



Digital Thought : A Strategic Imperative for Banks Operating in a VUCA World

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ABSTRACT

Banks competing in the VUCA world base their strategic planning on competition, regulations and macro-economic indicators, in general. Strategic mandates arising out these segments are often implemented using technology initiatives. Beyond the conventional IT efforts, the realm of digital thought requires strategic attention. This is necessitated by the pervasiveness of digital ways of doing business and the flexibility and agility that they offer. It is no longer a matter of choice but more of an imperative for survival. The work explores the focal points covered by strategic planning process and brings out the dependence on digital paradigm for implementation. Incorporation of Digital Thought in the strategic planning process is proposed as a solution to cover the gap.

Keywords: Digital Thought, Bank Operation

I. INTRODUCTION

The advent of the Digital Age has led to a paradigm shift in the manner in which financial services industry engages with the Customers. The Customer in the digital age has expectations which are considerably different. For instance, India has a sizeable population under the younger demographic profile (53.7 % of India's population is under the age of 24 as per the latest Census data), the rate of adoption of Digital Customer Engagement and Service models is expected to be way ahead of the rest of the world.

Financial Services Industry has led the wave of this innovation by means of presenting newer channels of engagement to the prospective customer. In order to optimize Business Processes for Customer service, there has been a strong emphasis on Digital innovations targeted at improving Operations and

Service thereby creating sustainable competitive advantage.

The intent of the work is to explore the manner in which digital initiatives have become an imperative and integral aspect of strategic planning for Banking Industry in view of the volatility , uncertainty , complexity and ambiguity in the current business landscape.

The paper will start with drawing a context which emphasizes the introduction of digital initiatives and their importance for Banks to stay relevant in the face of competition and then move on to analyze the strategic challenges posed by a VUCA environment. Finally, a practice driven approach to tackle the challenges by incorporating digital strategy in to the conventional strategic planning effort, will be suggested.

The objective is to present the approaches which Banks can take on the Digital Strategy front to help them stay relevant and further create blue oceans.

II. PROBLEM STATEMENT

There is considerable thought in the direction of navigating banking businesses well in the dynamic competitive, macro-economic and regulatory context. The key focal of strategic planning has been driven by such needs. But more often than not, the implementation of such strategic mandates requires evaluation of technology driven solutions.

Beyond being a source of solutions, digital technologies also pose another significant challenge. There is evidence of use of digital thought and technology to create disruption to the conventional Business models on which Banks operate. This has brought about a strategic inflection point on the Banking industry.

Moving forward, the large scale Banks operating on conventional business models will have to add a digital paradigm to the strategic planning process. From Customer engagement to service, from product propositions to risk management and regulatory compliance, Banks are faced with dynamics of change and the requirement to respond with agility has become much more pronounced.

The nature of stakeholder's expectations from a Bank have changed drastically over the last couple of decades. Customers expect an omni-channel presence with conventional push driven sales being replaced by Customer journeys to fulfil needs with holistic solutions. The customer service aspect has become a key tenet of the value proposition. Expectations on the turnaround time have increased and tolerance towards miss-selling has reduced, thereby, making customer service more challenging. On the regulatory quadrant, the compliance norms from regulators have become more stringent and adds to the cost of doing business.

The paper intends to explore the digital initiatives as the fourth quadrant to be considered for strategic planning apart from the three existing quadrants of Competitive landscape, Macro-economic environment and Regulations and Compliance.

It must be mentioned that most organizations do consider technology from a implementation and solution perspective but the idea of digital goes beyond technology to encompass creation of new business models, better ways of customer engagement and improved approaches for risk management.

III. REVIEW OF LITERATURE

The review of existing literature focused on, firstly, understanding what VUCA implies for strategic planning and secondly, what are the challenges Banks face on the competitive, macro economic and regulatory fronts?

A. Understanding implications of VUCA

Nathan Bennet and G. James Lemoine explain the meaning of VUCA in their work published in the Harvard Business Review in the first quarter of 2014. They place Volatility, Uncertainty, Complexity and Ambiguity in four slots within a quadrant with axes being defined based on Knowledge about the situation and ability to predict the outcomes of actions. They explain the characteristics and approach in each situation. They argue against the idea which professes the futility of strategic planning in face of VUCA. On the contrary they present 'Innovation' and 'Flexibility' to be built in to the strategy, from planning to execution.

VUCA is evaluated with knowledge about the situation and predictability of outcomes as parameters. For volatility, it is advised to devote resources to preparedness. In case of uncertainty, information and data collected to arrive at a conclusion is advised. Bringing in specialised resources to tackle complexity works in most situations and for ambiguity, experiments to understand the situation better is suggested.

It is suggested that strategic planning needs more calibrated thought and each of the V, U, C and A need different approaches to deal with, else it leads to poor decision if one approach is adopted for all of them.

B. Challenges Faced by Banks

Literature was reviewed to understand the challenges faced by Banks in competitive, macro-economic and regulatory context. Xavier Vives talks about the impact of competition in the Banking Sector, the impact on stability and the role of regulatory environment in such context. In his book, 'Competition and Stability in Banking' he talks about the trade offs to assure stability which can be achieved by prudent regulation.

Iryna Alosyna in her paper 'Competitive Issues in Banking : Theoretical Approaches Overview' argues that the challenge in Banking Sector from a competitive context arises due to intangible nature of services and lack of free entry and exit from the sector. Competition has become more intense due to availability of traditional banking services from non-banking players. Development of Financial Markets, better access of foreign banks to domestic markets and flow of capital between markets add to the complexity in terms of value proposition and performance measurement.

The impact of macro-economic environment is another aspect that gets factored in the strategic planning exercise. Most of the literature reviewed studies the relationships between GDP and bank profitability and inflation and bank profitability. In the paper 'Internal and External Factors Affecting Bank Profitability : Evidence from Albanian Banking Sector', Blerta Bami argues that Real GDP growth was found to have positive impact on Bank profitability. The same is true for anticipated inflation as Banks strategize to adjust rates. The view on these aspects is very varied. Some authors profess that the macro-economic factors have very minimal impact on the bank profitability. Nevertheless, it is

understood that macro-economic environment and the related indicators definitely are inputs to strategic planning.

The next key tenet is the regulations and compliance aspect and its incorporation in the strategic planning. The existing literature in this regard is very focused. Alessandra Tanda in her paper titled 'Effects of Bank regulation on Capital and Risk' studies the impact of capital and liquidity requirements set forth by regulators worldwide on Bank's strategy. David Cruikshank in his paper 'Impact of New Banking Regulations on Corporate Relationships' talk about the how banks will start evaluating the impact of a large corporate relationship on the key ratios.

Andy Efstathiou in the paper 'How New Banking Regulations will impact Banks, Customers and Vendors in 2015/16' specially points out the need of increased disclosure towards customers and how this could be challenge for Banks operating on legacy infrastructure.

It is important to mention that technology driven solutions to strategic mandates have been found to be received positively by bank employees and customers as evidenced from the study titled ' Employee's attitude towards adoption of IT based Banking Services' conducted by Krishna Murari and Bindiya Tater.

To conclude, review of existing literature reemphasizes the importance of competition, macro-economic parameters and regulatory environment on the strategic context in which Banks operate. It is worthy to note the role that technology plays an enabler and the all pervading presence of such interventions is very evident.

IV. ANALYSIS AND PROPOSED APPROACH

The analysis of the given problem again will focus around the aspects which get attention during the strategic planning process. The analytical view for each of the segments is as follows :

1. Competition: The idea of competition from a strategic point of view is very broad and encompasses the facets of market strategy, product strategy, pricing strategy and Customer engagement strategy. On the market strategy front, Banks are faced with decisions regarding which markets and segments to compete in since such choices come with tactical implications. On the product front expansion of product lines coupled with pricing decisions require careful thought. It is important to note that all such decisions have to be supported by operational capability to execute.

More importantly, on the customer engagement front, the expectations from customers have changed drastically and is in a state of constant flux. The strategic choices in this aspect should also reflect agility.

The advent of the digital paradigm makes the competitive scenario more complex. Consider the fact that traditional Banks now are facing competition from Click Only/Click and Mortar players who present formidable competition in the niches where they compete. Some of them have been able to create blue oceans for themselves. On the aspects of product and pricing as well, the time to market expectations have shortened. Banks are gradually moving towards value based pricing of products. The branding efforts also have now moved beyond the conventional mediums towards incorporating digital media. Within the Banking sector, many players are using big data to devise customized value proposition.

It is therefore safe to assume that the competitive scenario mirrors all aspects of a VUCA world where the competitive strategy must be enabled by digital thought.

2. Regulatory Environment: Post the financial crisis in later part of the last decade, the Regulators globally have taken proactive steps towards strengthening the frameworks which are mandated for Banks. Focus BASEL norms present a comprehensive picture. The Regulatory focus has dwelt, apart from other things, on customer protection and reducing the information asymmetry

in the transactions between a Bank and its Customer. The Mortgage Credit Directive is a clear example.

Data is the next most important asset after customer relations. Recent times have seen the regulatory norms moving towards strictness on this aspect. The implementation of GDPR (General Data Protection Regulation) illustrates the same.

There is vast body to global, regional and local regulations which have been brought in force newly or updated to reflect the regulatory concerns. A detailed study of all of them is beyond the scope of the current context. In general, the implementation of such regulations means increased cost of doing business for Banks. Also, the monitoring of Bank's activities has been intensified. The cost of non-compliance has increased. It can be concluded that the implementation of Regulations symbolize and add to the 'C' –complexity of the environment in which Banks operate.

More often than not, implementing such solutions for compliance goes beyond operational interventions and involve the use of digital technologies. Reg Tech is a commonly used term for digital interventions dedicated to help Banks stay compliant.

3. Macro-economic Environment: This is one area which Banks monitor in order to derive clues for competitive strategy formulation. It is more of a source of input and a subject of interest for Bankers. However, the importance cannot be understated.

For instance, the lending strategy for various industry sectors can be sharpened based on picture presented in the reports published by the policy makers.

The situation of interest encompasses key figures like GDP growth, Per capita Income, Growth in different sectors of economy, Deficit figures, Key areas of Government spending etc. Banks derive their segmentation, market entry and long term strategic inputs from aforementioned parameters which define the macro economic environment.

Depending on the country, the situation could range from Complex in a best case scenario to Volatile in a worst case scenario. The parameters that Banks look at are derived based on data collection and analysis

organized by Governments , Regulators and in-house research teams. On this front again, Digital interventions such as Big Data assure agility and integrity in the effort.

The situation analysed evidently points to the understated perspective in the Strategic Planning process. The implementation of strategic mandates arising from competitive strategy, regulatory environment and macroeconomic context involve the use of technology beyond customization of legacy platforms and existing systems. They are required to be much more flexible, based on design thinking and agile so as to help Banks navigate in a VUCA world.

This is the space where digital thought needs to be incorporated in the strategic planning process. Examples of considerations from the Digital perspective are as follows:

- Choice of platform and cost of regulatory compliance
- New Business models based on digital platforms
- Automation of first level of customer engagement and service
- Channel mix to compete in a market
- Improvement of ServQual levels
- Improved risk management
- Time to market in product launches
- Customer centricity and empowerment

Aforementioned are only indicative examples. A complete list can be drawn based on context. Implementation of strategy presents a strong case for incorporation of digital paradigm beyond technology in to the strategic planning process. It presents an opportunity to create a sustainable model that is flexible , competitive and compliant.



Figure 1: Incorporation of Digital thought in the Strategic Planning Process

V. CONCLUSION

It is imperative for Banks to include Digital Thought in the strategic planning process so that they are equipped to survive and thrive in a VUCA world. It is important to appreciate that the volatility, uncertainty , complexity and ambiguity have been exacerbated by the advent of digital strategy and its implementation. Therefore, strategic thought and approach in this direction is strongly recommended. This goes beyond the attention that IT strategy and planning get as of now. It is important to understand that Information Technology is a hygiene factor whereas Digital initiatives could lead to distinct positioning and sustainable competitive advantage.

VI. REFERENCES

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