Leaders 2020: The next-generation executive

Digital leadership in Financial Services

The Financial Services industry is undergoing a period of rapid change and disruption and is faced with unprecedented levels of competition as a wave of fintech startups and industry disruption strategies threaten traditional business models.

Oxford Economics surveyed 4,100 executives and employees, including more than 500 senior executives and non-executive employees from the Financial Services sector during the second quarter of 2016. Our hypothesis was that better leadership eases growing pains related to technology and cultural change, and produces quantifiably superior results. And indeed, we found that organizations around the world and across industries that get digital leadership right—we call them Digital Winners—perform better in the marketplace and have happier, more engaged employees.

Executives at banks (roughly 60% of our Financial Services sample) and insurers (roughly 40%) rate highly in many of the areas that define successful digital enterprises, from technology implementation to creating diverse organizations. Yet the responses showed that these senior managers are not as focused as they should be on the potential disruption threatening their companies.

The situation is not yet dire, but this attention gap is a significant issue at a time when The World Economic Forum cautions that "disruption will not be a one-time event, rather a continuous pressure to innovate that will shape customer behaviours, business models, and the long-term structure of the Financial Services industry."

How can Financial Services companies maintain the leadership that has come to define the sector while incorporating new technology and addressing potential threats from competitors new and old? Three imperatives emerged from our analysis of the survey results:

- Prepare for disruption. Leadership at Financial Services firms cannot afford to overlook the existential threat posed by tech-driven upstarts. Companies must evaluate emerging challenges to their business models and develop future leaders who can navigate the new competitive environment.
- Capitalize on diversity. Companies reporting higher revenue and profitability growth are more likely to say diversity has a positive impact on financial performance and that leadership recognizes its value. Financial Services companies are leaders in cultivating diversity among the workforce and must continue those efforts in the years ahead.
- Invest in the next generation of leaders. Financial Services employees are no happier in their jobs than are workers from most other industries—a sign that firms should do more to build loyalty and engagement.

In this paper we discuss findings from our global research program that show where Financial Services executives are well-positioned to lead for digital transformation, and spotlight areas that demand more focus as the sector continues to evolve.

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Meet the Digital Winners

Oxford Economics identified a set of characteristics and practices (outlined below) that define the best-managed companies. We call this group of high-performing organizations Digital Winners. Our company-level analysis is built on the assessments of individual executives who rated the skills and strategies of management across their organizations. In short, Digital Winners are companies with executives who are better prepared for the digital economy.

Digital Winners are spread fairly evenly across industries, regions, and functions; the Financial Services sector, with 17% of executives and 8% of employees representing Digital Winner companies, is roughly on par with overall averages.

It pays to be a Digital Winner. Across industries, these companies:

- are 38% more likely than others to report strong revenue and profit growth (76% vs. 55%);
- have more mature strategies and programs for hiring skilled talent (85% vs. 64%), building diversity (56%, vs. 48% of others), and succession planning (72% vs. 50%); and
- have employees who are more satisfied (87% vs. 63%) and more likely to stay in their jobs if given the chance to leave (75% vs. 54%).

Organizational change starts with individual action. To become Digital Winners, companies should focus on the skills of their executives and the culture they create—and make sure incremental progress in these areas maps back to an overall digital strategy.

How executives drive digital transformation

Embrace digital technologies

- Execute on a company-wide digital vision
- Embed technology in all aspects of the organization

Streamline decision making

- Make data-driven decisions in real time
- Distribute decision-making across the organization

Flatten the organization

- Focus on reducing complexity and bureaucracy
- Offer the latest technology to all employees

Build a digital workforce

- Improve digital proficiency among managers and employees
- Emphasize transformation readiness and strategic use of technology

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DIGITAL WINNERS

Ready for disruption?

Financial Services is an industry under pressure. Disruptive new technologies like blockchain, a seemingly endless flow of fintech companies and other start-ups into the market, and constant demands to reduce costs should be enough to encourage innovation among established banks and insurers.

Yet Financial Services companies seem less focused on disruption than they should be. Our survey shows that business model disruption is a low-level concern for executives and employees in the industry, ranking far below more traditional issues such as economic conditions. And while the increasing pace of change is a top focus area for Financial Services executives, that may not be enough to drive the substantial transformation required to compete in this new landscape.

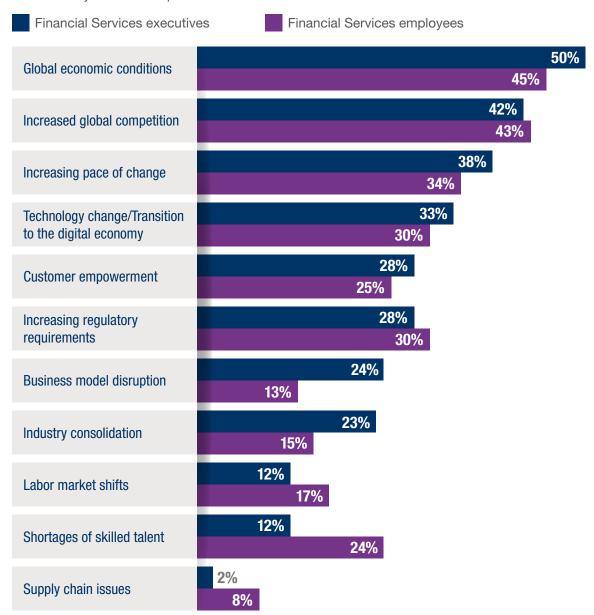
The larger companies among our Financial Services firms are even less focused on business model disruption than their smaller counterparts. Just 15% of banks and insurers with more than \$5 billion in revenue cite it as a top concern, compared with 28% of firms with between \$250 million and \$1 billion.

A closer focus on business model disruption may be a relatively easy fix, as employees from Financial Services are more likely than their peers from other industries to say increased innovation is having an impact on their day-to-day jobs (36%, vs. 28% of others). To make full use of employees' enthusiasm for innovation, managers must increase their proficiency in that area as well—but only 51% of employees say senior management is highly proficient in facilitating it.

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Trends expected to have the greatest impact over the next three years

Q: Which of the following trends do you expect to have the greatest impact on your organization over the next two years? *Select up to three.*



Technology focus is a strength

Financial Services firms boast technology prowess in a range of areas—an attribute that should help them outpace new competitors as disruption comes into focus. As the chart below shows, senior leaders from Financial Services are fairly confident in their abilities to manage digital transformation, innovation, and analytics-driven strategy.

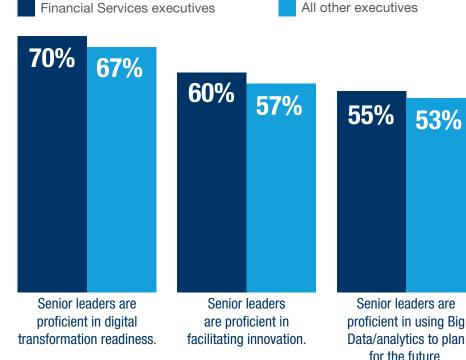
Yet these banking and insurance executives should not be overconfident. In a trend that holds true across industries, employees are not as impressed with senior management's skills as are the executives themselves: just 56% say senior management is highly proficient in digital transformation readiness, and even fewer say they are facilitating innovation.

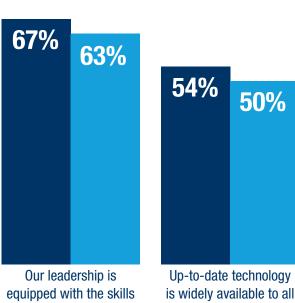
Developing digital skills is a priority for Financial Services firms—another good sign for the future. Executives rate digital proficiency as the most important quality for a manager of the future to possess (41%). There is some variance across regions, with APJ and Latin America especially likely to cite digital proficiency as a critical skill.

Enabling efficient, effective decision-making is another important aspect of leading for digital transformation—but here too there is work to be done. Just 38% of executives and 42% of employees in Financial Services say decisions are made in real time, and 50% and 47%, respectively, say their organization is able to adapt to these real-time decisions. And decision-making matters to industry executives, who say a top use for technology is data analytics for strategy.

Technology proficiency

Q: To what extent do you agree with the following statements? "Agree" and "Strongly agree" responses





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Capitalizing on diversity

Diversity is a critical part of digital transformation. Understanding and incorporating the needs, capabilities, and ideas of a broad range of employees—and leaders—is critical to building a healthy culture, representing broad customer bases, and exploring new ideas. Digital Winners across industries report stronger diversity growth among the general workforce and leadership, and are seeing benefits in terms of culture and financial performance.

Banks and insurers are making headway on diversity issues. Executives from Financial Services are more likely to report increases in diversity among senior and mid-level leadership than their peers in other industries; employees also are slightly more likely to say diversity has increased among these

groups. And Financial Services firms are more likely to have a Chief Diversity Officer in place, according to both executives and employees, a sign that improving diversity across the organization is part of corporate strategy.

Still, only one-third of Financial Services executives say their company has effective diversity programs in place—an important part of getting the full value from the broad range of employee backgrounds, experiences, and skills within an organization. Across industries, female executives from our survey tend to be more critical of diversity programs and succession planning. In a historically male-dominated industry such as Financial Services, leadership should be even more careful to ensure that inclusive policies for women are part of diversity strategies.

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Strategies for diversity and inclusion

Q: To what extent do you agree with the following statements about diversity? "Agree" and "Strongly agree" responses



Time to focus on leadership development

None of these goals will be achievable without the right talent and leadership in place. But too few Financial Services companies have succession planning or talent strategies required to develop the next generation of leaders.

Our landmark 2014 research program, *Workforce 2020*, showed that Financial Services employees want more feedback, mentoring, and training than workers in other industries, which could indicate that these employees have the potential to be highly engaged and valuable to their companies. This year's research underscores that point: Financial Services employees cite the ability to inspire and motivate workers as the most important leadership quality—yet only 45% of employees say senior management is proficient in this.

North American firms are leaders in this area. Executives are more likely to say inspiring and motivating employees is a top skill area for managers of the future, and employees in the region are far more likely to report loyalty to their manager (80%, vs. 56% of others), team (82%, vs. 57% of others), and to say they are willing to routinely go beyond the minimum requirements of their job (87%, vs. 69% of others). They also report higher levels of job satisfaction (85% are satisfied or very satisfied, vs. 58% of others).

Financial Services executives around the globe express confidence in their firms' recruitment and leadership-development programs, but employee responses suggest finance firms still have work to do in this area. They are less likely than peers in other industries to say leadership works with employees to develop their careers (44% vs. 49%), lack confidence in succession processes, and (outside of North America) are no more satisfied than employees in any other industry.

Developing younger employees—and keeping them satisfied and engaged—is critical to ensuring a strong leadership pipeline. Financial Services firms have roughly the same number of Millennial executives as the global sample (19% vs. 17% overall)—a sign that the industry has taken some steps to bring younger managers into the C-suite. But firms need to do more to develop skills, leadership capabilities, and loyalty among younger employees. Our survey results show that the rising generation of young executives is skeptical that management has the skills to drive digital transformation. They are more focused on diversity than older executives, and less impressed with efforts to build digital skills. Their critical eye may be valuable to speeding up the digital-transformation process.

Building employee engagement

Q: To what extent do you agree with the following statements? "Agree" and "Strongly agree" responses



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Conclusion

The pace of change shows no sign of slowing down, and organizations that do not continually update their approach to leadership risk falling behind. Financial Services companies have demonstrated an appetite for technology-powered innovation, and are leaders in building diversity and developing talent.

Yet this is no time to rest on those laurels. With a new generation of disruptive competitors aiming for a share of the financial services marketplace, incumbents must scan the horizon for emerging threats and prepare their employees—and future leaders—for what comes next.

What should Financial Services companies do now?

- Focus on digital transformation, not just technology. New tools are just part of the equation—Financial Services firms need to embrace the culture and processes required to make digital more than a buzzword.
- Develop young talent in a holistic way. Building soft skills and leadership capabilities is just as important as keeping up with technology, and doing so will be critical to ensuring a strong management pipeline.
- Prepare for disruption. Financial Services companies need to rethink business models and processes as a new wave of technologies hit the market and threaten existing ways of doing business.

To learn more, visit www.successfactors.com.

About the research

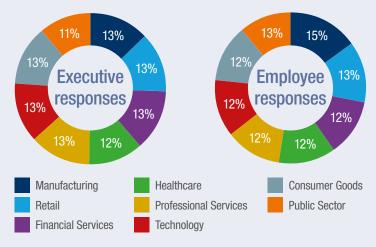
Oxford Economics surveyed more than 2,050 executives and 2,050 non-executive employees in 21 countries and across multiple industries during the second quarter of 2016, including more than 500 executives and employees from Financial Services. The executives surveyed include both C-levels and their direct reports; roughly 48% of the executive sample is from the C-suite. Employee roles range from entry-level to line-of-business management.

Respondents represent companies headquartered around the world, with a range of sizes (measured by both revenue and employee count).

Of the employees we surveyed, 50% are Millennials aged 18–35—the percentage expected to make up the workforce by 2020; the executive sample also includes a meaningful number of Millennial respondents (17%). Both senior executives and employees represent a broad range of functional areas, including HR, finance, IT, sales, marketing, procurement, and product development.

Respondents by industry

Q: What is your organization's industry segment? *Select one.*



Financial Services respondents by region

Q: Where are you located? Select one.







