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A report from the Deloitte Center for Financial Services

Digital transformation in financial services

The need to rewire organizational DNA

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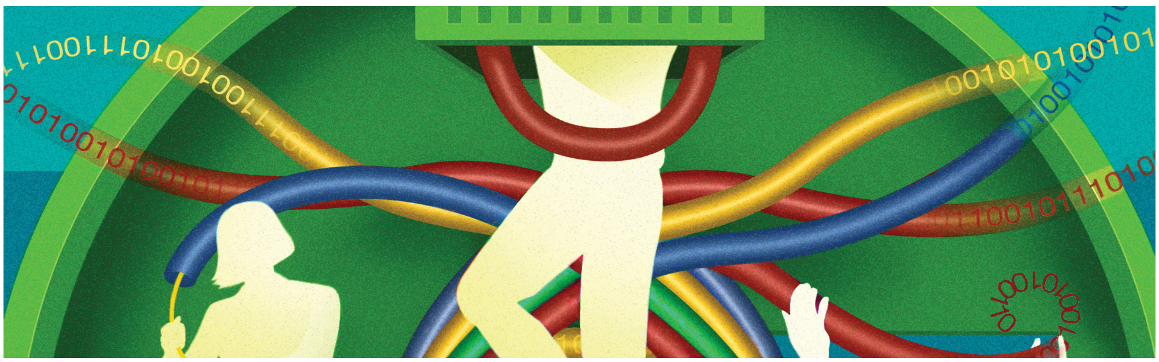
Introduction



In the quest to achieve market leadership, financial services industry (FSI) firms continue to focus on becoming holistically digital, customer-facing enterprises. But are they there yet? The 2016 Digital Business Global Executive Study and Research Project ("the survey"), the fifth annual study conducted by *MIT Sloan Management Review* and Deloitte Digital on this topic, offers some revealing insights and their implications.

The survey showed that overall, the financial services industry is on the cusp of a digital transformation right now. FSI firms are making significant investments to enhance customer experience and engagement through the development of new digital products and capabilities. The survey revealed that of the FSI firms with a digital strategy, 93 percent agree or strongly agree that the objective of their digital strategy is to improve customer experience and engagement.

Throughout the industry, there is widespread digital disruption. A full 90 percent of respondents agreed or strongly agreed that digital technologies are disrupting the industry to a great or moderate extent. Yet the study also showed that a majority of the financial institution employees surveyed do not believe their firms are ready for this disruption. Only 46 percent of FSI respondents agree or strongly agree that their firms are adequately preparing for digital disruption, marginally better than the 44 percent last year.[1] So what's holding FSI firms back from fully embracing the digital world and all that becoming digital entails?

To help answer this question as completely as possible, in addition to our research findings and analysis, we have also included industry-specific case studies, along with cross-industry case studies, of digital transformation in action. The cross-industry examples—GE, CBRE, Whirlpool, and Amazon—can be found in the Appendix.

What about the *employee experience*?

IT appears that as a whole, the industry has not fully explored what it means to be digital, from the inside out. Many FSI firms, focused primarily on leveraging digital capabilities to become customer experience champions, have not devoted enough attention to the other side of the coin: the *employee experience*. For the purposes of this report, the term "employee experience" is defined as *how employees feel about their organizations with regard to both opportunities for growth/skills development, and employees' willingness to continue to work for their current firms*. The following survey findings reveal that employee experience remains a blind spot in FSI firms' digital efforts (see figure 1):

- A full 76 percent of the survey respondents consider it *very important or extremely important* to work for an organization that is digitally enabled or is a digital leader.
- Only 38 percent of FSI respondents agree or strongly agree that their organization offers employees the resources or skill-development opportunities they would need to thrive in a digital environment.
- Nearly half—41 percent of survey respondents—plan to stay at their current organizations for three or fewer years.

A blending of focus on customer experience and employee experience is key to better preparing FSI firms for a digital future. In a recent interview, Donna Morris, executive vice president of customer and employee experience at Adobe Systems, explained, "By combining employee and customer experiences, we are able to create rich customer experiences through high levels of employee engagement."[2]

But how can FSI firms improve the employee experience? This can happen when an organization

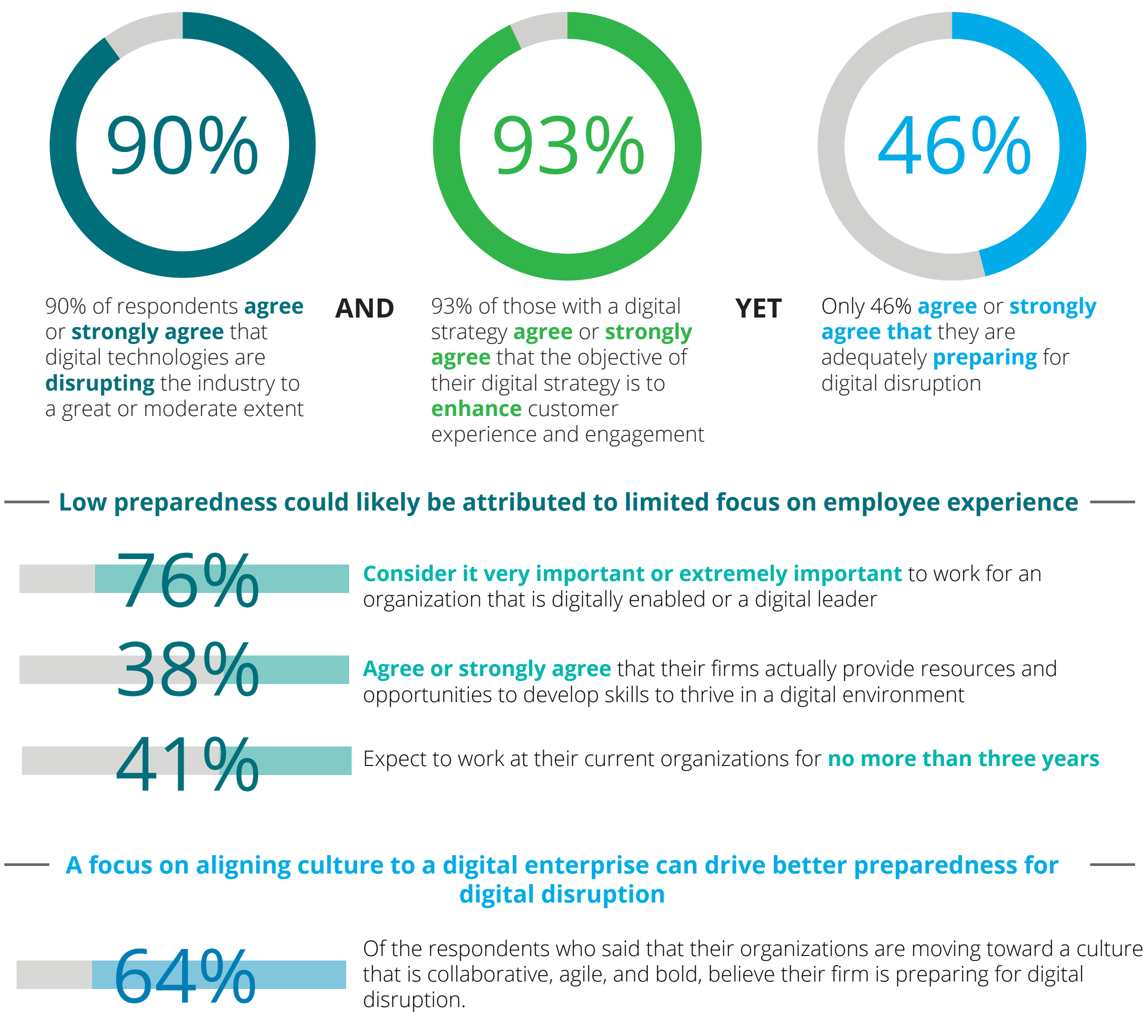
successfully aligns its culture—a system of values, beliefs, and behaviors that shapes "how work gets done"—with the business, operating, and customer models found in digital enterprises. This is largely because, in a dynamic digital environment, the legacy approaches involving a firm's adaptability to change, work style, leadership style, decision making, or for that matter, risk appetite, may not be effective.

Research suggests that culture gets hard-wired over time and is difficult to change.[3] According to Maile Carnegie, group executive, digital banking at ANZ Banking Group Limited, "[Culture is] the hardest thing to get right, but it's also got the highest leverage. The highest return on investment is getting that culture right.”[4]

So, which behaviors should FSI firms demonstrate and where should they start? It should be pointed out that while Deloitte has a very comprehensive and robust approach to organizational culture, this report will focus on a highly specific subset of culture—*Digital DNA*. Deloitte’s Digital DNA framework outlines the traits and characteristics of “being” digital, and what it takes for businesses to thrive in a digital world.

Many financial institutions have failed to recognize that digital business is fundamentally different in many ways, and that simply *doing* the digital things described above will not suddenly *make* them digital. In other words, while many FSI firms have leveraged digital technologies to extend their product and delivery capabilities, they have not yet rewired their organizations’ business, operating, and customer models to actually being digital. We explore this purposeful reorientation of Digital DNA attributes in greater detail in the following sections.

Figure 1. Marrying the customer and employee experience is instrumental in firms’ preparedness for digital disruption



Source: 2016 *MIT Sloan Management Review*; Deloitte Digital’s global study and Deloitte Center for Financial Services analysis.

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DEMYSTIFYING DIGITAL DNA

Being digital is significantly different from the traditional way of doing things in FSI firms. As our survey suggests, FSI firms' *legacy* cultural attributes include a protracted response to change, siloed work style, hierarchical organizational structure, and a cautious, regulation-determined risk appetite, among other behaviors (figure 2).

On the other hand, Digital DNA behaviors create the environment that enables firms to do business digitally. We have grouped Deloitte's Digital DNA framework's characteristics into five categories for purposes of our study: agility, collaboration, distributed organizational structure, bold risk appetite, and customer centricity.

Figure 2. FSI legacy and Digital DNA attributes

Culture attributes	Legacy DNA	Digital DNA
Adaptability to change	**Slow, but innovating** • Resistance to fail • Focus on innovation • Late adopters of technology change	**Agility** • Iterative • Constant disruption • Continuously innovating • Fail early, fail fast, learn faster • Fluidity • Uneven velocity between digital and businesses • Changing nature and topology of work • Continuous ecosystem disruption
Work style	**Siloed** • Fixed team structures • Siloed operations • Well-defined roles and skill requirements • Geography dependent	**Collaboration** • Morphing team structure • Democratizing information • Dynamic skill requirement • Intentionally collaborative • Geography agnostic
Organizational structure	**Hierarchical** • Long-standing levels of hierarchy • Decision making driven by positional authority, and not skills and proficiency	**Distributed** • Flattening and changing hierarchy • Ongoing shifts in decision rights and power • Changing mix of traditional and nontraditional stakeholders
Risk appetite	**Cautious** • Regulatory-determined risk appetite • Siloed operations separating more risky and less risky businesses	**Exploratory** • Modulating risk and security boundaries
Customer experience	**Customer focus** • Use of analytics to anticipate customer needs • Focus on the feedback loop to hear customer voices • Latency in customer feedback and firms' response	**Customer centricity** • Real time and on demand • Increased customer involvement

Source: Deloitte Digital and Deloitte Center for Financial Services analysis.

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As figure 2 shows, there may be some extent of commonality between the legacy DNA and Digital DNA attributes. Customer experience is a good example, where FSI firms have been doing digital and investing in new products and capabilities. That said, many FSI firms have the scope to improve real-time collection of customer data and provide more relevant on-demand experiences. Given the fact that FSI firms already recognize the importance of using digital technologies and are taking proactive steps to enhance customer experience, we have kept customer experience out of the purview of discussion in this report.

In contrast, there are some Digital DNA attributes that are potentially in conflict with the legacy way of doing things—for example, risk appetite. Here, it's essential to strike a balance, which could allow firms to remain cautious when engaging in high-risk activities, but lend a freer hand and become more exploratory when handling less-risky ones. Banks opening up their APIs to allow technology firms to build applications for their customers could be viewed as one such exploratory move.[5]

Digital DNA attributes better prepare FSI firms for a digital disruption

SO, if FSI companies recognize the importance of using digital technologies to enhance customer experience, how can they use the notion of Digital DNA to help them better prepare for digital disruption? For purposes of this report, we have delved deeper into attributes of Digital DNA that can help FSI firms improve the employee experience. We also assess the positive correlation between companies' Digital DNA attribute strength and employees' willingness to work in such companies for a longer tenure.

But what do these Digital DNA attributes entail? Let's understand them in some detail.

Agility

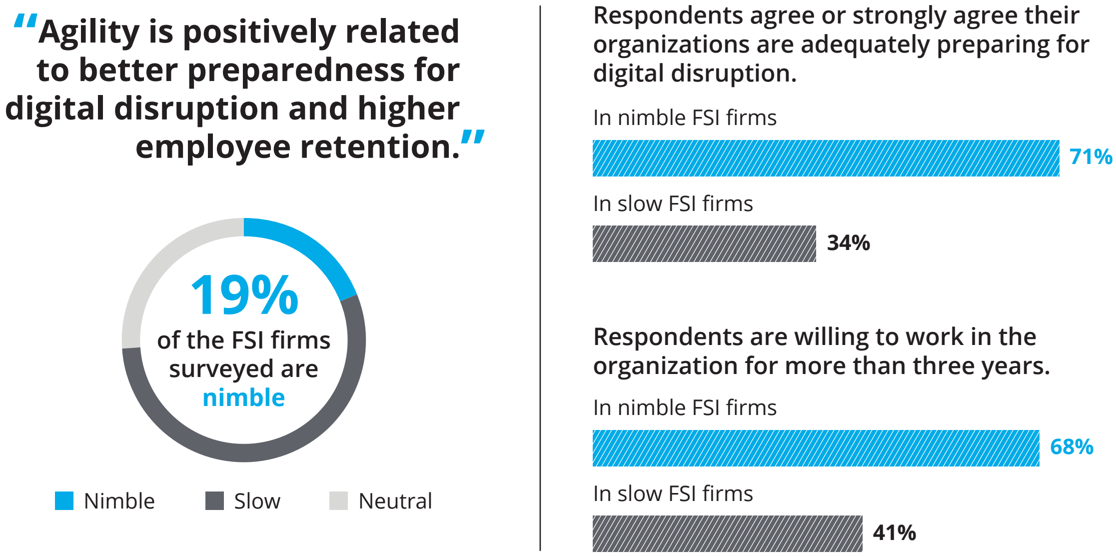
Agility refers to a firm's ability to move rapidly and flexibly in order to make adjustments in a continuously disruptive ecosystem. In fact, the constant disruption and innovation in digital businesses tend to result in new models of what the work is and how work gets done. Job descriptions, tasks, skills, and requirements also tend to be highly fluid. Indeed, traditional FSI firms may move slower as compared to a digital enterprise and the uneven velocity between the legacy and digital business is likely to create friction between the legacy and digital operating models. According to the survey, lack of organizational agility is one of the biggest barriers impeding firms from taking advantage of digital trends.

FSI firms should recognize and develop an approach to minimize the impact of the differences between the two operating models. As highlighted in figure 3, only 19 percent of respondents believe their organizations are nimble. Of these, 71 percent agree or strongly agree that their organization is adequately preparing for digital disruption, as compared to only 34 percent of those considering their firms to be slow/deliberative. Moreover, 68 percent of respondents who said their firms are nimble are willing to work at their organizations for more than three years, compared to 41 percent of respondents who perceived their firms to be slow.

To embed agility into organizations, FSI firm leaders should exhibit the following characteristics:

- **Iterative**: Update and improve based on rapid and ongoing feedback and analytics insights.
- **Fail early, fail fast, learn faster**: Allow customers to test pilots of products and services in their minimum viable state. This process enables companies to learn from failures and provide a better offering vs. having an intermittent failure impede progress.
- **Fluidity**: Enhance ease of movement of talent and resources from one situation or solution to the next and possibly back again, while shifting operating models and offering frequent updates and communications.
- **Continuously innovating**: Promote continuous innovation by questioning and acting on how or why things are done the way they are, and why they couldn't be done differently. This is important because the digital ecosystem is broad, boundaryless, and dynamic, and new ideas and their different applications are constantly (and at an increased speed) being developed.

Figure 3. FSI respondents' take



Note: When characterizing an organization's agility on a scale of 1 to 5, we have classified a rating of 1 and 2 as slow, 3 as neutral, and 4 and 5 as nimble.

Source: 2016 *MIT Sloan Management Review* and Deloitte Digital's global study and Deloitte Center for Financial Services analysis.

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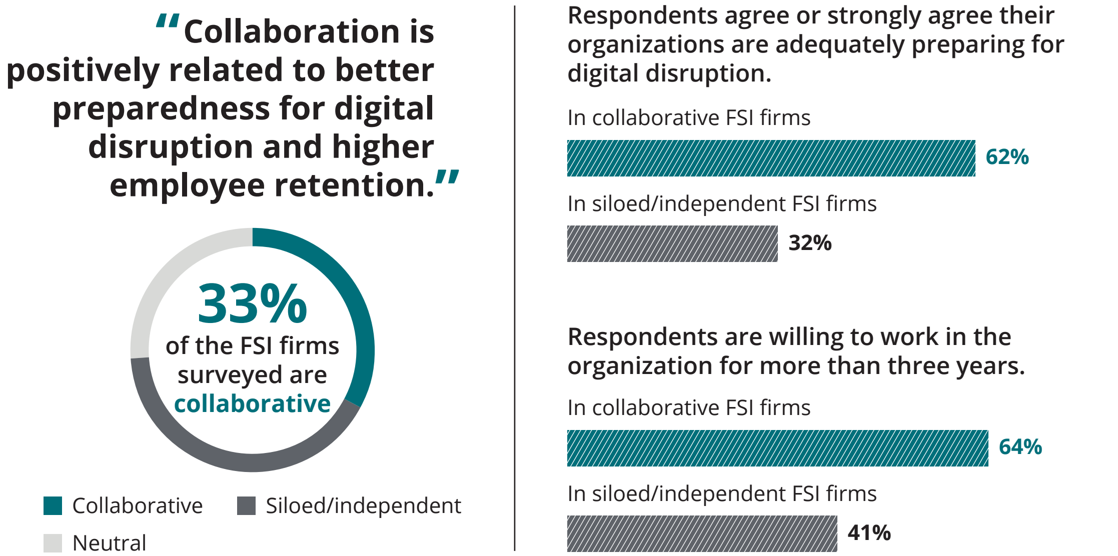
Collaboration

Collaboration in today's work environments involves a mix of virtual and physical employee participation where teams cooperate for a common overarching cause. It's gaining prominence as a key attribute as digital technologies are increasing customer and employee expectations. For instance, customers expect digital interactions to be both rich and consistent across every touchpoint they encounter, regardless of the channel, while employees expect a more engaged and fluid work environment. While these goals may seem straightforward, meeting these needs often requires multiple team members working together and communicating regularly. Collaboration is essential to aligning goals across technology, people, and processes and to delivering superior customer and employee experiences; therefore, leaders need to design work processes so that intentional collaboration takes place.

As highlighted in figure 4, 33 percent of the FSI respondents believe their organizations are collaborative. Of these, 62 percent agree or strongly agree that their organizations are adequately preparing for digital disruption, nearly twice the percentage of respondents who consider their firms to have the opposite, or a siloed work style. Further, 64 percent of respondents from the more collaborative firms are willing to stay with their

While these goals may seem straightforward, meeting these needs often requires multiple team members working together and communicating regularly.

Figure 4. FSI respondents' take



Note: When characterizing an organization's work style on a scale of 1 to 5, we have classified a rating of 1 and 2 as siloed/independent, 3 as neutral, and 4 and 5 as collaborative.

Source: 2016 *MIT Sloan Management Review* and Deloitte Digital's global study and Deloitte Center for Financial Services analysis.

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Valuable information is increasingly shared with a broader set of traditional and nontraditional stakeholders and new processes/work flows emerge.

current companies for more than three years, compared to 41 percent of the respondents who perceive their firms to have siloed work cultures.

That said, we recognize some regulatory requirements would necessitate FSI firms to maintain silos in select functions or business lines. However, to embrace a collaborative approach in the broader fabric of organizations, FSI firm leaders should adapt the following elements:

- **Morphing team structure**: Intentionally design flexible team structures so that they can be formed, reshaped, or disbanded to adapt to changing and varying business needs.
- **Democratizing information**: In the past, information was usually available and accessible on a need basis. However, digital often increases availability and accessibility of information to various stakeholders such as customers, suppliers, competitors, and employees. As a result, FSI firms need to often provide more clarity about decision and access rights and information security, as these tend to get blurred in digital businesses.

Distributed organizational structure

FSI firms traditionally possess a position-based structure in which the most important decisions are vested with senior management. In this top-down hierarchy, very often there is little focus on nontraditional but new types of stakeholders, such as social media influencers and other residents of the digital ecosystem.

But as firms become more digital, an ongoing shift in decision rights often occurs. Valuable information is increasingly shared with a broader set of traditional and nontraditional stakeholders and new processes/work flows emerge. This can result in changes in power and influence, inside and outside the organization; as a result, there may be less need for layers of structure.

The survey suggests that only 16 percent of the FSI respondents believe their firms to have a distributed organizational structure (figure 5). Of these, 71 percent agree or strongly agree that their organizations are adequately preparing for digital disruption, compared to 32 percent of respondents who perceive their firms to have hierarchical structure. Moreover, 67 percent of respondents at firms with distributed structure are willing to work for their current firms for more than three years, while only 44 percent of respondents from firms with hierarchical structure plan to stay that long.

Bold risk appetite

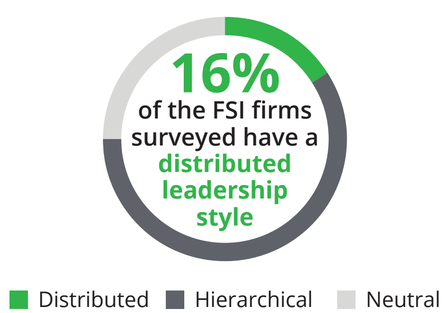
FSI firms' risk-taking ability is limited by regulations, especially in the post-2008 environment. And as such, it can be a tricky situation for firms as they build their digital businesses. However, given the increased competition from nimble fintech players and nonfinancial technology companies, FSI firms will likely need to make bold decisions to become digital leaders.

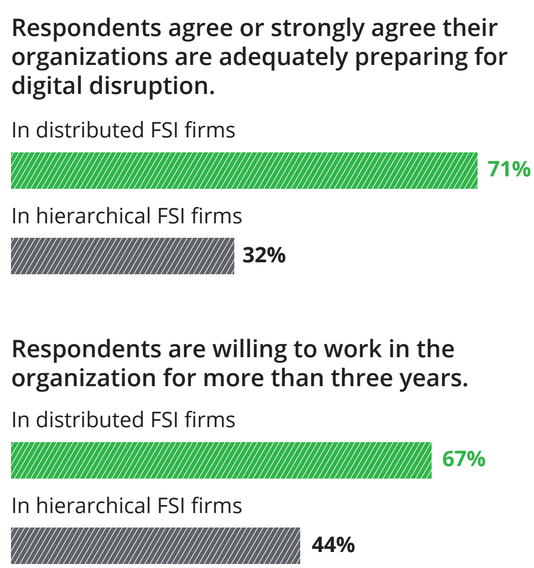
Moreover, with the increase in digital adoption and use of multiple devices, information access is democratized. This technology proliferation also raises concerns around new types of risks, such as cyberattacks and data privacy issues.

FSI firms will need to consider ways to be more flexible in managing their risk and security boundaries, likely by continually planning and monitoring activities, identifying large exposures, and focused action planning. They are also likely to benefit from increased collaboration across functional areas to address risks and security issues.

Figure 5. FSI respondents' take

"A distributed leadership style is positively related to better preparedness for digital disruption and higher employee retention."





Note: When characterizing an organization's leadership style on a scale of 1 to 5, we have classified a rating of 1 and 2 as hierarchical, 3 as neutral, and 4 and 5 as distributed.

Source: 2016 *MIT Sloan Management Review* and Deloitte Digital's global study and Deloitte Center for Financial Services analysis.

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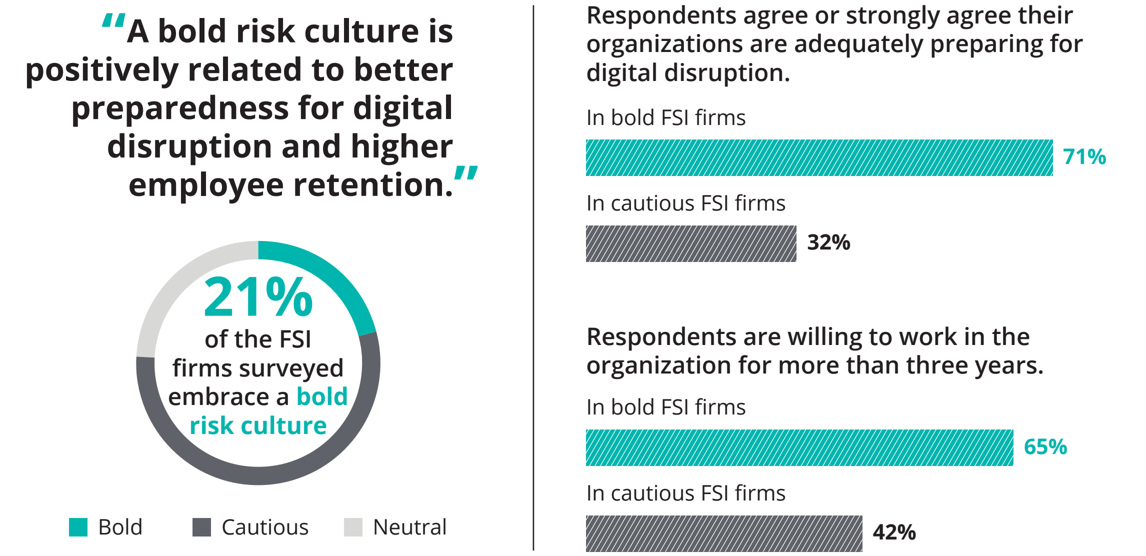
The survey analysis results in figure 6 highlight that 21 percent of the FSI respondents believe their firms have a bold/exploratory risk appetite. Of these, 71 percent agree or strongly agree that their firms are adequately preparing for digital disruption, more than twice the percentage of respondents who consider their firms have a cautious risk appetite. Further, 65 percent of respondents from the bolder companies are willing to work for their current firms for more than three years, compared to 42 percent of respondents who believe their firms have a cautious risk appetite.

Figure 6. FSI respondents' take



Note: When characterizing an organization's risk appetite on a scale of 1 to 5, we have classified a rating of 1 and 2 as cautious, 3 as neutral, and 4 and 5 as bold.

Source: 2016 *MIT Sloan Management Review* and Deloitte Digital's global study and Deloitte Center for Financial Services analysis.

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DATA-DRIVEN DECISION MAKING

As FSI firms align their digital business to the Digital DNA attributes, it is important for companies to also consider a data-driven approach to decision making. This is because regulators' expectations for transparency with regard to how decisions are made has compelled FSI firms to move away from instinctive decision making. The good news is that the increased use of technology is changing the quantity, quality, speed, and complexity of data available to various stakeholders. The plethora of data allows companies to make more informed decisions and may also change decision-making criteria. For instance, unlike in the past, FSI firms now have more granular information about customer preferences, behaviors, and feedback. Yet, the survey revealed that only 38 percent of the FSI survey respondents believe their firms have a data-driven decision-making approach.

Consider the example of Toyota Financial Services (TFS), a global organization that provides retail and dealer financing to automotive dealers and their customers. The company has used analytics to enhance risk and customer segmentation decisions. In 2009, already challenged by a drop in demand due to lower automobile sales, TFS experienced a surge in payment delinquencies: A record 100,000 customer accounts entered delinquency, while 60-day delinquencies rose by 25 percent.[6] Company leaders realized they needed to abandon a one-size-fits all approach to reduce these delinquencies and adopted a multiyear, analytics-based approach to help solve this costly problem.

Using analytics software along with other technologies, TFS segmented customers into high-risk and low-risk categories, which improved their collection approach. Low-risk customers were treated with a lighter touch, while high-risk ones were followed up more frequently after their accounts entered delinquency. To make the process more efficient and collaborative, both the analytics team and the implementation team were co-located.

As a result of this initiative, TFS grew its portfolio of loans by 9 percent using existing staff resources and more than 50,000 customers benefited because the new process enabled them to keep their cars by avoiding loan defaults.[7] The company is now planning to utilize a similar analytics-driven approach to improve its loan origination process.

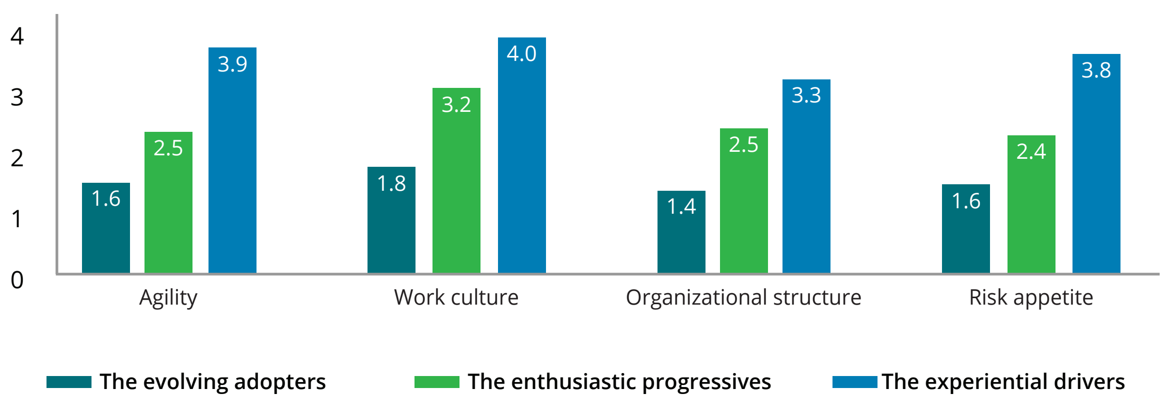
Current strength of Digital DNA attributes among FSI firms

WHILE it may seem attractive in terms of reasonable goal-setting, the vast majority of FSI firms should not expect a complete turnaround of their digital transformation efforts by perfecting a single Digital DNA attribute. Rather, we have found that most firms can reap significant rewards by incrementally embracing multiple attributes.

To lend credence to this hypothesis, we analyzed the strength of FSI respondents' Digital DNA as a combination of the four cultural attributes discussed earlier. The exercise yielded three distinct cluster profiles: the evolving adopters, the enthusiastic progressives, and the experiential drivers. (For methodology, see sidebar, "How digital is your organization?")

Figure 7. The strength of Digital DNA attributes in FSI firms

The numbers represent the mean score or relative strength on a scale of 1-5, with 1 being the lowest



Source: 2016 *MIT Sloan Management Review*; Deloitte Digital's global study and Deloitte Center for Financial Services analysis.

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HOW DIGITAL IS YOUR ORGANIZATION?

We performed a profiling exercise to understand the differences in the strength of FSI firms' Digital DNA. A cluster analysis was used to arrive at three mutually exclusive clusters based on the strength of the four Digital DNA attributes: 1) agility, 2) work culture, 3) organizational structure, and 4) risk appetite.

Who are the evolving adopters?

The evolving adopters' cohort comprises survey respondents from organizations that have embraced few Digital DNA attributes. Their firms appear to have leveraged digital technologies to extend capabilities, but often operate in a siloed manner. Comprising 37 percent of the survey's sample, these respondents rate their firms' culture to be largely slow/deliberative, siloed, hierarchical, and cautious. These firms appear to have just set out on a digital and cultural transformation journey (see figure 8 and "Real-world spotlight" on ANZ).

Figure 8. Who are the evolving adopters?

PERCEPTIONS ON DIGITAL PREPAREDNESS

CUSTOMER EXPERIENCE

59%

of respondents of the cohort believe that their organizations are **investing in innovation** capabilities to build new products and services through digital.

EMPLOYEE EXPERIENCE

63% consider it very important or extremely important to work for a digitally enabled or a digital leader organization.

59% feel their employees have the necessary skills to execute their organization's digital strategy.

49% expect to stay at their current organization for no more than 3 years.

DIGITAL DNA ATTRIBUTES

42% of this cohort disagree
that their firms are changing their cultures
to be more collaborative and agile, and are ready to be bolder in taking risks to respond to digital trends. Strengthening management's understanding of digital trends and their organizations' responses is of utmost importance for these firms.

DIGITAL TRANSFORMATION

61% of the cohort perceives their firms to be at the early stages of digital development, implying they rated their firms **low** on a scale of 1-10 against an ideal organization.

31% strongly agree or agree that their organizations are adequately preparing for digital transformation.

Sources: 2016 *MIT Sloan Management Review;* Deloitte Digital's global study and Deloitte Center for Financial Services analysis.

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REAL-WORLD SPOTLIGHT: AN EVOLVING ADOPTER

ANZ—eyeing transformation into an agile culture

ANZ Australia is a good example of an evolving adopter, where digital adoption has been prominent in the front-end in order to enhance the customer experience. The bank has made recent executive changes to more fully align the organizational culture to that of a digital enterprise.

Doing digital at the front end

- Launched digital apps like GoMoney and FastPay to enhance the customer payments experience
- Piloted Mobile Pay tap-and-go in 2012; first bank in Australia to enroll in multiple technology giants' mobile wallets
- Upgraded ANZ.com to a digital platform
- Invested in fintech start-ups
- Expanded use of cognitive technologies into areas like advisory and risk
- Ongoing digital initiatives totaling $1.5 billion

Strengthen digital leadership

- Created a new role—group executive of digital banking—to lead its digital transformation efforts
- Hired Maile Carnegie, a Google veteran, to turn around the bank's culture in line with that of a digital enterprise
- Collaborated with MIT to train the firm's leaders on digital transformation leadership programs

Intensify focus on digital culture attributes

ANZ's digital culture current focus areas:

- Agility
  - Freedom to fail
  - Innovation

"We tend to be much more long-term in our thinking, [whereas] we have to be an organization that has a culture of taking risks and where failure is OK. And I'm certainly not going to say that's the culture we have in the organization at the moment, but we need to change that."

- Susie Babani, group chief human resources officer, ANZ

Sources: Nic Christensen, "Google Australia boss Maile Carnegie to depart for new role as ANZ head of digital," Mumbrella, March 1, 2016; "ANZ, Westpac try for a digital turnaround," ACS, September 08, 2015; James Eyers, "ANZ boss Shayne Elliott hot for start-up investments as it partners with Honcho," *The Sydney Morning Herald*, February 29, 2016; and Deloitte Center for Financial Services analysis.

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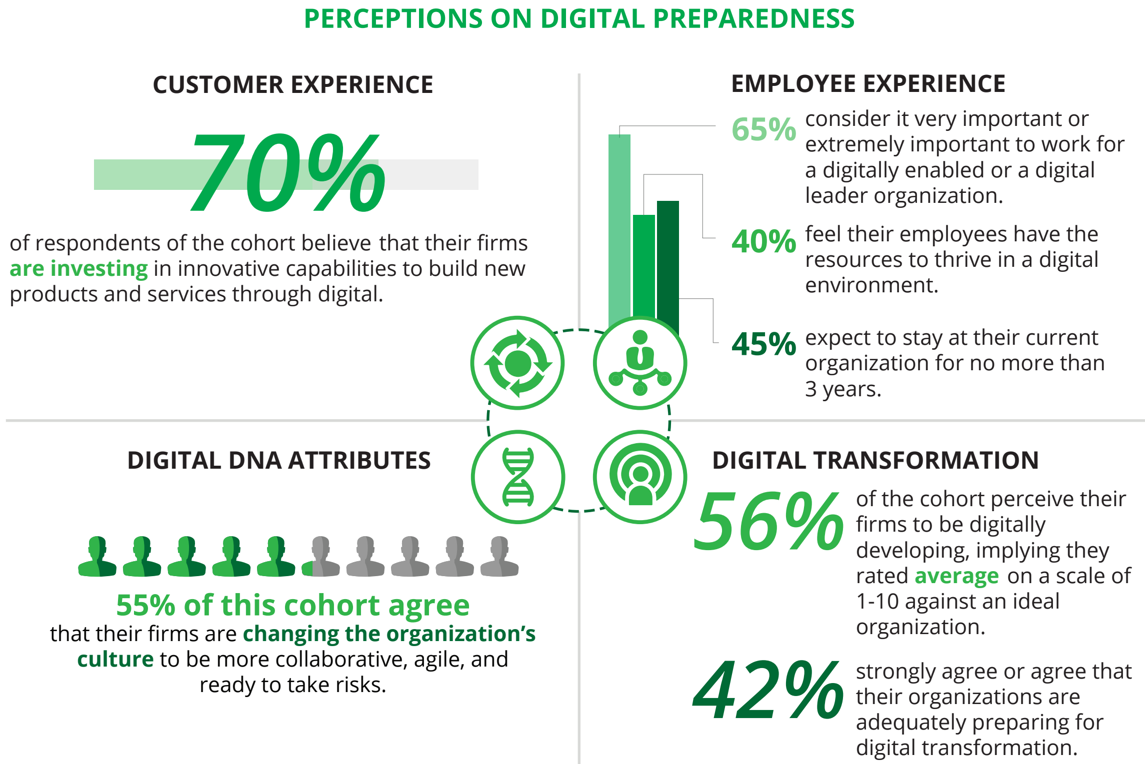
Who are the enthusiastic progressives?

The second category, the enthusiastic progressives, represented 38 percent of the FSI sample respondents. This cohort works at firms that likely are more advanced than those of the evolving adopters in all the four Digital DNA attributes (see figure 9 and "Real-world spotlight" on the AXA Group).

Figure 9. Who are the enthusiastic progressives?



Sources: 2016 *MIT Sloan Management Review;* Deloitte Digital's global study and Deloitte Center for Financial Services analysis.

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REAL-WORLD SPOTLIGHT: AN ENTHUSIASTIC PROGRESSIVE

AXA—expanding the domains of digital transformation

The French multinational insurer, the AXA Group, demonstrates attributes of an enthusiastic progressive with a strong focus on innovation. The group is working toward institutionalizing some select Digital DNA attributes in the overall fabric of the organization.

Deepen focus on digital transformation

- The AXA Group has signed partnerships with 35 digital and digitally savvy firms since 2014 to collaborate on its digital transformation agenda.
- The incoming CEO, Thomas Buberl, plans to further intensify focus on digital strategy.

Multiple domains of digital transformation already in action

- **Data Innovation Lab:** This lab focuses on big data big data and works closely with AXA Direct (online distribution platform) on risk analytics and fraud detection.
- **Digital Agency:** The unit, responsible for developing new digital or mobile customer experiences, uses a lean start-up model to gauge customer pain points, develop a rapid prototype, and use customer feedback to refine the product or service to grow usage.
- **AXA Participative Innovation Program:** It is an in-house competition for innovation ideas. In January, 23,000 AXA employees across the globe participated in its "Start-in" competition to propose 873 ideas. In June, the four winning teams presented their prototypes.

Attributes of digital culture in pockets of AXA's organization	Strategies to expand the attribute of digital culture into the fabric of the overall organization
• Agility ◦ Innovation ◦ Entrepreneurship (call for ideas internally) ◦ Lean start-up model • Data driven	• The in-house Digital Academy will provide shared resources to grow and upskill the talent for digital transformation. AXA launched "Do you speak Digital?"—its first gamified COOC (corporate online open course) for employees. • Reverse mentoring program: In the sessions held once or twice a month, Millennials share their skills with less digitally savvy generations

Sources: AXA, "Start-in 2016: Much more than an innovation contest," June 29, 2016; AXA, "New learning experiences to boost AXA in the digital age," May 27, 2015; AXA, "Plunge into the world of innovation at VivaTech Paris 2016," June 3, 2016; Ben Linders, "Innovation at AXA's Digital Agency," InfoQ, September 5, 2015; Michael Stoth and Oliver Ralph, "Incoming AXA chief Thomas Buberl to focus on digital transformation," *Financial Times*, March 21, 2016; Deloitte Center for Financial Services analysis.

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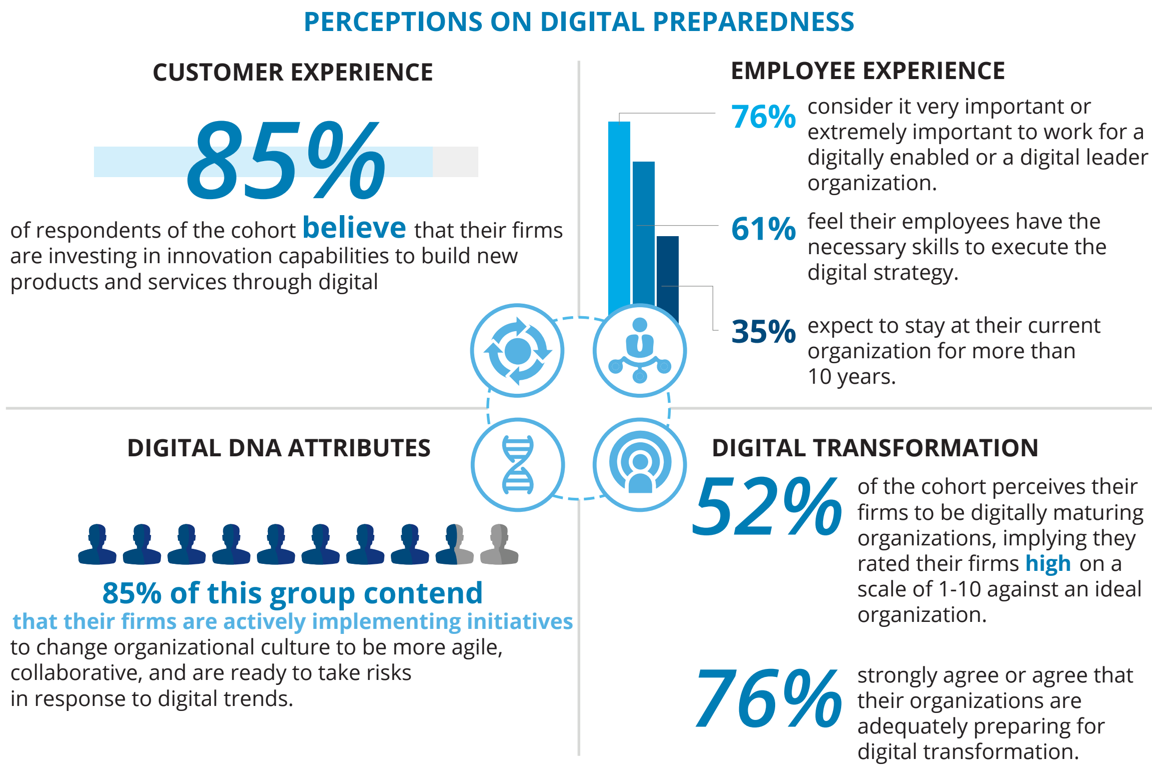
Who are the experiential drivers?

The experiential drivers' cohort work at organizations that are *becoming digital*—their firms have adopted many Digital DNA attributes by using digital technologies in a more synchronized manner than have many of their peers. Comprising 25 percent of the survey sample, they also far surpass many peer companies on cultural attributes, such as agility, collaborative work culture, bold risk appetite, and distributed structure (see figure 10 and "Real-world spotlight" on BBVA).

That said, the journey of cultural transformation does not end here for the experiential drivers. They have yet to mature to *being digital* firms, a stage in which digital is woven into the fabric of the entire organization.

Figure 10. Who are the experiential drivers?



Sources: 2016 *MIT Sloan Management Review;* Deloitte Digital's global study and Deloitte Center for Financial Services analysis.

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REAL-WORLD SPOTLIGHT: AN EXPERIENTIAL DRIVER

BBVA—digital transformation journey

BBVA demonstrates attributes of an experiential driver. In addition to enhancing customer experience with the latest digital offerings, the group has been on a journey to adopt Digital DNA attributes, including agility, collaboration, innovation, and distributed leadership, to improve employee experience. In fact, BBVA created an independent unit in 2014 which exhibits multiple Digital DNA *attributes* to accelerate its digital transformation efforts.

2006–2013: Overhaul the digital platform

- During this period, technology investment doubled to €2.4 billion, with a higher focus on new development in 2013, from €1.2 billion in 2006. The proportion of investments in new development increased to 40 percent in 2013, compared to an industry standard of 20 percent.

2014: Build the Digital Banking Area (DBA)

- The compan created an independent unit with a 100 percent digital culture to accelerate the entire group's transformation into a digital bank.
- By 2015, the DBA had launched over 50 agile projects across all business areas involving nearly 500 people.

2015: Revamp digital leadership

- BBVA put new senior management in place to make digital a core part of the business.
- Emphasis on a data-driven culture to deliver value to its customers amid rising competition from fintech start-ups and technology giants.

Attributes of Digital DNA in the DBA's agile projects

- Collaboration (work in multidisciplinary teams)
- Distributed decision making (in project and human resource management)
- Agility
  - Time-bound projects
  - Entrepreneurship (freedom to fail)
  - Innovation (iterations and quick turnarounds)

Strategies to expand the DBA's Digital DNA into the fabric of the overall organization

- Leadership advocating higher collaboration and more innovation
- Bringing together employees in their corporate offices (workspace) to foster collaboration
- Creating a learning culture by leveraging relationship with reputed institutions and offering a strong e-learning platform

Sources: Francisco González, "Transforming an analog company into a digital company: The case of BBVA," BBVA and Open Mind, April 15, 2015; Deloitte Center for Financial Services analysis.

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Where do you start the rewiring?

“WE are a technology company,” said Marianne Lake, CFO, JPMorgan Chase, during the company’s Investor Day this past February.[8] Echoing Lake’s comments, FSI firms will continue to invest in digital, with the dual goals of delighting customers and keeping pace with competition. To emerge as holistically digital enterprises, though, companies need to focus on their cultures and work on enhancing both the customer *and the employee* experience. To get started, FSI firms should evaluate the status of their digital transformation journey; with this knowledge, they can begin to devise a plan to transform their cultures.

In this process, it’s important for FSI leaders to avoid the temptation to try to change everything at once. Organizations should identify and rewire the Digital DNA attributes at an acceptable pace vs. instituting a complete overhaul. FSI firms may initially choose to focus on certain aspects of the Digital DNA depending on current organizational constructs and their ability to meld the new cultural attributes with the legacy operating models. Once companies have successfully adopted incremental changes, and more and more Digital DNA attributes get woven into the fabric of their organizations, leaders can consider increasing the pace of the rewiring. But one of the common mistakes firms make is that they treat legacy and digital as two different models, which often fosters resistance. Instead, leaders should focus on adopting key digital processes that flow back into the legacy business.

Here are some steps that FSI firm leaders can consider as they rewire their cultures:

1. NAVIGATE THE ‘UNEVENNESS’ BETWEEN LEGACY AND DIGITAL OPERATIONS

One of the biggest challenges in cultural rewiring is bridging the gap between legacy and digital operations, as the former often sub-optimizes or neutralizes valuable investments in the latter. This happens because there are significant differences in operating models, speed of business, agility, fluidity, and customer involvement. FSI firms should begin by completing a detailed review of key workflow patterns and interactions.

2. LAY DOWN THE ROADMAP FOR REWIRING THE CULTURE

Next, FSI firms should select workflows and develop processes that can lead to seamless operations across the legacy and digital businesses. Here, it is often best to first focus on a few processes that are likely to make a difference, identifying and linking the critical processes between legacy and digital work. Employees should be given appropriate training and continuous learning opportunities to equip them with the requisite knowledge and skills to transition from the legacy working style to the digital ones.

3. FOSTER GREATER COLLABORATION BETWEEN DIFFERENT OPERATIONS AND APPROACHES

Finally, as companies evaluate workflows, they need to collaborate intentionally. This is important because typically, the coexistence of these two different models can slow down operations and can lead to questioning of decision-making processes, which is often exacerbated by ineffective communication. To overcome this challenge, FSI leaders should design a change management plan that ensures that employees learn to transition between old and new ways as seamlessly as possible. Leaders should take the time to clearly communicate issues surrounding responsibility, accountability, and decision making. Throughout the rewiring process there will be disruption, but FSI firms should focus on minimizing that disruption to their legacy operations.

In summary, as Bob Contri, global financial services industry (GFSI) leader, Deloitte Touche and Tohmatsu Limited, recently stated at Deloitte's annual Global Financial Services Industry conference, "The buzz in the room is on technology, not only about how it will change our day-to-day business, but how will it affect our talent. It's an aspect that we have not really touched on yet. We all need to consider how we can utilize these new technologies to steer our people, and therefore our organizations, to lead us to real transformation."

Appendix

Case studies on rewiring Digital DNA attributes

REAL-WORLD SPOTLIGHT: AGILITY

Being agile the GE way

Looking back a decade ago, it seemed unlikely that General Electric (GE) would shift its strategic focus from physical appliances to becoming a champion of the Internet of Things (IoT).[9] What has been equally inspiring is the cultural rewiring of this 124-year-old giant. Following is a 2013 case study of GE Appliances, a unit that GE announced to sell off earlier this year, illustrating how a large company can become an agile organization.

CHALLENGE

Build a refrigerator with French doors for the high-end product line

In January 2013, Chip Blankenship, CEO of GE Appliances, offered his team this challenge: "You're going to change every part [of the refrigerator] the customer sees. You won't have a lot of money. There will be a very small team. There will be a working product in three months. And you will have a production product in 11 or 12 months."

SOLUTION

"FastWorks": GE Appliances used this technique and embraced the following attributes to build speed and be more aligned with customer needs.

- Collaboration: A small, cross-functional team (engineers, product managers, sales professionals) was formed.
- Stakeholder engagement: Customer feedback was looped in from the start; suppliers were engaged, too, in the product development process.
- Distributed decision making: The team had complete leadership support and autonomy to make decisions.
- Fail early, fail fast, learn faster: Within a month, the team came up with its first prototype, a minimum viable product; customers rated it poorly.
- Iterative: Upon multiple iterations, version five of the prototype received favorable customer reviews. This was completed within seven months, reducing the product revision cycle dramatically. (It had previously averaged five years.)

ENTERPRISE-WIDE ADOPTION

- GE Appliances's learning and agile practices have been leveraged in multiple other GE units.
- The organization has launched over 100 FastWorks projects globally.
- Extensive FastWorks training is now being provided to coaches.

Source: Brad Power, "How GE applies lean start-up practices," *Harvard Business Review*, April 23, 2014; and Deloitte Center for Financial Services analysis.

REAL-WORLD SPOTLIGHT: COLLABORATION

CBRE'S Workspace 360 program

CBRE, a real estate company headquartered in California, is revamping its physical infrastructure to charge the corporate culture with the power of collaboration. CBRE uses Workspace 360 program to foster a collaborative work culture and enrich the employee and consumer experience.

Figure 11. Behind CBRE's Workspace 360 program

EMPLOYEE EXPERIENCE

UNASSIGNED WORK SPACES

Encourages interaction between different client-serving or functional teams, enabling more collaboration opportunities. A person may end up sitting with a different set of people each day, helping expand his network.

SMALLER CONFERENCE ROOMS

Though smaller compared to those in the traditional offices, the conference rooms in new CBRE offices facilitate team discussions.

THE "HEART"

A special layout feature in the Pratt Street office, the Heart becomes a hub for employees and client connects. It also enables employees to unplug from their workstations and work in an open and less formal set-up.

STATE OF THE ART TECHNOLOGY

For instance, in CBRE's new office at LaSalle Plaza, the media wall in the lobby and a multiscreen Liquid Galaxy tool enables collaboration between employees and clients, as they use Google Earth to toggle on 3D building images.

CLIENT EXPERIENCE

Sources: Kevin Litten, "CBRE is creating a collaborative workspace for itself to show how it's done and win clients," *Baltimore Business Journal*, April 14, 2014; Nicole Norfleet, "CBRE moves into new office at LaSalle Plaza," *Star Tribune* (blog), June 26, 2016; and Deloitte Center for Financial Services analysis.

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REAL-WORLD SPOTLIGHT: DISTRIBUTED ORGANIZATIONAL STRUCTURE

Whirlpool strengthens a culture of distributed leadership[10]

The company moved away from the traditional hierarchy-based job titles. To instill a sense of ownership, Whirlpool assigns every employee a leadership role in one of the following four categories: 1) lead self; 2) lead others; 3) lead a function; or 4) lead an enterprise. The company has a goal of developing 80 percent of its senior leadership from within the organization, and emphasizes learning and development to hone soft skills. It also uses an employee segmentation model to map the right people to the right leadership roles.

REAL-WORLD SPOTLIGHT: BOLD RISK CULTURE

Amazon disrupts itself with bold decisions[11]

Amazon, under the leadership of Jeff Bezos, is renowned for its bold risk culture and innovation in digital transformation. Time and again, the company has successfully disrupted itself before getting disrupted by competitors. Sensing changing customer needs, below are a few of Amazon's bold moves:

- In 2002, the company expanded into online sales of second-hand books, with full knowledge that the new offering could cannibalize sales of its higher-margin new books' product lines.
- In 2006, Amazon launched Amazon Unbox (renamed Amazon Video in 2008). This video-on-demand service offered television shows and movies on a rental basis—another example of introducing a service that could negatively impact existing product line sales (in this case, DVD sales).
- In 2007, catering to rising customer demand for a low-cost electronic books reader, Amazon launched its first Kindle. Again, the company did not fear launching a new product that could impact its existing business of physical books.

About the research

THIS report leverages data from the 2016 Digital Business Global Executive Study and Research Project, conducted by *MIT Sloan Management Review* and Deloitte Digital. To understand the challenges and opportunities associated with the use of social and digital business, *MIT Sloan Management Review*, in collaboration with Deloitte Digital, conducted its fifth annual survey of more than 3,700 business executives, managers, and analysts from organizations around the world. Completed in the fall of 2015, the survey captured insights from individuals in 131 countries and 27 industries, including organizations of various sizes. Nearly two-thirds of the respondents were from outside of the United States. The sample was drawn from a number of sources, including *MIT Sloan Management Review* readers, Deloitte Dbriefs webcast subscribers, and other interested parties. In addition to the survey results, business executives from a number of industries, as well as technology vendors, were interviewed to understand the practical issues facing organizations today. Their insights contributed to a richer understanding of the data.

For purposes of this report, we analyzed the 436 FSI respondents from the banking (42 percent), asset management/private equity (22 percent), construction and real estate (19 percent), and insurance (17 percent) sectors.

Figure 12. Global FSI respondents' geographic profile (headquarters)

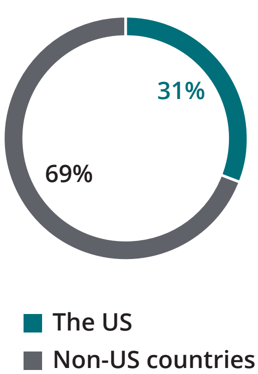

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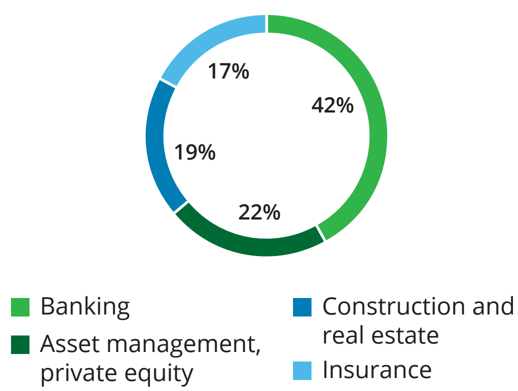
Figure 13. Global FSI respondents' sector profile



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