

DIGITAL TRANSFORMATION INSIGHTS: **TOWARDS THE FUTURE-READY DIGITAL PLATFORM**

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INTRODUCTION

Facing today's environmental dynamism, connectedness and uncertainty, together with rising, increasingly unpredictable competition, financial services organizations need to become not just digital but also agile and adaptable – that is, 'future-ready'. As Sia, Weill and Zhang (2021) point out, this means building an ambidextrous organization and digital platform for both **exploitation** – efficient leveraging of existing resources and capabilities through continually improved processes – and **exploration** – combining resources and capabilities in new ways to create further capabilities and opportunities. Tensions between exploitation and **exploration** will occur, and will need to be managed by organizational integration mechanisms, including, for example, integrating a stand-alone digital bank back into the larger traditional bank.

The crucial point is that organizational ambidexterity is not enough. To be future-ready, business ambidexterity must have digital foundations, and operate through data and digital processes. Ross et al. (2019) put it another way: in designing for digital there is a simultaneous need for a digital componentized operational backbone (to underpin exploitation), and digital services platforms (for speed, flexibility and experimentation i.e. exploration).

Tensions within the digital platform between exploitation and exploration can be managed through a multi-layered technology architecture with an API-based integration layer that connects core infrastructure with customer facing services and content.

The overall vision here is of a business-IT-digital fusion, with business IT and digital strategies highly interlinked, and with technology increasingly driving business innovation. In a step towards being even more future ready, Sia, Weill and Zhang (2021) suggest that tensions in bridging business and IT can be managed by reorganizing around **business capability platforms** run by autonomous cross-functional teams and coordinated by automated processes and platform standards. However, most organizations will not be in a position to make this step yet. So what can they do be doing?

GETTING TO 'FUTURE READY'

Financial services organizations that are building 'future-ready' today will be found working on three components. The first is a reimagined role for technology that is tightly focused on and fused with the business strategy. The business-technology gap has been a perennial issue in transformation initiatives, and has been closing slowly, over several decades. But now, in a very real sense, digital is becoming the business. Therefore what has been called 'tech-forward' business strategy is critical, together with integrated "bus-tech" management and stewardship of the digital user experience.

Secondly, banks need to continue to reinvent technology delivery. This means agile-at-scale software delivery, modularization, adoption of next generation infrastructure services (e.g. cloud, end-to-end automation, NeOps, PaaS), technology skills excellence (internal and external), and flexible technology partnerships.

The third component, supported by our new research, is future-proofing the foundations – that is, the digital platform. The target state here is, firstly, a flexible, business-backed architecture developed iteratively and continuously to renew core systems so they support new digital functionalities. The process will see multiple, even daily, production releases, and frequent upgrades. The flexible architecture will consist of self-contained applications connected with easy-to-configure application programming interfaces (APIs). Secondly, the technology core will include data and analytics systems that provide technology teams across the enterprise with the high-quality information and tools they need to anticipate customer and employee preferences, design innovative applications, and enrich user experiences. Thirdly, security and privacy protections need to be integrated into solutions from the start, rather than added subsequently. This approach can accelerate delivery while improving information security.

For Digital Platforms, there are many routes to future-ready. A 2021 academic study found only 22% of companies future ready, and identified four pathways to improvement that were particularly effective, producing an average net operating margin 19.3% points higher than the industry average.

¹ Dhasarathy, A., Gill I. et al. (2020). How to become 'tech-forward': A tech transformation approach that works. McKinsey Digital, London/New York; Woerner, S. and Weill, P. (2021). Update on the four pathways to future ready. Center for IS Research working paper, February 18th.

² Willcocks, L. (2021) Global Business Management. SB Publishing, Stratford.

³ Willcocks, L., Venters, W. and Whiley, E. (2014) Moving To The Cloud Corporation. Palgrave, London.

- Where customer experience was uncompetitive, organizations first focused technologically on creating an integrated customer experience and better digital offerings. MBank in Poland did this, then needed operations to get up to speed, so implemented a new customer-at-the-center banking platform.
- Organizations with poor operational efficiency focused first on industrializing their technology platform, then on further improving the customer experience. Danske Bank and Commonwealth Bank of Australia adopted this approach.
- A third pathway took small “balancing steps” – alternating focus on operations and customer experience – over several iterations. A key success factor is to have an overall transformation roadmap that informs each of the separate efforts. Without this coordination, digital initiatives tend to lose their way, and the overall digital transformation project loses momentum.
- A fourth, more radical pathway is to start a new future-ready company with a digital platform and all the advantages built in. This is a sensible option if the fintech competition is fierce, and management cannot see how to change the culture, customer experience and operations fast enough to survive.

Interestingly, Bancolombia chose multiple pathways, internally transforming customer engagement and operations systems but also creating its own digital-only banking entity – Nequi – as a test bed and internal competitor. By late 2021 80% of Bancolombia’s own customers were digital users, and Nequi was made a separate business to grow and exploit its technology.

CONCLUSION

In our analysis in this and our previous reports we have pointed to the fundamental importance of getting the digital platform foundations right, and identified how progress can be made. All the research points to how difficult the overall task is, with serious disruptions and question marks along the way. Nevertheless, accelerated by the COVID-19 experience, some 55% of banks were making serious inroads into building their digital foundations by 2022. That leaves some 45% of the banking sector not having made serious progress out of their technology silos and spaghetti legacy accumulated over several decades. In today's financial services, value migration is constant. And when the game changes, the winners are those who, like Wayne Gretzky pursuing the ice hockey puck, migrate to where the value will be.

References

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- Ross, J. Beath, C. and Mocker, M. (2019). *Designed for Digital: How to Architect Your Business for Sustained Success* (Cambridge, MA: MIT Press, 2019).



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