Transforming Consumer Banking Structures and Talent for a Digital World
Digital technologies continue to have an evolutionary impact on consumer financial services. This impact is most strongly felt within the customer relationship, as changing consumer dynamics, channel expectations and purchasing trends are forcing a long-overdue transformation—one that is tearing banks away from their reliance on traditional branch banking and product-development models and compelling them to adopt new and fully digital ways of doing business.

Based on a Russell Reynolds analysis of 25 leading consumer banking organizations across the U.S., Canada, the U.K. and Australia, we have identified two primary factors that affect the success or failure of this digital evolution more than any other: the internal organizational structure of the bank and its talent. These two critical factors are inextricably intertwined; the success of one relies inherently on the success of the other.

We discuss these factors below, then introduce a set of strategies for developing a world-class banking organization, restructuring the bank along new digital lines, and attracting and retaining the talent necessary to lead the organization forward—both now and in the future.

The evolution taking place in consumer banking is defined by frictionless expectations and experiences; consumers expect to research, purchase and pay in a real-time environment. Expectations and behaviors are now defined by what one wants, how they want it, and when. The concept of dependency on a bank to check one’s credit rating, approve financing, process paperwork and demand signatures—or any process of this ilk—has become culturally antiquated.

Such a tremendous change in the way people live their lives and transact their business is forcing consumer banks to design a truly holistic customer-centric experience. Instead of starting with a given banking product, distributing that product through branch and online channels and thus dictating the purchase path and traditionally sub-par customer experience, banks must begin with the desired customer experience and then provide fully integrated banking channels that can seamlessly deliver a full suite of digitally enabled, customized products and services.

### Evolution of Consumer Banking: Product-Led to Customer-Driven

**Product-led**

- **Manufactured products**
  - Checking accounts, credit cards, mortgages, auto and home loans
- **Branch and digital channel distribution**
  - Product and customer intersect here; connectivity between two channels intermittent
- **The customer**
  - Experience is pre-defined by the bank, the product and the distribution channel

**Customer-driven**

- **The customer**
  - Defines their own experience with real-time "I want to" expectations
- **Omnichannel distribution**
  - Truly integrated customer touchpoints with seamless interaction
- **Customized products**
  - Tailored products based on real-time customer needs as defined by usage, behaviors and expectations
DIGITAL CHALLENGES

Yet two concurrent challenges have consistently frustrated the progress of this digital evolution in recent years:

1. Creating a new infrastructure optimally designed for digital success
2. Acquiring and retaining the world-class talent required to work within this new infrastructure

Legacy infrastructure. At the heart of both these challenges lies the legacy organizational infrastructure on which banks have relied for decades. Banks have traditionally been structured along vertical product lines such as retail checking accounts, savings, mortgage lending, and consumer credit cards.

These business lines are serviced by horizontal support functions such as marketing, technology, and finance. As a result, banks have developed a complex matrix of reporting lines that are both difficult to work with and politically challenging to undo. In fact, fewer than five of the top 25 North American banks have a clearly defined digital reporting structure. Some banks continue to justify these matrixed structures as part of their internal “culture.”

As banks have grown, perhaps inevitably, so has this complexity. Yet the traditional banking structures that have resulted are clearly not conducive to running a business in which the end game is a seamless customer experience and an ever-expanding digital presence.

We therefore believe that the complex, matrixed structure of their organizations is the single most important challenge for banks today.

Outdated roles and reporting lines. Closely intertwined with this infrastructure challenge are the typical talent-acquisition and management strategies found in traditional consumer banking. These strategies reflect the legacy infrastructure and reporting lines of the organization and are well out of step with evolving digital requirements.

They often include poorly defined senior roles that embody blurred decision rights and a lack of appropriate authority. In fact, it is not uncommon for digitally savvy executives interviewing with banks today to come away from the first round of meetings with less clarity and more questions than when they arrived. These issues are abetted by what can sometimes be typically outdated, conservative talent-hiring practices.

In our experience, banks consistently attempt to force the square pegs of today’s digital talent into the round holes of their vertically aligned, product-driven organizational constructs, efforts that frustrate and often end in failure.

CUSTOMER-FIRST SOLUTIONS

Tear down to build up. To evolve into industry-leading digital organizations, consumer banks need to disassemble their traditional hierarchical infrastructure and redesign the organization to enable the desired customer experience and improved efficiency—allocating the work based on more interconnected and flexible executive teams. These teams will be critical to enabling a more agile, customer-focused go-to-market approach.

Tough conversations. The transformation will require a number of hard decisions. To begin, therefore, boards and C-suite executives must hold honest conversations around the reality that their existing digital organizational structure is more than likely, by its very existence, inefficient and prohibitive to a world-class customer experience. This is not enough; they must then take the next step to actively pursue the creation of an improved organization.

These conversations are likely to threaten many sacrosanct organizational designs that are held dear by incumbents and long-tenured company veterans. Attached to this challenge, and more politically charged and difficult to address, are the traditional distribution and product development executives whose skills and leadership style are increasingly less relevant to today’s digital organizations.
One of the toughest challenges, in fact, will be that of merging the numerous business, product, marketing and distribution heads into a coherent team that acts and feels like the leadership of a truly digital company.

Attempting to implement such changes without making the hard decisions will result in multiple unintended consequences, such as duplicative roles that lead directly to the hiring of suboptimal talent. Most banks are in the throes of this maddening exercise today, trying to evolve into a new digital entity while still functioning on banking’s familiar organizational construct.

Gartner recently announced that the biggest threats to innovation are internal politics and an inflexible organizational culture that does not accept failure or ideas from outside. While the regulatory environment has also taken a toll, we agree wholeheartedly. It is the board’s and C-suite’s responsibility, therefore, to attack these difficult conversations with a clarity of purpose and an open mind as to what the “new normal” has become in consumer banking.

Banks must decide the pace at which they wish to evolve in order to attack this transformation head-on. We have found three approaches in the market to date: We call these “status quo,” “progressive” and “futurist.”

**SETTING THE PACE FOR TRANSFORMATION**

Banks must decide the pace at which they wish to evolve in order to attack transformation head-on. We have found three approaches in the market to date: “status quo,” “progressive” and “futurist.”

**Status quo**

These are banks universally driven by conservative cultures that inherently slow down the pace of change. Rather than conduct an honest reassessment of their digital organization and consider an injection of new talent, status quo banks choose to optimize existing digital talent within various verticals. The result is a muddled digital commitment that varies across business lines.

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Progressive

These are banks utilizing the most common approach of entrusting a chief digital officer with overall digital strategy for the firm. While not as advanced as the futurist model, this approach gives digital a seat at the table and homogenizes the digital experience. Progressive banks will often bring in creative digital talent in hopes of an overall change to the firm’s culture.

- Alignment of a corporate-wide digital strategy through a chief digital officer (CDO) with functional heads reporting in a direct line.
- Product, strategy, user interface and technology (applications) are housed under the CDO. Marketing and technology (architecture and infrastructure) have complementary teams.
- Centralized CDO reports to president, COO or retail/consumer head. Best practice has a wholesale report under the CDO.
- Unified vision, strategy and execution across all channels and product development creates a positive experience and a holistic view of the customer.
- Having the right structure and an empowered CDO is a catalyst in terms of attracting and retaining high-caliber talent.
**Futurist**

These are the few banks that have taken the step of elevating digital into the C-suite. By appointing a C-level digital executive with complete P&L authority, futurist banks are able to shed the groups of duplicative product and marketing executives across the organization. The result is a strong digital commitment from the top and banking leaders that possess both strong industry and digital acumen.

- All-in on digital; goal is to eliminate any friction and design an organization that is digitally ubiquitous.
- This design inherently redefines legacy organizations into a forward-leaning digital architecture that drives an agile work environment.
- Product development and distribution outcomes ensure seamless experiences across all touchpoints.

**IMPLICATIONS FOR EXECUTIVE TALENT**

The good news for banks is that they already possess the size and scope, resources, funding, and customer base to attract top digital leaders.

From the other side, when considering a move into banking, out-of-industry digital leaders are most often looking for the dedication of a board, the C-suite and supporting functions.

In addition, they tell us that the language of success is found in the design of the organization. Best-in-class organizational design leads directly to a clarity of responsibilities and clear accountability. Those banks that have it show disproportionate gains in deposits, consumer lending, efficiency and customer-engagement/Net Prompter Scores®.

Therefore, there are substantial executive-talent ramifications attached to the three choices of approach. Those stalled in the status quo will miss the opportunity to hire the very leaders their companies need to shepherd them through the digital evolution. These banks have made a bet that a rising tide lifts all boats and that the digital world will eventually come to them. This is a gamble we do not recommend. We encourage these banks to have the hard discussions now.

Progressive banks may talk a strong game but are left with only relatively good leaders or, if lucky, those considered to be emerging as great. Those progressive banks that combine retail and digital operations are headed in the right direction, as talent will receive this call with open arms.

Meanwhile, the most advanced, futurist structures remain clear draws for innovative digital executives open to and able to drive transformation.
Aside from the logistical changes required of the organizational structure, we advise around three distinct action items:

1. **Understand today’s technology.** It is no longer acceptable for organizations to develop a technology roadmap and then simply pass it over to IT for execution. Instead, boards, CEOs and the full C-suite must be prepared to engage in a practical way with new technology, understand its nuances and give full weight to the way in which each advancement will directly affect the entire enterprise.

2. **Put technology experts into senior business roles.** We are witnessing the first round of technology experts being awarded senior business roles. In fact, today’s technology leaders are business executives first. The best possess deep strategic skills, operational acumen and a keen sense of how to utilize technology throughout the front and back offices.

3. **Implement leadership span.** Corporate boards and the C-suite must ensure their leaders have a breadth of competencies flexible enough to adjust to changing situations in a dynamic manner. Leadership choices are too often made against a set of technical and cultural qualifications chosen for a specific point in time. This is no longer an acceptable way in which to identify or nurture C-suite talent. Instead, executives must span leadership competencies.

In partnership with Hogan Assessment Systems, RRA has developed a proprietary tool predictive of C-suite success. The Leadership Span Assessment Tool benchmarks an individual’s competencies against a database of executive data containing over 30 years of samples. The tool identifies sophisticated pairs of seemingly competing C-level competencies and assesses an executive’s ability to span across those pairs as business conditions require.

Given the context of the shift of focus from product to consumer, the areas where a leader has the ability to span which matter most are in setting strategy and in using their relationships and influence. A leader who can be pragmatic with next steps needed but plotting a course along a disruptive path has a higher percentage of success. Digital transformations in any industry are rarely linear, so continuous shifting between the practical next steps to the overall digital vision is key.

Organizations which enable this transformation will be the ones with a high number of interdependencies and the ability to influence stakeholders. Leaders in this environment will need to bring together disparate departments and teams to connect them around common goals. But this alone won’t be enough. Transformations of this scale need this connecting ability, combined with leaders who can share a vision which people “want” to follow, as opposed to “have” to follow. The ability to galvanize their own teams and those around them is equally critical to connecting in order to bring common understanding and pragmatic action.

Assessing an executive’s leadership span is essential, particularly for the C-suite and emerging senior management, as one-dimensional leaders do not fare well when situations change or difficult challenges require a new approach.
THE TIME IS NOW

It is incumbent on boards, CEOs and senior executives within consumer financial services to realize they are already far into the digital game; on whichever strategy they wish to execute, they must do so with long-term focus and conviction. Doing nothing will be tantamount to conceding the future to those leaders who are assertive and focused enough to embrace a required future state that is evolving more rapidly each day.

While the answers to a successful digital transformation are never clear nor certain, the need to define a bold and progressive future state is. Delaying action and discussion does little but guarantee higher levels of difficult decision-making from a weakened position.

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