

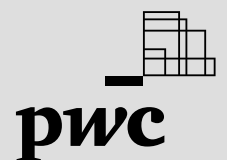


Breaking through

**Four critical behaviours to gain traction
with urgent strategic change**

Banking Matters Hot Topic

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A new era for banking

In our recently published analysis of the major banks' FY19 half-year results (see [*Forest for trees: seeing the next era for banking in Australia?*](#)), we described what we called 'Day Zero' for a new era of banking in Australia. It's a new era that arrived without fanfare. There was no financial crisis, no major institutional failure, bankruptcy or collapse. Notwithstanding the drama of the Royal Commission, Parliamentary hearings and other events, there were none of the acute financial signs that often accompany paradigm shifts.

In fact, the headline financial results were solid, all things considered, supported by progress on cost and capital discipline, as well as a number of favourable developments in the environment. But for notable expenses and charges to revenues, the results were in fact close to record.

In such an environment it would be easy to disregard the headwinds which have been steadily building for some time. As we noted in our results summary, the pillars which sustained the most recent results are those that have sustained Australia's major banks for many years, and they are fading.

With earnings still strong it's also a fact that is easy to disregard, especially with so many immediate imperatives to address: remediating customers who were wronged, fixing risk and operations processes to ensure it doesn't happen again, cutting costs, and uplifting culture and technology.

The challenge for bank executives is to do all this whilst making deliberate and intentional progress on the fundamental capabilities which will determine success in the years to come: process control, efficiency, customer intimacy, innovation, technology and, most importantly, trust.



It's not easy. The strategic pillars described above may be fading, but only gradually so the situation does not yet feel urgent. Meanwhile, significant, high-profile and non-negotiable imperatives remain. It's an environment that invites short-term decision-making.

How can institutions ensure they retain appropriate focus on preparing for the future, even as they resolve the problems of the past and address the challenges of the present? How do they avoid being misled by the many false choices between urgent imperatives and strategic ones? How do all participants, from established institutions to recent market entrants to smaller rivals, build the capabilities that are crucial to success in this new era?

In many ways, the answers to these questions resonate far beyond the boundaries of the banking industry – an industry that is often a portent for the wider economy and corporate environment.

In this Hot Topic we describe four critical behaviours which have always been at the heart of successful execution and change and consider what they mean in the environment today:

1. Making hard strategic choices and obtaining alignment,
2. Putting the right leaders close to the change,
3. Industrialising execution, and
4. Delivering continuously.



01

Making hard strategic choices and obtaining alignment

Hard choices

A critical point in time has been reached when all financial institutions must reaffirm that the substantial effort made to remedy past issues does, in fact, cover all deficiencies and will deliver genuine resolution. To address the ‘trust deficit’ with customers and be compliant with regulations, banks must prevent further occurrences of any errors, compensate customers for any loss and build new processes and controls.

At the same time, how do banks strike a balance between remediation, improving medium-term risk management and operational processes, and market-facing growth, productivity and profitability initiatives? The pressure to make these choices has greatly increased. Not only is there more to do, but external stakeholders and regulators have far less tolerance for slow progress or missed commitments.

For example, the volume of remediation will not reduce any time soon, and new customers must be protected. Banks cannot wait for the many structural, cultural, technological and data challenges to be addressed without first protecting customers exposed to error. Unfortunately, remediation alone can take enormous energy and, even more importantly, occupy a large share of executive time and attention.

This means that remediation needs to be considered carefully and strategically. In many cases, the fundamental capabilities required for growth, productivity and profitability in the future are also the capabilities required to protect customers today. Failing to compensate customers who have been harmed is not an option. However, the imperative to fundamentally rewire processes is contingent on both the risk and the role affected products and services may play in the strategic future of the franchise.



Wealth and insurance are the most current examples. Motivated in part by recognition of the scale of required change, banks have all decided, to differing degrees, that this change is best managed in a separate organisation. As a result, Australia's major banks have undertaken more radical re-architecture than at any time since the turn of the century.

There is still more to do. Even within traditional banking, services such as Know Your Customer, application verification, ATMs, branch network footprint and many others will require significant investment in the years to come, yet these investments may not be sources of differentiation. The logic of retaining these services therefore must be tested. The same is true for many sub-segments within target markets like home owners and businesses.

Perhaps one of the most important 'hard choices' to be made concerns the very definition of strategic 'constraints'. In the past 10 years, banks have operated under certain assumptions about the frontier of acceptable choices including dividends, market share growth, earnings growth, capital, the sustainable pace of change, and capabilities which can be developed or required. An important part of today's strategic conversation is to test and query each one of those assumptions.

The starting point for all of this is the recognition that there are difficult choices to make and courage is needed to make them.

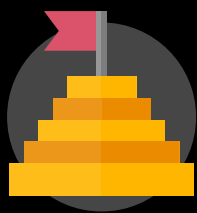
Decision-making disciplines

In this environment, a focus on decision-making is vital. So too is a clear set of rules to align investments to deliver maximum value and manage trade-offs. This also means having greater courage to stop lower-priority activities. To do this, banks need a clearer understanding of what drives value specifically for their own organisation and what actions are required for that.

Note the importance of strategic decision-making *disciplines*. It's about more than just making good choices today. The reality is that no matter how clever, rigorous and well-founded choices may be, they must be constantly revisited, refined and reaffirmed. In an increasingly dynamic environment, strategy must not become stale.



Institutions that can confirm strategic intent, evaluate what needs to be done, make clear decisions and then dynamically update, will get early traction and stand apart from competitors. The biggest enemies are inflexibility and indecision.



What does success look like?

Making hard strategic choices and obtaining alignment

1. Disciplined strategy, based on a clear articulation of what really drives value for our organisation,
2. Decisiveness in making real, visible trade-offs,
3. Alignment across the executive and the board to provide top-down momentum for the chosen projects to succeed, and
4. Culture and change initiatives that celebrate individual compromise for the greater good of the enterprise.

Alignment

Whatever choices are made, leaders must collectively champion the chosen path to ensure the agreed program for the future business build, tactical changes and remediation are not trapped in silos. Leaders must be prepared to explain the choices made every day, in every forum, business unit and team. They must do so with enough discipline and consistency that the vision for change diffuses through the organisation.

The financial and market implications of choices made will need to be agreed with the Board. Similarly, hard and honest conversations with external stakeholders and the market regarding the implications of the decisions – including both the long-term benefits and the more immediate impacts on financial performance and shareholder returns.



02

Putting the right leaders close to the change

Making hard strategic decisions, establishing a decision-making rhythm and obtaining strong alignment are all necessary starting points to gain traction. However, they are obviously not sufficient to 'break through' and deliver outcomes. The next key behaviour concerns leadership.

In our experience, two common pitfalls can impair the leadership of businesses going through significant change:

- Assigning responsibility for change by default to the executive responsible for the business being transformed without honest consideration of the capacity of that leader to execute, and
- Failing to give the leader appropriate resources and support to deliver on the responsibilities added to their 'day job'.

Assigning responsibility - leaders versus presiders

History is full of executives who were outstanding leaders of their businesses for many years but proved to be unsuited to transforming them. Sometimes the very characteristics that can make someone an outstanding leader in one context can be an impediment when the imperatives change. Leaders of change need to have the personality, strength and profile to lead teams through the fear of change and empower teams to deliver agreed, tangible outcomes in an extremely uncertain environment.



Often, in selecting a leader for major change, insufficient consideration is paid to the distinct skills required. These are similar to, but still different from, those required to lead a business day-to-day. The increasingly challenging environment means that it is more important than ever to take the time to find leaders with these broader skills and invest in them to equip them to lead change.

In our experience, one critical characteristic of an executive well placed to lead change is someone who has the capacity and attitude to drive close to the detail of the portfolio of change activities to guide appropriate decisions about program and portfolio delivery and the achievability of benefits. They must understand not only all of the individual initiatives, but also their interdependencies and their place in the wider organisational ecosystem.

None of this is to suggest that incumbent business leaders are somehow less suitable than others as change agents, or that they should be expected to manage all of this without appropriate support (about which we say more below). All else being equal, the best people to change a business are those who know it intimately and have the knowledge and authority to lead the effort.

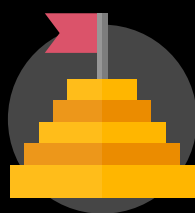
However, all else has to be equal. It's not enough to merely involve incumbent leaders in steering-committee meetings so as to enable them to focus on 'BAU.' That's a false economy. Transformative leaders are those who lead change with the same passion, zeal and attention to detail as they do the rest of the business.

An environment for successful leaders

It's not enough to find the right people. They need to be supported both individually and institutionally. This means helping them build essential skills, which may involve new disciplines and areas of expertise. Will the cloud, artificial intelligence and human-centred design play a critical role in the future of your value proposition? If so, then senior leaders need to be fluent in these areas.

Leaders also need to be given the space to get close enough and lead the change for a large institution undergoing substantial change, we would expect to see senior leaders spending at least half their time focused on building the future.

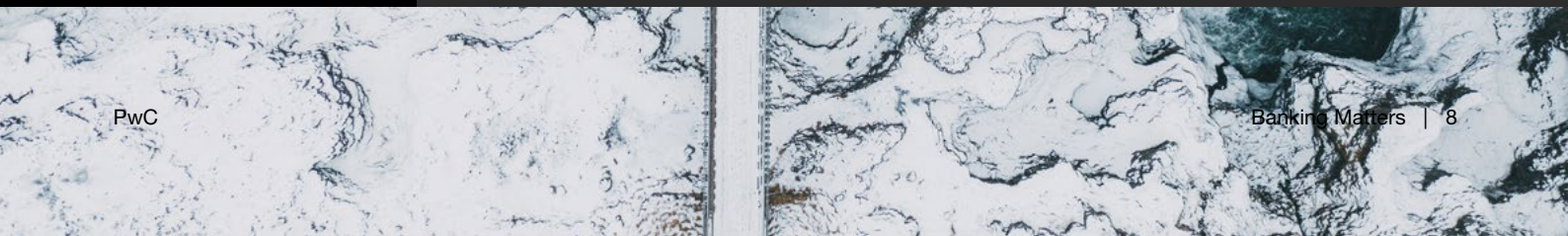
Well-chosen and well-supported leaders bring their vision, focus, empathy and passion to the task at hand, deliver change without distraction and motivate their teams during the journey. They dramatically increase the prospects of success.



What does success look like?

Putting the right leaders in place

1. A cultural expectation that leaders have a deep understanding of the project portfolio, each initiative and how they come together to deliver promised outcomes,
2. Reliable *processes* to identify leaders with the required skills to lead major change,
3. Skills uplift to better equip leaders to participate in building the future business, and
4. Leaders truly involved and able to commit sufficient time to drive the initiatives, embrace issues and remove roadblocks.





03

Industrialising portfolio management and execution

The next critical behaviour concerns how the ‘right people’ go about doing their work. Systems, protocols and governance practices must align to support execution. An ‘industrialised’ project execution process, supported by an effective central program management team (Program Hub, Transformation Office, Portfolio Office, etc.) can help leaders understand how complex, interwoven projects interrelate and contribute to strategic intent and benefit.

The role, accountability, skill set and operating rhythm of the central program management team should be designed to enable and drive change, support the delivery teams, build capability and objectively remove obstacles. It is not just a ‘checking and reporting’ function. Perhaps one of the most important roles of this team is to digitise information about the portfolio and connect leaders with close to real-time reporting through tools and data.

Given the complexity of initiatives and the interrelationships, there are distinct considerations at both the change portfolio level and initiative level.

Portfolio considerations

The corporate change portfolio often represents the majority of investment in changing the business, key commitments to external stakeholders and the choices made to build the future organisation. Benefits are not necessarily discrete or additive, so systems must be mature enough to enable understanding of how each project contributes to strategic goals. If leaders cannot determine this, then they cannot make informed decisions on what to start, stop, change or continue.

There are some key prerequisites to shaping the optimal portfolio. First, a stocktake and evaluation of pre-approved and in-flight initiatives across the existing corporate change portfolio is crucial. It is very rare that this exercise doesn't identify duplication, inconsistency and projects with benefits that are no longer relevant or even clear. Continued investment in misaligned projects can lead to substantial opportunity cost, so it is vital to lean into this challenge.

In our experience, once an initiative is approved and builds momentum of its own (including stakeholders who may be highly invested in it) it can be difficult to stop or change course. When course-correction does happen, leaders cannot underestimate the importance of the right communication. Redirecting or stopping a high-profile project can be demoralising and seen as a sign of failure – rather than celebrated as a sign of an organisation that is resilient, flexible and in control.

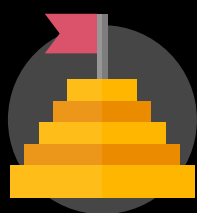
A further challenge is to ensure that the portfolio is balanced to sufficiently progress the short-term and long-term demands of customers, regulators, staff and commercial imperatives. We must fix the known issues but, where possible, do this in a way that contributes to the future target state.

Initiative execution considerations

Another key element of 'industrial' project execution is rigorous and systematic attention to considerations from both the demand and supply sides. Every initiative must be undertaken with the confidence that the organisation has the capability, capacity and leadership bandwidth to deliver promised outcomes.

That probably sounds obvious. Unfortunately, in any large, multi-divisional organisation with potentially hundreds of simultaneous initiatives – all drawing on common shared resources – this is just not possible without well-established, 'industrial' execution processes and the resources to support them.

Finally, the last critical element concerns genuine business ownership. Whether running an Agile business with tribes and squads, or more traditional change delivery, it is vital that there is sufficient business involvement and ownership and accountability for solutions. The final ingredient in landing successful change is for the business to be ready to accept the change and to evaluate the extent to which it is fit for purpose. While other parties, including risk and assurance, also provide support there is no substitute for genuine business engagement and ownership.



What does success look like?

Industrialising portfolio management and execution

1. *A single view* of the changes required, mapping the outcomes for each initiative, including contribution to strategy, clear benefits and transparent KPIs,
2. Stocktake and rigorous evaluation of projects in terms of benefit, strategic alignment, and clarity,
3. Decisiveness on when to start/stop/continue projects, including the resolve to stop misaligned projects, and
4. Clear business ownership and organisational capacity and capability to deliver and to safely land the change.

04

Delivering continuously

The final crucial behaviour is to ensure that programs are designed and effort is structured in such a way that benefits are delivered continuously: the age of the great monument, developed and built over a multi-year period, is over. Delivering measurable value early and often, and building momentum, is crucial because delivering will be hard and people must be energised for the change.

This principle is increasingly well-understood in banking thanks to the proliferation within technology departments of practices such as Agile (from product design/development) and DevOps (from systems administration/development) over recent years. However, the idea is nothing new. Toyota's first Kanban system in the 1920s was, at its essence, a system of enforced continuous delivery.

In addition, with the sector facing unprecedented public scrutiny, there will be pressure for banks to deliver results urgently. Shareholders demand confidence that the work is building real value and not simply providing short-term fixes to historical issues. Delivering measurable value early and often, even if in small ways, builds confidence, momentum and trust. With the industry facing unprecedented public scrutiny, the value of this cannot be underestimated.



What does success look like?

Delivering continuously

1. Value delivered in meaningful but achievable increments early and often,
2. Deliverables with clear, stand alone value that provide genuine 'proof points' of progress towards agreed outcomes
3. Time to pause, reflect and scan the environment to ensure focus on the right things and on working effectively.

Where does your organisation stand?

In summary, the four critical behaviours described above will be key to successful management of the transition to the 'new era' of banking. None of them are new, of course, and all of them are practised, but with varying degrees of proficiency.

How can one tell whether their own organisation is doing that well enough? And what does 'well enough' even mean? These are questions that are relevant not just for major banks, and not even just for financial services companies, but for every institution in Australia.

Those are difficult questions to answer, even for insiders. To assist, we suggest focusing on the following areas:

Are priorities clear, and is leadership strongly aligned?

- Is there a single view and clear articulation of what really drives value for the organisation?
- Is there obvious alignment of the executive team and a culture that celebrates individual compromise for the good of the enterprise?

Is there clear, purposeful decision-making to enable us to solve priority issues?

- Are the roadblocks known, and is the hunger to resolve them apparent?
- Have we shown discipline by stopping things and making visible trade-offs?

Are roles and responsibilities clear from top to bottom?

- Are we able to call out gaps early and constructively to drive success?
- Do we have a breakthrough and problem-solving culture?

Do leaders get actively involved to remove the big roadblocks and enable their teams?

- Are leaders seeking the right information and participation in solving challenges?

Have we set up the right delivery structures that work in our organisation?

- Have we structured and segmented the work to deliver value and build momentum?
- Have we evaluated and added, where necessary, the right skills to work in this way?
- Have we digitised where it makes sense?
- Are we collaborating and co-creating?

Have portfolio and leadership teams pivoted from oversight to truly enabling the change?

- Do we have the right level of maturity and focus on results and outcomes?
- Do we talk about these in terms of genuine business metrics and analytics to build progress and performance checks into the fabric of the initiatives?
- Do we have a single source of the truth and tactics to ensure this is broadly shared?

Do we celebrate success and communicate the importance of the work?

- Are we investing in the necessary communications for teams and stakeholders to invigorate them and sustain the journey?
- Are we taking the time to pause, reflect and scan the environment to ensure we continually focus on the right things and focus on working effectively?

It's a new era for banking. As described above, financial institutions face hard strategic choices and must establish foundations for effective execution. Those that grasp the nettle today will be the great banking franchises of the decade to come.

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Contact us



Colin Heath

Banking and Capital Markets Leader

+61 3 8603 0137
colin.heath@pwc.com



Jim Christodouleas

Banking and Capital Markets
Solutions and Capability Development

+61 448 431 121
jim.christodouleas@pwc.com



Julie Coates

Financial Services Industry Leader

+61 2 8266 2006
julie.coates@pwc.com



Darren Honan

Financial Services Transformation
and Program Management Partner

+61 3 8603 3104
darren.honan@pwc.com



Kevin Reilly

Transformation Capability Lead Partner

+61 2 8266 7202
kevin.reilly@pwc.com