Mastering change: why do banks find it hard?

James Clash explores the shift from strategic technology-tied projects to a focus on organisational agility

Riskcare

CHANGE IS ACCELERATING

Technology is enabling change to take place faster than ever. Prior to 2001 – when 3G mobile technology was introduced – releasing a new app to mass market required the shipment of physical media. In 2017 alone, there were 270 billion application downloads. The power, utility and reach of technology today enables change to occur overnight and with minimal resources.

CHANGE IS UNPREDICTABLE

Whilst previously, change in any sector was generally deemed evolutionary, new products and crossovers from other sectors can now bring revolutionary change to a specific area; for example, Tesla has been approaching car development in a way that's parallel to mobile application development.

Tesla cars' features and performance are controlled by software that allows the company to continually update the functions and dynamics of the car 'over the air' – a major shift from the traditional model of a car's features and performance being set at the factory.

Within finance, the trend for regulators to continually update regulatory (Basel I, II, III etc) rules and operational requirements following incidents in the markets and the growing disruption from 'FinTech' start-ups, has introduced a requirement for ongoing change to the core operations of banks.

CHANGE IS DISRUPTIVE

In many established markets, new companies – enabled by the low entry costs into many sectors – have disrupted and turned accepted practices and procedures on their head.

Uber's creation of an application that pairs someone wanting to hail a cab with the nearest ride has removed the line between black cab and mini-cab, while Amazon and eBay have enabled small store holders to sell their wares globally with almost no overheads – redefining usage of high streets and shopping malls.

Challenger banks in the UK banking sector – unencumbered by legacy IT systems or a history of under investment in customer service – are opening branches steadily, while the 'big four' are closing branches at a rate of over 700 a year.

Digital banks such as Monzo are growing even faster – at 5% per week passing 500,000 users in 2017. In a market where 20 million people are using apps to access financial services, the organisations with low agility will quickly become marginalised.

CHANGE HAS NO RESPECT FOR HISTORY

Past corporate glories, size or strength of a brand cannot shield organisations from change. Kodak, which started trading in 1888 and was a global brand for most of the 20th Century, failed to adapt with the shift in societal usage of camera phones and digital cameras. In 1976 Kodak had 85% market share in the US camera market.

After failing to exploit the invention of the digital camera in 1975 (due to fears around the affect this would have on its dominant camera, film and processing businesses combined with the inability to appreciate people would want to view or share photographs on anything other than paper), its fortunes declined in line with photographic film sales, ending in bankruptcy in 2012.

The move to open banking in 2018 will present similar risks for established banks – new entrants using the mobile app model will be able to offer full retail banking facilities at low cost, taking over lucrative customer relationships and diminishing the strength of established brands.

CHANGE IS CONTINUOUS

Change is the new normal and continual and rapid evolution of products is expected by customers across many sectors. It is now standard to have a new revolutionary phone in our hands every two years and the apps we run on them are updated weekly, if not daily. Organisations that embrace change and are bold in what they try to achieve will reap the rewards. Those that don't will be become increasingly irrelevant.

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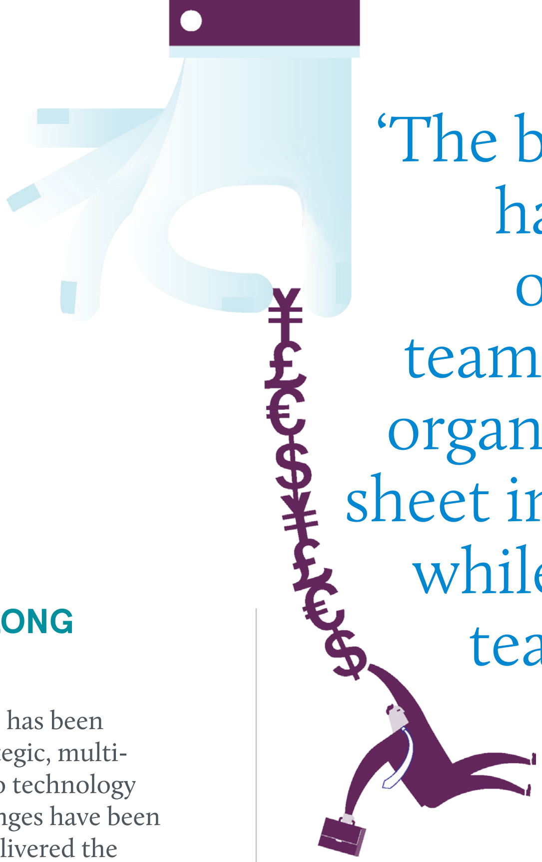

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MEGA PROJECTS: THE LONG ROAD TO FAILURE

Historically, change within banks has been attempted through the large strategic, multi-year projects that are often tied to technology refresh cycles. Many of these changes have been technology led and have rarely delivered the promised benefits – their original goals were predicated based on no major changes being exerted on the organisation over the period of the project, and as the inevitable change occurred the goals became less relevant and often unachievable.

Consider the many programmes bringing together private, corporate and investment banking operations to enable competitive advantage and reduce costs – programmes then challenged by the call for separation of these functions by the regulators.

As a result, such projects have been diluted, cancelled or absorbed into other initiatives, and the artefacts that were delivered often only increased costs and complexities for the organisation – which, ironically, has inhibited a great deal of potential future change.

In response to this, many banks have adopted ‘agile’ practices. However, the change in philosophy is often led and limited to the technology divisions only, with the relationship to the business remaining contractual and disjointed. Take, for example the selection of Product Owners, intended to be empowered business users of the system; they are often the technology SMEs with no hands-on business experience.

The interface to the business is still largely waterfall, objectives set at the outset and success defined as clearing milestones without regular challenge or realignment to current business objectives, and the agile aspects limited to the methods of code development. The driver for the shift to agile has also often only been to satisfy the demands of technology staff that were concerned their skills were falling behind the market, not to enable change to transform the organisation.

SELL THE POST-CHANGE VISION

For change to be successful, the whole organisation must be engaged and the vision of what the organisation will look like after the change must be agreed upon from the outset and clearly communicated to all levels. The premise for the change must also be grounded in a solid business case with clear benefits and objectives that are relevant to real tangible business outcomes.

Critically, the parties that will be impacted should be the greatest champions of the change – without their support and buy-in, change will, at best, be resisted and at worst, rejected. Change for technology’s sake alone, justified by shaky promises of cost savings, often flounders as the business’ appetite for the disruption caused evaporates and business-led requirements divert resources and attention.

In recent years, the division between business objectives and technology goals – particularly in the financial industry – has often widened and even been conflicted, for example, the business imposes harsh cost savings on its technology teams to improve the organisation’s balance sheet in the short term, while the technology teams identify that the only long-term strategy to reduce costs requires a spend-to-save model.

Successful projects achieve change through ruthlessly aligning all their activities to the agreed business-defined objectives and outcomes.

ALIGNING FOR THE FUTURE STATE

Dividing business as usual (BAU) and strategic projects often results in a lack of alignment across divisions, which creates numerous problems that all inhibit change:

- The most experienced staff with the greatest business knowledge are 'stuck' on BAU as the short timeframes and need to evolve the legacy platforms demands their knowledge and expertise.
- Temporary staff brought in to deliver the 'strategic' change have no knowledge of or support for the organisation's goals, objectives or vision. Their focus will be on delivering the specification, not the outcome.
- BAU delivery is highly business aligned – after all, the business was the source of the change request! Delivery can be very agile, with experienced staff using their business contacts to provide the change iteratively with direct business input replacing prescriptive specifications.
- Strategic change is completed away from the business – with low business engagement during the process and little planning or engagement – to mitigate the disruption the change will ultimately bring to the business during the deployment.
- Strategic projects make demands of BAU resource, causing conflict between satisfying short-term business requirements and meeting more nebulous programme needs.

It has become apparent to some organisations that the division of BAU and strategic change is an issue, but many have only focused on the staffing aspects and attempted to move experienced staff to their strategic projects, back-filling BAU with temporary or off-shore staff.

As the service levels to the business have declined, this has then led to other issues surfacing and redeployed front-line staff becoming disenfranchised with the slow pace of strategic change.

When the divide between BAU and strategic is removed, and the whole organisation focuses all of its operations on achieving its goals and objectives, these issues can be resolved.

> 'Change requests are, in fact, a healthy sign for achieving the wider goals of the project overall.'

If the business and technology are aligned on the outcomes being sought, then every request for change – be it BAU or a larger piece of the solution (strategic) – should move the whole organisation towards achieving the outcome. Any requests that do not should be challenged and ideally dropped from the book of work.

FOCUS ON THE BENEFITS AND ADJUST, ADJUST, ADJUST

To ensure the delivery of change, the approach that's often adopted is to incentivise the team to succeed by ensuring close adherence to a plan of delivery. This plan is not written in terms of objectives, outcomes or new behaviours; it is written in terms of tasks, dates and resources with success tied to passing specific progress gates.

Unsurprisingly, the delivery team will focus on delivering the plan, with little attention given to how the work is changing the organisation (or not). Or worse still, they will actively defend the plan against change.

The raising of change requests during a project is seen as a negative culturally for most organisations. It can also be an indication of failure, yet in reality this is often only the project leaders' failure to recognise valid, relevant change. Change requests are, in fact, a healthy sign for achieving the wider goals of the project overall.

This focus on the journey and not the destination is one of the key reason that strategic change projects often fail to deliver any benefits to the organisation. By the time the journey is half way through, the destination is no longer relevant, or more often than not the journey is cut short as the organisation realises the objectives are no longer achievable or relevant.

The definition of success, through delivering only the tasks on the plan, often results in the partial delivery of systems and upgrades etc. These often have the unintended effect of making future change even harder as the complexity of the systems landscape is increased and ironically the originally promised cost savings are reversed in ongoing increased support costs.

For successful change, the focus must be kept on the objectives and outcomes being sought, not a stoic adherence to plan in the face of change. If the objectives and outcomes need to change due to legitimate dynamic business needs, then there should be no reluctance to adjust the plans to meet the changes. Where an organisation is wholly aligned to the change and moving towards it in atomic steps, there is little waste generated in realigning the delivery to the updated goals.

TACKLE ORGANISATIONAL INERTIA

Large organisations, especially those that are highly regulated, require many policies, standards, procedures and controls to ensure they do not breach regulations or create uncontrolled losses. A side effect of this governance model is to create a great organisational inertia against any change; change is perceived as costly, risky and unwanted.

Where change has to occur it is separated from the BAU, identified as a strategic initiative and securely wrapped up in stifling controls through programme management and rigorous financial reporting demands. The BAU changes are equally stifled through lengthy sign-off and testing regimes that ensure only business critical change occurs.

Policies and procedures should be designed to encourage the behaviours that are valued by the organisation, to set the boundaries and desired outcomes, but not to dictate the process to achieving them. The evidence required by regulators/auditors is then created as part of useful artefacts used to deliver change, not as additional bolt-on items that disrupt operations or create inefficient process flows.

Equally, the human condition is often resistant to change and this exhibits itself as push back against new ideas, work practices and systems – on the grounds of risk or the perception that change presents a threat.

As recent corporate failures have shown, there is no place for lethargic organisations in today's world. Change has become the normal state and all parts of the organisation should be continually looking to improve, innovate or at least match their known competitors' capabilities.

Strong leadership and vision are needed to alleviate this inertia, as has been the case with strongly led organisations that have undergone positive change and growth – such as the Virgin Group, Apple (under Steve Jobs) and Amazon. A clear vision of the goals across the organisation have enabled successful change.

Technology now supports change as the norm with continuous integration, automated testing and OTA deployment etc. These enable frequent well-controlled change with low risks – it is the policies, procedures and a natural inclination towards comfort zones that create the false perception that legacy methods must be used to make change safe (manual testing and sign-off by QA teams, complex deployment scripts, etc).

History has shown us repeatedly that these do not prevent errors occurring, or limit the subsequent damage to the business. They do, however, prevent change.

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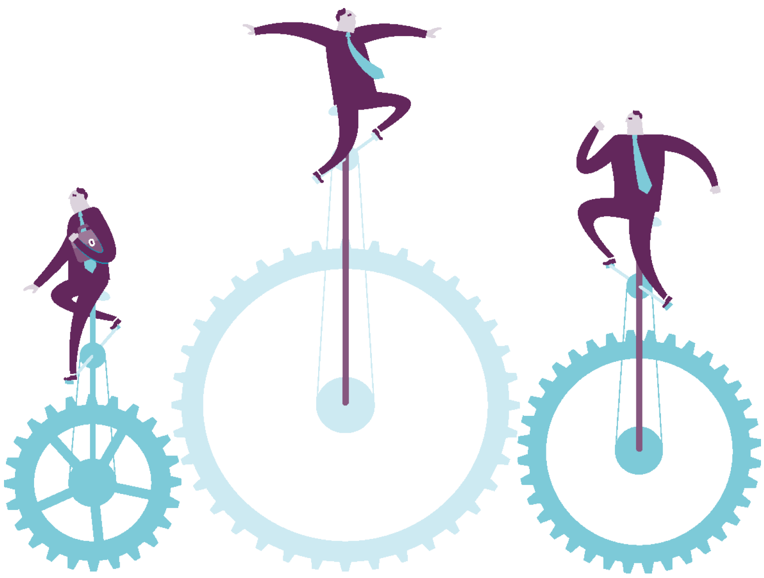

STAYING IN CONTROL

The reduction of costs has become the focus of financial organisations' operations departments and as a result, this has impacted the ability to implement change.

Change is hindered by procedural demands to demonstrate cost benefits before starting any work and then held back by strict cost controls once projects have begun, with the result that the project prioritises keeping to the agreed plan over responding to change.

Many projects spend as much on meeting governance requirements (reports, plans, status meetings) as they do in delivering change. If they stripped this back to the minimum requirement – focusing instead on the outcomes, not the governance process and its artefacts – the energy released would help ensure that the change is achieved.

This approach, when applied to software development, is captured in *The Manifesto for Agile Software Development*:

'We are uncovering better ways of developing software by doing it and helping others do it. Through this work we have come to value:

> Individuals and interactions over processes and tools,
>
> Working software over comprehensive documentation,
>
> Customer collaboration over contract negotiation,
>
> Responding to change over following a plan,
>
> That is, while there is value in the items on the right, we value the items on the left more.

Although the manifesto talks to software development, the same ethos can be applied to achieving all forms of change. For successful Agile development, the whole team understands the goal, that the path to the goal is not defined upfront and that the approach/objective is regularly challenged and adjusted. Successful change at an organisational level is achieved through the application of the same philosophy.

The governance of projects should measure what has been achieved in moving the organisation closer to its goal, and challenge how future plans will further close the gap to the objective. Small incremental steps are better than large leaps, and much less costly if they are deemed to be no longer in the right direction.

ARE WE THERE YET?

How do you know if you've achieved your objectives? If the successful execution of the plan to time and budget does not determine success, how do you measure when you've reached your destination? Given that change should only be initiated to meet the goals and objectives of the business (otherwise, why are you doing it?) then it is the business metrics that should determine success.

As with strategic plans, the metrics of the business and technology are often out of alignment. Consider the technology KPI for providing support, which often focuses on the number and speed of the issues being closed; this has no reference to the business losses incurred due to the issues and favours the resolution of the easiest issues first.

An aligned metric would be to measure the business losses incurred by the issues, then

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work with the business to reduce these through prioritising the root cause analysis and subsequent change to eliminate the most expensive first.

For every change, the vision of success must be determined at the outset and then a description of how this can be recognised developed and agreed at all levels of the organisation. If the change can be visualised and the vision conveyed in a way that gains the buy-in of the whole organisation, then success becomes far more likely.

The vision should then be broken down into smaller real objectives that can be recognised and measured. Ideally, this should be through quantitative metrics purely related to the business performance. Reaching the first objective should trigger a review of the whole vision and challenge its relevance to the world as it is now, then the next objective should be adjusted to ensure it builds to the goal.

In the case of the support tickets, a philosophy of continual improvement to reduce the losses will result in many changes. It is unlikely all issues will ever be eradicated, but through continued focus on the real cost of the issues, damage to the business is always being minimised and costs therefore reduced.

To prevent the conflict of strategy and goals that afflicts many organisations, the metrics used to measure the success of change should be the same throughout the organisation.

Any detailed local metrics used must be clearly aligned to the larger organisational metrics or where they cannot be shown to contribute to an organisational metric they should be replaced with ones that do, e.g. measuring the reduction in spend on new features in place of using system performance metrics to drive departmental spending on a system the organisation has marked for removal in the next budget cycle.

Great care must be taken in the selection of metrics, as the laws of unintended consequences will punish poor choices, often with behaviours that are out of alignment with the objectives originally sought. Regularly communicating the progress towards the goal and ensuring any realignment of the objectives are fully understood and bought into by all those impacted, are key to ensuring successful change.

The alignment of local change with organisational objectives is often further complicated by the restructuring cycles that impact the leadership of financial firms.

The fungibility of staff and structured promotion cycles within the sector creates a cycle of leadership change. These cycles often result in changes to objectives as the incoming leadership seeks to differentiate their tenure from the previous leadership, which if not coordinated across the organisation, lead to disconnects and conflicts reducing the ability of the organisation to achieve cohesive change.

DOES CONSTANT CHANGE CREATE INSTABILITY?

An organisation that has embraced change as its BAU can be an unsettling place to work, with little certainty as to what the future state may be. Staff can become reluctant to support change and protectionist of their intellectual property.

Successful organisations tackle this through ensuring that staff all feel part of a team – usually headed by a division within the company that has a specific focus and purpose. For example, Google recently split into several divisions – each focused on a different area of its business. Staff can still work across divisions in matrix teams, but have the security that is provided by the sense of belonging to a 'home' team.

Open source has created globally distributed communities with shared goals and objectives. This can be repeated internally for all organisations – eradicating competing silos and supporting the philosophy of the whole organisation working to achieve a goal. An agile organisation has a simple but evolving technology platform, re-use is encouraged and re-invention of the wheel discouraged; innovating the replacement to the wheel is the goal!

CONCLUSION

Change is here to stay and unpredictable, faster, deeper change is impacting all areas of the financial sector. Organisations that believe their dominance or scale protects them from change will ultimately fail as they cannot predict where their market will move to in the future, and unless they are willing to embrace change they will become obsolete.

Successful organisations will have accepted this new normal and created a culture that is at ease with a fluid, dynamic environment – where systems, processes and organisational change is never deemed complete, but is ongoing and continually being aligned to the future business objectives.

To achieve this, a secure environment for staff must be created, so that they can be confident within their roles and happy operating across the organisation – with their objectives aligned to the envisioned organisational goals, that are clearly communicated to all levels.

Organisations that articulate their goals, establish the vision that describes them and provide the leadership and empowerment to drive towards them, will achieve continual focused change and will capitalise on shocks in their markets successfully.

ABOUT RISKCARE

Riskcare is a financial services consultancy and outsourcing company with offices in London, New York and Sydney.

Over the past 23 years we have built up experience and knowledge that sets us apart in delivering advanced, complex and transformational change to the capital markets industry.

We service a broad range of clients, including investment banks, institutional investment companies, hedge funds, exchanges, commodities trading houses and insurance corporations.

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