding, equity financing, and may also leverage the technology to collect and analyze data for work processes and to optimize banking infrastructure.

Yet, digital advancements make demands of banks and impact areas far beyond the implementation of the new technologies. Digitization requires banks to develop new capabilities from existing talent; to attract, develop and retain new talent that can keep step with the connected consumer; and to ensure leaders are ready to take their organizations on a journey of transformation.

Figure 1
The Digital Promise.

FinTech applies digital technologies to all aspects of banking transactions. The opportunity is for banks to become more productive, with lower transaction costs, greater capital efficiency, and stronger operational resilience. But the promise requires banks to develop new capabilities.



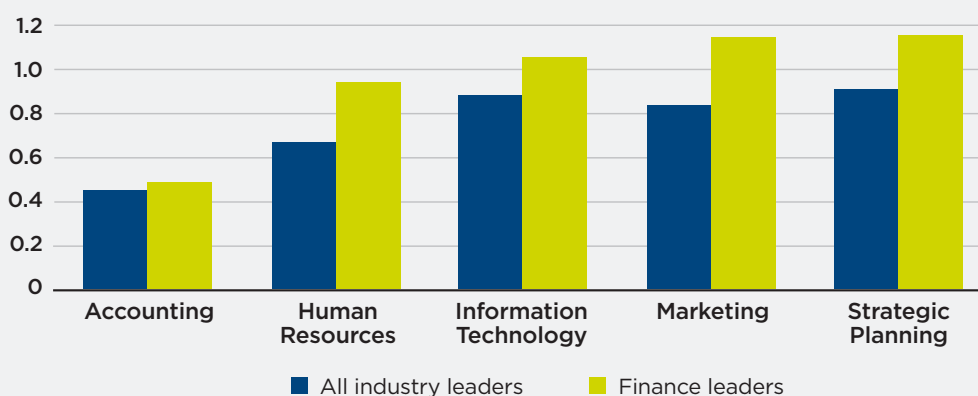
Four success factors for a digital banking transformation

Research using data from KF4D shows that whichever functional roles finance leaders are placed in, they tend to demonstrate higher learning agility. This is especially so for leaders involved in digitization work in banks—leaders involved in IT, marketing, and strategic planning.

Figure 2

Learning Agility scores.

Data from Korn Ferry's Four Dimensions of Leadership & Talent (KF4D) study indicate that finance leaders have higher learning agility compared to other business functions.



Banks Under Pressure to Transform

Korn Ferry Hay Group research highlights megatrends that will accelerate the pace of banking transformation:

- Globalization 2.0 enables customers to have a broader choice as global banking becomes seamless.
- Demographics will also shift toward millennials who seek the best services through digital platforms.
- Technological convergence will mean greater innovation in banking and all businesses complementary to banking.
- The race for innovation and first-mover advantage is now more intense than ever before (Vielmetter & Sell, 2014).

A recent poll with global senior client partners in Korn Ferry Hay Group suggests that for banks to be successful in transformation in the digital era, there are four critical areas on which to focus.

First, high levels of learning agility in the banking workforce is required to capture opportunities in the market. From more than 200 senior executive interviews, Korn Ferry research showed clear links between learning agility and the success of individual executives to adapt and lead. Therefore, learning agility is crucial to executives who are leading areas that are undergoing change and disruption, such as a digital transformation. Interestingly, finance leaders demonstrate higher levels of learning agility (see Figure 1.)

The importance of learning agility also extends to the broader workforce, especially the key traits of mental agility and change agility. Korn Ferry research has shown that companies with a highly agile workforce have 25 percent higher profit margins than their peers.

Second, developing an enterprise culture of high-risk appetite for digital strategies will bring about greater business success in digitization. The global financial meltdown led to a crisis of confidence among business leaders and consumers, and as a result, banks became more risk averse. Korn Ferry research, however, points to an emerging need for a fresh and disciplined approach to risk-taking to seize the opportunities of FinTech and drive an organizational digital transformation.

Risk-taking runs counter to the traditional values of banks, where mitigating risk and ensuring predictability and stability are prized. This will require a change of culture, but the effort will position banks to tap into new opportunities for growth.

Third, developing a strong employer branding is a must. Korn Ferry research shows that a strong employer brand helps organizations attract talent directly, which significantly reduces reliance on agencies and external specialists. The benefits are not simply related to cost.

Just as important is the broader value that an employer brand can deliver, such as the increased retention and deeper engagement of talented people already on the team.

With the ongoing war for digital talent, strong employer branding will become the competitive advantage. In fact, research indicates that employer branding is one of the top five priorities among the boards of directors in almost half of the organizations surveyed.

Fourth, high levels of digital leadership among senior leaders is a necessity for successful digitization.

Companies must have the right mix of digitally ready and digitally expert talent to lead and execute a successful transformation. This is especially true for traditional companies looking to embrace a digital future.

Developing digital leadership from within or acquiring digital leadership from the outside comes with challenges. It requires deep knowledge and expertise to identify the needed leadership traits, maintain the balance of leadership strengths, and enable leaders to lead. Nonetheless, the work is worth it: Research has shown that leaders in firms with high digital leadership not only have strong ability to engage customers digitally but also to increase top-line growth.

Figure 3
Success factors for a digital banking transformation.



Transformation begins with leaders.

While building an agile workforce, developing a risk culture for digitization, and improving employer branding are important levers, leadership in banks is the key to unlocking digital transformation success.

Leaders set the environment for change and are the agents of change. According to Vielmetter and Sell (2014), leaders need to be flexible, internationally mobile, culturally adaptable and sensitive, highly collaborative, and strong conceptual and contextual thinkers.

Of concern, then, are Korn Ferry Hay Group findings based on research of over 5,000 financial services leaders, which show that certain types of leaders could derail a digital banking transformation. The gaps are summed up in leadership styles, engagement, and emotional intelligence.

Leadership styles

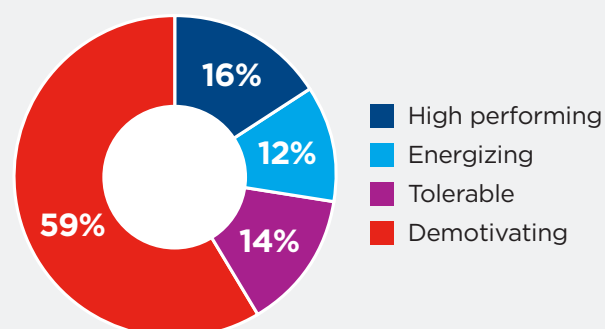
Research indicates that financial services leaders tend to exert a coercive/directive leadership style more often than leaders of other industries. A coercive/directive leadership style demands compliance with orders. It is associated with efforts to motivate that focus on the consequences of noncompliance, e.g., “Do it, or else.” This style can be useful during short periods of crisis but, if used longer-term, has a negative impact on the work environment and will produce poor performance (see Figure 4).

A deeper dive into the data reveals that 40 percent of banking leaders rely on one dominant leadership style, and 64 percent of financial services executives rely on at most two leadership styles. This narrow use of leadership styles constrains leaders from flexing and adapting—traits that are required to remain agile through a transformation, to engage and motivate others successfully, and to respond to the dynamic financial marketplace.

Figure 4

Organizational climate of financial institutions.

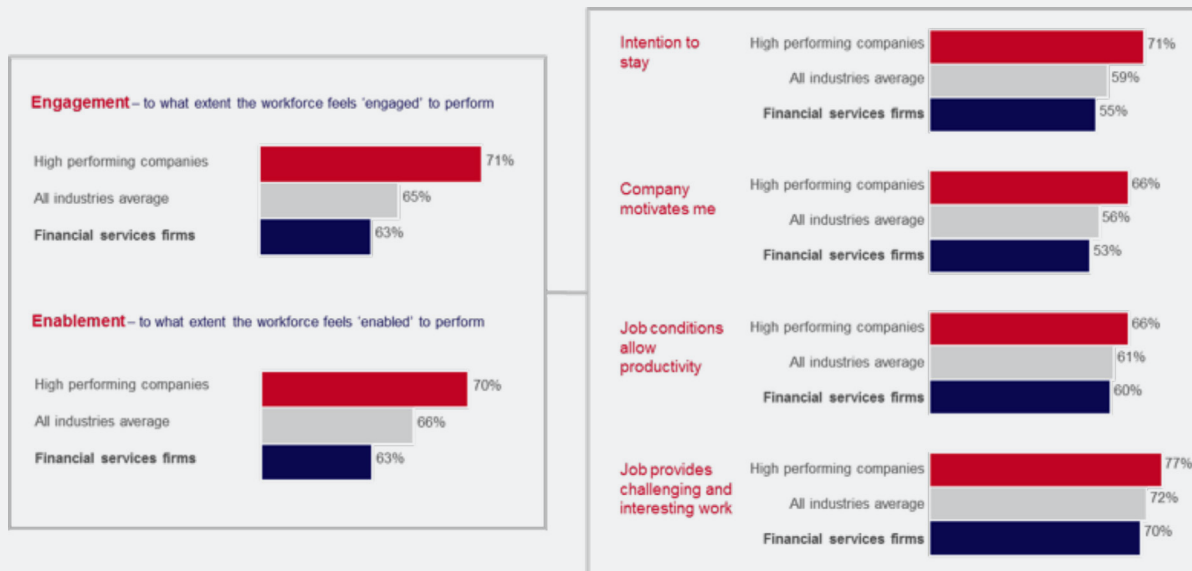
Impact of Leadership Style on Organizational Climate. 59% of the organizational climate of financial institutions is demotivating, likely resulting in poor performance.



Employee and customer engagement

It should come as no surprise, therefore, that financial services leaders perform poorly when it comes to employee engagement. In a comparison between financial institutions and high-performing organizations from other sectors, findings show that the financial organizations lag. Banks should consider the dimensions focused on motivating employees and exploring employees' intention to stay (see Figure 5).

Figure 5

Limited organizational engagement in financial institutions.¹

The data also points to an inward orientation in financial services organizations, with low scores for customer focus and client-related innovation.

Emotional intelligence

A Korn Ferry study comparing the emotional intelligence profiles of financial services leaders with leaders from other sectors found that, overall, financial services leaders scored lower. Emotional intelligence encompasses understanding, empathy, and the ability to influence.

This should raise a flag for banks because research suggests that emotional intelligence is twice as important as cognitive ability in predicting outstanding performance.

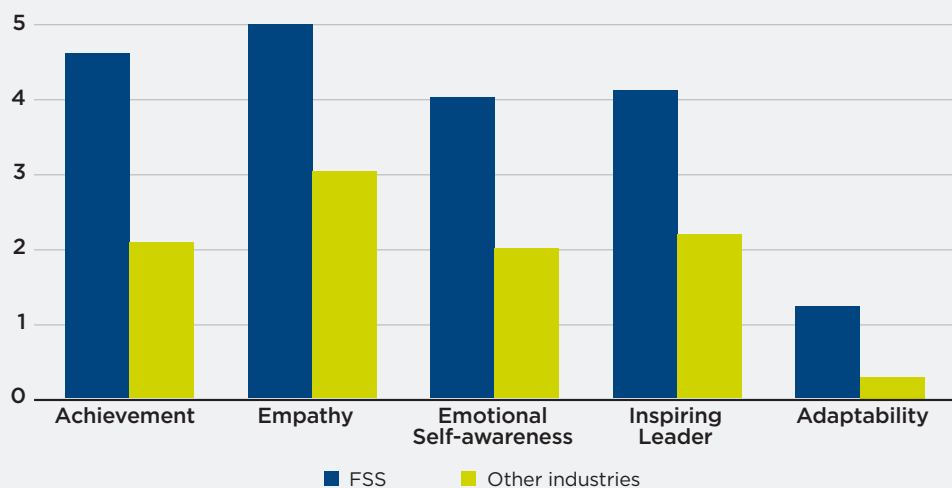
This troubling emotional intelligence finding is further compounded by the fact that financial services leaders have psychological blindness around their leadership gaps. Korn Ferry Hay Group data indicates that financial services leaders tend to see themselves in a more positive light compared to how others see them. Further, this self-and-others ratings gap is significantly bigger amongst financial services leaders than leaders in other industries (see Figure 6).

Executives with high empathy are better at keeping employees engaged, and employees with empathy give customers the very best experience.

Daniel Goleman
Contributor, Korn Ferry Institute

¹ Based on in-depth analysis of Korn Ferry Hay Group's Insight database, 2007-2011. Study of 63 financial institutions vs. 71 high performing organizations from other sectors.

Figure 6

Gaps between self and others' perceptions: financial services leaders vs. other industries.²

Financial services executives rate themselves highly for goal orientation, resilience, and analytical thinking, and indicate preferences for well-structured, conventional environments. Yet, the data also shows these executives find collaboration challenging, tend to be poor listeners, are unwilling to compromise, and lose the broader picture while focusing on details. Blind spots like these can severely hamper an executive's ability to embrace or lead a transformation.

With a predominant coercive/directive leadership style, an inward-facing orientation, and opportunities for improvement in emotional intelligence and self-perception, leaders of banks need help to lead a digital transformation.

² Based on in-depth analysis of Korn Ferry Hay Group's Emotional and Social Competency Inventory (EXCI) database, 2011-2013. This analysis comprised 1,021 financial services leaders and over 12,000 industry leaders.

One path to success: a case study.

A top global bank was looking to revolutionize customers' experience at branch level.

The bank engaged Korn Ferry Hay Group as a partner to bring along the leadership team on this journey. It began with ensuring there was clarity around what contributed to positive customer experience, alignment amongst leaders and then defining a culture that would bring about the transformation.

It is worth noting that the critical element of this journey—the enablers—concentrated on the bank leaders themselves. Korn Ferry Hay Group worked closely to identify, quantify, and develop the right leadership behaviors to make the journey possible. Leveraging research data and instruments, Korn Ferry Hay Group focused on enhancing learning agility and the key traits that enabled the leaders to embrace digitization so that they could perform and drive success.

That success encompassed many areas, including a reimagined “physical digital” space that featured ultra-modern account-management kiosks, wall-sized interactive displays, and new platforms for bankers and customers to engage in customized solutions.

After debuting the digital service in Tokyo, the global bank moved from the 57th position to first in an annual survey of retail banks. This impact was subsequently translated to greater market share for the firm.

Going digital

Digitization has revolutionized traditional banking, bringing with it opportunities to enhance the customer experience, reduce bottom-line costs, and grow reach and market share.

Banks that want to take advantage of these opportunities are looking to digitization and are making investments in FinTech. But the shift requires more than investments in technology. Banks must focus on four additional areas: learning agility; risk management; employer branding; and digital leadership—with digital leadership being the most important element of the mix.

Digital leadership must have the capacity to flex leadership styles as needed, the ability to engage employees and customers, and emotional intelligence and honest self-perception.

Smart banks are paying attention to the success factors for digitalization and are motivated to make the changes needed to succeed for the future.

The winning formula for financial leaders in the age of digitization is achieved through having leaders who are agile, adaptable, curious, risk-taking and who have a high tolerance of ambiguity.

Janice Ho, Ph.D.,
Senior Director, Korn Ferry Institute

Evaluating transformation readiness.

Banks seeking to succeed at a digital transformation must first look at themselves and assess their readiness. This list prompts self-reflection, providing guidance as to whether your bank is ready for digitization.

Respond “Yes” or “No” to the following:

**yes
or no**

1	My organization has a highly agile workforce.	
2	My organization is ready for a culture change towards digitization.	
3	My organization has a strong employer brand that allows me to capture digital talents.	
4	My organization has a performance-management framework in support of digital strategy.	
5	My leaders have a strong digital quotient and are able to capture digital opportunities.	
6	My leaders are agents of change, focused on winning digital clients through employees.	
7	My leaders have strong leadership capabilities and are ready for digital opportunities.	
8	My leaders are aligned on the purpose and vision of our digital strategy.	

Score your readiness: Assign 1 point for each “Yes” mentioned above. Then compare to the following table:

7-8	Ready to achieve digital success
5-6	Adequately prepared for digital success
3-4	Specific help needed in preparation for digital success
1-2	Much needs to be done to prepare for digital success

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Contributors



Janice Ho, Ph.D.
Senior Director
Korn Ferry Institute



Shakifur Chowdhury
Senior Research Associate
Korn Ferry Institute



Nick Evans
Senior Client Partner
Global Financial Markets
Korn Ferry

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Korn Ferry is a global organizational consulting firm. We help companies design their organization—the structure, the roles and responsibilities, as well as how they compensate, develop and motivate their people. As importantly, we help organizations select and hire the talent they need to execute their strategy. Our approximately 7,000 colleagues serve clients in more than 50 countries..

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