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DIGITAL TRANSFORMATION INSIGHTS: **PLATFORM AS FOUNDATION**

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'In 2002, developing IT infrastructure at Macquarie bank was described to us in as trying to change the tablecloth without disturbing the cutlery. Today, in the 2020s, building a digital platform means changing most of the cutlery as well'

Leslie Willcocks and John Hindle.

INTRODUCTION: DIGITAL TRANSFORMATION - FOUNDATIONS FIRST…

In our first report -- "Digital Transformation Insights 1: The Intelligent Automation inside" – we identified seven essential capabilities for digital transformation: Strategy, Integrated Planning, Imbedded Culture, Program Governance, Digital Platform, Change Management, and Navigation. While all seven are critical for success, Strategy and Digital Platform are foundational requirements at the outset of the transformation journey, and are developed dialectically. Let's look at this proposition.

THE STRATEGY-PLATFORM DIALECTIC

Strategy Capability is a shared vision that establishes and dynamically updates the direction for the digital business, and its competitive differentiation. It defines products and services, markets, customers, and channels, as well as the tangible and intangible resources (e.g. talent, finance, technology) required to enable the strategy.

Digital Platform Capability, extending other studies , is an enterprise repository of reusable digital raw materials – business processes, technologies, and data elements – facilitating operational efficiency and differentiated customer experiences. The goal is a multipurpose digital enablement platform combining technology and data dynamically to deliver both transformed customer experiences and operational efficiency by linking multiple functional platforms dynamically. In banking, DBS bank is an exemplar of delivering on such an ambition (Sia, Weill and Zhang, 2021; Willcocks, 2021).

Sia, S., Weill, P. and Zhang, N. (2021). Designing a future ready enterprise – the digital transformation of DBS bank. California Management Review, 63, 3, pp. 35-57; Willcocks, L. (2021) Global Business Management. SB Publishing, Stratford.

THE DIGITAL PLATFORM

The foundation of the Digital Platform is a robust intelligent automation infrastructure for executing operating processes. It consists of enterprise-grade RPA platform, augmented by an ever-expanding range of AI tools and capabilities – ML, NLP, OCR, decision agents, etc. – connecting and unifying a diverse range of internal and external human and digital resources (employees, customers, suppliers, partners, data resources, etc.) to enable and deliver the Strategy. Over time, emerging digital technologies such as social media, cloud, blockchain, analytics, augmented reality, mobile, digital fabrication, internet of things – will augment the platform, continuously enhancing its business performance.

In a dynamic technology and business environment, strategy-platform alignment becomes fusion – a continuous and conscious "dialectic" between Strategy and Platform: Strategy informs and shapes Platform choices, and Platform enables and shapes Strategy options. Platform, in effect, becomes the physical and conceptual instantiation of Strategy – dynamic and open-ended, not fixed and immutable.

1. **Internal** – an agile platform infrastructure that enables and accelerates innovation by standardizing component interfaces and interactions across operating functions and management entities – e.g., common data units/formats, hardware interfaces and software APIs for building applications in a "building block" model, including enabling rules for access and utilization.

2. **External** – a multi-function platform infrastructure that enables secure, direct and third-party integrations with multiple entities and resources in the "extended enterprise" (customers, partners, suppliers, developers, influencers, etc.) across diverse media, data types and content sources.

PLATFORM ATTRIBUTES

The key characteristics and performance dimensions that leaders we have studied consider and apply when building a "foundation platform" for digital transformation include:

- **Modularity** – the most fundamental requirement – a flexible suite or "toolbox" of inter-operable technologies, data resources, competencies and services that that can be easily combined in Lego-like fashion to create "capability platforms" – supporting multiple services, transactions, media and data types – across operating units, lines of business, suppliers, partners and customers.

- **Compatibility** – backwards/forwards and internal/external, "open" across multiple sub- and third-party platforms – the ability to accommodate relevant protocols and interface standards for various data entities, content and media types (industry-specific or media-specific)

- **Extensibility** – the ability to scale up or down easily and cost-effectively, at both hardware and software levels, in near-real time, to create and respond to demand; cloud is an obvious strategy/solution here

- **Control** – the ability to monitor, align and manage access and performance actively across all elements of the extended platform – technology, data, security, even human resources

- **Congeniality** – ease of use, both at the "builder" level (designing and building solutions) and the "customer" or "consumption" level (users, partners, suppliers, etc.)

To develop the Digital Platform with these characteristics we must add an important catalyst: talent – acquiring and developing the human software needed to build and run the above. Human imagination and expertise are integral to the design and development of the Digital Platform.

A useful design analogy for conceptualizing this Digital Platform is the methodology underlying recombinant DNA, which is the process of combining DNA from different sources to create a new sequence of DNA, thereby improving underlying "genetic makeup" or creating entirely new genetic types. While this approach may sound like science fiction, among leading companies it is already being used to deliver powerful results.

Let us explore how some banks have applied these principles in the context of Digital Transformation, with varying degrees of success, and how Strategy and Digital Platform have shaped the other five transformation levers.

MAKING PLATFORM PROGRESS IN BANKING AND FINANCIAL SERVICES

The seven essential capabilities for Digital Transformation we defined in our first paper are linked and interdependent:

• **Strategy** listens to the technology and establishes what is possible

• **Planning** provides the route map

• **Governance** ensures optimal decisions

• **Navigation** provides the steering and tracking

• **Culture** embeds the supportive norms values and behaviors

• **Change Management** drives the execution while the ever--maturing

• **Digital Platform** becomes the engine room of the digital business.

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Here we focus on **Digital Platform** evolution in action by comparing two banks at different stages using our requirements model, and highlighting their ways forward.

Financial services companies were among the first to adopt computing at scale, hence the more complicated their digital integration challenges are today. Banks have lived through and contain multiple generations of technologies – from mainframes, desktops, client server, and internet-based technologies, and applications, not least varieties of ERP and cloud applications. Becoming digital, each bank has its unique starting points and its distinctive journey. We see lots of impressive digital strategies. But when we look at what passes for the enabling Digital Platform, we know it's not going to go too well. This is not surprising. The integration challenges are formidable. But there are ways forward. Each player has to build the same seven core capabilities for digital transformation to succeed.

BANK 1: ESTABLISHED BUT A LONG WAY TO GO

Our analysis of this bank reveals that **strategy** is running ahead of **planning** and **governance**. **Culture** and **navigation** are weak, but **change management** is doing a relatively good job, given its challenges. The usual barriers in this sector apply, making organizational transformation hard going: multiple operating silos in strategy, structure, culture, skilling, processes, and managerial mind-sets. But what about the digital platform?

The digital technology platform architecture and blueprint is developing incrementally as business units and COEs implement local automations. IT provides overall governance and integration with systems of record. But the organization needs to bring in disciplines that tie each project into an overall architecture and technology trajectory. There is work to do on ensuring those architectures and trajectory plans are reliable in the first place.

Technology and skills assessment. As with most siloed organizations, HR and third-party advisors provide staff training and assessment, and IT provides technical tool evaluation. Tool evaluation, however, needs business users involved in reviewing what business applications are needed and what tools are best suited. Similarly, staff training and assessment cannot be the sole preserve of the HR department, let alone external advisers. The bank needs flexibility to pool skills dynamically where they are needed to deliver on more ambitious projects, and provide ongoing hands-on training.

Eco-system partnering. The organization works with various vendors, service providers and external advisors, depending on the functional processes under development. Partnering decisions are typically made and managed by individual business units. However, the bank needs to strengthen its internal partner-facing business-, technology- and service-focused capabilities. It needs a more strategically inclined sourcing function that links with and helps deliver the overall DT strategy.

Operational enterprise technology backbone. As might be expected, there are number of local technology platforms and infrastructures, with IT managing platform integration across multiple acquisitions and service providers. Our review assessed that the bank has too many platforms and too many applications and needs to develop an overall blueprint on how to standardize data and technologies, as well as limit the number of IT service providers.

Requisite data policies. An overall digital data strategy and architecture is under development to provide access to enterprise data, and to ensure data integrity, accuracy and protection. These are moves in the right direction, but the bank is at the start of a two- to three-year journey here, which needs focused resources to support the necessary activities. It is dangerous to underestimate how critical the right data – and its organization – are to digital transformation.

Intelligent automation execution. While the bank has advanced automation execution capability, it is only slightly above the sector average on overall digital strategy maturity. Clearly there is a technology disconnect here, and an example of the 'Blind Spot' or gap between local implementation capabilities and overall enterprise strategy that we highlighted in our second Insights paper. The key is integrating governance, planning and financing, leading to technology integration.

Interestingly there was quite a lot of disagreement amongst senior executives as to the state of progress in these six areas, but especially on data policies. This is indicative of weaknesses in planning, governance and measurement. Nevertheless ambition was high in aiming to advance the digital platform, and most of the other core capabilities, from an average to an advanced state for the sector within a year.

BANK 2: ADVANCED WITH EVEN MORE AMBITIOUS TARGETS

In 2022 this bank was amongst the sector leaders on **strategy**, was advanced on integrated **planning, change management,** embedded digital **culture** and **digital platform**, and average for program **governance** and **navigation.**

Digital technology platform architecture. The bank has moved from developing an architecture incrementally, with overall governance and integration by IT, towards a well developed architecture and blueprint for an agile enterprise digital technology platform. In this area they were ahead by probably 60% of the organizations in their sector. The potential problem is becoming wedded to the existing plan and technologies while new technologies and applications are emerging rapidly and continuously. The bank needs to ensure that design of the technology platform is open and can incorporate new technologies quickly.

Technology and skills assessment. From relying on HR and third-party advisors for staff training and assessment, and on IT for technical tool evaluation, the bank is moving towards having strong central capability in assessment of tools, skills and technical demands for platform design, construction and operation. The bank will be able to drive significant progress with these in place; the challenge will likely be retaining skilled personnel -- paying them enough, and providing sufficient interesting work. Ambitious projects attract high performers, who need to be serviced and supported well.

Ecosystem partnering. The bank is less good at working with external technology suppliers. It works with various vendors and external advisers, depending on the functional processes under development. Partnering decisions are made and managed by individual business units on a selective 'horses for courses' basis; the bank needs a more strategically inclined sourcing function that links with and helps deliver the overall DT strategy. Successful digital transformation requires a strong internal technology sourcing capability to build a network of technology partners that is requisite, updated regularly, and utilized synergistically with internal resources.

Operational enterprise technology backbone. This is a weaker component in the context of the bank's strategy. The bank has been operating across a number of local technology platforms and infrastructures, relying on IT to manage platform integration across multiple acquisitions and service providers. As with many others in financial services, this bank has too many platforms and too many applications, and urgently needs to standardize data and technologies, and limit the number of IT service providers.

Requisite data policies. Unlike many we have researched, this bank is relatively strong here, having developed an overall digital data strategy and architecture to protect and provide access to enterprise data, and to ensure data integrity and accuracy. The bank is well advanced on integrated development, curation and ethical use of digital data. In this respect it has made good progress in an area most overlook and neglect - a key reason why 65% of DT projects stall and even fail. But the bank needs to keep focusing on data policies as a core activity rather than shifting focus on something that seems to need more urgent attention.

Intelligent automation execution. The bank is advanced, especially on delivery and service model, but is not yet a leader in its use of intelligent automation. The main catch-up work needs to be done in the areas of pipeline and technology to ensure the pace of development over the next years is aligned with overall digital strategy maturity.

CONCLUSION

The two banks we have profiled are amongst the top 30% globally in their digital transformation efforts. They demonstrate serious work-in-progress driven by ambitious targets, and a sustained commitment – both of which are key to success. Technology transformations are notoriously difficult and complex. In the large, both banks have avoided the most common mistakes of being too piecemeal and/ or limited in scope, not connecting technology to business value, and finding transformation too expensive to sustain. Both are becoming much more future ready in their management approach. But what does "future-ready" mean? Our next paper provides the answers.

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