

# DIGITAL TRANSFORMATION INSIGHTS: **THE BLIND SPOT IN BANKING AND FINANCIAL SERVICES**

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*We all have a Blind Spot. Part of the optic disc lacks some cells to detect light, and to that extent our vision is impaired. Fortunately, based on surrounding detail and information from the other eye, our **brain** interpolates the missing data, so it is not normally perceived. But is there a similar process in corporations?*

## INTRODUCTION

While we have researched multiple sectors and found similar findings, here we will focus just on global banking and financial services. Mapping to Figure 1 (below), we have followed a huge number of organizations from the 'Beginner' stage. The successful ones manage to scale within and across functions building an embedded enterprise automation capability and gaining ROI up to 200% -- in rare cases even more. Payoffs are directly related to the strength of the automation execution capabilities identified by Blue Prism, consistent with the KCP management practices identified in our earlier research for Blue Prism: "Just Add Imagination" (2020) and "Becoming Strategic with Intelligent Automation" (2021). But though task automation by itself helps organizations become faster and smarter, it can only take you so far. At some stage Intelligent Automation programs must coordinate and integrate with the broader digital transformation agenda of the organization. And therein lies the Blind Spot for organizations seeking to become digital businesses.

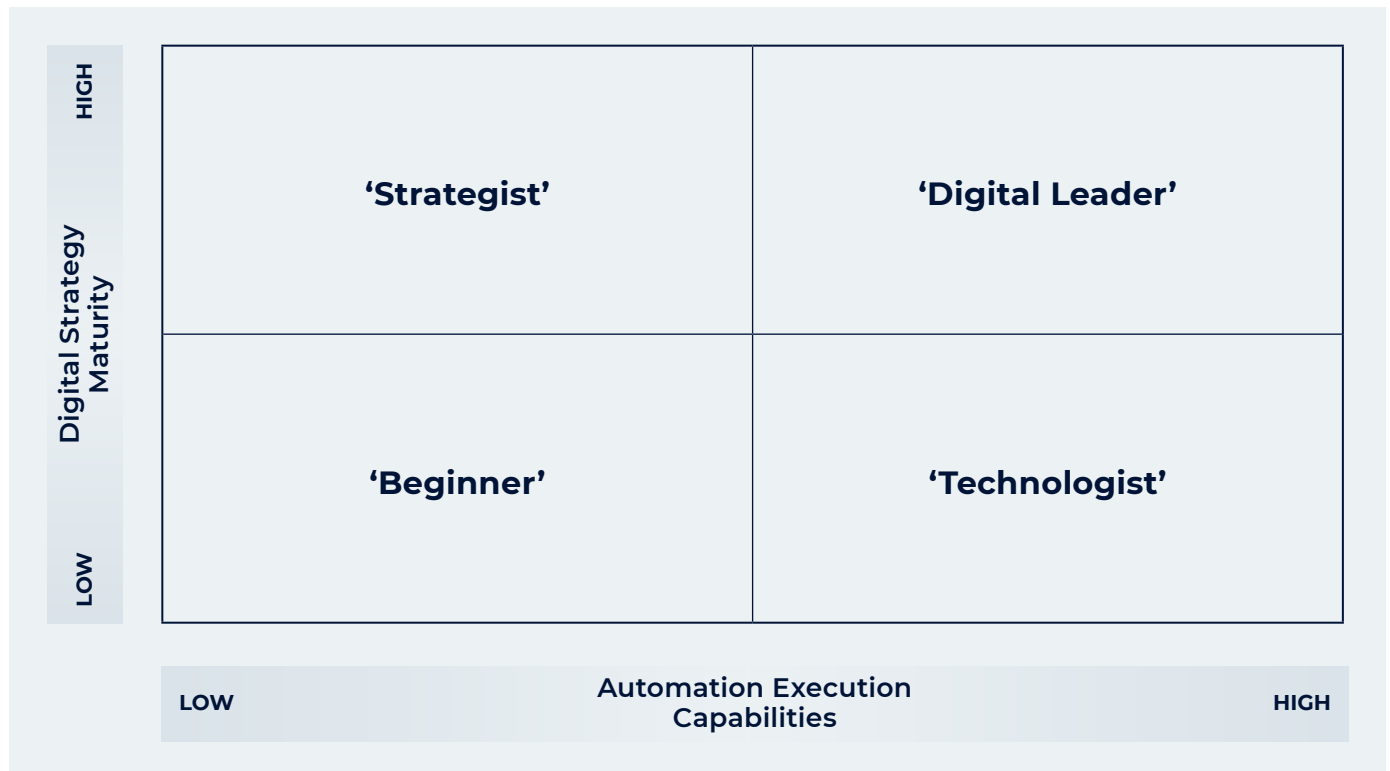
## THE BLIND SPOT IN DIGITAL TRANSFORMATION (DT)

The Blind Spot metaphor is too good to resist, and indeed much can be made of executive and organizational 'blind spots'. For example, in her 2007 book *Blind Spots* Madeline Van Hecke devotes a chapter to each of ten mental blind spots that afflict even the smartest people: "not stopping to think," "jumping to conclusions," "my-side bias," "getting trapped by assumptions and categories," "not paying attention to details," "not understanding themselves," "ignoring evidence," "missing hidden causes," and "not seeing the big picture." These may sound all too familiar!

In our research we discovered a blind spot in many digital transformations. The blind spot arises – especially in very large organizations – when those driving the digital transformation agenda (the 'Strategists' in Figure 1) have different agendas, resources, stakeholders and organizations than those responsible for achieving the automation of knowledge work.

## The Digital Transformation Journey

(Source: Darshan Jain (2022))



Typically Strategists are doing a lot of right things. Especially, they develop good digital strategy and planning processes, and their digital platform is benefitting from a lot of care and attention, but their execution of strategy is weakened through a variable mix of governance, navigation, culture and change management factors. Most typically 'Strategists' are driving their DT agenda from a higher position in the organization than the automation 'Technologist' stakeholders, who are focused on scaling automation infrastructure to create an imbedded enterprise capability, typically governed by an automation center of excellence (COE).

All parties may feel success, but in practice the organization has created new silos for old. The result: disconnects – both technological, and organizational. Technologically there can be at least ten major technologies in play for true digital transformation: social media, mobile, analytics, cloud, blockchain, robotics, automation, internet of things, digital fabrication and augmented reality. Intelligent automation makes inroads into converging only a few of these – typically analytics, cloud, automation, and to some extent internet of things. Organizationally, the processes and staffing for the DT and automation agendas are separate, and do not converge, resulting in a ‘ships passing in the night’ outcome. **‘Strategists’ view automation as a tactical tool; ‘Technologists’ see digital transformation as little to do with them.**

## THE SECRET OF SUCCESS: INTEGRATION

Happily, we have seen a few financial services organizations break through this impasse. Two illustrative examples. In 2015, one North American bank adopted a new value-oriented, purpose-driven management philosophy of increasing organizational agility and improving customer experiences. A key focus involved transforming disjointed operating processes on an end-to-end basis, but from the customer’s perspective. The automation business case was based on increasing the value of the bank’s services as measured by customer metrics – retention rates, service expansion, and improved net promoter scores – rather than simply “doing (bad) things faster”.

In addition to **Efficiency** savings estimated at more than 200% from the ability to access and use previously trapped data, the bank also estimated a 400% gain in enterprise **Effectiveness** – measured by increased customer retention and revenues from broader services integration. The bank’s Intelligent Automation platform has also supported greater **Enablement** gains in terms of new products and services, enterprise resilience, first-mover advantage, public goodwill and reputational equity. The bank estimates the resulting gains in enterprise Enablement to be greater even than the combined Efficiency and Effectiveness gains.

Similarly, a major Middle East bank similarly undertook an enterprise-wide transformation to seize a leadership position in its key markets, using Blue Prism technology as a strategic platform. By combining Intelligent Automation with Natural Language Processing (NLP), machine learning (ML), and data mining tools, the bank developed a totally automated end-to-end solution to track payment status, pull relevant payment and customer details, and apply rule-based validations, referrals and query responses, with no manual intervention. The solution delivered 100% improvement in quality, response times, and customer experience. The new process also generated Enablement gains from the resulting wealth of data and management information – raw material for applying data science using Hadoop to improve management decision-making. International transaction enquiry handling turnaround time also went from 8-12 hours to less than 2 minutes, resulting in a transformed customer experience.

The senior executives in these organizations adopted a strategic mind-set in deploying Intelligent Automation. With a transformative view and an enterprise vision suffusing from the top, the strategic uses of automation delivered greater **Effectiveness** and **Enablement** gains, beyond just **Efficiency**. These organizations also started with an external focus on customers and competition, using that perspective to design – from outward in – an end-to-end business process architecture that accelerates digital innovation. The banks' experiences demonstrate that building a robust in-house automation capability creates flexibility and a knowledge base which, with strong governance and disciplined behaviors, form part of the **Enablement** platform that accelerates strategic uses of automation technologies.

Clearly these organizations are not just moving rapidly across the horizontal axis of Figure 1, but also up the vertical axis, putting themselves on the edge of being digital leaders. But they have a long way to go to match Singapore-based DBS bank, several times voted the world's best bank, and an exemplar of digital leadership in our research<sup>1</sup>, building over time all the required digital transformation capabilities, and deploying intelligent automation well integrated into their digital platforms.

<sup>1</sup> See Willcocks, L. (2021) Global Business: Management. (SB Publishing: Stratford) Chapter9 'Moving to global digital business' . Also Knowledge Capital Partners Executive Briefings, August 2022.

## TOWARDS DIGITAL LEADERSHIP

In the last year we have seen more 'Digital Leaders' emerge. Two examples. Using Blue Prism and Knowledge Capital Partners diagnostics, one bank rated their Automation Execution capability and Digital Strategy capabilities around 70%. In practice, all their capabilities needed strengthening, but the diagnostic provided a disaggregated analysis and pointed them precisely to where they need to focus and improve over the next year within each capability. Automation Execution Capability consists of five capabilities: pipeline, delivery, service model, technology and people. On Automation Execution maturity, the bank identified weaknesses in applications management and platform maintenance. More work needed to be done on service definition, design and delivery methodology, and also, in the people capability, specifically on training. We measure Digital Strategy maturity as progress on seven capabilities: strategy, integrated planning, governance, imbedded culture, digital platform, change management and navigation. On Digital Strategy maturity, the bank proved very strong on strategy and planning, weaker on governance, change management and especially navigation. The analysis enabled it to set itself ambitious improvement targets for 2022.

A second major bank has a digital workforce numbering many hundreds and had a score of over 70% on Automation Execution capability, but in the lower 60s% for Digital Strategy maturity. This put them in the Digital Leadership box (Figure 1) – a pleasant surprise as they felt day-to-day more like firefighting technologists! That sense arose because they were indeed scoring themselves low on technology, and had a lot to do on technology infrastructure and applications management. Other weak points identified included ROI metrics, testing, business reporting and training. On Digital Strategy maturity they were making good progress – above the industry average – on strategy, planning and digital platform, but were scoring between 50-60% on culture, change management, governance and navigation. This galvanized them into ambitious targets over the next year to push them higher into the digital leadership box, aligning their Automation Execution and Digital Strategy capabilities (Figure 1). The diagnostic pointed them precisely to targeting particular skills sets within each capability.

Both banks were managing the blind spot we identified earlier well, and integrating Automation Execution with Digital Strategy capabilities. But both also recognize that they are hardly done and that Digital Transformation is a continuous and never-ending improvement process, if they are to outflank competitors on similar journeys.

## THE PROGRESS BEING MADE

One of the myths perpetuated on the internet, even in articles and books published in 2022, is that '90% of CEOs believe the digital economy will impact their industry, but less than 15% are executing on a digital strategy'. We eventually found the source of this quote. It is from a 2012 MIT/Cap Gemini study<sup>2</sup>. The quote is, of course, out of date, concurrently incorrect, and its continuous use very misleading. MIT/Cap Gemini themselves have performed many more recent studies, as have McKinsey and MIT, and their work – as at 2022 – is consistent with our own recent findings.

For example, Cap Gemini Research Institute has identified accelerated Digital Transformation progress over even the previous two years. In 2020, on average 60% of organizations (66% in banking) reported they had the digital capabilities, and 62% (66% in banking) the leadership capabilities required for digital transformation .

Looking across multiple studies, organizations generally, and digital leaders especially, have increased their investments in Digital Transformation since 2018, increased their adoption of emerging technologies for enhancing their digital platform, and given renewed focus on talent, culture, operations, customer experience, and business innovation. The COVID-19 pandemic has greatly accelerated this shift to digital. Even so research studies are finding that over the last four years digital leaders have been widening even further the significant pre-existing gaps between them and their competitors on digital transformation, capabilities practices and performance.

These findings are consistent with KCP findings already published. Our most recent research has been examining how organizations can make further progress whatever their competitive positioning. As we outlined in our first paper, the key lies in building distinctive identifiable capabilities and integrating them to create the synergies that produce significant business value. The evidence suggests that, by 2022, not doing so is no longer a competitive option.

<sup>2</sup>MIT/CapGemini (2012) . The Digital Advantage: How digital leaders outperform their peers in every industry. Cap Gemini Consulting ebook.



## CONCLUSION

Significantly research shows that companies that have embraced the digital world and execute on their digital strategy register real gains in shareholder and stakeholder value. Even in 2013 digital leaders were typically above their industry average by 9% on revenues, 26% by profitability and 12% by market valuation. Meanwhile against their industry average, digital beginners were seeing up to 4% lower revenues, 24% lower profitability, and 7% lower market valuation. A 2018 McKinsey study, looking just at automation, predicted that leaders stood to register an annual cash flow growth rate of six percent, thus doubling their cash flow between 2018 and 2030. Meanwhile automation laggards stood to experience a 20 percent decline in cash levels over the same period.

Over the last four years the gap between digital leaders and all other organizations has been widening. As one example, a 2018 CGRI analysis found a 38% difference on testing digital ideas quickly, expanding to a 48% gap during 2020. Through 2020-2022 KCP research was finding that many more organizations were moving faster on digital, in some cases driven by the need to survive in pandemic conditions.

However digital leaders were investing larger and faster than the industry average, and more strategically. Moreover digital leaders were improving their own execution capabilities, gaining ground rapidly on revenues, profitability, market valuation, and other leading indicators.

Digital leaders will, by instinct and practice, endeavor to stay ahead, but the widening gap between them and the rest is not inevitable. Time and again we find that in terms of achieving superior business performance the productive combination of 25% technology, and 75% management makes the real difference. In later Digital Transformation Insight papers we will detail the components and applicability of the seven core DT capabilities, first focusing on the digital platform, then on strategy and planning, governance and navigation, then, finally, culture and change management.

<sup>3</sup> Cap Gemini Research Institute (2020) Digital Mastery: How organizations have progressed in their digital transformation over the last two years. See [www.capgemini.com/researchinstitute/](http://www.capgemini.com/researchinstitute/)

<sup>4</sup> See Bonnet, D. and Westerman, G. (2021). The New Elements of Digital Transformation. MIT Sloan Management Review, Winter – Research Feature. Also CGRI (2020) op. cit., McKinsey Digital (2021) The New Digital Edge: Rethinking Strategy For the Postpandemic Era. May; also McKinsey Digital (2022). Prioritizing Technology Transformations To Win. March. See <https://www.mckinsey.com/~media/mckinsey/business%20functions/mckinsey%20digital>

<sup>5</sup> Knowledge Capital Partners (2020). Covid-19 Business Recovery and Technology: Different This Time? [www.knowledgecapitalpartners.com/publications/](http://www.knowledgecapitalpartners.com/publications/)



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