MAY 2021

banking transformed white paper by: Jim Marous

Sponsored by:



Leading Digital Transformation



Leading digital transformation will be ineffective without a leader's own personal transformation — one that makes a firm's culture, employee engagement, and workforce retraining as important to success as data-driven agility, innovation, technology modernization, and productivity.



Copyright 2021: Banking Transformed White Paper (ISSN 2375-3455) is published by DBR Media LLC, 8803 Brecksville Rd., STE 7-223, Brecksville, OH 44141, USA. Phone: +1 (216) 218-4257 admin@digitalbankingreport.com

White Paper Special Edition May 2021

Subscriptions: \$1,995 per year for digital edition with online archive access. Team and Enterprise subscriptions also available.

Publisher: Jim Marous, jmarous@digitalbankingreport.com

Creative Director: Carol Ann Ryan Relationship Director: Geoffrey Rucinski

WARNING: Federal copyright law prohibits copying or distributing this report in part or in its entirety. (© 2021)

This report is licensed for ONE PERSON unless a multi-user subscription has been purchased.

Contact: jmarous@digitalbankingreport.com for additional licenses.

— Jim Marous

Owner and CEO, Digital Banking Report Host, Banking Transformed Podcast



Letter from the Author



Jim Marous

Digital banking transformation is the most important overarching initiative in financial services today. Broad in scope and never-ending in execution, the process of making an organization future-ready for digital is a necessity for success.

Financial institution leaders worldwide understand that their customers, workers and competition have gone digital. In research done by the **Digital Banking Report** since the pandemic, organizations rank leadership vision, a customer-centric perspective and being digitally-savvy as essential to serving both external and internal constituencies. According to the **MIT Sloan Management Review**, "The idea that effective digital transformation delivers agility, adaptability, and customer centricity is now both a managerial mantra and leadership inspiration."

Effective digital banking transformation leaders must have the ability to embrace change, take risks and disrupt both the organization and themselves. It requires retaining the skills that were used to move the organization forward in the past, as well as new skills that support a digital-ready future.

Leaders, who in the past placed a primary emphasis on greater efficiency and productivity, will need to expand their scope of influence and awareness to include an awareness of the digital behaviors of the consumer and business marketplace. They will also need to focus on developing a digitally savvy workforce that also values sustainability and social values.

Challenging financial institutions more than ever, workers believe their organizations fall short on many values-related issues, at the same time that an overwhelming majority strongly agree that it is very important to work for an organization with a purpose they believe in. In other words, workers believe



Letter from the Author (continued)

that senior leaders lack credibility when it comes to aligning their organizations around a shared vision. This lack of credibility puts organizations' long-term competitiveness at risk.

An added challenge is the blurring of boundaries between home and work, especially in a pandemic-impacted world where most, if not all, employees had to adjust to a remote work environment. And what will the future of work actually look like?

This research, sponsored by **Alkami**, provides a perspective on the heightened impact of leadership on the digital transformation of financial institutions. It discusses the needs of today's workforces and the application of digital technology across organizations. It also illustrates the importance of having a 'digital culture'.

It is clear that bank and credit union leaders can no longer ignore the impact of digital transformation on decisions around investment priorities, employee retraining, and culture shift. This report offers a perspective on the importance of leadership transformation as well as recommendations for setting the necessary foundation for leading digitally transformed organizations.

We hope these insights provide the basis for significant shifts in business priorities, strategies and tactics across the industry in 2021, helping your organization proceed aggressively in the pursuit of improved decision making and customer experiences.

Jim Marous Owner & CEO, Digital Banking Report Host, Banking Transformed Podcast Digital Future Requires New Leadership Model

Does the banking leadership handbook from the past need to be completely rewritten for the digital age? Or, do the leadership rules that have survived the test of time simply need to be reset for a new digital reality that includes new technology, new competition, new employee needs, and new marketplace expectations?

> The banking industry is trying to respond to an increasingly turbulent business environment, where legacy leadership and existing cultures are being challenged. In many instances, the legacy culture becomes a barrier to the required changes needed to become digital banking organizations. Not only do leaders need to articulate a vision for a future of increasing customer expectations, greater competition, new delivery channels and advancing technology, but they also need to provide the resources to become digital technology organizations.

> Some people argue that completely new leadership skills will be required to survive in the digital age. Others believe that leaders should go back to

the essentials established decades ago, not letting change distract or disrupt an organization on the managerial level.

To these points, a research project conducted as part of a 5-year collaboration between **MIT Sloan Management Review** and **Deloitte**, found that a blend of both perspectives may be required. In other words, while

may be required. In other words, while core leadership skills will stay the same, digital disruption will require new skills to be added to the 'leadership handbook'.

Now more than ever, bank and credit union leaders need to adjust to the increased pace of change in the industry. They also need to deal with the effects of hundreds of small fintech and big tech firms competing for their

"In a world where nearly two-thirds of U.S. consumers are willing to use a financial product from a trusted technology brand, FIs of any size must embrace change and digital transformation. For those that do, the prognosis is very good."

Mike Hansen, Chief Executive Officer, Alkami customers who do their banking purely on their mobile phones. In addition, they also need to deal with the disruptive conflicts between legacy bankers and the new wave of change agents within their organizations. In other words, today's leaders need to embrace change, take risks and disrupt themselves.

Digital Transformation Starts at the Top

While it is apparent that the importance of digital transformation is a given among senior leaders, it is evident that many of these leaders do not have the digital/ technological background required. This is even more evident as we have looked at the composition of the board of directors at many financial institutions.

This becomes a concern when organizations are being asked to make smart decisions around the prioritization of resources and digital investments. Some organizations still regard digital transformation in purely technological ways, rather than as an opportunity to change the entire focus of the organization, business models and culture.

When the Digital Banking Report analyzed the ownership level of those organizations that considered themselves to be digital transformation "leaders," it was clear that, to lead in digital transformation, you need the top leader within the organization to be the ultimate decision maker in the process. While only 19% of organizations globally had the CEO in charge of the digital transformation process, 37% of "leading" digital transformation organizations stated that the owner was the CEO (and an additional 17% assigning ownership to the CDO). Clearly top level buy-in is imperative when you are not only buying technology, but trying to shift culture.

CHART 1: DIGITAL TRANSFORMATION STRATEGY LEADER WITHIN LEADER ORGANIZATIONS



In the digital age, having top level leadership is imperative, but the importance of strong teams can't be overlooked. When pursuing a digital transformation process, effective leadership is not as much about telling people what to do, but more about inspiring, nurturing and persuading. It is about setting the right context to enable great work and to provide a compelling vision. In the context of rapidly changing digital banking environments, horizontal collaboration and effective multi-disciplinary working takes on a heightened level of importance.

What Makes Digital Leadership Different?

The leadership skills of the past are the foundation needed in a digital organization, but they aren't enough by themselves. When more 3,300 leaders were asked by MIT SMR what the single most important skill was to succeed in a digital workplace, the presence of a 'transformative vision' was ranked slightly higher than a clear, 'forward-looking' vision (22% and 20% respectively).

By transformative vision, respondents to the MIT SMR research meant leaders should have the ability to anticipate markets and trends, make savvy business decisions, and solve tough problems in turbulent times. In other words, embrace change and take risks based on multiple possible futures.

The third most mentioned skill that was deemed important for leadership success in a time of digital change was the ability to 'understand technology'. This has been found to be a major skills gap with traditional banking leaders as well as with their board of directors. At most financial organizations, digital literacy above middle management is almost non-existent.

In fact, the principal researchers from **MIT CISR**. Peter Weill, Stephanie Woerner, Thomas Apel and Jennifer Banner found that at companies in all industries, earning more than \$1 billion in revenue annually, only about a quarter of them had three or more board members who were considered 'digitally savvy'. For the purposes of this research, 'digitally savvy' was defined as, "understanding, through experience, how digital technologies such as social, mobile, analytics, the cloud, and the 'Internet of Things,' will impact company success in the next decade."

To increase the digital maturity of top management and boards of directors, MIT Sloan suggested the following:

- **Provide self-directed learning,** require attendance at technology conferences, and/or find digital natives for leaders to learn from.
- **Commit to 'digital tourism',** including visiting and engaging in conversations with boards and leaders of other successful, tech-driven companies.
- **Have multiple digital strategy retreats** that focus exclusively on digital threats and opportunities.
- Recruit new leaders who have strong digital experience.

Digital literacy is part of the foundation of the first two leadership skills cited, because leaders who are not digitally adept will struggle to understand the impact, risks and opportunities of digital transformation. This is why we see that the most digitally advanced and innovative financial institutions worldwide are

those with leaders from outside the banking industry. Bottom line, it's hard for historically successful leaders (and organizations) to disrupt themselves.

Finally, tied with the need to understand the impact of digital technology is the need to be open-minded and accepting of change. Obviously, this mindset supports all of the traits higher on the list, enabling leaders to respond to a very disruptive environment. The trait also assumes that ongoing learning is occurring to avoid skill set obsolescence.

CHART 2: BIGGEST DIFFERENCES BETWEEN DIGITAL AND TRADITIONAL ORGANIZATIONS



© 2021 Banking Transformed White Raper. All rights reserved.

PAGE 8

Traditional Leadership Skills Still Required

Even though a number of new skills are required to succeed at a time of digital transformation, the decades-old fundamentals are still required. In other words, leaders should not let the technological change occurring around them distract them. Understanding the basics of communication, prioritiza-



tion, investment and project management are even more important during times of change. These skills cannot be delegated. They are the foundation for a culture that embraces the potential of digital transformation as opposed to simply providing lip service.

New technology without top-level ownership, involvement, empowerment and communication is a recipe for disaster. Employees and managers at all levels need to have the tools to succeed, including training and the support for 'disrupting others' appropriately. This may require the hiring of new digital leaders who can set an example for others. There must also be the opportunity for those embracing digital transformation to advance in the organization.

CHART 3: MOST IMPORTANT LEADERSHIP SKILL NEEDED TO SUCCEED IN A DIGITAL ORGANIZATION



Source: MIT Sloan Management Review © May 2021 Digital Banking Report

"To gain comfort in taking risks and learning from the inevitable failures that come with them, leaders need to cultivate 'emotional fortitude', which provides a clearheaded expectation of possible failure but does not result in despondency or recklessness."

Combining the Best of Old and New Leadership Skills

The joint research project with MIT Sloan Management Review and Deloitte believes what is needed is a healthy blend of both old and new skills. That is: "Leaders who have the core skills cultivated from the insights of the past, but with the agile mindset and digital savvy to allow them to pivot when necessary. In short, leaders who can 'be the change we seek'."

According to **Deloitte**, today's leaders need flexibility, agility, and a willingness to extend their organization's capabilities into new and, sometimes unexpected, areas to keep ahead of relentless competition. The goal is to make themselves and their organizational incumbent players 'undisruptable'.

"CEOs need to continually transform their organizations by 'embracing ambidexterity' through their leadership — and by infusing others with the same mindset," state Benjamin Finzi (a managing director and co-lead of Deloitte's CEO Program), and Scott Baret (a partner and Vice Chairman of Deloitte, leading the US Banking & Capital Markets practice). Leadership ambidexterity requires simultaneously optimizing through aggressive actions that yield efficiencies while exploring new and risky pathways that may ultimately modify the current business model.

Enhancing optimization and exploration simultaneously, particularly in large, legacy financial institutions, can be extraordinarily challenging — yet doable, state Finzi and Baret. The larger, more complex, and older an organization, the more it may lean on optimization over risk-taking as a means to growth and profitability. To gain comfort in taking risks and learning from the inevitable failures that come with them, leaders need to cultivate 'emotional fortitude', which provides a clearheaded expectation of possible failure but does not result in despondency or recklessness.

Emotional fortitude combines a realistic assessment of potential risks and roadblocks — with the courage to pursue lofty visions. It involves the tenacious confidence to continue exploring risky bets in the face of repeated failures, and the willingness to let go of a treasured project as soon as the signs that justify abandonment arise.



"We really believe feedback is a gift. When our clients and partners do give us feedback, they inspire us to be better. We bring their feedback to our team and take action. That creates a meaningful relationship and helps you weather storms, because it creates trust."

Mary Nelson, Chief Client Officer, Alkami

Embracing a Beginner's Mindset ... and More

Deloitte's Finzi and Baret point out that to fuel a powerful engine of exploration, leaders of digital organizations need to adopt a 'beginner's mindset' — a concept rooted in Zen Buddhism, that leverages the possibilities inherent in not knowing all the answers. Strengthening one's ability to keep an exceptionally open mind, put aside all of the answers and knowledge one has gleaned over the years, and listen deeply to differing views and experiences, can lead to breakthrough ideas that may further bend the business model.

As a complement to the creativity of the 'beginner's mindset', CEOs also need to embrace the attribute of 'disruptive jujitsu'. This characteristic requires recognizing threatening, disruptive patterns from others in the environment and breaking the patterns into components, ultimately finding ways to appropriate selected disruptive elements for their competitive advantage.

Finally, and most importantly, the study from Finzi and Baret emphasizes that

digital leaders must make it their passion to discover their customers' most subtle, unconscious, and often unrecognized needs and desires. Essentially, what will solve the problems that customers have not yet even acknowledged to themselves?



This requires finding new and innovative ways to understand the customer's experience with current services — and then addressing their most deeplyembedded wishes and needs in innovative ways, regardless of whether the consumer is conscious of them or not.

The new leadership model will require that boards of directors, CEOs, and all top management constantly reinvent their skills and roles, demanding new perspectives from themselves and their organizations. In striving to create a new leadership model, some failure is inevitable along the way; but without it, banks and credit unions may not survive as we know them today.





Crisis as a Catalyst for Digital Transformation

Most financial institutions moved with unprecedented speed, teamwork, focus and empowerment to build solutions in response to COVID-19. The question becomes, how do institutions maintain this level of agility, commitment and innovative thinking moving forward? How do they use the crisis as a springboard for the broader objective of digital transformation that is requisite for long-term survival?

> Since the pandemic disrupted the world as we knew it, financial institutions had to rethink the way work was conducted, how products and services were built and delivered, how consumers were communicated to, and the vision for the future. The industry had to react to unexpected opportunities and challenges in an instant, sometimes opting for less than perfect outcomes.

Over the past year, product and service gaps rose to the surface. Outdated processes and procedures hampered the ability to deliver what consumers desired. The pandemic highlighted where financial institutions were falling short of expectations. While some (a few) organizations were well prepared, others were forced to change course in a more piecemeal manner.



As we look at 2021 and beyond, incremental changes to a previous year's strategic plan will be insufficient. Organizations will need to make assumptions around the state of the banking ecosystem, identifying gaps that require immediate attention, and re-setting priorities and investments appropriately. Digital banking transformation is no longer optional ... it is a matter of survival.

"When you are continually learning and doing better, your employees will see that, and it becomes contagious."

Adrianne Court, Chief Human Resources Officer, Alkami

Importance of Strong Leadership

It is during times like these that strong leadership is required. It is one thing to lead during a crisis. It is entirely different to maintain speed and agility as part of an ongoing strategic mission. How do organizations keep the momentum going? How does a bank or credit union reflect on the gaps that were amplified when the world came to a screeching halt?

But, don't simply limit the view to what took place during the past year. Put all that was learned in the context of what your organization was already working towards before the pandemic, and where you believe the industry will be five years from now.

For instance, it is one thing to be able to allow consumers to open a new account or apply for a loan digitally. It is entirely another to make the process as fast and simple as the strongest competitors in the marketplace. Leaders must set the vision for the future, while clearing out the obstacles that prevented digital transformation in the past. What stands in the way of changing the legacy processes, upgrading outdated infrastructure or upskilling current employees to move beyond status quo?

According to **BCG**, "It's important to appeal to people's deepest motivations in a positive way — to establish the aspiration for new possibilities that the organization can achieve, rooted in a broader purpose — and to galvanize people around that aspiration."

Moving Beyond Comfort Zones

Leaders at all levels of a financial institution must move out of their collective comfort zones to embrace the change that is needed in the future. Leaders must articulate the new vision at the beginning of the strategic planning process, motivating and delegating to others within the organization, eliminating fear and confusion around the massive changes to business as usual.



The good news is that, while change can be painful, leading change is easiest when change is already occurring. With everyday life at home and work completely disrupted and in a state of constant flux, collaboration and productivity have increased as people instinctively pulled together. COVID-19 also provided the opportunity to take advantage of the massive shift in digitization — advancing financial digital transformation much more than would have been possible without the pandemic.

What leaders must be cautious of is the potential aftermath of the crisis mode – when the adrenaline and energy of making massive changes wears off. Without continuous engagement and communication of purpose, fatigue and stress can take over. Leaders must shift the mindset to the future state of the business to re-energize the organization. As stated in an article from **YSC Consulting**, "Leaders need to have the confidence to lay out a hypothesis [for the future] with the humility to expect that some of the predictions will be wrong."

Don't Wait for a 'New Normal'

More than at any time in the past, there is a need to act decisively in developing a transformation agenda. This year's strategic planning process allows leadership teams to articulate a vision and specific plan for the future — that is far different than a modest adjustment to last year's plan. Organizations must redefine what it means to be a 'digital bank' and what is required to be 'customer-centric'. Leaders must share the vision they have for employees, customers, their strategic partners and investors despite not knowing for sure what the future may bring.

The pandemic made it clear that there is no such thing as a 'new normal' in the context that there is no specific end-point to the environmental changes occurring. Instead, strategic planning should be done understanding that the world and strategic plan is iterative, with adjustments made accordingly.

The challenge in 2021 and beyond is that there is no guidebook for success, since so much is still unknown. In addition, last year's successes, organizational structure, investment priorities and marketplace assumptions represent the realities of yesterday. In other words, most organizations need to start from scratch based on what has happened over the past year.

Being a fast follower is no longer a valid strategy, since each institution is vastly different and because change is happening faster than ever. There is no reason to throw out all that was learned in the past, but it is not wise to hold on to past assumptions that may no longer be valid.

Redefining Organizational Culture

The pandemic served as a wake-up call to organizations steeped in legacy culture. It is more clear than ever that the banking business models of the past are both outdated and dangerous to hang on to. Every demographic group has changed the way they do banking and what they expect from their financial institution. From digital capabilities without the need for a branch, to hyperpersonalization that uses data to recommend appropriate solutions, the business of banking has been altered forever.

Many organizations have seen positive behavioral and cultural changes emerge in response to the crisis. The pandemic also revealed some less favorable changes. As leaders are building their strategic plan for the future, they must also redefine the culture that they want going forward, reassessing individuals and teams against these transformed expectations.

In other words, this era of disruption is an excellent time to reset the mission, purpose and value proposition of an organization. From the markets that will be served, to the way the institution will engage with employees, consumers and businesses, this is the time to determine what an organization will be known for going forward. But this vision cannot be static. Instead, it should evolve and be responsive to the marketplace.

"Creating peoplefocused initiatives that support the physical and mental well-being of the workforce will not only help the organization and its employees, but also be reflected in customer satisfaction."

Don't Forget Your Employees

As mentioned, the pandemic disrupted the way people in organizations worked, as well as the responsibilities that many employees had prior to COVID. This was unsettling to both individuals and teams. To be successful in the future, banks and credit unions must not ignore the opportunity (and risks) for new ways of working, new skills required and new motivational models emerging.

Organizations that only focus on the external consumer without paying attention to the needs of the workforce will fail in transformation efforts and the ability to leverage the most important component of success. Companies will need to focus on training and upskilling to provide future opportunities while eliminating the fear of being displaced. Creating people-focused initiatives that support the physical and mental well-being of the workforce will not only help the organization and its employees, but also be reflected in customer satisfaction.



Culture is Key to Digital Transformation, Not Just Technology

Creating a digital banking organization requires a focus beyond new technologies. A 'digital bank culture' must be created and reinforced from the top-down and bottom-up. This digital culture does not require elimination of everything that is already in place, however.

> While many financial institutions focus on the technology upgrades required for digital transformation, cultural change must precede the investment in and the deployment of new technology solutions. Unfortunately, this is a difficult challenge for many legacy institutions because it requires embracing significant changes to what has existed for decades.

Making matters worse, as the pace of change continues to increase, the performance gap within the financial services industry is growing. This is because most organizations are having difficulty keeping up — focusing instead on data, advanced analytics and new digital technologies.

The question is: How can a bank or credit union become more responsive to the digital opportunities in the marketplace without alienating current employees or negatively impacting what has made the organization successful in the past?

It is a multifaceted challenge. In some cases, current leadership may not fully understand the dynamics of the culture change required, or may just be 'willfully blind' to what is required. The result may be employees who don't feel empowered to embrace change, take risks or disrupt themselves.

Finally, with most leaders being in the banking industry for so long, the reality of "this is the way we do things" is hard to change. Being disruptive is just not rewarded in many organizations.

According to the report, 'The Digital Culture Challenge: Closing the Employee-Leadership Gap', from Capgemini in partnership with Brian Solis, corporate

culture is the culmination of how a company works and operates. It is composed of the collective experiences of employees — what they believe in and what they value. Leadership, purpose, and vision also play a role in describing a corporate culture. Defined in more simple terms by MIT Sloan, "Culture is what happens when the boss leaves the room".

Key Values of a Digital Culture

In an excellent article published in the *Summer 2019 Issue of the MIT Sloan Management Review*, authors George Westerman, Deborah L. Soule and Anand Eswaran show that there are four key values of a strong digital culture: impact, speed, openness and autonomy.

CHART 4: KEY VALUES FOR A DIGITAL CULTURE

Impact

Change the world radically through constant innovation.



Openness

Engage broadly with diverse sources of information and insight.



Share advice and information openly rather than keeping knowledge to oneself.

Speed

Move fast and iterate rather than waiting to have all the answers before acting.



Autonomy

Allow people high levels of discretion to do what needs to be done rather than relying on formally structured coordination and policies.



Source: Digital Banking Report Research © May 2021 Digital Banking Report

It was found that many leaders focus on the 'impact' component, but all four values are required to succeed internally and in the marketplace. Speed is required to keep up with the needs of the consumer and with other competitive offerings. Openness employees to challenge what was done in the past, while autonomy provides employees the freedom to do 'what's right' without a formal approval process.

The Difference Between Digital and Traditional Organizations

When the authors of the MIT Sloan Management Review article looked at how the key cultural values translated into actual practices, they uncovered a difference between digital and traditional organizations. Across the spectrum of organizations, they found that practices ranged from rapid experimentation to strict rule adherence, with an overlap occurring between organizations on the extremes.

For instance, focusing on the end consumer and quantitative results were important to both digital and traditional organizations. But, the authors also found that many traditional practices, such as seeking stability and acting with integrity are becoming as important, if not more so, with digital organizations.



CHART 5: **COMPARING DIGITAL AND TRADITIONAL ORGANIZATIONS**

DIGITAL PRACTICES

Rapidly experimenting Constantly and systematically experimenting, learning from the results, and quickly applying new insight	Self organizing Collaborating fluidly across functional, geographic, hierarchical, and organizational boundaries to get things done	Driving decisions with data Collecting and using accurate data to make decisions and solve problems	Obsessing over customers Maintaining continual focus on meeting the stated and unstated needs of current and potential customers	Focusing on results Continually striving for measurable results instead of just processes and promises
TRADITIONAL	PRACTICES		1	7
Acting with	Seeking stability	Strictly conforming to	Obsessing	

Acting with				
integrity				
Being honest,				
behaving				
ethically,				
and striving				
for positive				
outcomes				
for all				
stakeholders				

stability Aiming for reliability and predictability in stakeholder interactions. operations, and through rules employee work life

conforming to rules Seeking to avoid problems and maintain reliability orientation

Obsessing over customers

Maintaining continual focus on meeting the stated and unstated needs of current and potential customers

Focusing on results

Continually striving for measurable results instead of just processes and promises

Source: MIT Sloan Management Review © May 2021 Digital Banking Report

"When initiating the new digital culture, changing everything at once is not required or even desired. Feel free to start small, building momentum with successes."

Creating a Digital Culture

To create a digital culture, organizations need to have both top-down and bottom-up approaches that direct, empower, engage and inspire the board, management personnel and employees to build the cultural change together. To initiate a digital culture transformation, it is important to create a vision that is bigger than the legacy business. Employees will only want to engage if they believe the 'new organization' will be positioned to succeed.

Top management must lead by example, possibly even putting their own jobs on the line. The new culture must be communicated and reinforced often, using case studies that can be shared throughout the organization as to how the transformation is succeeding.

Beyond broad announcements, the new culture must be reinforced in private conversations, group meetings and as part of the review process. Employees will only support efforts where they are free to engage and initiate changes in alignment with the new culture. In other words, actions speak louder than words.

When initiating the new digital culture, changing everything at once is not required or even desired. Feel free to start small, building momentum with successes. This strategy is why many financial institutions have implemented strategies to build separate digital banking units.

Finally, it is important to provide the right tools, levels of investment, support and rewards that will provide the required foundation for success. Remember, developing a digital culture does not require the elimination of parts of the bank or credit unions that are highly successful. In many cases, what is required is a clear communication of the new culture and the acceptance of adjustments to old practices that can be successful in the new digital organization.





Engaging Employees to Accelerate Digital Banking Transformation

With the vast majority of financial institutions placing digital banking transformation as a top priority, employees face changes in roles and perspectives that have served them well for decades. If employees don't accept these changes, not only will they be left behind, but digital banking transformations will fail.

> Digital banking transformation is much more than simply enabling the customer to access products and services on digital channels. Done correctly, it involves the digitalization of business processes, applications, data and business models. The goal of digital banking transformation is to improve the customer experience and the productivity of employees for an increasingly digital world.

As banks and credit unions evaluate their digital banking maturity, they look at ways to improve the sales process, rethink product offerings, use data and analytics to personalize the customer journey, and increase digital engagement all while hoping to increase efficiencies that will positively impact the organization's bottom line. But as organizations rush to become 'more digital' for the customer, many may forget about the importance of the employee in the transformation.

Whether it's the scope of digital banking transformation, the need to deploy new technology, or the potential reorganization of legacy business units, these changes impact people, process and technology that have been around for a while. This makes it difficult to get leaders to embrace change – and even harder for employees.

It is imperative for financial institutions to engage employees early in the digital banking transformation process and to get them excited about the opportunities on the horizon. At the same time that an organization focuses

"We partner with our clients' leadership and inform them of technology advancements and best practices in using them at their organization. This helps drive transformation from the top down, and raises awareness for user demand around the best features, security, and tools in digital banking."

Marc Jones, Chief Technology Officer, Alkami

LEADING DIGITAL TRANSFORMATION

on the customer experience, the employee experience must also be at the center of the digital banking strategy.

This can be accomplished by making current employees part of the digital customer engagement process. From training staff on new digital products and applications, to leveraging customer contact employees to educate customers on the power of digital, employees can be a powerful tool to accelerate digital banking transformation and improve the customer experience.

Once employees understand that digital transformation does not need to equate to the elimination of existing jobs, they be encouraged to share their ideas around new ways to improve the digital process. By fostering an environment of creativity and innovation, you'll improve employee satisfaction — and create new digital capabilities not considered in the past.

Where to Start

Digital transformation and employee involvement can't be successful in a vacuum. It is important to create open dialogue where employees don't get the impression that change is being forced upon them. Remember, most employees are worried that digital transformation will eliminate their jobs. In reality, it is more likely that their jobs will be redefined for a digital marketplace.

Leaders should engage employees to find out what they believe are the most important digital improvements that need to be made. As opposed to simply issuing pronouncements from the top of the organization, all members of management should become champions of change, moving the culture of the organization towards the new digital reality. The alliances made through the entire organization will speed up the process and minimize negative push-back.

"Employees need to know what's coming and how it will be rolled out; what processes will change, in what order; how these changes will affect or evolve their roles; and how they're going to be trained." – zendesk

Even after the digital banking transformation process has gained support, the lines of communication must remain open ... constantly asking staff for suggestions and any concerns. By focusing on an improved employee experience with open communication and clear goals, the customer experience will be positively impacted and employee satisfaction will improve.

Invest in Your Employees

Many financial institutions are investing heavily in new technologies and processes to support their digital banking transformation goals. Research by the **Digital Banking Report** has found that banks and credit unions have increased investment in digital transformation in each of the past four years.

There is no doubt that these investments are justified given the flight to digital by consumers and the game-changing technology that can support digital customer experience improvements. Unfortunately, with such a focus on data, analytics, technology and systems, most firms ignore the need to invest in employees to

© 2021 Banking Transformed White Paper. All rights reserved.

"Leaders should engage employees to find out what they believe are the most important digital improvements that need to be made. As opposed to simply issuing pronouncements from the top of the organization, all members of management should become champions of change, moving the culture of the organization towards the new digital reality." make sure they maximize the value of the new tools being deployed.

Beyond open communication around how employees can be a part of the digital banking transformation process, it is important to invest in training the people to ensure that the digital banking transformation efforts succeed. If you don't, it's like buying a new car but failing to fill the gas tank.

To respond to the need of reskilling and upskilling current employees, new models of "learning management" and development have emerged. More than replicating legacy training methods, new learning officer positions have been created with the responsibility of not only creating ongoing learning opportunities, but also supporting cultural transformation. With change happening so quickly in organizations in every industry, learning experiences are becoming more personalized, digitized, strategy-based and agile. This enables learning opportunities that can be adjusted in close to real-time.

Not every new digital position can be filled by existing employees. This is why financial institutions also need to build new talent sourcing options. In some instances, a new full-time hire will be sought. In others, outsourcing or using contingent workers may help address the challenge. Banks and credit unions have also found unique ways to partner with existing solution providers to assist in areas where talent is hard to find.

Employee Satisfaction Drives Positive Customer Experiences

Research has shown that there is a direct correlation between unhappy employees and dissatisfied customers. Therefore, the opposite must be true, right? More importantly, well-trained employees can be a valuable asset in helping consumers understand and use many of the digital tools at their disposal.

With improving the customer experience being the top priority for financial institutions surveyed by the Digital Banking Report, it is clear that a financial institution's employees must have a conducive work environment to deliver a positive experience to the customer.

According to Susan Lahey from Zendesk, "It's challenging to bridge the gap between people who embrace changes and those who fear change, as well as those whose jobs will be substantially improved, and those who are impacted in a less positive way. It helps to remind employees that if disruption doesn't come from within, it may come from outside, or a competitor." In other words, change won't stop.





Do Management Training Programs Create 'Leaders of Yesterday'?

When I began my career in banking, the first step was to complete a multi-year management training program. This entry-level program was a way to develop leadership skills and to provide exposure to various departments of the bank. The program consisted of short-term 'rotations,' from three months to more than a year, starting in the branch system and including consumer lending, customer service, commercial banking, and various other functions.

> While this rotation training provided a way for senior management of each division to determine the potential 'best fit' for trainees upon completion of the program, it also allowed trainees to learn organizational rules and norms. In other words, the new management trainee would learn the 'way it's done' in each area visited. Most management training programs are still structured in this manner.

In today's increasingly evolving business environment, this form of management training may not be the best solution. One reason is because, with the future of almost all jobs potentially at risk, existing employees may be less than forthcoming in helping management trainees succeed (and potentially take their jobs). In addition, because of the nature of the programs, there is little encouragement to 'rock the boat,' which can stifle the creativity, innovative thinking and risk taking that is most needed now in financial institutions.

The question then becomes, are today's management training programs aligned with the objective of many organizations to become more agile, more innovative, more digitally focused, and more customer-centric?

"The reality is that different divisions of a company can have different subcultures, either supportive or in conflict with the desired mission of the organization especially during times of digital transformation." Or do current management training programs simply reinforce current values, behaviors and processes that are already in place? If the latter is the case, there will be continuous reintegration of existing habits and practices, thus slowing change.

Need To Build a New Normal

Most organizations would agree that the 'old way' of doing things no longer delivers desired results in an increasingly digital world. New strategies need to be implemented, new technologies need to be leveraged, and existing business models need revamping. Unfortunately, as we send new management trainees through an organization that may not be completely on board with these new norms, we create leaders of yesterday as opposed to leaders of tomorrow.

Even if the management training program is structured to reinforce new management practices and ways of thinking, the management trainees will certainly come in contact with old school norms and thinking that will conflict with the goals of the program. It is therefore important to foster behaviors that help develop a culture supportive of the organization's new objectives. This may require the new management trainee only visit areas of the bank or credit union where existing leaders (and their teams) have already bought into the new norm.

The reality is that different divisions of a company can have different subcultures, either supportive or in conflict with the desired mission of the organization — especially during times of digital transformation. There could be large internal gaps in the agility, innovativeness, digitalization or customer-centric nature of one division versus another.

If the new management trainee is exposed to the areas of the organization where the highest cultural readiness for digital transformation can be found, the learnings will be more easily communicated to other areas of the organization. This will also enable peers to be more open and receptive to embracing the transformation desired by the organization.

'Change Agent' Management Rotation

A strong case can be made to completely rethink executive training within financial institutions. On one hand, there is a need to avoid exposure of brand new management trainees to the 'old ways of doing things,' where the creativity and spirit of the new employee could be crushed. In addition, we can't rely on Human Resources or some other group to build a mindset that differs from what the new employee is actually encountering as they continue rotation.

Beyond making sure new leaders are trained appropriately, there is an increasing need for existing leaders to participate in a rotation program that can impact more areas of the organization at a faster pace. By selecting existing employees throughout the organization who already understand and practice the skills desired in the future, there is a better chance of eliminating iconic practices that support historical cultural values.

As these 'change agents' expand their influence within the organization, new norms will be created at a much faster pace than would be possible with normal management promotions and transfers. In addition, as opposed to just a



"Not only does this build loyalty within Amazon and allow the company to develop specialized skills that the company will need in the future, but it allows them to build digitallyready employees at a time when available talent in the marketplace is in short supply." handful of new recruits coming into the organization, the 'change agent' rotation could involve dozens of existing employees with a wide range of tenure and departmental experiences.

I experienced the power of this concept in a recent meeting with leaders at **Intesa Sanpaolo**, who have been selected to participate in a 3-year rotation program across the entire organization. Including leaders of all ages and experiences, these carefully chosen men and women were expected to make major impacts on all divisions and subsidiaries of the bank during their program. At the end of the program, they would be placed in a role most beneficial to them and the bank.

Building New Skills With Existing Employees at Amazon

Another organization that has decided that it is more beneficial to train existing employees at all levels of the organization as opposed to recruiting brand new employees is Amazon. The company has announced that it will spend more than \$700 million to train 100,000 employees for higher-skilled jobs over the next six years.

This training will be offered to workers at all levels of the company. The candidates will be able to select one of several programs, ranging from learning skills for other jobs at Amazon to earning certifications that could be used outside the company. Options include being able to attend the company's Machine Learning University or to learn software development skills at the Amazon Technical Academy.

Not only does this build loyalty within Amazon and allow the company to develop specialized skills that the company will need in the future, but it allows them to build digitally-ready employees at a time when available talent in the marketplace is in short supply. Obviously, while Amazon is already a digital organization, this type of training helps reinforce the leadership (and employee) mindset the firm wants in the future.





Leading in a Changing World ... Interview with: Tom Peters

In an exclusive interview for the Banking Transformed podcast, best-selling author, speaker and management guru Tom Peters shares his perspectives on what makes a great leader during a crisis like COVID-19. He also discusses the importance of humanizing the digital experience and how women are the leaders of the future.

For the past four decades, management guru Tom Peters has examined the qualities of exceptional organizations, from leadership, hiring practices and innovation, to the use of technology, the execution of marketing and the ways strategies are developed.

His first book, In Search of Excellence – Lessons From America's Best Run Companies (1982) is widely considered to be the best business book ever written.

His most recent book, *The Excellence Dividend* (2018) continues to preach the gospel of putting people first, having a culture that is obsessively committed to the customer, and adding value to generate revenues. And, despite all of the change that is occurring as a result of COVID-19, Peters believes more than ever that, "Excellence is a human-driven affair



– a state of mind – and not a computer-generated algorithm."

Peters believes that the best and most respected leaders shine the brightest during times of crisis. Not relying on a crisis management plan, the best managers surround themselves with the best people and provide a platform for growth for those within the organization. As a result, moving to a work-from-home environment should not disrupt an organization, but simply change the environment from where work is done. In all industries, especially banking, those institutions that have the most-respected leaders will be the winners.

I was very fortunate to be granted an exclusive interview of Tom Peters as part of the **Banking Transformed** podcast. I've been a raving fan of his writings over the years, having many of his heavily dog-eared and highlighted books autographed decades ago. His perspective on what it takes to be a leader and how to guide an organization through change is as important today as it was 40 years ago.

What has changed in the qualities of a successful leader and organization?

Peters: Everything — and nothing. The message in my first book was "people first." And the message today is still "people first." My argument is that, as artificial intelligence grows more and more extraordinary, those who are going to be able to continue to humanize things are going to be winners.

For instance, USAA has the best call center in the history of humanity. And, despite being a



Tom Peters

huge company, they answer on the first ring. So, anybody who tells me that kind of stuff cannot be personalized, my response is that's a load of crap.

I once was on the line with a call center rep from USAA talking his ear off when I realized I was impacting his efficiency. He told me, "Our first and foremost requirement is to build the relationship with you. And so, yeah, if we talk all day, I've got a problem." But he said, "They're delighted when you and I BS for five or ten minutes."

So, even though they are a, very big institution, they continue to show that "being human" can be done.

So, is it a combination of 'soft skills' and technology?

Peters: Google found that there were eight attributes of best employees identified. Seven of them were "soft" stuff, and number eight on the list was the STEM (science, technology, engineering and math) stuff. They also found that the most innovative teams were not those made of people with the highest IQs and the best degrees. It was the teams filled with people who listened, shared and had empathy for each other.

What do firms today need to do to be prepared for the future?

Peters: The two most important things that you do in an organization are hire and promote. And if you want to focus on the soft stuff, hire it.

The number one hiring criteria for some of the best leaders is to hire people who are nice. Remember, there are a lot of people who have great degrees. Just don't hire the jerks.

Bo Schembechler, the great coach from the University of Michigan, said that his secret to success was, "We never recruited the hot shots. We looked for good people." And he said, "The other thing about recruiting people like that is they had much better afterfootball lives."

Bottom line, hire and promote "good" people.



This is an excerpt from the great discussion we recorded for the podcast.

Has COVID-19 been a 'Great Reveal' of organizations that are getting it right?

Peters: David Brooks, the New York Times columnist, once wrote, "There are two kinds of success measures. There are resume successes and there are eulogy successes." He continued, "Resume successes are that you had a 4.0 grade point average at MIT. The eulogy virtues are, he was really a great guy and he really helped people."

I have yet to see a tombstone that said, "Joe T. Jones, net worth at the time of death \$9,372,842.14.'" You don't put net worth on a tombstone. You talk about what kind of a human being the person was. It's the same with business organizations. How much do they serve their community?

If you are incredibly engaged in your community, you're going to end up with customers who are more attached to you. And you're going to end up with a better balance sheet and a better P&L. If you do the people stuff right over the mid to long-term, you're going to have to have big burlap sacks to carry the money to the bank.

How should smaller organizations compete with the big banks?

Peters: Despite all of the technology advantages and capital advantages and cost of compliance disadvantages, I believe there is still a market for what I call "extreme humanization." In other words, the ability to really focus on the humanization aspect of doing business is going to continue to be a winning strategy and a differentiating strategy.

There's a comparison that I like, and it is AI versus IA. AI is arti-

ficial intelligence, where you replace people with software. IA is "intelligence augmented," where you use the software to help people be able to give the kind of customer service that will continue to attract human beings.

How do companies become 'more human' in a remote work environment?

Peters: Part of the answer is we don't know because we are truly carrying on a very large scale experiment as we speak. I think we've got an enormous amount to learn about socialization and teamwork and innovation. Innovation is not a one-person game. Innovation is a team game. I believe that's going to require leadership that focuses on humanization, even if the humanization is delivered through the most extraordinarily sexy software known to humankind.

However it is delivered, delivering more and more humanized experiences is going to continue to be a winning strategy.

You have become a major advocate for more women in management.

Peters: It is a women's world, period. There is a ton of research that says that women leaders are more effective than male leaders. And women leaders tend to do these strange things, like listen before they open their mouth. I've been obsessed with the women's issue since 1996 — which was too late.

For 15 years, I did not talk about women as better leaders. What I talked about was that women were not a significant part of the marketplace ... they were the damn marketplace. Women make all the family healthcare decision. Women make all the family financial decisions. In fact, \$22 trillion of wealth will come under the control of women within the space of the next five years.

Moreover, women purchase somewhere in the neighborhood of 85% of all consumer goods. In addition, women now constitute well over 50% of professional, commercial purchasing officers. It is now a women's world. And any financial services person who doesn't understand that is a blooming idiot.

And, bringing it back to hiring and promoting, you should hire and promote people primarily for empathy in 100% of jobs. Leadership is about empathy. And history shows that women, as a group, have much more empathy than men. They often make fantastic leaders.

Any last words on leadership during and after the COVID-19 crisis?

Peters: Leaders need to live with themselves and the decisions they are making today about furloughs and layoffs and supporting people with continuing healthcare. I do understand that your customer base is dried up. And, I do understand you're making insanely difficult decisions. But you've got to get a second mortgage on your house, dude, to help your employees.

You told them you were going to bring them into this world to help them. You've got to be able to look at yourself in the mirror when you get to be my age and know you did what was right. COVID is the deal breaker on how you are going to be perceived as a human being for the rest of your darn life.

About the Author



Named as a top 5 influencer in banking, Jim Marous is an internationally recognized financial industry strategist, co-publisher of **The Financial Brand**, owner and publisher of the **Digital Banking Report** and host of the **Banking Transformed podcast**. The Digital Banking Report is a subscription-based publication that provides deep insights into the digitization of banking, with over 200 reports that can be accessed in its digital archive.





The Banking Transformed podcast features weekly

interviews with global leaders who provide insights into the impact of digital disruption across all industries.

As a sought after keynote speaker, author and recognized authority on disruption in the financial services industry, Marous has been featured by CNBC, CNN, Cheddar, The Wall Street Journal, New York Times, The Financial Times, The Economist, The American Banker and numerous other global publications. He has spoken to audiences worldwide on the impact of change to the banking industry. Jim has also advised the White House on banking policy and is a regular contributor and guest host for the Breaking Banks podcast.

You can follow Jim Marous on **Twitter** and **LinkedIn** or visit his professional website.

Alkami

The Gold Standard of Digital Banking

Alkami is a leading provider of cloud-based digital banking solutions. Alkami's solutions reshape the modern banking landscape by delivering bold and innovative digital capabilities to U.S. banks and credit unions.

We live and breathe digital banking.

Our award-winning culture pairs the best people with the most remarkable, forward-thinking clients.



Everything we do, we do with intention. This is why we've structured the essential elements of our company in a way that creates a unified vision, accountability, and overall seamless execution of your new digital banking platform.