

Digititis – Is There a Cure?

Across the globe, financial service firms have been afflicted by a rather nasty version of “digititis”—that is, a compulsion to invest in digital initiatives in the absence of strategic clarity regarding a future business model.

Early symptoms typically include:

- Lack of ownership at the board and executive levels
- An absence of clarity on what future success may look like
- The application of a digital veneer to an otherwise analogue organization
- An obsession with standalone digital initiatives and siloed projects
- A desire to be neither a disrupter nor (hopefully) disrupted
- An underlying commitment to the status quo

Untreated, digititis can have long-term, and in some cases fatal, consequences for a firm, including:

- Valuable customers taking their business elsewhere
- Disillusioned employees moving to more customer-focused firms
- Suboptimal returns from digital investments
- Existing business franchises ultimately failing

This may seem strange in a world where the exponential rise of companies such as Airbnb, Spotify, Netflix, Uber and Alibaba, to name a few, has demonstrated that, when executed correctly, digital redefines business models and, in fact, entire industries.

Critically, these new companies have built their business models from a “customer-in” perspective. In the process, they are educating consumers to demand a more connected and personalized experience from every sector and, indeed, every business—including financial services.

So why do financial services firms continue to be afflicted by digititis?

In our experience, in the absence of a clearly articulated, CEO-led and digitally enabled strategy, many firms fail to transform, disrupt and/or protect against disruption.

Often, there is a lack of understanding as to what it means to be a digital enterprise. Instead, firms and their boards take comfort in the fact that digital has been delegated to an executive or even a department, and naively assume that a range of digital initiatives will lead to the proverbial “pot of gold at the end of the rainbow”

Sadly, the result is often a series of digitally enabled (small) change initiatives that are not integrated, joined nor delivering against an overarching digital transformation strategy.

We have seen existing processes that were not-fit-for-purpose, simply being digitised. We have also seen attempts to deploy front-end mobile solutions and applications not supported by the operational core. The list goes on.

The fundamental issue is a failure to recognise that digitization is not the same as digital transformation; while digitization is a requisite part of digital transformation, it is not sufficient in its own right to transform a firm, rooted in an analogue history, into a digital enterprise.

Firms need to move beyond thinking that digital is a channel or that they need a digital strategy.

To succeed, firms must focus on how their strategy will be digitally enabled to create compelling value for their stakeholders. This requires absolute clarity on their future business model and roadmap, and critically, buy-in throughout the whole organization.

It also requires a rethink in terms of how firms are organized. If they are not organized around customers and their needs, they will likely not succeed.

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Notwithstanding this, firms frequently continue to be hierarchical, organized around products and, in many cases, processes that add no value to their customers.

Further, while most firms recognise that their customers are more digitally savvy, more connected and less tolerant of delays and bureaucracy, few firms are adopting a holistic approach to digital transformation.

This challenge is exacerbated in incumbent firms. After all, they have been successful and continue to make good profits. Many believe that, given their access to capital, large customer base and strong brand, incremental change will surely see off the threat of digital upstarts, many of which don't even come from a financial services heritage.

Similar discussions, no doubt, took place in the boardrooms of Blockbuster, Kodak and Borders. Arguably, however, financial services are one of the most digitizable industries of all!

Addressing the cause of digititis—not just the symptoms and prescription

Successful digital transformation necessitates:

1. **A Digitally Enabled Strategy:** creating a shared vision and roadmap for an end-state future-proofed business model
2. **Digital Champions:** enabling holistic executive management leadership to build momentum and drive benefits realization
3. **Digital Alignment:** addressing people, process and technologies including structure, capabilities and rewards to embed a digitally enabled culture

The jury is out on whether existing financial service firms really have the wherewithal to transform and become digital enterprises. Nonetheless, it is incumbent on boards and senior executives to properly engage on digital transformation.

After all, the board is responsible for setting the firms strategy, determining its risk appetite and ensuring executive management are aligned and resourced to deliver on the firm's strategy and the needs of its various stakeholders.

For Further Information, Contact:

Tony Moroney +353 872 556947



Heston Hutton +1 876 469 0274



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