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How Transformations Succeed / Fail

Summary
Many banks are trying to re-invent themselves. They embark on major transition programmes, from complete re-engineering of their IT environment to re-orientation on clients, products or processes down to marketing make-overs or sometimes a heady mix of all of the above. The underlying culture in the bank, however, which is notoriously hard to change, is likely to get in the way of effective implementation. Worse still, failing to address the culture of the bank will leave it right where it stated out from: having a culture which ultimately requires large overhauls.

Dear reader,
You may have noticed a trend in the public image banks are trying to display. The image pairs an admission that repairs are needed to a brazen show of confidence that these repairs are now well under way and all is well again, or will soon be well again. Apart from the marketing need to emphasise the positive, this confidence is also based on the scale of the resources thrown at the overhaul some banks are implementing. Substantial resources are indeed put aside to rationalise, upgrade, re-assess and streamline the banking process. Among the group of banks going through this process, it is worthwhile to single out those that are not merely implementing a few changes here and there, but that are running complete transformation programmes that aim to redesign the entire bank.

Transformation and old habits
Transformation processes have their own (project)risks, but that is not the topic here. The topic here is that in transformation projects, we not only wheel in new products, procedures and equipment, we also expect the employees to *behave* differently. This is an extremely fragile part of the transformation, the weakest link so to say. Often, HR is (marginally) involved in these transformation processes, to ensure proper staffing, training and re-positioning of staff. But again, that is not the issue here. The issue is the existing working habits, the time-honoured way of doing things, of getting by using sub-standard methods or cutting corners which the bank will be seeking to overhaul.

It is important to recognise that these ‘old habits’ are very persistent. And that there are reasons these habits emerged, namely because they worked fine in the given setting. Habits like: making ad-hoc loan decisions (in lieu of a formalised credit process); patching up IT infrastructure (but only after it has failed) without any planning, oversight or documentation; or failing to investigate client or product profitability (especially when the bank as a whole is making a profit, so ‘there is no need for such breakdowns’). In short: a fundamental acceptance of shoddy standards. And note that there are people who will thrive in such circumstances.

During the transformation, which will often take a few years to complete, these habits are not likely to change even if (part of) the setting does. In fact, it will remain prudent and ‘natural’ for many individuals to hang on to these habits. And note that ultimately it is these habits which have lead the bank into the situation where transformation became necessary in the first place. That is why specific attention must be given to these behavioural habits if the transformation is to become part of a new way of working.

Transformation and Culture
This is where the culture in the bank comes into play. In operational risk management, considerable effort is routinely spent to raise awareness regarding the risk culture in the unit and the risk in one's own environment. The prevailing culture that permeates working habits is then typically shown to play a large part in both the resulting risk exposure and the capability of the bank to influence this exposure.

The next step is to operationalise this awareness. This is painful since it is time consuming and unlikely to lead to quick wins, which makes it unpopular with senior management. Rather, these are 'slow wins', slow but crucial for large transformation projects. These are the steps to undertake:

1. **Group**: Identify each group in the bank that will be affected by the transformation. (In extreme cases, this may be the entire bank). The groups themselves must consist of people who form a work unit, who e.g. share a common task / process / product or location.
2. **Engage**: Engage each group in discussions about the reason for and the purpose and result of the transformation. And relate it to the existing culture in the bank.
3. **Personalise**. Assist the group in working out it's own involvement in the transformation. Establish what are seen as enablers for and what are obstacles to success. Make it personal for the group by explicitly giving them a role in the project.
4. **Feedback**: The involvement agreed in step 3 must be followed through with regular feedback moments to the group. Feedback must include an update on the bank's culture.
5. **Rerun**: Return to step 3 after 1 year. Transformation projects take time, typically 3 to 5 years, so a re-alignment must be executed after some time to keep the information fresh.

So is this time consuming? Yes. Is this just a lot of bureaucracy? If it is perceived as such, do not even attempt a transformation project: it will surely fail. But the trick is that it does not need to be cumbersome or bureaucratic. In fact, spending even 2 days per year per group on this will create buy-in, awareness, understanding and cooperation. A sound project management approach, which is another key success factor in transformation projects, should be capable of managing the process and the actions that come from these exercises.

Conclusion:
It takes more than good policies, elaborate procedures the latest technology and 'best practices' to transform a bank. By paying at least equal attention to the culture that resulted in the bank requiring drastic change in the first place, we can avoid ending up in the same situation five years down the line.