



Leadership Principles for a Digital World

Overview

Leaders of retail banks and credit unions overwhelmingly recognize the need to integrate digital technology into their business models, yet many are not confident their organizations can make the necessary changes. This research draws on our latest digital leadership insights to show how retail banking leaders can effectively lead their organizations through digital transformation.

Key Findings

- Leading a financial institution in the digital era requires a new way of thinking; approaching uncertainty as both inescapable and a source of opportunity and not something to overcome at all costs.
- Digital leaders share six distinctive traits related to how they approach risk, strategy, talent and the potential for digital to transform businesses.
- Equipping a workforce with the ambition and ability to work digitally is essential to leading a successful digital transformation, and leaders who exemplify the six traits are more effective at building such a workforce.

Recommendations

In order to effectively lead digital organizations, financial leaders must:

- Abandon incumbent mindsets fixated on maintaining predictability in favor of a “digital mindset” that creates value from uncertainty and tolerates failure to encourage innovation and breakthrough business outcomes, by incorporating the six traits of digital leaders into decision making and strategic thinking.
- Promote the principles of digital dexterity — the ambition and ability to work digitally — across the organization to build a fully digitally dexterous workforce by crafting a cohesive narrative about the organization’s digital strategy and by modelling digitally dexterous behaviors.

- Take advantage of IT talent and expertise to both drive an organization's digital change and educate the workforce in working digitally through events like hackathons and education initiatives focused on building digital skills.

"To be honest, I'm not even sure banks can disrupt themselves."

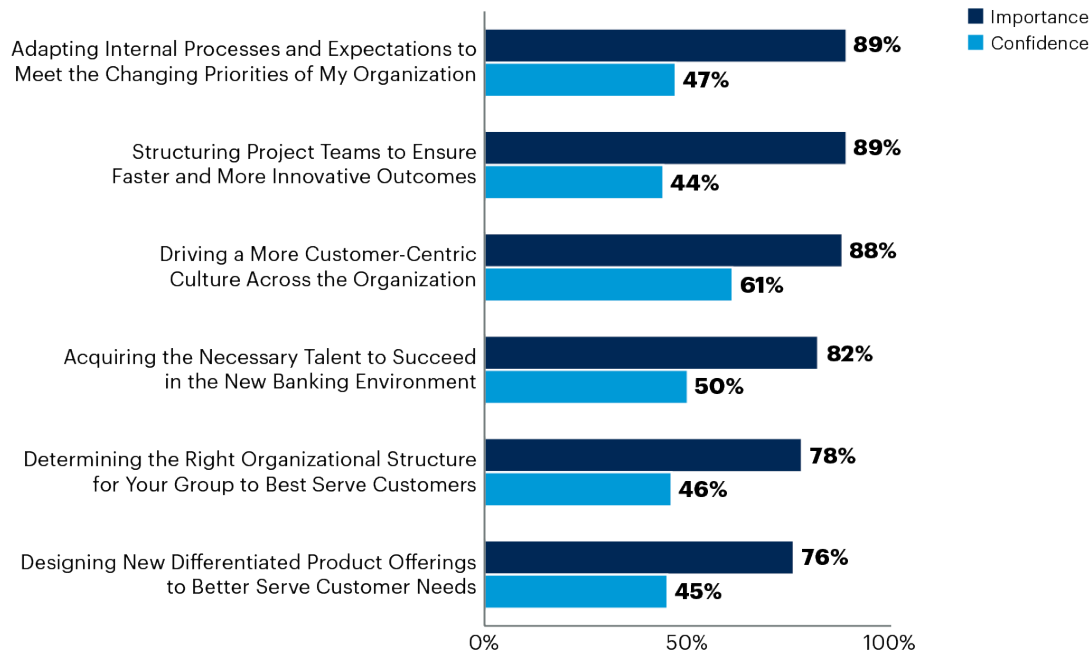
Retail Banking Executive

Retail bank and credit union executives recognize the need to integrate digital technology into their business models and take advantage of the wave of digital disruption sweeping across global businesses. However, recognizing a need and having the ability to execute are two very different things. According to our annual survey of consumer banking decision makers, executives overwhelmingly recognize the importance of digitally transforming their organizations, but far fewer have confidence in their abilities to execute (see Figure 1). This can leave financial executives wondering whether they are capable of leading their organization through digital disruption.

Figure 1: Importance of, and Confidence in, Key Initiatives

Importance of, and Confidence in, Key Initiatives

Percentage of Executives Rating Initiatives as “Very or Extremely Important” and Their Confidence as “Very or Extremely Confident”



n = 101
 Source: Gartner 2018 Retail Banking Agenda Poll
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Most executives recognize digital transformation is important, but far fewer are confident they can execute.

Digital Leadership Requires a Shift in Mindset

At the core of effective digital transformation is the leader’s *mindset*: the set of assumptions and mental schemes through which new information is processed and decisions are made. There is a sharp contrast between how incumbents think and how digital-era disruptors do, which ultimately leads to radical differences in how firms strategize and otherwise plan for the future.

The mindsets of traditional industrial-era incumbents are characterized by their desire to:

- Focus on predictability over speed and innovation.
- Operate within current paradigms.
- Invest only in solid business cases.
- Manage all to “green” (never failing).

These traits are not inherently a liability; incumbent players are usually responsible to a variety of stakeholders and have been successful under their current paradigm, leading to understandable risk aversion.

The problem with adhering to an industrial-era mindset, especially in the current wave of digital disruption, is it can lead to “premium position captivity.” This is the *failure or inability to respond to the advent of a competitor, multiple competitors from emerging markets, or changing consumer preferences*. For retail banks, this can mean cost pressure from larger rivals through digital optimization, loss of market share to fintechs, complacency due to regulatory protection, or failure to respond to growing customer preferences for outcome-oriented products. Success under an old paradigm becomes complacency under a new one, potentially leading to loss of business or worse.

Consumer Payments

Payments are one of the most visible and important uses of financial institutions in consumers’ daily lives, so naturally represent a huge source of banking revenue. In 2015, more than 144 billion noncash payments were made in the U.S., amounting to \$174 trillion.

Historically, payments were exclusively tied to deposit accounts at banks and credit unions, which made sense given that these institutions were the only ones that insured consumers’ money. This allowed financial organizations to forgo innovation, as they were the only payments player in the market. Now, payments have fragmented. Digital technology allows new players to break the link between deposit accounts and the ability to make payments. This enables access by new market players like Amazon Cash to existing payment rails, and the creation of new rails such as those enabled by distributed ledgers, while offering more convenient ways to pay than traditional providers.

In 2016, PayPal held more in demand deposits (\$13 billion) than all but 20 U.S. financial institutions. Venmo has reported \$14.2 billion in transactions in the second quarter of 2018, a 78% YOY increase.[1] A lesser-known player, Square’s Cash App, reported \$21.4 billion. Even Starbucks, a coffee company, held \$1.2 billion in customer money in 2016. By continuing to rely on an outdated payment paradigm, incumbent institutions are seeing their primary revenue source, customer deposits, threatened.[2]

Characteristics of a Digital Mindset

To lead their institutions through digital disruption, leaders must abandon mitigate-risk-at-all-costs thinking in favor of a digital-era mindset characterized by a willingness and desire to:

- Create value from uncertainty.

- Discover and master the next paradigm.
- Manage a portfolio of investment bets.
- Innovate to win big — and be comfortable with failing fast.
- Focus on innovation and speed over predictability.

Beyond this general characterization, Gartner has identified six characteristics of disruptive digital leaders that any aspiring digital leader can calibrate themselves against.

1. Thrive Despite Uncertainty

In the digital era, uncertainty is the rule not the exception. Rather than try to superimpose false predictability, a digital leader embraces uncertainty, recognizing there is opportunity inherent in it, and attempts to mitigate risks along the way. This does not mean abandoning sound decision making or fiscal responsibility, but rather considering factors such as what is technologically possible, the potential for market disruption and the potential costs and benefits. Instead of attempting to predict exactly what is going to happen, a digital leader recognizes a variety of possible outcomes and has a plan to navigate contingencies.

2. Quest for Breakthrough Business Outcomes

Digital leaders think in terms of leapfrogging to the next generation of value creation, rather than making incremental progress. They think about the frontier of what is — or soon will be — technologically possible, and how they can produce breakthrough business outcomes in line with the leader's sense of purpose or mission. For example, a healthcare company uses cognitive computing to completely *change* how diseases are diagnosed, compared to simply implementing artificial intelligence (AI) to process claims *faster*. As Google's Eric Schmidt stated, "incrementalism leads to irrelevance over time, especially in technology, because change tends to be revolutionary not evolutionary."^[3]

3. Exploit New Digital-Era Levers

Digital leaders look beyond headline-grabbing technologies like virtual reality, and instead focus on how technology has changed the competitive landscape. They try to take advantage of new competitive levers, like platform-based business models or creating value through algorithms. Digital leaders see these newly available levers as long-term investments that transform their businesses, rather than adopting new technologies for their own sake or to appease shareholders or the board.

4. Start-Experiment-Learn-Iterate

Once a new technology's value has been demonstrated, it is often too late — the initiative has already been captured by a faster, more innovative competitor. Digital leaders are willing to move on new technologies before a viable business case has been demonstrated, by making strategic bets and working with methods such as minimal viable product and data-evidence-based experimentation. They ground these bets in clear, expected outcomes and use digital era levers, persevering even if results don't materialize right away. For example, Amazon tried and failed twice to develop its third-party marketplace before it succeeded; third-party sales now make up almost 50% of all Amazon platform sales.

5. Build a Culture of Creativity

Digital technology has lowered barriers to entry in the financial services industry, meaning the most successful banks will be those that can continuously innovate the fastest. Bank leaders will need to instill a culture in their organizations that prizes creativity. Doing so requires promoting a culture that removes the stigma around failure, and instead heavily emphasizes that embarking on ambitious projects — often complicated or experimental — will sometimes necessarily lead to failure.

However, that failure is an important source of learning rather than a “black mark.” Employees should be incentivized to take risks and come up with new ideas. Organizational structures should reward top performers. Creating a culture of innovation will also require moving away from the widespread command-and-control culture reliant on order taking, and instead toward a culture of continuous learning and more inclusive decision making. Employees should be encouraged to ask “why,” rather than just focus on how to do something they have been assigned, as an innovation culture relies on the entire workforce continuously searching for new solutions, not just relying on a few senior leaders from which these innovations materialize.[4]

Case in Point: Bank of Ayudhya (Thailand)



To foster a greater innovation culture, leaders at the Bank of Ayudhya in Thailand created a system to engage all employees in the innovation process (see Figures 2 and 3). They built an online portal where employees can submit project ideas, which are then narrowed down by senior management to the most relevant set, and voted on by employees. Top performers from different organizational functions are then selected to staff the innovation team that will develop the project. The system both incentivizes high performance and draws the entire workforce into the task of innovation, changing the culture of the organization. Read the [full case study](#).

Figure 2: Bank of Ayudhya's Innovation Engagement Process

Bank of Ayudhya's Innovation Engagement Process
Bank of Ayudhya



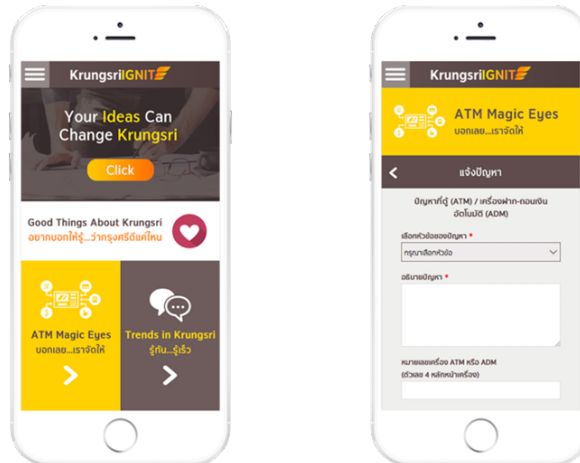
Source: Adapted from Bank of Ayudhya
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Bank of Ayudhya's process incentivizes high performance and draws all employees into the task of innovation.

Figure 3: Innovation Project Example

Innovation Project Example
Bank of Ayudhya

Krungsri[®] IGNITE App



Source: Adapted from Bank of Ayudhya
* Bank of Ayudhya is commonly referred to as Krungsri.

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6. Cherish Top-Notch Digital Talent

Disruptive digital leaders recognize that digitally-adept talent —those with engineering, data and computer science skill sets — are the single most critical resource in a digital economy. Financial institutions are competing not just with other

banks, but with almost every sector for a small pool of digitally talented individuals. Bank leaders will need to make it their personal priority to both draw and retain digital talent, rather than delegate it to HR. They must then leverage that talent to educate and enhance the rest of their workforce to grow their own pool of high-end talent that will drive a digital transformation. Jeff Bezos, Amazon's CEO, has told shareholders that setting high standards with regard to hiring talent would be the single most important driver of success for the company.[5]

While the first four traits focus on how bank leaders approach strategy and how to lead their organization, the latter two focus on how they approach and lead their workforce in digital transformation. Changing culture is easier said than done, but critical to ensuring an effective change toward a culture of innovation is the promotion and development of a workforce with both technical and nontechnical collaborative skills, and that demonstrates both the ambition and ability to work in a digital environment. This is known as *digital dexterity*.

Building a Digitally Dexterous Workforce

Digital dexterity is defined as the ability and the ambition of an individual or workforce to exploit existing and emerging technologies for better business outcomes. It involves four components (see Figure 4):

- The ambition to work digitally
- The ability to work digitally
- The ambition to build a digital business
- The ability of a workforce to build a digital business

The **ambition to work digitally** refers to employees' belief that technology can augment not only their day-to-day activities, but their willingness to take on new roles to support their company's digital business plan, as well as their understanding that technological proficiency is critical to career development. The **ability to work digitally** is reflected in employees' ability to work iteratively and with unclear requirements from anywhere, with the right technology.

Likewise, the **ambition to build a digital business** represents employees' understanding of the importance of digital transformation, and their desire and willingness to innovate and take risks to achieve success. Working cross-functionally and across seniority levels to identify and support digital business opportunities contributes to the **ability of a workforce to build a digital business**.

Figure 4: The Profile of Digital Dexterity

The Profile of Digital Dexterity

	Working Digitally	Building Digital Businesses
Ambition	<p>Ambition to Work Digitally</p> <ul style="list-style-type: none"> • Believes in technology’s ability to augment personal tasks and activities • Willing to take on new roles to support digitalization plans • Views data and technology proficiency as critical to career advancement 	<p>Ambition to Build Digital Businesses</p> <ul style="list-style-type: none"> • Considers digitalization to be critical to company effectiveness • Innovates and takes risks in pursuit of digital opportunities
Ability	<p>Ability to Work Digitally</p> <ul style="list-style-type: none"> • Adapts to work on initiatives with unclear and changing requirements • Works iteratively to improve outcomes • Can work from anywhere, with the right technologies 	<p>Ability to Build Digital Businesses</p> <ul style="list-style-type: none"> • Collaborates across seniority levels to set company digitalization direction • Surfaces digitalization opportunities to improve department/function operations • Obtains technologies independently to succeed on the job

n = 3,481 employees
 Source: Gartner 2018 Digital Dexterity Survey

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Breakdown of the four components of a digitally dexterous worker.

Digital dexterity is not synonymous with being technologically savvy. One can be a technological wizard but still lack the ambition and ability to change working behaviors to support digital business. Thus, no matter how technologically advanced a workforce is, digital leaders recognize the need to model and promote digitally dexterous behaviors in their workforce. According to our 2018 Digital Dexterity Survey, an employee proficient in all four aspects of digital dexterity is 3.3 times more likely to accelerate digital business transformation for the firm than an employee proficient in none of those aspects. Unfortunately, our data indicates only 9% of employees have high digital dexterity currently. Digital leaders can increase the percentage of dexterous employees in their workforce by setting the tone for dexterity, and modeling digitally dexterous behaviors.[6]

Setting the tone involves crafting an effective narrative about the business’s digital transformation and connecting it directly to employees’ workflows while highlighting both opportunities and risks. Only 17% of enterprise leaders do this effectively, but those that do regularly communicate this narrative increase employee dexterity by as much as 2.4 times.

Modeling digital dexterity as a leader involves showing openness to innovation, taking risks in order to achieve breakthrough business outcomes, and exhibiting a start-

experiment-learn-iterate attitude. When leaders model dexterity, the effect is felt by employees, boosting their own dexterity 2.6 times. Once again, leaders embracing an incumbent mindset fall short: only 17% of organizations have a leader who effectively models both digital leadership and dexterity.

Digital Skills, Digital Talent

While digital dexterity is necessary for digital transformation, the engine driving successful transformation is utilizing and leveraging digital talent. Digital leaders have a reverence for digital skill sets such as engineering and data, and seek to elevate those with digital skill sets in their organization and leverage them to spread technological skills and digitally dexterous behavior to their entire workforce.

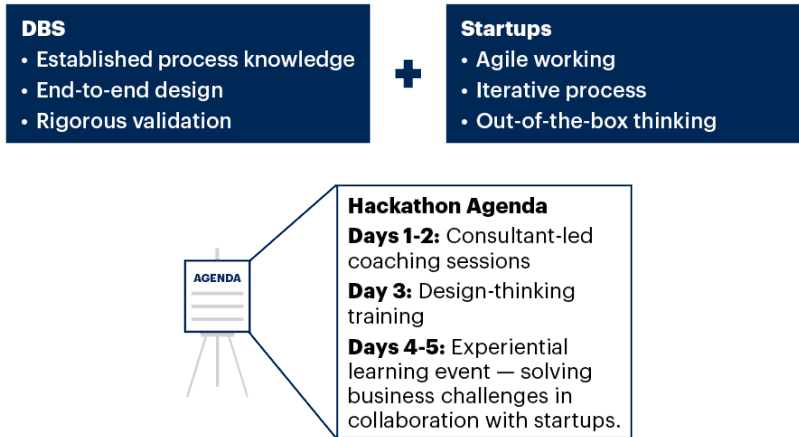
Case in Point: DBS Bank



As part of its goal to become a “24,000-person startup,” the leadership of DBS bank, led by CEO Piyush Gupta, saw the need to build a digitally dexterous workforce. To do so, they partnered all their employees with digitally-savvy startup employees to work on business problems as part of a “hackathon” (see Figure 5). DBS employees were able to observe digital mindsets and work styles in action. The hackathon took place in a supportive environment, where employees were safe to take calculated risks, fail productively and learn to rely on a start-experiment-learn-iterate work style. As a result, employees had greater openness to the digital ways of working required to succeed in today’s environment.

Figure 5: DBS Hackathon Events

DBS Hackathon Events



Source: Adapted from DBS

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DBS employees partner with startups to solve real-world business challenges.

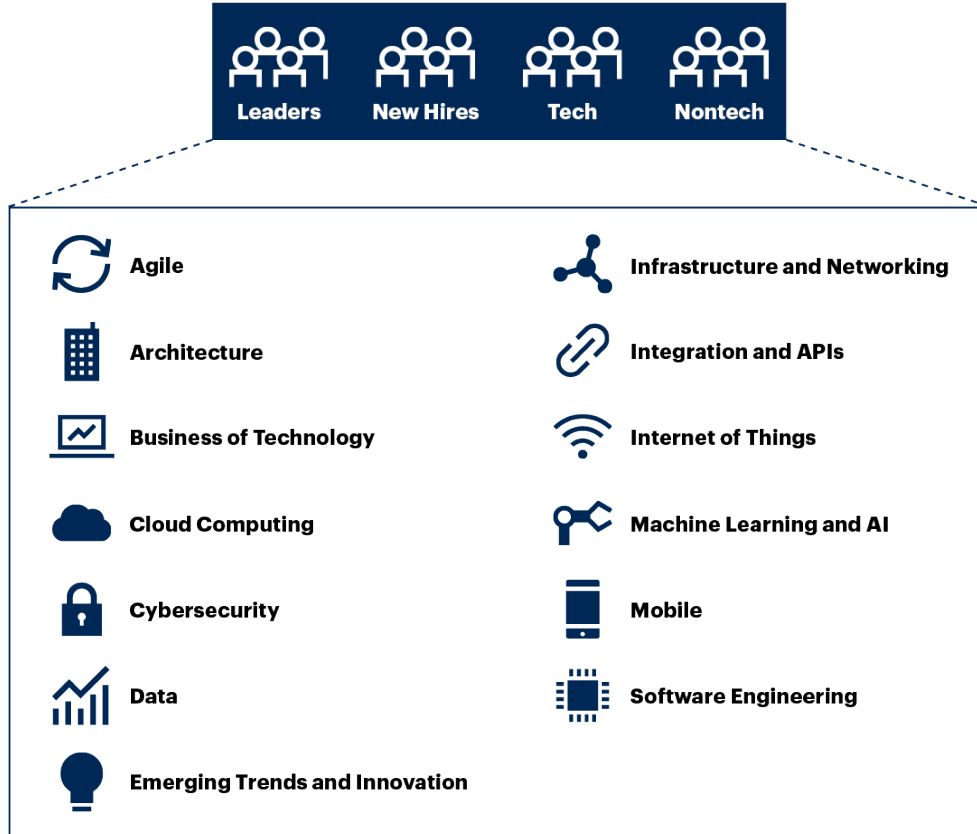
Case in Point: Capital One



Capital One CIO Rob Alexander recognizes that successfully transforming into a digital bank requires all talent at the bank to be “empowered to quickly take advantage of the latest technologies and given opportunities to experiment, learn and drive continuous improvement in [their] methodology and practices.”[7] To ensure this occurred, he helped lead the development of Capital One’s Tech College, a talent program that focused on 13 key technology skills (see Figure 6). Employees volunteered to teach others in their own area of expertise, and people have learned through online courses, in-person workshops and partner training and mentoring. Employees were then given a chance to apply their skills through project-based learning. Initially available only to IT employees, the program is now being rolled out to the entire Capital One workforce.

Figure 6: Capital One's Tech College

Capital One's Tech College



Source: Adapted from Capital One

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Skills and Disciplines targeted by Capital One's Tech College.

Conclusion

Leading a financial institution through a digital transformation can seem like a herculean task. Changing a mindset — particularly one shaped over years of experience and success at leading an organization — can feel a near-impossible challenge, but it is foundational to digital transformation in financial services. Digital leaders must actively work to adopt and maintain an attitude of calculated risk taking, innovative thinking and creating value from uncertainty. Leaders are continuously searching for ways to transform and create new value, at once avoiding premium position captivity and working endlessly toward breakthrough business outcomes. Finally, leading a digital financial firm means always striving to lead and build a nimble, digitally dexterous workforce, as the winners of the digital economy will be the ones innovating faster than their competitors.

Recommended by the Authors

- [Not All Companies Are Tech Companies: What Hiring Patterns Tell Us About The Progress Of Digital Change](#)
Read our research to understand why technology workers are not in greater demand despite intensifying digital transformation, and how executives can gain access to the technology skills they need.
- [Retail Banking Outlook: 2018 Agenda Poll Results](#)
View results of the Retail Banking Leadership Council (RBLC) survey of senior consumer banking executives to understand their top priorities and benchmark your own against them.
- [Enterprise Leadership for the Digital Age](#)
Listen to this webinar replay to learn how to drive enterprise performance in the digital age. Learn the characteristics of the most effective leaders and managers, and review actionable steps to strengthen your direct reports' network orientation.

About This Research

This research is drawn from the latest Gartner digital leadership research, including surveys of more than 3,400 employees across several organizations and interviews with CEOs, CIOs, and IT and other enterprise leaders across industries.

Endnotes

- [1] [Venmo: Total Payment Volume as of Q3 2018](#), Statista.
- [2] [“The Changing Payments Landscape: Implications for Banking Providers”](#)
- [3] E. Schmidt and J. Rosenberg. “How Google Works.” Grand Central Publishing, 2014.
- [4] [“Driving Business Transformation by Changing the Culture”](#)
- [5] [“1997 Letter to Shareholders.”](#) Amazon.com.
- [6] [“Making Digital Dexterity a Leadership Priority: 3 Ways for Leaders to Build a Digitally Dexterous Workforce”](#)
- [7] [“From the CIO’s View: Building a Nimble Learning Organization,”](#) Medium.