Seeking sustainable change in Africa's financial systems

How can financial institutions, professional service providers and the development sector catalyse profitable growth for underserved segments?

Final Report

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Executive summary

How can financial institutions in sub-Saharan Africa develop commercially attractive business models that bolster economies and benefit underserved markets?

The financial sector can be an important catalyst for inclusive economic development. Accordingly, there is a basic need for entities across this sector to trigger and drive change that will enable their organisations to effectively pursue new business opportunities.

However, entities with the scale and regulatory mandate to make a significant impact have not seen underserved segments as commercially viable.

To bridge the opportunity gap, the development sector should align donor funding more closely with the core strategies of financial sector partners, to achieve the most impact. The financial sector, in turn, should be more open to the benefits of partnerships with the development sector, which is becoming more commercially minded, has access to global networks and can provide funding for technical assistance at a meaningful scale.

This report considers ways in which the private and development sectors can partner to drive change, growth and capacity building in financial institutions, through the effective use of professional and technical services such as strategy and management consulting and technology services.

It is based on original research and interviews with banks, telecoms operators and service providers across several countries in sub-Saharan Africa.

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Starting out from an industry perspective, the report sets out to understand the commonalities and patterns in professional services procurement across a heterogeneous group of institutions. To this end, banks are discussed along two broadly defined categories—established organisations fighting for sustained profitability in mature markets, and mid-tier organisations with their sights set on growth and diversification into new segments. In addition, telcos entering this market have the potential to dislodge banks in certain key territories and segments; many are actively seeking to expand beyond airtime revenues with the introduction of new services, including financial products.

The report further highlights a set of research-identified success factors for organisations and partnerships seeking to drive effective and sustainable change:

- *Explore and commit to new and innovative ideas:* Strategic planning processes need to challenge accepted ideas and explore promising ones. Prioritisation processes should leave room for “risky” business cases.
- *Develop ideas into sustainable designs:* New business models require new approaches with regard to, for example, processes, channels, skills and culture. It is critical with such programmes to design with the new customer in mind and not to over-rely on the applicability of existing customer insights.

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- *Enable the organisation throughout the implementation phase:* Projects should drive stakeholder engagement, communication and change impact analysis. A clear vision should be communicated from senior management sponsors throughout the project lifecycle.
- *Sustain change:* Maintain C-level support for new ventures, affording time to fail, learn and adjust. Scale up results in support and celebrate successes.
- *Set out a clear strategy for the change capability:* Make projects accountable for their role in change management, and provide support from central change management functions.

Professional services can in many cases support financial services organisations with successfully managing change. We have found the following set of drivers to be common to organisations that have successfully matched a demand for new services with areas in which they will have the biggest impact:

- *Knowing what assistance is available:* The range of "professional services" is vast, and institutions should avail themselves of the external support that is available, how they can benefit from it, and in what context service providers are likely to add value.
- *Expertise in engaging professional services:* Financial services enterprises that have built up expertise in developing and managing useful scopes of work can build a track record of successful project delivery.
- *Availability and prioritisation of funds:* Prioritisation processes for funding should include development of new capabilities, not just improving existing operations.
- *Understanding gaps in internal capabilities:* External support is most effective when it can fill gaps in internal capabilities and help to strengthen internal capabilities. Having a solid understanding of its own internal strengths and weaknesses drives and focuses an organisation's demand for support.

In keeping with the capabilities of various types of institutions, we discern patterns in the types of services in demand. Larger institutions invest in a broad spectrum of services, but prioritisation of the existing core business tends to drive funding away from initiatives exploring new business models. Also, the unchallenged perception of deep customer insight may lead to under-investment in research support when designing fundamentally different business models.

Mid-tier institutions, on the other hand, are on the whole well aware of their skills deficit, more specifically when it comes to interventions like corporate strategy and technical and IT-related services. However, they tend to under-invest in change management and rarely engage external support. While this is partly a budgetary issue, many mid-tier institutions are simply inexperienced buyers that don't know when they need assistance and often build on bad examples from prior projects that were poorly scoped.

Support from external service providers tends to be most effective under the following conditions:

1. Objectives are driven by an internal momentum or sense of urgency
2. The scope is clearly defined
3. Consultants take an active part in stakeholder management
4. Internal resources are involved throughout the engagement
5. There is a long-term relationship between client and service provider

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Larger institutions have a stable demand for external support, which allows service providers to invest in the relationship to the benefit of both parties. The involvement of senior advisors who are familiar with the commercial and organisational context ensures a well-defined project scope, efficient mobilisation of new teams, effective stakeholder engagement and continuity across projects.

Mid-tier organisations typically request services on an ad hoc basis, and as a result they do not enjoy these benefits. This effectively reduces the success rate for externally supported projects and reduces future demand.

This report argues that financial institutions seeking development sector partners to support organisational change must pick them with care. Players range from pure think tanks to development finance institutions providing credit. The change dynamics of financial institutions may not align well with the diverse bureaucracies, funding cycles, monitoring and evaluation requirements of some players.

There are, however, development sector actors with objectives and operating models that are better aligned to private sector engagement. Financial institutions should look for partners that:

- See the objectives of their support as coinciding with commercial objectives;
- Are looking to engage in ways that can complement institutions' internal capabilities;
- Are flexible in the types of support they can offer and responsive in terms of internal processes;
- Understand the industry and commercial imperatives and bring in expertise beyond funding;
- Seek long-term partnerships and focus on significant results delivered over time, and potentially several interventions.

Switching outlook to the development sector's perspective, the report makes the following recommendations to catalyse change in partnership with mid-tier financial institutions:

1. *Select a few institutions and establish long-term relationships*
2. *Ensure that the commercial side of the organisation—not just the CSR function—shares the objectives and are involved in project governance*
3. *Involve relationship managers across interventions*
4. *Capitalise on urgency and existing momentum*
5. *Initiate relationships by solving concrete issues like process design, market research, data analysis, etc.*
6. *Develop a trusted advisor role with C-level executives to further increase impact*
7. *Establish the right level of in-house expertise and assets, while using service providers to maintain scalability and flexibility*
8. *Prioritise potential opportunities through a pipeline management process*

Development sector organisations face challenges when seeking to provide financial institutions with the benefits of long-term relationships involving the same service provider over time, as this may be subject to constraints including public procurement policies. There are, however, options to mitigate this, such as providing grant funding for institutions to procure services directly; procuring relationship management as standalone services; or establishing capabilities internally.

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When seeking to partner with larger institutions, it is recommended that development organisations voice support for business leaders' agenda to drive growth with new business models, and that they support them with developing and positioning growth cases within the organisation in order to crowd in the financial institution's own investment.

This report has been commissioned by Financial Sector Deepening Africa (FSDA), a programme that promotes financial sector development across sub-Saharan Africa. One of FSDA's strategic focus areas is to support change management projects to strengthen organisational capacity in banks and other financial institutions.

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FSDA is a non-profit company that promotes financial sector development across sub-Saharan Africa. It is a catalyst for change, working with partners to build financial markets that are robust, efficient and, above all inclusive. It uses funding, research and technical expertise to identify market failures and strengthens the capacity of its partners to improve access to financial services and drive economic growth. It is FSDA's belief that strong and responsive financial markets will be central to Africa's emerging growth story and the prosperity of its people.

FSDA's largest budget allocation is to support change management projects to strengthen organisational capacity in banks and other financial institutions. By supporting such projects, FSDA expects to see development in the wider markets resulting in stronger institutions, the emergence of new institutions that are champions for underserved market segments, greater innovation leading to products and services better aligned to the needs of underserved segments.

FSDA is highly focused on impact. Its aim is to provide access to finance to 3 million more poor people across sub-Saharan Africa by 2018.

1. Change and capacity building towards sustainable and inclusive financial markets

Financial institutions play a widely recognised role in economic development. Having formal accounts, payments and loans brings efficiency, predictability and security to SMEs' operations and individuals' lives.

Too often, financial markets development follows two separate paths—the commercial path, focusing on profitability and growth, and the developmental path, targeting the unbanked via models like microfinance and community lending that are generally less commercially viable.

Sometimes these intersect with solutions like Kenya's M-Pesa that profitably expand services to the unbanked. Such examples are unfortunately few, and organisations find it hard to deliver sustainable results from commercially driven attempts to capitalise on entry-level segments.

Though there is clearly a role for development sector-led models, this report takes a different perspective: Firstly, developing and commercially sustainable and attractive financial markets drive economic activity—and to some extent serve the economy as a whole. Secondly, there are encouraging examples of commercially viable financial products that are attractive to entry-level customers. Many of these products are driven by technologies like mobile communications, cloud computing and analytics that are more easily scaled to address low-income customers. Kenya's M-Shwari is an obvious example. Further, it is axiomatic that organisations that do not explore new business models face a risk to their long-term sustainability. And finally, it can be argued that there is no status quo of going about business as usual; complacent institutions face the risk that tomorrow's customers will establish relationships with disruptors and competitors.

But while there are encouraging examples, it is apparent that organisations seeking to capitalise on the underserved segments face several hurdles in developing and implementing new business models.

This study starts by recognising the need for change and capacity building for financial institutions to successfully develop new models.

Often, the development sector lays out very specific "change journeys" towards concrete outcomes. For commercial organisations, the complexity and challenges of managing change

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towards multiple objectives on top of complex, on-going operations leads to a very different perspective. In many cases, partnerships between the two sectors end up as side-lined initiatives or fragmented interventions with little impact.

Against this backdrop, this report sets out to answer the challenging question of how the private and development sectors can partner to drive effective and sustainable change, growth and capacity building within financial institutions. To this end, it aims to answer the following questions:

"Across development cooperation actors, there are higher numbers of engagements that involve transfers of financial resources. There are lower numbers of engagements in knowledge sharing, capacity development, and technical cooperation."
("Mapping Private Sector Engagements in Development Cooperation", www.nsi.ins.ca)

- What is the process through which effective and sustainable organisational change/growth occurs in financial institutions? *(Section 0)*
- What are the patterns to be discerned in how professional services are leveraged to support these processes? *(Section 4)*
- In what way can well-positioned use of professional services further enable effective and sustainable growth? *(Section 5)*
- How can development sector funding for professional services best be used to either precipitate or entrench change processes? *(Section 5)*

Focus for this report

The report is based on research and interviews with financial institutions, telecom operators and service providers across several countries in sub-Saharan Africa. The objective is to identify how financial sector organisations effectively manage change and what support services are most effective in fostering and managing change. The case for looking beyond banks when supporting financial sector development is compelling in light of M-Pesa, the dramatic growth of mobile communications and the potential disruptions of technology-driven innovations.

As argued below, the roles and long-term positioning of banks and non-bank institutions are far from certain, and for this reason we included banks, telcos and a limited number of insurers in the background research for this report.

The focus of this research is on change dynamics within the financial institutions themselves, so regulators and central banks are not included, although they arguably trigger and affect many change initiatives. Also, the report addresses how to catalyse change at scale; hence smaller institutions such as MFIs are not in scope.

This report takes a wider perspective on "change management services" than e.g. coaching, communication, training, stakeholder management, "project management offices" and "change capability development", all of which specifically manage people change and coordinate holistic change across the organisation. All "management consulting services" involved in triggering, defining and enabling change are considered to be in scope.

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Building market capacity would in some cases involve supporting unprofitable organisations to become sustainable, in order to bring in competitive dynamics or to ensure there are viable institutions present in immature markets. In other contexts, the more effective bet would be to support already profitable institutions at becoming more effective at innovating and developing new business models. This report is not intended as a screening exercise to identify specific markets or institutions to target, but as a perspective on how change can be triggered and supported within institutions of different profiles.

Research approach

The concept of organisational change and capacity building is ambiguous and complex. For executives and staff within institutions, it can be difficult to put into context the changes they have taken part in. Also, these are sensitive topics to discuss with a team of outside researchers. To mitigate these challenges, the study has leveraged four types of sources; interviews to get the first-hand perspective, secondary observations from senior experts within consultancies, desktop research and a set of case studies. Interviews have been conducted with e.g. CEOs, heads of business areas, change managers, product managers and strategy managers.

Case studies

Four case studies have been particularly useful in understanding change dynamics and partnership experiences between the private and development sectors. A more comprehensive description of these has been included in the appendix, Section B – Change Journey Case Studies.

1. *Large Nigerian bank's transformation:* A large-scale transformation programme was triggered by regulatory concerns. The bank recognised the need for improved infrastructure and successfully engaged with other ecosystem players. A professional services provider took the role of intermediary.
2. *The South African banks' move into the inclusive segment:* The "Big 4" saw inclusive segments as a strategic priority and invested heavily in developing products and channels. Though initially a success, usage proved low. The banks have now entered a phase of research and "trial and error" to ensure customer-driven product development.
3. *First City Monument Bank (FCMB) and IFC:* FCMB received Technical Advisory assistance from IFC to help it execute a strategy to expand in the small and mid-size business market, and to improve corporate governance and risk management processes.
4. *Barclay's Bank, CARE International, and Plan International:* The partners developed a savings-led community finance approach with links to Barclay's commercial operations through the design of bespoke bank products tailored to the group's needs.
5. *Bill & Melinda Gates and Oportunidades:* An ambitious project to digitize cash payments successfully delivered significant reductions to transaction costs, but misaligned objectives in the partnership impaired product design and reduced the eventual impact towards financial inclusion.

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2. Understanding the financial sector landscape

The process of organisational change has to be seen in the context of the overall economy, the state of financial markets and the strategic imperatives that drive executives' priorities.

Characteristics of key markets

There is much to be excited about in the sub-Saharan African business sector. The continent's economies are continuing to expand at a rapid pace and have demonstrated their resilience to both internal and external market shocks. Despite notable headwinds, such as the returned spread of the Ebola disease, lower commodity prices and violent insurgencies, economic growth increased to 4.5% in 2014 and is forecast to pick up to 5.1% by 2017[1]. This positive trend is helping to cement the continent's role as an engine of economic growth within the global economy.

The financial services sector is also responding to the region's continued economic success. While large portions of African adults continue to be excluded from the formal financial system, the accelerated growth towards an inclusive financial system is promising. Rising income levels, urbanisation and the use of innovative technologies such as mobile money are putting financial services within reach of many Africans for the first time. Across the region, 34% of adults now have an account, an increase from 24% in 2011. More than 12% of adults have a mobile money account compared to just 2% globally, and 13 countries in the region report mobile money account penetration rates above 10%.

Market dynamics, including the emergence of mobile money, telecommunication-led business models and an increasingly competitive environment, are putting tremendous pressure on financial service providers. The ability to adapt to change and implement new business models is critical. To stay relevant companies must embrace and execute in ways that they never have before. Proactively identifying and embracing change will be a critical skill for successful leaders.

For this report, we reviewed a number of financial services and telecommunication institutions operating across a number of different countries: South Africa, Tanzania, Kenya, Ghana and Nigeria.

In Tanzania, economic growth has been strong and forecasts for continued growth remain overwhelmingly positive in light of recent oil and gas discoveries. The growth of mobile money services and their contribution to financial inclusion has been nothing short of phenomenal, with reported mobile money or financial account ownership increasing from 17% in 2011 to 40% in 2014. This growth has put considerable pressure on financial institutions to change, and many banks are expanding their branch networks and/or launching mobile money platforms to remain relevant.

In Kenya, financial institutions are in a regional position of strength, as local banks have begun to expand within the East African Community (EAC) and further abroad. High rates of retail bank penetration (75% of the population over the age of 15 has an account) have led financial institutions to look to new countries and other market segments for expansion opportunities. In the face of a relatively saturated retail market, there has been an increased focus on banking Kenya's burgeoning

[1] (2015), World Bank

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small and medium enterprise (SME) market for growth, and on using innovation to reach rural customers. Kenya's "wait and see" regulatory approach has been heralded as a pillar of the country's financial innovation, such as the launch of Safricom's mobile money service M-Pesa in 2007, as well as more recent launches of mobile based savings and loan products including M-Shwari and M-Benki.

Safricom's M-Pesa in Kenya was the first successful mobile money product, and it has taken regulators some time to react to the resulting disruption. Safaricom has recently launched a number of value-added services through M-Pesa, aiming to move its customer base beyond basic money transfers. M-Shwari, a savings and loan product launched in November 2012, is by far the most popular.

((2014) "M-Shwari in Kenya: How is it Really Being used?" CGAP)

In South Africa, considerable market share is held by the "Big Four" institutions, namely FirstRand, Standard Bank, Barclays Africa and Nedbank. These four banks exert considerable control over the market. In response to challenges presented by aggressive newcomer Capitec, as well as pressure from major shareholders to improve profitability though cost reduction, the "Big Four" have worked to solidify and defend existing customer segments. In many ways, this re-entrenchment has negatively impacted financial innovation.

In Nigeria, the financial sector has continued to rebound as a result of waves of consolidation after the 2009 banking crisis—a phenomenon primarily driven not by the global financial crisis but by issues related to corporate governance. As banks continue to work on raising and maintaining adequate capital amounts in the face of forex pressure, falling commodity prices and non-performing loans, they are increasingly looking to solidify balance sheets through more inclusive business models.

2013 Country statistics	GDP per capita	Economic growth	WEF financial markets competitiveness rankings
South Africa	$7,410	2.2%	3
Nigeria	$2,710	5.5%	66
Kenya	$1,160	6%	31
Tanzania	$ 860	7.2%	99

Table 1: Marco economic indicators (2013)

While each country brings with it unique opportunities and challenges based on levels of economic maturity, culture, and regulatory environments, we found significant parallels between the institutions interviewed. We classified institutions into five distinct types to aid in comparisons and to enable actionable insights. They are: large commercial banks, mid-tier challenger banks, local operations of a multinational or regional bank, telcos, and insurers. Individual markets have higher concentrations of certain archetypes.

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Digital disruption in the financial sector

A key disruptive trend in finance is the rapid evolution of digital technology. Continuing advances in mobile telephony, cloud computing, social media and data analytics have enabled the development of all-digital new business models, like search engines and digital advertising. Combining these technology trends has also brought disruption to traditional businesses. The-ride sharing service, Uber, for example, has disrupted the low-tech taxi industry in a rapid and totally unexpected way.

The financial sector is especially vulnerable to these disruptive forces, as it is fundamentally information-based and built on computing platforms like core banking and customer relationship management.

Currently digital currencies like Bitcoin are enabling instantaneous cross-border anonymous payments. GIS location services have enabled auto insurance companies to create policies that track drivers in real time and can link premiums to specific usage and behaviours. New lending models can leverage social networks for reputational data rather than relying on traditional credit scores. Mobile payment services have replaced bank accounts, and mobile agent services could replace the need for traditional bank branches.

All of these examples have the additional disruptive potential of easy scalability across national boundaries and customer segments. Sub-Saharan Africa is on the leading edge of many of these disruptions, partly due to the weakness of the traditional financial sector—which represents an even stronger challenge to the established players.

The incumbents have been slow to adapt to disruption and are facing difficult strategic decisions. Should they partner with fast-moving innovators like mobile operators, where they run the risk of losing the primary interface with their customers? Should they try to rapidly build up digital technology capabilities internally? Should they acquire or launch digital start-ups that can operate as independent units? Should they partner with global technology leaders like Google and Facebook who are building global platforms? Should they develop regional partnerships with other established players who are facing similar challenges? How should they work with regulators to help address national priorities in adoption of digital financial services?

Organisational background

In addition to key financial markets and disruptive external forces, a number of company-specific and structural factors also affect banks’ change processes.

Operating model

In order to understand how priorities are driven in an organisation, it is important to keep in mind the relative power of business areas in individual entities (or the customary power centres in specific countries). A banking operating model has several dimensions—typically units or teams responsible for customer segments, products or channels.

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Banks often have "multi-dimensional" operating models where teams are responsible for e.g. customer, product or channel dimensions. When e.g. the Middle market segment team sees the need for a new savings product, they would liaise with the Savings product team and the Mobile channel team for design and implementation. Customer centricity has been a hot topic over the last years, but in practice it is seen that significant decision making power resides with the product teams.

Indeed, most of the institutions reviewed in Kenya and South Africa were found to be product-oriented in the sense that product units are profit centres and are ultimately responsible for delivering on revenue and profitability (Figure 1). As a result, customer segments are often seen to have less impact on budgets, and priorities are driven towards the largest revenue contributors within each product unit. In Nigeria, customer segments play a stronger role in setting priorities.

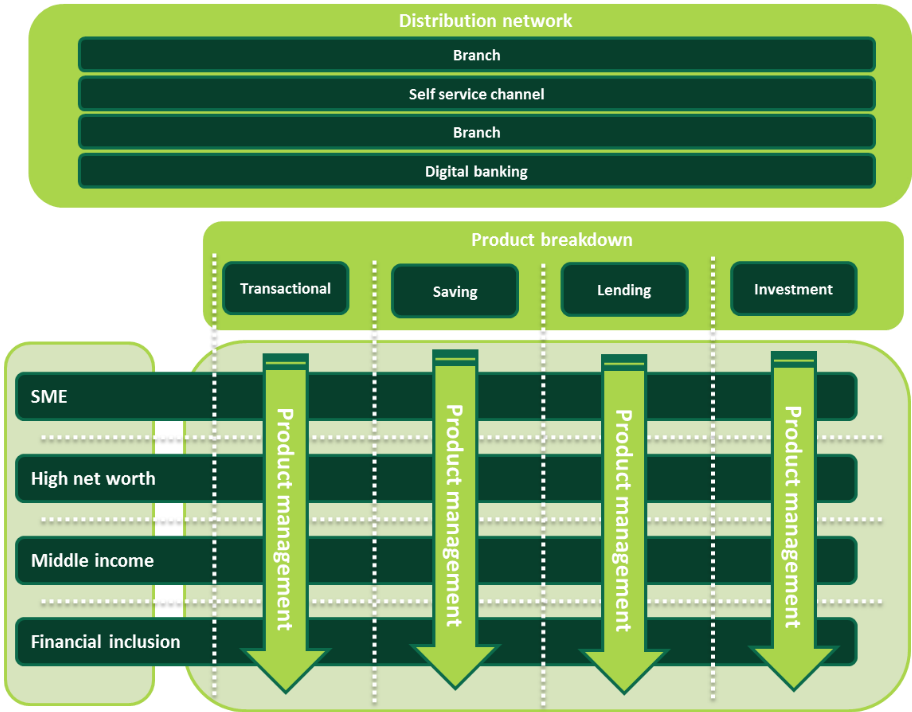

Figure 1: Product-oriented operating model

Another aspect of the operating model is the degree of centralisation of functions (Figure 2). Organisations experiencing growth often add complexity by pushing new products or processes out to branches. This results in a shorter time to market for new products, but increases complexity and reduces the ability to optimise across the network. After a time, highly decentralised organisations will find it harder to implement new business models in an effective way, as variations between branches will require tailored approaches—which nullifies the main advantage of a decentralised approach.

A point on centralisation should also be made about regional banks' local operations across Africa: While telcos appear to be very centrally organised across the region, the degree varies significantly

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across regional banks. While some drive change and run operations centrally, others may centralise only a few key functions, like core banking systems and branding, while leaving a significant degree of independence for each country to manage within.

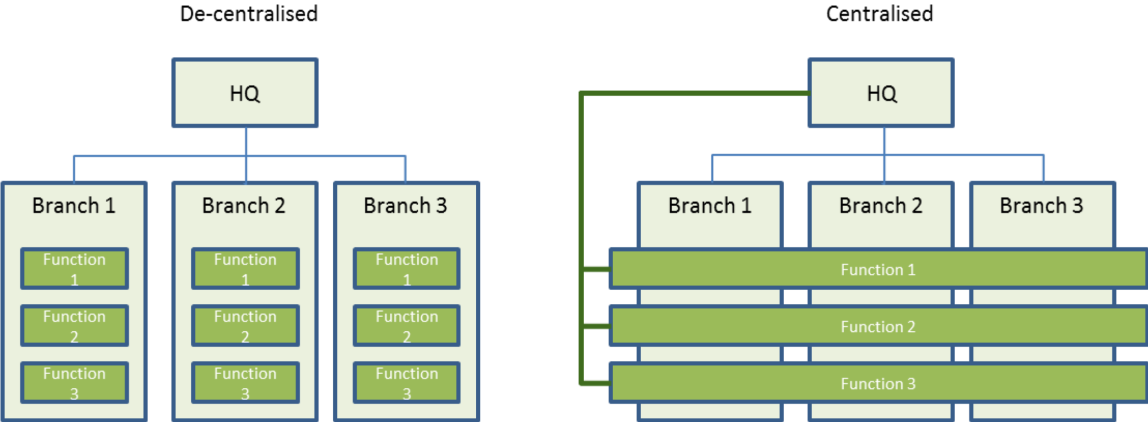

Figure 2: Centralised versus de-centralised operating model

The organisation's stage in the lifecycle

Strategic imperatives and priorities also differ according to where the organisation is in its life cycle. As illustrated by Table 2, mature organisations face cost pressures as they struggle to differentiate their value propositions against competitors. Growing organisations are more focused on exploration and innovation, but should also drive towards standardisation and transition to enable more efficient delivery of their services. Different challenges facing mature and growing organisations are observed across the institutions reviewed for this report and these are included in the framework for successfully implementing change.

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	Introduction	Growth	Maturity	Decline
Technology	Competing technologies, rapid product innovation	Standardisation around dominant technology, rapid process innovation	Well-diffused technical know-how: quest for technological improvements	Little product or process innovation
Products	Poor quality, wide variety of features and technologies, frequent design changes	Design and quality improvements, emergence of dominant design	Trend to commoditisation. Attempts to differentiate by branding, quality, bundling	Commodities the norm: differentiation difficult and unprofitable
Competition	Few companies	Entry, mergers and exits	Shakeout, price competition increases	Price wars, exits
Key success factors	Product innovation, establishing credible image of firm and product	Design for manufacture, access to distribution, brand building, fast product development, process innovation	Cost-efficiency through capital intensity, scale efficiency, and low input costs	Low overheads, buyer selection, signalling commitment, rationalising capacity

Table 2: Lifecycle stages and characteristics *(Grant, R.M. (2010) "Contemporary Strategy Analysis")*

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3. Driving the change process

One of the questions addressed in this report is, “What is the process through which effective and sustainable organisational change/growth occurs in financial institutions?”

Using the framework in Figure 3, this section presents insights on how financial institutions trigger and drive change. It includes a set of success criteria for effective and sustainable change. Further details on the proposed framework for institutional change are provided in the appendix, Section A—Organisational change and capacity building.

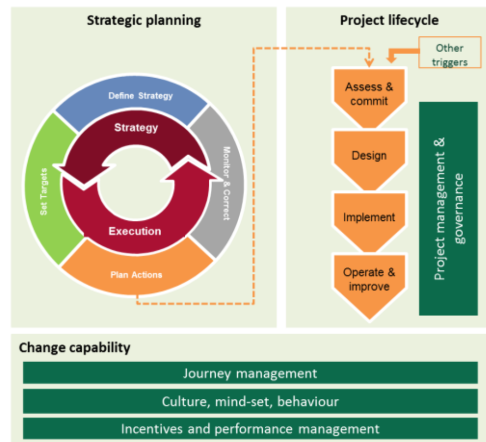

Figure 3: A framework for change and capacity building

Strategic planning

Nearly all the institutions we reviewed have a process for annual strategic planning that follows the textbook approach developed by Kaplan and Norton[2]. However, fundamental differences are evident in the way different institutions go about reviewing trends and data, the output of the strategy, and how it is ultimately taken into concrete action plans to be implemented.

Development of radically new business models typically originates from the strategic planning process. Exploration of new opportunities, ultimately leading to a stronger and more developed financial market, requires that the planning process be driven by analysis and creative generation of new ideas.

We often find, however, that institutions take a bottom-up approach, with executives proposing inputs to the consolidated strategic plan based on imperatives within their areas of responsibility.

> *“We need to challenge ourselves to stay in business—we have set up an internal innovation team to challenge our executives; sometimes they send out messages such as ‘next month your product may cease to exist‘.”*
> *(CEO, mid-tier bank)*

The process of driving strategic planning from the existing business areas’ perspectives implies that responses to performance issues and visible market trends drive priorities rather than innovation and exploration of new opportunities. Also, any new strategic themes set out at a corporate level tend to be delegated to the business areas and interpreted within the existing structure.

An example would be South African banks’ focus on entry-level banking as a result of regulatory requirements and industry trends, rather than any strategic exploration of the business case for new segments.

[2] E.g. Kaplan & Norton (2008) “The Execution Premium: Linking Strategy to Operations for Competitive Advantage”

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There are many reasons for the lack of innovation in the strategic planning processes. In many cases the role of the strategy plan and its link to execution is not clear, so that executives' focus is more on updating high-level objectives than using the process to drive true exploration and value creation. Also, strategy teams in many organisations operate more as facilitators and "documenters" than drivers of the planning process. Finally, data and analysis capacity, in particular for new services or segments, is typically limited.

These challenges are not particular to the financial institutions we interviewed; literature highlights the challenges organisations face in combining "exploitation" of existing revenue streams with "exploration" into innovative and risky ventures. "Both exploration and exploitation are essential for organisations, but they compete for scarce resources. As a result, organisations make explicit and implicit choices between the two." "The implicit choices are buried in many features of organisational forms and customs, for example (…) in the ways in which targets are set and changed, and in incentive systems"[3].

In some cases, disruptive events force executives to embrace change. Examples are product or market failures and significant technology changes. Departures of key executives may also trigger a more fundamental review of how the institution operates. External influences from regulators and governments can also drive strategic planning forward, and this research found examples where a central bank has mandated performance improvements that resulted in a bank-wide transformation agenda.

The output of the strategic planning process and the resulting action plans further vary by organisation size. In large multinational institutions, the strategy developed at a group level tends to be at a higher level and of a more thematic nature than those of smaller organisations that often have more concrete and action oriented plans.

Large, growth-oriented companies face the problem that small markets don't solve the near-term growth needs of large companies. (…) [This] argues for a policy of implanting projects to commercialize disruptive innovations in small organisations that will view the projects as being on their critical path to growth and success, rather than as being distractions from the main business of the company.
(Christensen C.M., "The Innovator's Dilemma")

Larger organisations tend to focus more on overall strategic objectives applicable across business units. Examples are high-level imperatives such as "increased profitability through reduced operational costs" or business development objectives such as "developing deeper relations with our customers". This leaves business areas to develop their own action plans to deliver on performance targets. As business unit leaders tend to be experienced executives with deep specialisation, there is a tendency in some organisations to develop action plans that mainly build on what has worked in the past. In many cases, these mechanisms limit the amount of innovation.

For smaller organisations, the C-level team can typically develop action plans across segments, and there is greater transparency into the portfolio of projects through which to deliver results.

[3] James G. March "Exploration and Exploitation in Organizational Learning"

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As a consequence of these processes, innovation in larger organisations often happens in pockets and fails to attract the attention it deserves in the formal planning processes.

Where we see examples of C-level teams deciding to develop something radically different from current offerings, e.g. the Mzanzi accounts and related products in SA banks, this is often pushed through the existing structures, which may subject new ventures to existing performance measurement structures, processes and legacy costs.

There are, however, examples where a strategy to develop new services results in radical changes to the operating model. M-Shwari was set up as a separate entity at a new physical location to allow it to develop independently.

The degree of freedom for local operations of regional banks varies. In some cases, hybrid models are observed, where some segments have regional strategies while others are managed locally. Several banks speak of a need for "selling in" central strategies within each country. As a result, centrally driven initiatives need to be assessed and integrated in the local context.

Boards often participate in annual or bi-annual strategy reviews. In some markets the regulator mandates these meetings. These sessions give boards the opportunity to provide input and also for management to get buy-in for their perspectives. Regular board meetings tend to be more focused on specific matters and the strategy sessions gives an opportunity to set the overall direction as basis for day-to- day decisions. Where banks are local operations of regional or global institutions, there is typically some room to manoeuvre and adapt within a centrally defined blueprint. For privately held institutions, owners often have an agenda driven by e.g. political imperatives or their objectives as impact investors. This agenda may be imposed through the board or on-going dialogue between owners and executives.

A note should further be made on the corporate social responsibility (CSR) agenda. Many organisations report overall CSR metrics, including financial inclusion, but there is a tendency for CSR functions to run projects to deliver specifically on objectives related to social responsibility. These initiatives are rarely integrated with financially driven commercial corporate strategies or commercial operations, and hence do not scale up.

The project lifecycle

An understanding of what drives organisational change requires a deep dive into how new projects and programmes are identified, approved and managed. Under a later section on "change capability" we will cover how institutions manage change across projects to ensure that the organisation as a whole can absorb change effectively.

Sources of new projects and initiatives

A cursory reading of the literature on strategic planning might lead the reader to believe well managed organisations unfailingly develop holistic plans and execute a set of well-defined projects according to a well-aligned roadmap.

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In reality, however, projects are triggered from multiple sources beyond strategic and operational planning. As mentioned above, the organisations reviewed vary in how concretely they define the actions coming out of their strategic planning cycle, and how actionable the outputs of the planning cycle are. When executives at the business area level continuously define projects they believe will enable them to deliver on their targets, the link between projects and the strategic plan is weakened. We observe that mid-tiers managing growth to scale and more mature mid-tier institutions tend to be ones that review their project portfolio in more detail in their C-level teams.

In some cases, the C-level team and business area executives are well aware that their focus and background keeps them from exploring radically new ideas. Instead of attempting to develop innovations like inclusive business models as part of their strategy process, such executives assign a visionary leader to generate ideas and grow them. Naturally, this leads to project ideas that are not directly driven by the strategy process.

Middle management moreover often has a range of ideas and requirements for operational improvement, some of which may have been in their department's pipeline for a long time without being prioritised at higher levels. And regulatory requirements may come in at any time during the planning cycle.

Assessing & committing to new projects

All the organisations reviewed have established some form of governance structure to qualify and prioritise resources.

> *"Our organisation is tired of a lot of change without visible benefits. Any new initiatives need to show that they will be able to simplify and reduce future change effort and spend."*
> *(Change Manager)*

These structures tend to revolve around a set of councils that approve the allocation of resources. A manager or executive with interest in a new project typically develops a description and a high-level business case to be presented in the relevant council. Escalation processes are usually in place for investments over certain thresholds.

The main difference between the larger banks reviewed and mid-tier institutions is the hierarchy of these councils and the level of representation. Large organisations tend to give business areas a mandate to prioritise within a budget and some pre-defined limits before the corporate level becomes involved. Mid-tiers, on the other hand, often make do with one approval committee, which includes representatives from functional areas such as IT, and C-level representatives such as the CFO and COO.

> *"Further growth into the lower end of the market is seen as high risk, low volume and low margin. It is hard to get other executives to see the case and so it becomes an issue of prioritizing resources"*
> *(Business Area Executive, large bank)*

The criteria for qualification and prioritisation tend to be quite similar across the board—i.e. alignment to strategy, business criticality (e.g. regulatory requirement) and return on investment (ROI). Some of the institutions interviewed use their balanced scorecards to assess at the hand of customer satisfaction, improvement of internal processes and impact on people, in addition to financial ROI criteria.

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How these governance structures in practice affect decision-making depends on current strategic imperatives, operating models, incentive structures and the practise for developing and evaluating business cases.

Larger organisations in mature markets face significant pressure to sustain profits and the historical growth expected by analysts. This tends to drive priorities towards projects that significantly impact revenue or costs. Budgets for projects and services are in general large, but any new projects need to show alignment to these imperatives. Hence, ROI criteria tend to take precedence.

Additionally, most of these organisations have a product-focused operating model. At a high level, organizations clearly measure results for fundamentally different segment such as business banking, retail banking and wealth management. However, within the retail divisions, often overseeing both SMEs and individual clients, product lines often act as profit centres. Executives running these profit centres are incentivised to deliver results at a significant scale. As a result, customer segments currently trying to build from smaller volumes find it hard to get funding for projects critical to develop the value proposition requested by their customers.

Most banks acknowledge that there is an attractive opportunity in capitalizing in the underserved segments. When it comes to concrete decisions, it is very hard to get commitment for projects that are perceived to be risky, show negative or insignificant cash flows for several years or, being conservatively estimated, have a net present value much lower than core revenue streams. All organizations face scarce human and financial resources and need to allocate them optimally according to risk tolerance as well as total budgets .The perception of new opportunities as uncertain or unable to deliver on analysts' expectations often lead tilt priorities towards opportunities related to existing revenue streams.

As a result, change favouring new and unknown segments or products typically require C-level engagement to get off the ground. As argued above, the low degree of exploration during strategic planning and the long delay between strategy and action in larger organisations make such engagement rare, particularly given today's profitability concerns.

Furthermore, mature organisations have legacy costs from their branch network, system portfolio and corporate overhead. During their years of expansion, delivery and execution have often been prioritised over cost efficiency and harmonisation. As a result, many of these organisations are in a phase of rationalisation and consolidation to lower their costs in order to serve even their most profitable sections. The cost allocation models typically leveraged are often the same for every new project. The totality of these legacy costs are allocated to products and segments based on logic such as the number of customers or number of accounts. This effectively eliminates, at the approval committee level, many projects with business cases based on delivering high volumes with lower revenues per customer.

Smaller banks managing growth to scale operate somewhat differently. In keeping with their size the number of councils is lower, with perhaps only one having C-level representation, and the C-level team has much more of a cockpit view of the project portfolio. The product dimension tends to carry the most weight even in mid-tier banks.

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By their nature, smaller banks tap into growth segments and also the C-level team's clearer view of the strategy and its execution. This means projects driving new business models tend to get funding more frequently, given the greater likelihood of C-level sponsorship.

Observations are that most organisations can improve approach to using business cases when qualifying new projects. Initiatives driving significant capital expenditure typically undergo more scrutiny, potentially through several "stage gates" with revised business cases. Most projects, however, are assessed on less strict requirements. Two factors in particular appear to have led to a more relaxed attitude towards business cases: a lack of relevant data and analytics capabilities, and lack of discipline in reviewing completed projects against up-front estimates. These gaps reduce the credibility of future business cases. This tilts prioritisation at the approval committee level towards projects that appear familiar and appeal to the "gut feeling" of experienced executives. A data- and fact-driven approach can overcome this.

Less scrutiny up-front means that C-level-driven projects towards e.g. underserved segments have been initiated and allocated significant capital without questions such as "do we really know these customers?", "will they transact with us?" and "are the costs to serve realistically estimated?" Failed projects may effectively keep organisations from investing in change and capacity building for such business models in the future.

Finally, many institutions respond that there is change fatigue following the high pace of change in the industry, Staff across functions typically see a number of on-going projects affecting their roles and tasks. Many projects have not delivered the benefits envisaged, and this reduces motivation to sponsor new projects. In order to get support, commitment and funding in such cases, tactically astute project owners focus on arguing a credible case on how the new initiative would reduce further complexity and the need for change.

Design of changes to business model and operating model

Given the wide range of projects that are relevant for this study (e.g. products, processes and organisational changes), an exhaustive discussion on design and implementation plans is not feasible. However, some observations can be made that are relevant across project types to understand the challenges to effective change.

> *Markets that do not exist cannot be analysed: Suppliers and customers must discover them together. Not only are the market applications for disruptive technologies unknown at the time of their development, they are unknowable. The strategies and plans that managers formulate for confronting disruptive technological change should therefore be plans for learning and discovery rather than plans for execution.*
>
> *(Christensen C.M., "The Innovator's Dilemma")*

Firstly, organisations often lack the insights needed to develop models that are commercially sustainable. Institutions of all sizes are known to (and have been observed to) implement new business models that did not result in the expected uptake on the customer side. Examples are the move by South Africa's large banks into inclusive banking, and Kenyan mid-tier banks' expansion into SME segments. In both cases, institutions realised after implementation that they did not know their new clients. As a result, they have had to take two steps back to the research phase to re-focus their offer to the market.

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In many cases, there is an implicit strategy to complete the design phase before moving into a comprehensive rollout phase. This approach is questionable when targeting new customer segments and attempting to develop innovative products. Several of the large banks tried rolling out inclusive products on a large scale, but have taken a step back and are spending time in the field testing out new approaches and before scaling up.

"We did not understand the customer and had to get into the field to do research and get things right. We have come to realise not only trust issues with our customers, but also issues with staff culture—the new customers were seen as rude."
(Business Area Executive, large bank)

New business models often require new processes, IT systems and competencies. Culture and branding is particularly important to get right when targeting new customer segments for financial products. We've encountered several examples where financial institutions have not challenged existing operating models, but rather tried to implement new business models within the existing structure. Apropos to this, observations from interviews correspond well with the findings of e.g. Vijay Govindarajan: "It requires a company to overcome its dominant logic, the institutionalised thinking that guides its actions. Typically that involves major changes: throwing out old organisational structures to create new ones from scratch, revamping product development and manufacturing methods, reorienting the sales force."[4]

"After a while, we recognised that we did not deliver on the numbers. We had relied on our existing processes and ways of doing things, but the resulting lead times were unacceptable to our new customers."
(Business Area Executive, mid-tier bank)

Institutions also highlight how lack of a data and analytics capability reduces their ability to optimise new business models and identify potential issues at the design stage.

There are multiple examples of how new business models require changes at branches in addition to resources from other business areas and functions such as IT and HR. Some of the larger institutions have "centres of excellence" that engage with projects to ensure these dependencies are well understood. For organisations without such capabilities, there are observations on how projects have failed to go from report to implementation or have been the cause of friction, as these aspects were not well managed. For institutions facing rapid growth, the level of activity and focus on quick execution are seen to amplify these issues.

Stakeholder management should start at an early stage. At the design stage, it should become apparent how other business areas, branch managers or individual employees will be affected. This can be assured by having a clearly defined executive sponsor, bringing executives from other business areas into the steering committee and involving representatives from the wider organisation in workshops and project teams. By communicating objectives and rationale from the design phase to the wider organisation, there is a higher likelihood of acceptance. These aspects typically receive attention for larger programmes, but are often seen to be forgotten for more targeted projects.

Implement

[4] Vijay Govindarajan (April 2012)"A Reverse-Innovation Playbook", HBR

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When a new product, channel or operational improvement has reached this stage, there is typically a conceptual design and rollout plan in place—and potentially also a revised business case. The approach to implementation varies significantly depending on the objectives and scope of each project.

Still, many examples are observed where projects have resulted in reports but no action. When projects are scoped as an “analysis” or “research”, the institutions are often seen to struggle with taking insights to the next step—implementation.

The importance of analysing dependencies to understand overall impact on e.g. roles, functions and organisational structures is described below (“Change enablement and integration”). There are examples where this is not done in a rigorous manner, and new models are implemented within existing structures. An example reviewed is a rapidly growing institution driving rollout of a new product within a highly decentralised operating model. Without making the effort to address which roles should be in place within each branch and delivering consistent training, implementation is very much up to each branch manager’s interpretation. Although these projects typically deliver on their ambitious milestones, commercial results tend to be limited or unsustainable.

Stakeholder engagement and communication should continue from the design phase and into the rollout phase. In the rollout phase, the number of directly affected stakeholders increases significantly.

Operate & improve

A final step in the project lifecycle is the transition into on-going operations. This has not been a main focus of this study, but some observations are relevant for an understanding of what makes some change stories more sustainable than others.

Where stakeholders have not been engaged and managed from an early stage, frictions are often seen to persist after the project is closed out. This may lead to reduced benefits and also reluctance to take on change initiatives.

In some cases, important stakeholders such as product owners have not fully bought into the decision to target new customer segments. As new products take time to get right and produce significant numbers, these organisational forces effectively re-prioritise efforts away from the new business areas. On the positive side, there are examples from smaller institutions where transparency and clear CEO engagement have given the new business area stable conditions to try, fail and finally get things right.

Several institutions indicate lack of discipline in tracking benefits and ensuring that there is a process of learning from previous projects. This has a knock-on effect on new projects in two ways: Firstly it reduces the credibility of business cases and secondly staff is reported to be less motivated to take on new projects, as they are not seeing benefits from previous efforts. It is important to celebrate even small successes.

Project management & governance

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Most institutions interviewed maintain a significant amount of project activity that includes specific teams and review boards to support project management.

In many organisations projects tend to take on a life on their own. Project owners are often not aware of their role and responsibility in following up on the project after it has been mobilised.

There tends to be a gap in the processes of monitoring and conducting closeout reviews on what has already been done. Many institutions report that they are not good at tracking ROI on what has been initiated. As a result, the projects may not deliver according to expectations and indeed many organisations report significant budget overruns. Some projects have taken on deliverables that were not in the original scope.

Some organisations have addressed the issues of accountability and ownership by increasing transparency through cross-functional steering committees. They report significant improvement in their ability to retain focus and finalise projects according to plan.

All projects should plan for some level of stakeholder management, communication and management of dependencies on other organisational capabilities. This is discussed further below.

The change capability

Successful and sustainable change requires the organisation to maintain a set of capabilities across projects and other activities. The institutions reviewed have taken different strategies in how they support these capabilities.

"Like changing tyres on a moving car." That's how it may feel as you lead a suite of major change initiatives for a large organisation (…) The marketplace and business environment are evolving at a rapid pace; the strategic roadmap isn't static; you have to watch the destination while also keeping in mind the car and the people in it; and it's not just one tyre, it's several. No wonder that statistics show more than half of organisational change initiatives fail or under-deliver."
("Driving successful transformational change through journey management", Accenture Outlook January 2012)

Change enablement and integration

Projects are driven in a "live" operational context. Even in smaller organisations, the project portfolio is often seen to have multiple projects with overlapping and potentially conflicting agendas. The total impact to e.g. HR plans, customer service teams and other functions is often not understood. To managers and employees, the lack of a comprehensive view of "what is hitting me" results in uncertainty and friction.

As a result, organisations run the risk that projects will be delayed or fail, or that scarce resources will be spent on duplicate activities.

While these challenges are not specific to the financial institutions in scope for this study, their relevance is strongly reflected in the interviews.

Mitigating these challenges typically includes activities to analyse and manage the "change impact" and dependencies across the portfolio, communication and stakeholder engagement. This can be

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supported from a dedicated “change function”, either as a separate work stream in a larger programme or within each project.

> *“Change has to be institutionalised through new processes and incentive structures. With the turnover in the sector, training on its own does not build sustainable capacity.”*
> *(Senior Advisor, service provider)*

Figure 4 illustrates how stakeholder groups such as sponsors and end-users need to be brought from awareness to commitment over time—and the risks faced if they are not adequately engaged. Best practice suggests a stakeholder analysis at an early stage, where the concerns of each group and the required level of support are clearly understood and taken into an engagement and communication plan.

Most institutions reviewed—including mid-tier banks—tend to have some sort of programme management office (PMO) and a team of project managers that are dedicated to specific projects. Typically, these functions do not have the capacity or mandate to manage the total impact across projects. Though smaller institutions have the privilege of greater transparency, there are several examples of how individual projects under-estimate the support required from other functions or from, e.g., a delivery channel.

Some of the larger institutions reviewed have established central capabilities to support change enablement and integration. Also, there may be dedicated teams for internal communications that can support stakeholder interaction. Still “change managers” stress the need for each project to embed these aspects into their structures. Communication and stakeholder engagement are intimately linked to the project’s deliverables, and cannot be comprehensively driven from within an organisational function at arm’s length. Some change management functions serve as “centres of excellence” to support projects in this regard.

As argued, there is a need for a conscious approach to change management in the structuring and planning of each project. Indications are that many institutions, large and small, struggle to get this right. Project plans do not include the required activities to get the organisation on board or enable staff to support new products or processes.

Even very specific projects targeting system functionality or a “contained” process such as credit scoring will most likely require staff in other parts of the organisation to adapt. On the project level, there are many examples where projects have failed to fully implement designs or realize benefits, as these aspects were not well managed. The total organisational impact from all projects in the portfolio is often not assessed, and is under-estimated as a result.

Some examples surfaced of projects taking the form of an analytic exercise—for example recommending customer segmentation. However, the full impact of such analysis may require the organisation to adapt its operating model and organisational structures. Many such projects end up as reports, as they are neither scoped to recommend on next steps nor take the necessary steps early on to ensure stakeholders gradually achieve buy-in to new ideas.

As one business area develops its products, managers in other areas may not be willing to allocate the required support resources, and may even work against the project if they fear cannibalisation of their own revenue streams.

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To minimise impact and mitigate risks, every project should have a clear plan for stakeholder engagement, communication and training. The total change impact also needs to be understood and linked to, e.g., HR and IT plans.

Many of the institutions clearly acknowledge their challenges in managing holistic change. But even though the issues are clearly perceived and voiced, most organisations struggle to understand how to improve this capability. PMOs often end up managing through status reports and resource plans rather than enabling real change and integrating project mandates with long term strategic objectives.

Organisations with sufficient scale to justify a dedicated change enablement function often experience challenges as these “outsiders” attempt to engage with projects owned by the business areas. Where this has worked, “change managers” tended to focus on how they can support rather than control projects.

In smaller organisations, greater transparency makes portfolio review boards somewhat more effective. Nevertheless, individual projects struggle to drive holistic change “upwards” in the organisation. In the interests of solving that, some small and mid-tier institutions are seen to be establishing longer-term relationships with external advisors. These advisors tend to engage with the wider organisation to drive required change beyond the immediate project scope.

The importance of stakeholder engagement and communication is illustrated by an example of a Nigerian transformation programme. Positive results have been sustained for more than 10 years, largely because employees at all levels of the bank have taken ownership and understood the objectives for change.

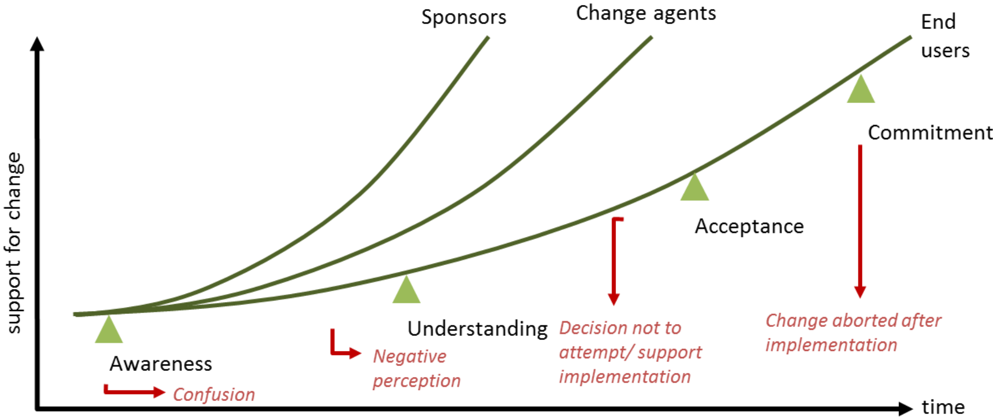

Figure 4: The stakeholder commitment curve (Accenture research)

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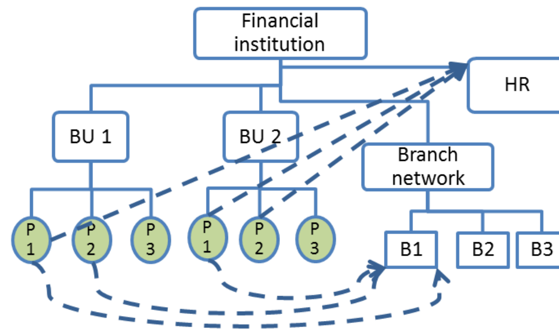

Figure 5: Change impact from an uncoordinated project portfolio

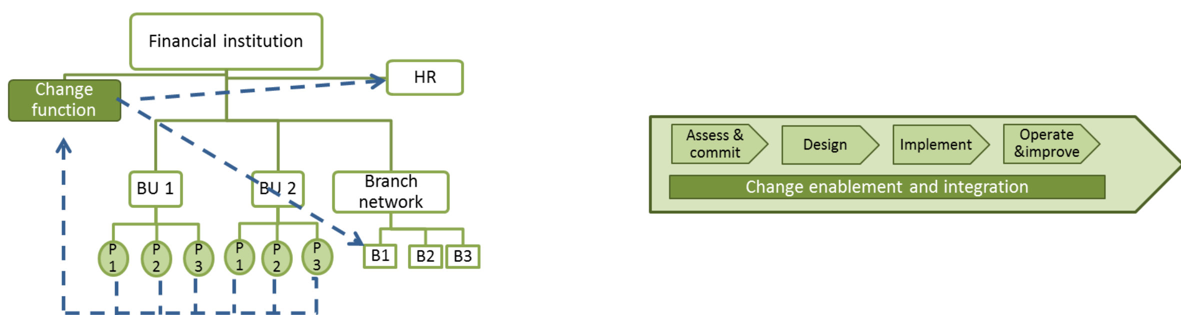

Figure 6: Central versus project-embedded change function

Leadership and delegation

Three broad leadership styles will be used to facilitate this discussion; "the visionary evangelist", "the relationship builder" and "the manager of execution"[5]. The strengths of these styles are illustrated in Figure 7. No leader is the best in all these areas. While all leaders must learn to set direction, engage followers and stay focused on results, each tends to lean more strongly to one of these profiles. Figure 8 shows how these profiles come together to drive an organisation and its people towards business results.

Based on the study, certain observations are made about the types of leader typically found at various functions of financial institutions and the consequences of different ways in which organisations are able to drive sustainable change:

[5] (2015) "Leadership imperatives for an agile business", Accenture

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The mature organisation focusing on operational excellence:
Large organisations such as South Africa's big four banks face cost pressures and vast complexity in managing their operations while complying with regulations. Complexities compound further as they drive expansion into African countries with different regulatory regimes. These organisations need "managers of execution".

"I don't envy our business area leaders the task of managing complexities in this regulatory environment. We need executives that are brilliant on operations and execution."
(Change Manager, large bank)

As argued above, this reduces the organisation's ability to explore new opportunities, as the focus of business areas tilts towards operational excellence within existing segments and products.

The study unearths examples of institutions bringing in leaders with complementing styles to explore new areas such as inclusive banking. Instead of driving these areas "top down" through the strategy process, the organisation leaves these leaders with the task of ideating, envisioning and "selling in" concepts to the wider organisation.

The organisation driving growth towards scale:
Some of the institutions reviewed are still in a phase of expansion and growth. This is the case for many Kenyan banks targeting SMEs and competing for market share in retail markets. Leaders in growing organisations tend to be more visionary than their peers in mature institutions.

If not balanced by execution-focused managers, these institutions run the risk that their growth will not be sustainable. Some institutions are seen to struggle to establish the structures that allow them to operate new products and channels efficiently. The consequences could range from inefficient allocation of funds to insufficiently supported projects on the one hand, to incurring future operational costs on the other, resulting in unsustainable business results. There is also the risk that, without the right structures, organisations become very dependent on key personnel –a significant issue given the staff turnover in this sector.

An extreme variant of that is the risk of over-reliance on visionaries themselves, to drive change in person. At some point this is very likely to slow down the pace.

As some of these markets can be argued to reach the later stages of their growth and expansion, it will be important for institutions to balance the profile of their leaders. An example could be for visionary leaders to strengthen the role of "chief operating officers" and similar roles within business areas.

As seen from the examples above, leadership styles do play a role, both in how organisations explore new growth areas and their ability to drive sustainable change through their organisations. Indications are that many institutions are unaware of their "leadership biases" and do not explicitly consider how to bring in leaders with complementing styles to the C-suite, at other levels. As will be argued, interventions to change "behaviour" of existing leaders is not likely to resolve these challenges, and a more structural approach would be required.

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In that regard, in the context of this report, two particularly interesting take-aways are: the need to balance "managers of execution" with "visionary evangelists", to drive exploration at mature banks; and the opposite need to drive harmonisation, stabilisation and operational excellence in organisations facing rapid growth.

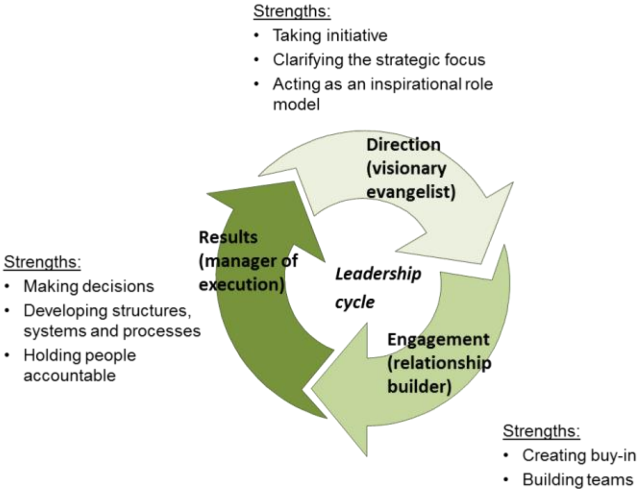

Figure 7: The three pillars of leadership ((2015), *"Leadership imperatives for an agile business", Accenture)*

Figure 8: The role of a balanced leadership style in driving business results

Mind-set/behaviours

Observations from interviews with leaders who support change and transformation across multiple industries reinforce the significance of organisational behaviour and mind set.

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Are there any patterns in the mind-set and behaviours that affect the change capabilities of African financial institutions? To the extent that this can be answered through the interview responses, some insights stand out:

Some behavioural patterns appear to be driven by the nature of the financial industry. It is a business of numbers with strong intellectual stakeholders. Measurement drives behaviour, and change is hard to drive without transforming performance structures first. That being said, changes to these structures should be well managed with clear communication, explaining objectives.

Products are often abstract, and it may be hard to demonstrate concrete change. It is particularly important to exemplify how changes will affect the daily situation of affected employees.

Due to the rational and intellectual nature of many stakeholders, coaching and other initiatives targeting behavioural change directly are often found to fail if done on a stand-alone basis; executives tend to "rationalise away" advice that is not coherent with their current style.

Due to the virtual nature of products, focus and priorities may shift quickly from one "hot topic" to the next.

To safeguard positions, there is further a tendency for executives to build their internal empires. Driving change is difficult without managing these stakeholders in a conscious manner.

Some aspects are less industry-driven and more country-specific. South Africa is widely reported to be consensus-driven, effectively reducing responsiveness, whereas more immature markets are generally reported to be more autocratic.

Ethnicity and religion are strong forces in many countries. It is important to be aware of these topics when driving change, but it is difficult to address them directly. Typically, these aspects are not on the HR agenda for institutions in these countries.

There is also a tendency for country heads and managers in global and regional banks to be expats, and this may create cultural friction with the rest of the organisation.

Incentives and performance management

As argued, performance measurement is of particular importance for effective and sustainable change within this sector. From one point of view, it applies at the macro-level, where products and not segments may be organised as profit centres, affecting priorities and exploration. On the other hand it is also relevant at the individual level, where behavioural change for executives and employees is effective only when backed up by the right structures. Interviews with experienced executive coaches also point to the need for sound structures to be in place, if coaching is to have any chance of delivering sustainable change/benefits.

> *"We have seen a lot of organisations fail to drive behavioural change when not supported by incentive structures or performance management. It is critical to have that, aligned with promotion/recruiting processes."*
> *(Services Provider)*

In many cases, the organisation's performance management structures effectively smother new business models at the idea stage, as executives are focused on delivering results in the short term.

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As mentioned above, executives driving targets have in some cases not fully supported growth in other business areas, as they fear cannibalisation of their own revenue streams. These challenges are typically witnessed at larger and mature institutions.

In successful examples, where new offerings were successfully driven from idea to scale, there was no decision to allow supervising managers to deliver on more realistic and relevant KPIs and targets. Mid-tiers typically have the transparency and C-level engagement conducive to successful initiatives.

Even in these encouraging cases, frictions can be observed between new and existing business areas, where executives and functional heads have not fully bought into the initiative and perceive threats to their own performance targets.

"We are now asking what is imperative to the lives of the customers and designing for that rather than starting with our existing banking perspective focusing on pushing out products."
(Business Area Executive, large bank)

Success criteria for effective and sustainable change

The previous sections have focused on the dynamics driving change within financial organisations. Throughout, observations have been made as to how these dynamics lead some initiatives to succeed and others to fail. This section summarises these insights and will serve as a background when, later in this report, suggestions are made on where interventions should be targeted to effectively support change.

Organisations need to explore and commit to the right ideas:
Often, business areas are left to plan actions within high-level themes reducing the focus on exploring fundamentally new directions. As a result, effective strategies are often "more of the same." Also, the disconnect between the strategic themes and project portfolios often results in commitment to projects seeking to improve or tweak existing models rather than develop innovative approaches.

External pressures can both accelerate or hinder exploration and innovation. Margin pressures in core segments have forced South African banks to focus on existing business to the exclusion of new directions, whereas Kenyan banks are expanding into the SME segment to diversify. Telcos' move into mobile money is driven by a decline in airtime revenues.

Large banks are not limited in their ability to invest, but face natural capacity constraints in how much bandwidth executives have to drive change, and how much change the organisation can absorb. Legacy costs, incentive structures and pressures to deliver short-term results at scale drive priorities away from new opportunities.

In all cases where institutions have driven large-scale change into new business models, this has had clear C-level sponsorship. This has been the case for South African banks' drive to build their inclusive banking offering beyond the mandated Mzansi-accounts and also for Kenyan banks' drive towards diversification. Without such support, existing governance structures make it very hard to get business cases approved.

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Given the limitations on bandwidth at the C-level, change in large-scale organisations is often seen to come from bottom-up initiatives, “skunk-works projects” or from external players. For these ideas to succeed, they need support to develop compelling business cases, and they need attention from “the top” to get through existing prioritisation processes.

On the whole, the strategic planning process may need to be revisited in many institutions. For example, the role of facilitators, analytics and “visionaries” in challenging the status quo is typically ad hoc. Also, organisations need to be clearer on the required output from the process, the link to action plans and the role of continuous reviews to adjust strategic direction.

Ideas have to be developed into implementable and sustainable designs:
There are many examples where institutions have designed new business models that do not deliver on the numbers. Often, the differences between the needs of new and existing customers have been under-estimated, and the need for new processes and changes to organisation and culture has not been fully understood and executed.

Projects often take on a life of their own, and the impact beyond the immediate stakeholders is not fully understood or managed. Projects should be accountable for analysing total change impact. Effective stakeholder engagement starts at the design phase and reduces frictions at later stages.

Finally, the industry faces significant gaps in the analytics capabilities of its members represented in this study. New product launches could often have been more efficient and successful if customers were better understood.

The organisation must be enabled through the implementation phase:
Approaches to change enablement and integration vary, with some organisations having central functions supporting projects where others rely more on projects to embed these capabilities.

Challenges in the form of frictions, unforeseen dependencies on other projects or functions and delays are often caused by projects not focused on stakeholder engagement and impact analysis. Sometimes, the ill effects are caused in combination with an over-reliance on the central function’s ability to drive these activities.

Change has to be sustained on a continuous basis:
When results from a change initiative are not sustained, it is often a result of C-level support shifting away over time. New business models often need time to show results at scale, in many cases, as aforementioned, even the time to fail and learn, and reliable support from the top is critical.

“We set up our entry-level offering as a separate unit and this created focus. Targets were different from the existing business, but the big elephant in the room was allocation of legacy costs.”
(Business Area Executive, large bank)

In particular, it is important that leadership incentives are designed to support new business models. Where product

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units are the organisation's profit centres, special care needs to be taken to ensure mass-market initiatives are not down-prioritised, due to limited contribution to profitability.

The organisation needs a clear strategy for developing its change capability:
In addition to the above reflections on how concrete change initiatives should be enabled, organisations need to invest directly in their change capability to increase its ability to drive change, and to ensure projects get the required support.

Larger organisations may consider supporting separate functions, but all institutions should hold each project accountable for change enablement.

Leadership strategies are often more a matter of coincidence than conscious planning. The right balance of leaders with visionary and executional strengths will enable the organisation to balance growth with sustainable operations.

Table 3 below recommends a set of "do's" and "don'ts" that financial institutions should keep in mind as they seek profitable and sustainable growth.

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	Trigger and support the right ideas	Develop sustainable models	Implement and enable the organisation	Sustain change
Do	• Bring new and challenging perspectives into the strategy process • Test the strategic direction for disruptive scenarios • Ensure C-level support for "risky" business cases • Take absorptive capacity and "change fatigue" into account when prioritising initiatives	• Leverage analytics and field research to ensure a fact-based design • Use pilots to get product design right before scaling up • Ensure new models are reflected in how performance is measured • Design cost allocation models that give new business the chance to succeed • Engage with stakeholders from the concept phase	• Embed stakeholder management and communication activities into each project • Analyse and manage total "change impact" on e.g. training plans, as well as resource/staffing plans across projects • Consider organising fundamentally new business models outside existing organisational structures	• Celebrate results and focus on scaling up successes • Ensure sustained C-level support for new ventures • Create realistic financial targets for new business models • Allow time to fail, learn and adjust • Allocate legacy costs on an incremental basis
Don't	• Let existing business areas be the only drivers of innovation • Over-rely on managers focused on operation and execution to explore new areas of growth • Require new business models to show near-term results at scale with the existing business • Fully allocate legacy costs to new business cases	• Overestimate the applicability of existing customer insights when targeting new segments • Rely on existing processes when exploring new business models • Finalise design of fundamentally new business models without a pilot phase	• Run projects in silos without holistically tracking dependencies, risks, and milestones • Over-rely on project or change management functions to manage change and stakeholders	• Let C-level attention shift away before products have had time to mature • Hold new business models accountable to the same targets as core segments • Chase further growth without stabilising successful models • Forget to track benefits and reflect on lessons learned

Table 3: Key lessons learned on how to trigger and drive sustainable change

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4. Supporting change and capacity building through the use of professional services

To understand how organisations manage change, we need a deeper understanding of how they leverage professional and technical services, and how successful they are in realising sustainable benefits from these services.

The role of professional services in supporting change

Although there are services related to coaching, communication, training, stakeholder management, "project management offices" and "change capability development", specifically targeted at managing change, this report has taken a wider perspective. We also include the services that support institutions in exploring new ideas developing concepts and business cases in order to get commitment, and designing the structures required to support and sustain change.

Often, specific "change management" components are embedded into projects and programmes that focus on the design and implementation effort—as opposed to being requested as standalone services.

This report is not intended as a taxonomy of management consulting services, but in order to contextualise the discussions in this section, the table below offers some examples of the wider range of services that are necessary to drive sustainable change. (Table 4)

Services that help trigger change	***Services that deliver change through concrete projects***	***Services that enable on-going change***	***Services that improve the change capability***
• *Corporate strategy* • *Go-to-market-strategies* • *Functional strategy (e.g. sales, supply chain)* • *Operating model assessment* • *Transformation journey planning* • *Innovation*	• • *Process design* • *Organisational design* • *Product and channel design* • *Analytics* • *IT and technology services*	• *Programme management* • *Stakeholder management and communication* • *Training and competency building* • *Project management*	• *Executive coaching* • *Leadership development* • *Performance measurement and incentive structures* • *Change management function* • *Strategic HR and talent management*

Table 4: Examples of professional services considered within the scope of this study

Structuring the relationships with providers

Institutions apply a variety of approaches to how they structure the engagement of professional services providers. How are services bought? Which providers are preferred? Why are some engagements more effective than others? To answer those questions, it is important to understand

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the link between long-term relationships and individual projects, as well as the strategies, conscious or otherwise, in terms of which specific pieces of work are scoped and requested.

Larger institutions have a stable demand for external support and typically work with several of the large consulting firms. Within the consulting firms, this justifies investment in dedicated account management. Senior executives are available to the institutions across specific engagements, and in many cases have the ear of the institution's executives as trusted advisors. This brings along several benefits to both parties;

- The provider understands the commercial and organisational context well. This allows it to help the institutions identify needs, suggest how external support can add value and detail a scope of work that brings clarity to objectives while ensuring pace and certainty throughout the engagement.
- Senior resources establish a track record and relationships within the institutions. New project teams are mobilised much more efficiently and set off in the right direction.
- As project teams deliver and roll off, the long-term presence of senior consultants who have been involved in specific projects ensures outcomes are effectively integrated into the organisation. They can also advise on how best to realise and sustain benefits.
- Stakeholder management and communication is adjusted to the culture and context of the organisation. Senior consultancy executives typically support teams in ensuring the institution's stakeholders are engaged in a way that increases the likelihood of buy-in and success.
- Senior executives become trusted advisors to the institution's executives. This is not equivalent to executive coaching that directly targets behavioural change and personal development; the trusted advisor acts as a challenging voice, a sparring partner and a guide on how to manage growth and improvements within the organisation.
- Finally, stable volumes of work effectively give the provider a stake in the successful outcome of each project. This results in dedication, ownership of results on both sides of the table, flexibility in finding solutions and willingness to invest in resolving issues.

The perspective of large institutions and service providers on account management stand in contrast with the situation of many mid-tier institutions (**Error! Reference source not found.**10) —particularly n emerging financial markets. Observations are that projects required to drive and sustain change are often managed in a much more piecemeal manner.

Budget constraints lead to services being procured for smaller pieces of work, to be conducted over a short time period. This implies that the consultants are often not around for long enough to understand context and engage with the organisation. As a result, there is a significant risk that deliverables are too generic and that the organisation is not able to drive actions based on recommendations.

Some mid-tier organisations lack the experience with scoping requests for support. This may keep them from requesting support in the first place. In other cases institutions have gone ahead anyway, producing examples of consultants working fairly independently on a problem that was not well defined, in turn leading to output that is of little use to the institution.

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Without deep contextual understanding, recommendations are in some cases not well aligned to the overall organisational objectives, and implementation plans may moreover not be realistic.

Standalone projects further tend to focus on the issue rather than the outcome—teams often appear more concerned with delivering facts and recommendations than with ensuring stakeholders buy into the findings and are enabled to drive change. The project-specific aspects of change management get less attention for standalone projects.

As teams deliver their reports and roll off ad hoc projects, there is often no presence to ensure future projects can build on findings and benefits are realised, tracked and sustained.

A note should in addition be made on how institutions structure project teams that include external advisors.

Given the capacity gaps within many institutions, there is a tendency for smaller institutions in particular to let consultants manage their own projects. This is quite reasonable where organisations have limited competency on the subject in question, but should be balanced with a clear approach to involving internal staff throughout the project.

Where the project is focused on developing analysis and a set of recommendations, there is often a lack of internal involvement throughout the project. Even with steering committees and sponsors to review and provide feedback to reports, a significant amount of tacit knowledge is lost. Also, where consultants do not have a track record with the institution, stakeholder engagement and impact analysis typically receives less attention.

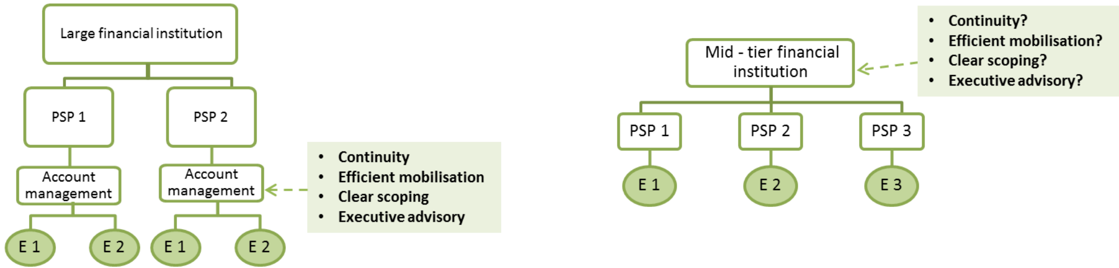

Figure 9: Differences in how large and mid-tier organisations structure their use of professional services

Sourcing professional services

Professional advisors are engaged by functions at various levels within the organisations, and this is reflected in who commissions the services.

Support for coaching and leadership development is typically requested by C-level executives, or by HR as part of a larger competency development plan.

Support for strategic planning is typically requested by the function supporting the strategy formulation process—typically the CFO or dedicated strategy function.

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Large-scale transformation projects are typically mandated directly from the C-level, with scoping delegated to an internal project team at a very early stage. This team typically works with procurement or a PMO in defining a sourcing/partnership strategy, resulting in the request for several pieces of consulting work or a limited number of partnerships.

A significant amount of requests for external support is driven from within specific projects, whether that is to deliver the project's entire scope or to support it with analysis or individual resources.

In the context of the development sector engaging with the private sector, it should be mentioned that there is a tendency for the external party to suggest which function they would like to support, making requests for professional services "supply driven". In such instances, some mid-tier institutions maintain impact investment funds with development sector institutions as shareholders. Typically, shareholders suggest and fund technical and professional services.

Regardless of where the sponsor driving the demand is located in the organisation, there is a set of conditions that typically needs to be satisfied before a request for external support is triggered from within the organisation:

- **Perceived gap in internal capabilities:** Internal capabilities naturally vary, and not only by organisation size (larger institutions tend to have more in-house capacity, e.g. for IT services or "internal management consulting"). The perceived gap in internal capabilities is just as important as actual capabilities; some organisations over-estimate what they can do internally. Yet others lack the overview and processes to effectively leverage resources that are in fact there. The value of bringing in external advisors is often realised in witnessing their expertise with supporting processes that the organisation rarely goes through, and in bringing in an outside perspective. There is a tendency to overlook these benefits when deciding to support projects internally.
- **Principles and policies affecting the use of consultants:** We have come across institutions, variously within telecommunications, banking and other industries, which have a more or less explicit policy not to use consultants—in particular in the management consulting space. Often these organisations are rapidly growing institutions with a pride in simplicity and quick execution. Some of these organisations are able to attract talented managers that mitigate some of the under-investment, while in other cases this reduces the ability to drive successful and sustainable change.
- **Availability and prioritisation of funds:** Lack of funding is obviously a constraint. Curiously, many mid-tier or growing institutions outside the bigger markets of Nigeria and South Africa find room to fund strategic advisory services from premium providers at the C-level. Yet they consider management consulting services for more concrete projects, such as designing and implementing processes or business models, prohibitively expensive. While management of scarce resources is of course an issue in large and small institutions alike, this observation also speaks to the importance of perceived benefits from external support.
- **Positive experience with consultants:** Many smaller organisations interviewed have experienced poor execution of projects driven by external service providers—in particular for more ambiguous scopes of work. This effectively reduces future demand for such services. As discussed later in this report, these issues may be just as easily

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relate to the buyer's experience with sourcing services for realistic and useful scopes of work as to the provider.

- **Knowing when and how to ask for assistance:** As noted above, large and mature organisations tend to know which services can more be effectively supported by external providers. They also have a significant volume with several providers, and senior advisors from these providers are available to help identify and scope requests to the market. Small and growing institutions often don't know what questions to ask and whom to ask. As a result, they try to support change internally, under the mistaken perception that this is the only alternative.

Sponsors typically submit requests for external support to internal approval committees, alongside project mandates and business cases, as described in Section 0. The same biases generally impacting investment in new projects also affects when stakeholders are allowed to procure professional services.

There are variations in how formally ROI criteria are defined, but ROI tends to be the main metric for prioritising projects in all organisations. Even when overall spend on professional services is high in the organisation, ROI can effectively tilt prioritisation towards opportunities showing large business cases with near-term payback.

In larger organisations, involvement in the buying decision follows the same hierarchy of councils' "spending limits" as outlined previously—namely, the C-level engages above certain thresholds. In mid-tier institutions, the C-level team is understood to be involved in most purchases.

Examples surfaced where both of the process and ROI criteria have been bypassed—typically these involve instances in which a concrete strategy was mandated at the C-level and a CEO mandated the investment. Examples include diversification into the SME segment for banks in emerging markets, and the decision by most South African banks to invest heavily in low-income products around 2006 to 2008.

Services that typically support the C-level team, e.g. strategic planning and executive coaching, are in some cases subject to more scrutiny than other services. This is particularly evident in African markets where corruption is a significant issue and C-level sponsors seek to avoid any potential allegations of bias in contract awards.

While approval committees ultimately make the decisions, various functions may be involved in the process of defining and sourcing services. Leaner organisations such as mid-tier institutions tend to manage this process directly from their strategy function or a programme management team, whereas large and mature institutions tend to have a dedicated procurement team that ensures compliance with internal processes.

Patterns of demand and under-investment

The above-listed set of conditions implies that investment in professional services is to some extent specific to each organisation. Some demand patterns have, however, been observed across institutions in the same category.

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These trends are summarised below alongside observations on where there is a tendency to under-invest. The suggestion of under-investment necessarily implies an existing perspective on what institutions should be driving towards. In the context of this report, under-investment is seen as the lack of demand for services that would enable institutions to explore and implement new business models. Further, we subscribe to the hypothesis that there is significant value for institutions in capitalising on currently underserved segments, and that institutions that do not explore these segments face a risk to their future sustainability.

- Large banks:
    - These institutions typically have available funding, a positive experience with consultants and the experience as buyers that enable them to identify where assistance would add value. As a result they are seen to invest in services across the spectrum.
    - Most of these institutions rely mainly on internal capabilities for IT and technology as they have sufficient scale to justify permanent capacity in this space. The exception to this is large-scale core banking platform transformations where significant external support is required.
    - Management consulting services in general are in demand—both for strategic advisors to the C-level team and for product and channel design in the business areas.
    - Given current strategic imperatives, the importance of core segments and legacy issues described earlier, prioritisation of funding is driven away from efforts to develop products that cannot promise near-term profits at scale. As a result, there is a tendency to under-invest in management consulting support to inclusive and entry-level segments.
    - Also, there tends to be a perception that the organisation has the insights and experience necessary to understand retail and SME customers in general. This leads to under-investment in the analytics and research capabilities necessary to shape the relevant offerings to these segments.
    - Finally, there is a perception that the internal capability to understand and ideate is sufficient to develop a future-proof strategic direction. It appears that there is therefore an under-investment in services facilitating innovation and supporting analytics.
- Mid-tier banks:
    - Perhaps surprisingly, there is a significant demand for premium strategy consulting services from many mid-tier institutions. Two main drivers seem to be behind this: Firstly, the growth these institutions are experiencing drives diversification into new segments, with executive teams clearly recognising the need for support with strategies and transformation roadmaps. Secondly, there appears to be a momentum effect, leading institutions to seek assurance that they are getting the same level of advice as the competition.
    - When it comes to services supporting concrete projects, organisations clearly recognise skill gaps in IT support and technology development.
    - There is, however, a tendency to under-invest in management consulting support for concrete projects. As a consequence, sound strategic decisions are not always successfully implemented, due to a lack in detailed design, implementation planning and alignment of the supporting organisation.
    - Most institutions indicate that funding per se is not a constraint. It appears that institutions lack experience with effectively scoping and sourcing such support. In

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addition, demand has not reached a stable volume, at which point consulting firms usually provide experienced and trusted relationship managers who are familiar with the institution and can proactively suggest how consultants can support change.

    - One example of the consequences of a pattern of under-investment is the development of a new product without identifying and driving the wider change required at branch-level to ensure it is offered to customers. Another is the development of an offering for a new customer segment without adapting account opening processes, resulting in unacceptable processing times to the client.
- Telcos:
    - Large telcos have in-house strategy departments that report directly to the CEO. Typically, such internal capabilities are involved in inorganic growth (e.g. M&A) and divestments. Any exceptions to an in-house arrangement require approval at e.g. global group level. Consultants are leveraged mainly for IT/service management. By the nature of their industry, telcos are more adapted to change. No clear patterns of under-investment have emerged.

Patterns of preferences for service providers

Several factors are seen to affect which providers the institutions choose to bring in. The degree to which this drives decisions depends on whether the service in question is regarded as a commodity or a premium service. Services supporting change range from strategic advisory services to process enablement. In the case of the former, expertise and intellectual capacity make buyers much more sensitive to the capabilities of the consulting firm and the proposed resources, while the latter is more about sourcing capacity at a favourable price point.

- **Project objectives:** In some cases, the executives interviewed were clear about seeking a global perspective to challenge their point of view beyond the current market dynamics. In others, typically when more specific support such as product design, process design or stakeholder management was sought, a strong preference for local support was observed.
- **Long-term relationships:** The success of management consulting support, as opposed to e.g. IT development, is often ambiguous and depends on a large set of tacit factors. Consultants knowing the organisation and the executives are often significantly more effective in mobilising new projects. Hence executives and other sponsors prefer working with advisors where they know the more senior consultants well.
- **Trust and credibility:** The track record is of critical importance to providers and a damaged reputation may take years to repair. To a large degree, this trust and credibility has to be established with specific executives, and is not an "institutionalised" privilege. In addition, senior executives from providers with long-term track records tend to establish personal relationships as trusted advisors. The importance of trust is particularly strong for "personal" services such as executive coaching.
- **Brand:** Observations are that brand preferences are strong for services such as executive coaching and corporate strategy. These services are harder to differentiate by

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methodology and approach and a strong, global brand is a key differentiator. Also, the same momentum effect as above is observed.

- **Framework agreements:** The larger institutions operate with framework agreements or where rate cards and terms are agreed with a set of providers in each service category. Sourcing from other providers requires a competitive bid and significantly increases the lead-time, along with higher associated transaction costs. As a result, there is a strong preference for these providers, unless the services in question require very specific expertise or proprietary assets. The framework agreement also gives providers incentives to build up capacity and invest in developing the specific competencies requested by these institutions.
- **The role of procurement:** In larger organisations, procurement processes are found to be more rigid to compensate for less transparency. As a result, the preferences of individual sponsors tend to matter less than with smaller institutions.

To summarise: for premium services such as executive coaching and corporate strategy, there is a strong preference for global brands across the institutions reviewed. For more specific project support, mid-tiers are asking for local expertise, while larger institutions rely more on providers where they have framework agreements. Across all service categories, long-term relationships and a track record with the specific institution should not be under-estimated.

Development sector support for professional and technical advisory

Some of the institutions included in this review have had experience of partnering with development sector entities with the intention to accelerate change and financial sector development.

> *"Our partner from the development sector brings in external research, objectivity, broad experience and structure. They are able to combine global expertise with local knowledge."*
> *(Business Area Leader, mid-tier bank)*

Financial institutions and development sector organisations naturally have different perspectives on change. While the former type views change as a continuous journey that has to be balanced with on-going operations, the development sector's raison d'être is to drive change, and it sees change as something that happens through targeted interventions with an end date. Also, many development sector leaders do not have first-hand experience of what it takes to drive change in a complex commercial organisation. The institutions that are particularly attractive to the development sector also tend to have less experience in buying and leveraging professional services. These dynamics tend to result in two key challenges—that change ends up being supported through fragmented interventions with interventions that do not integrate "change management" in the form of a holistic change impact analysis, stakeholder engagement and realistic implementation planning.

Telcos have the necessary infrastructure and customer base to rapidly expand financial inclusion initiatives, especially in rural areas. This has made the industry an attractive partner for the development sector and led to increased levels of co-operation between the two stakeholders.

Mobile money services, seen by telecommunication companies as a way to stimulate alternative revenue growth in the face of declining airtime revenues, are often targeted at bottom-of-pyramid populations lacking easy access to formal financial services. The development sector has a track

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record of helping telecommunication firms come up with new product concepts to improve mobile money adoption rates in rural areas.

An example of such a partnership can be seen in the Connected Farmer Alliance (CFA—an agreement between Vodacom Group, USAID, and development technical advisory service TechnoServe. The agreement seeks to promote commercially sustainable mobile agriculture solutions and increase productivity and revenues for 500 000 smallholder farmers across Kenya, Tanzania, and Mozambique. Tactically, this has taken the form of providing M-Pesa wallets in order to provide access to insurance for crops along with local weather forecasts and crop prices via SMS. In this partnership, social impact is generated by improving smallholder farmer crop yields and broadening access to insurance against crop failure, while Vodacom was able to create a commercially viable product category that contributes to the bottom line.

In a number of markets including Kenya, several mid-tier and large commercial banks have a root in microfinance, and entry-level as well as SME banking continues to have a strong focus in their business models. These institutions attract support from development sector organisations and impact investors, both as shareholders and outright donors.

Some patterns emerged on how these organisations provide support for technical and professional services.

For some institutions, the interest in providing funding is of such a high volume that the organisations rarely fund external support fully on their own. In most cases, external interest is well aligned to the institutions' growth stories and does not appear to distort priorities. It does, however, reduce the organisation's drive to identify and prioritise challenges they are not able to solve on their own.

Initiative is often driven from the funding party and for a specific scope they find to be of interest. This typically results in narrowly scoped projects that are sourced individually in the market. In line with previous observations on the value coming from longer-term relationships with service providers, observations indicate that many of these projects do not deliver implementable recommendations given the specific organisational context of individual projects.

In that regard, more promising examples can be observed where the development sector organisation takes on a more active role in managing the relationship with the financial institution receiving the support, and may also offer in-house expertise or assets. Even when specific projects are supported by different professional services providers, a dedicated relationship manager can ensure the continuity and change enablement that has typically only been available to larger institutions with a stable volume of consulting purchases.

There are anecdotal indications of challenges arising from the combination of portfolio funding and technical advisory services. Institutions may find liquidity hard to resist, and accordingly accept technical assistance in order to comply with terms. Needless to say, technical services are not seen to have a significant bearing on change in these cases.

The larger banks are also attractive to development sector players seeking to drive market development at scale. In many cases, support to these institutions goes through their CSR departments. The capacity and skills delivered by professional services providers is critical as these

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initiatives are typically set up on the side of commercial operations and existing portfolios of change projects. Often, all parties including the professional services provider are seen as equal contributors. An example is the collaboration between Barclays, Care and Accenture included as a case study in this report.

Many of these partnerships drive significant results and provide services that improve the livelihoods of individuals and communities. Still, if the objective is to catalyse market development at scale, the case can be made that more can be done. Ideally, stakeholders from commercial operations should be involved and there should to be a clear case and plan for transitioning from a time-limited partnership to an implemented business model.

Success criteria for effective use of professional and technical services

Drawing on the above discussion about how professional services are bought and structured, a set of factors stand out as key to understanding why professional services can help trigger, drive and sustain change in some settings, whereas in others they may not deliver the intended benefits.

> *"We are not used to working with management consultants –a consultant worked quite independently for a couple of months, but what came out was not what we needed."*

- **Internal momentum and sense of urgency:** More often than not, the success of externally supported projects in driving substantial change involved a sense of urgency within the organisation. When projects are well aligned to business imperatives, consultants get the attention of stakeholders, recommendations are scrutinised and the consultant's resources have pressure to deliver. Where projects are driven as "nice to haves", it is harder to get good input, client resources are less engaged in the process and projects are at greater risk of resulting in nice reports but no action.
- **Culture for benefits realisation:** Without discipline and rigour in holding projects accountable for the results they set out to deliver, projects managed by external parties risk being diverted from the original mandate and becoming more focused on deliverables than business outcomes. Long-term relations with service providers give the provider a stake in the sustained results of change initiatives.
- **The organisation's capacity to undertake change:** Consulting firms can mobilise teams with the required capacity to drive analysis and delivery of most projects. As long as funding is available, externally supported projects can be mobilised. Most consultants have experienced situations where internal stakeholders struggle to find time for meetings and are frustrated by the volume of projects encroaching on their work day. It is critical to phase out projects in time and to ensure a realistic set of projects is given focus to deliver and drive change at any point in time.
- **Stakeholder engagement:** As argued throughout this report, any project should be accountable for stakeholder management and communication. The success of any project involving external advisors depends on stakeholders accepting the objectives behind getting external support, as well as the project mandate. As recommendations take shape, affected stakeholders should have a sense of involvement and gradually take ownership of the project's output. Generally, the consultant's senior resources are required to drive

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stakeholder engagement. Professional services providers who are experienced in driving change and also have existing relationships within the client organisation tend to be more effective in delivering projects that lead to action.

- **Definition of scope**: Indications are that mid-tiers do not know how to define the scope of work when taking their needs to the market. As experienced in many consulting engagements, this is very ineffective and reduces the credibility of consultants. Larger organisations tend to be somewhat better at this. Admittedly, the fact that the latter type of organisation typically has a strong presence of several large consulting houses means it is able to get expert advice during the scoping process even before taking requests to market.
- **Sourcing strategy, relationships and continuity:** The tendency to buy narrowly scoped projects with small teams—often driven by budget constraints in mid-tier institutions, tends to result in reports that are not well shaped to drive change. This is because advisors spend 30 percent to 60 percent of project time to get the context right, frequently failing resulting in recommendations not being adopted effectively by the institution. Short-term interventions are much more effective with an existing long-term relationship, as it allows advisors to get the team up to speed quickly and involve senior managers in helping the institution adopt and leverage the output from specific projects/interventions. Where the client is inexperienced in sourcing professional services, the case can be made for working with a limited number of preferred partners. Competitive sourcing must be balanced with long-term relationships
- **Trusted advisor role:** Where senior consulting resources become trusted advisors over time, this also affects the likelihood of success on an individual project. The advisor has a personal stake in the long-term success of his client and effectively helps integrate work performed by project teams into the overall change journey.
- **Involvement of internal resources in projects:** Finally, the involvement of internal resources in projects is critical to ensuring success and sustained results. The best structure obviously depends on the project's scope, but at a minimum there should be an accountable executive sponsor and some sort of steering committee to verify and "own" results. In most cases, internal resources should be involved in the project team, to ensure continuous transfer of knowledge and skills, continuously bring in the internal perspective and effectively link external resources to the right stakeholders.

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5. Catalysing change through targeted investment in professional services support

This study started with a review of the process through which effective and sustainable organisational change/growth occurs in financial institutions, and continued with a discussion on the patterns in how professional services can be seen to support these processes.

In this section, these two perspectives are combined to answer the remaining key questions;

- In what way can well-positioned use of professional services further enable effective and sustainable growth?
- How can development sector funding for professional services best be used to either precipitate or entrench change processes?

Organisations already see clear benefit from the support they receive in the form of professional and technical services. It is believed that they can accelerate profitable growth while the development sector can greatly increase impact per dollar spent by remembering two things: The first is to aim support towards the areas understood to have an impact on the "change effectiveness" of complex commercial organisations. The second involves structuring the interventions in a way that enables organisations to maximise the value of externally supported projects.

Trigger points where investment in professional services can catalyse change

In Section 0, observations were made on what makes some change initiatives successful while others fail. These insights were structured into five areas;

1. Exploring and committing to the right ideas
2. Developing implementable and sustainable designs
3. Enabling implementation in the organisation
4. Sustaining change
5. Strengthening the change capability

Given the variation in size, maturity and consulting spend in the organisations reviewed, recommendations on how to intervene will be different for large banks, mid-tier banks and telcos.

This section explores opportunities for partnerships between development sector and commercial institutions. Development sector organisations' budgets are small compared to the overall industry spend on professional services, and players should look for "tipping points" which, at a certain risk, has a chance of bringing high impact per dollar spent. Outside this context, the insights are considered relevant also for the commercial institution looking to prioritise its own investments in change and growth.

In order to assess where to intervene, a set of example interventions has been assessed for each of the institutional categories. The following criteria have been considered:

- **Complexity:** The effort required, in terms of skills, time and funding to deliver successfully

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- **Impact:** The expected growth impact into new areas or increased sustainability of existing business models—including the likelihood of crowding in the financial institution’s own investment to drive growth to scale
- **Ability to approach:** The ability for an external party without long-term relationships to engage with executives to discuss challenges and concrete interventions
- **Risk to impact:** The risk that an intervention has no impact
- **Risk of crowding out:** The risk that the intervention amounts to funding that the institution would at any rate have undertaken

The example interventions in this section are ideas based on observations made throughout this report. They are by no means exhaustive. For any internal or external party looking to support change, the first step should be to conduct an ideation and assessment phase for the specific institution.

To simplify, the recommendations are made along two dimensions; large organisations (large commercial banks and telcos) and mid-size organisations (mid-tier challenger banks and local operations of a multinational or regional bank).

Large organisations:
The larger banks and telcos reviewed—whether in Nigeria or in South Africa—all have significant consulting budgets and large portfolios of change-related projects. On a high level, these institutions face two main barriers to change. The first is their natural tendency to “exploit” existing revenue streams versus “exploring” new opportunities, and the second the challenges they face in managing a complex change portfolio in a way that drives holistic change along with the intended benefits.

Strengthening the capabilities required to manage change starts with recognition of the challenges and an internal commitment to change. The latter might entail establishing e.g. a change management function and revising governance processes. In most cases, internal funding follows such commitment. This is a long-term journey that starts with an intimate understanding of how the specific organisation works. After designing new processes and capabilities, actual improvement comes from change managers establishing their network and proving their ability to add value over time. Initiatives that directly target behavioural change, such as executive coaching and leadership strategy, are already invested in by the institutions and require a long-term relationship with the advisor in order to be effective.

The other barrier mentioned above, the lack of focus on exploration and innovation, should be a greater opportunity where external support can trigger disproportionate returns. As described, there are many instances of visionary leaders entrusted with developing new ideas and selling them to other executives. As cases are bought into, internal funding is expected to follow. Examples include support on conceptual designs, strategies and business cases for risky ventures into new segments. Much like venture capital investments, impacts from such interventions are themselves risky.

Observations on how change is driven in Nigeria suggest that institutions often develop an idea and then collaborate with competitors on e.g. infrastructure development. This is an area where external parties could accelerate partnerships across the ecosystem by acting as brokers and relationship

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builders, potentially reducing the cost impact and risk that would otherwise be borne by the party taking the initiative.

Telcos are, by the nature of their industry, forced to explore new revenue streams and typically also have a degree of in-house consulting skills. Though the ideas above on where to engage hold true, overall demand is accordingly expected to be lower and the risk of crowding out private investment higher.

In conclusion, there should be significant opportunities for larger banks to improve their ability to manage change, but most of this investment should be driven internally once commitment is there. The most promising way in, appears to be relationships with visionary leaders who need support in the form of expertise and capacity to develop and sell promising business ideas internally.

Mid-size organisations:

Mid-size organisations face a different set of challenges in how they manage change in general and the engagement of professional services providers in particular. To a certain extent funding is constrained. But even more important are the challenges in identifying where support is needed, scoping requests clearly, mobilising projects efficiently and embedding effective change management enablement into projects.

> *"Management consultants for regular projects are too expensive to source for in the regular markets. Partial funding lowers that barrier."*
> *(Head of Strategy, mid-tier bank)*

For organisations that attract significant interest from impact investors and development sector players, funding is less of a concern than the way projects are scoped and managed to drive effective change.

As a consequence, one recommendation is that development sector players seeking to engage institutions be less concerned about other sources of funding being crowded out than with the opportunity to engage with key stakeholders and establish a relationship. Over time this should increase opportunities to get support through interventions that are both well-positioned and structured to enable change.

Initial support should be given to concrete projects such as product or process design, market analysis or other initiatives that are in demand by the institution. Over time, the scope of interventions that the development sector organisation is invited to engage on *and* has the specific experience to support will increase.

Summary recommendations

The recommended approach to catalysing change varies, depending on the size of the organisation. In larger organisations the locus for triggering initiatives is typically found with leaders seeking to envision new opportunities and getting internal commitment for "risky" business models. With mid-tiers, there is room for more extensive engagements to mitigate the lack of continuity and a holistic approach to change interventions. We recommend starting with something concrete to establish credibility and expanding the relationship over time.

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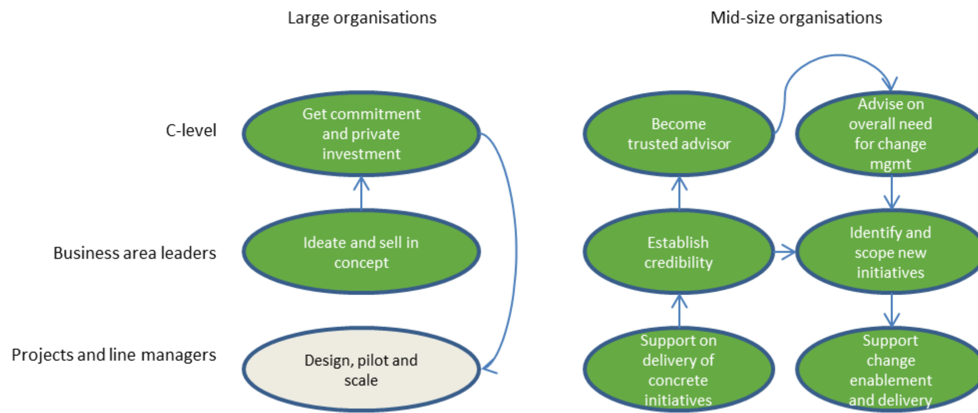

Figure 10: Development sector engagement over time

	Large organisations	Mid-size organisations
Short-term focus	- Ideation and business case development	- Concrete projects such as process and product design - Analytics
Longer-term focus	- Potentially establish relationships at a higher level and help ideate and challenge "status quo"	- Executive coaching - Leadership strategy - Strategic advisory - Operating model restructuring - Establish change capability - Performance management - Programme management
Interventions less likely to trigger further change	- Concrete projects such as process and product design - Implementation support - Performance structures and incentives - Executive coaching - Leadership strategy	

Table 5: Trigger points for development sector support for change

Structuring interventions for success

Section 4 concludes with a discussion on success criteria for professional services to be effectively leveraged within financial institutions. The following recommendations are seen as particularly relevant when an external party is involved in scoping and funding such services:

> *"There is no way coaching and leadership development services can be delivered outside the context of a long-term relationship. Sensitive conversations require trust, it is all very personal."*
> *(Services Provider)*

- **Define clear outcomes beyond facts and recommendations:** Ensure that the project mandate is clear on outcomes in terms of deliverables, actionable implementation plans, stakeholder buy-in

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and so on. Avoid narrow focus on the issue alone as this may result in "research reports" as opposed to effective change enablement.

- **Ensure continuity—avoid fragmentation:** Seek to "wrap" smaller projects in the context of a relationship with senior advisors so that teams are efficiently mobilised, recommendations are tailored to the organisational context and deliverables are effectively leveraged after project close.
- **Assess overall change impact:** Ensure the project has clear objectives as concerns assessment of the wider impact so that recommendations are implementable.
- **Align performance management structures:** Enable change by updating how the organisation is measured. This is particularly important for interventions targeting behavioural change.
- **Build stakeholder management into the interventions:** Make the project accountable for stakeholder engagement and communication. Even where central teams support, this has to be driven from the project.
- **Ensure right ownership:** Involve executives from affected areas in steering committees and ensure there is a dedicated sponsor who is held accountable for realisation of benefits.
- **Involve internal resources:** Avoid purely "consultant-driven" exercises to ensure continuity and ownership.

Partnerships from the development sector organisation's perspective

Development sector organisations should take a conscious approach to their role towards the financial institutions and service providers.

Engaging with the financial institutions

In Section 4, it was argued that relationships, credibility and brand drive preferences for certain service providers. These insights should also be relevant for development sector organisations; the best opportunities come from being "invited in" rather than cold calling institutions with good ideas.

> *"Funding is there, but scarce. We need to see benefits coming gradually out of the relationship and increase our commitment accordingly."*
> *(CEO, mid-tier bank)*

This calls for a structured approach to positioning and building the "donor's brand" towards institutions. Also, there is always the risk of relationships coming to an end due to e.g. financial institutions changing their strategies, executives departing the organisation, bankruptcies or other events. To have continuous access to "high impact opportunities" it is recommended that development sector players maintain contact beyond the institutions where they currently are engaged through interventions.

A very simple segmentation model and marketing plan could be a starting point. Categories could be e.g. "key engagements", "pilot engagements" and "potential leads". Investment in interventions would naturally be focused around the key engagements. Pilots would see support for specific interventions for parties to get an understanding of each other's capabilities, whereas leads could be maintained through e.g. networking and information sharing.

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Given the high turnover of staff and executives in the industry, it is important to map out stakeholders and relationships within each financial institution. Objectives should be to establish relationship with more than one stakeholder in an institution and also to identify executives that are likely to stay over time.

In many cases, in particular with mid-tier organisations, credibility is established by solving concrete problems that may appear inferior to the development sector organisation's overall targets. This approach can provide an effective start of a mutually valuable relationship.

Indications from regional banks' operations in "the rest of Africa" are that they should be seen as individual operations. Challenges and the degree of central support vary significantly between banks, even within the same group, and should be assessed on an individual basis. Establishing relationships within the same bank could, however, catalyse relationship development and the process of establishing credibility.

The case for long-term engagement with financial institutions

One of the points made repeatedly throughout this section and the previous has been the issues arising from a fragmented approach to sourcing consulting services. These insights are perceived to be crucial to development sector organisations looking to support change through professional services.

A clear recommendation is that development sector organisations structure their support so that relationships are managed across interventions. This also implies engagement with a select few financial institutions over time. There are several reasons driving this recommendation:

- *The right areas to support can be identified and prioritised:* Identifying "trigger points" to accelerate change requires a deep understanding of the organisation and the ability to match this to the services consultants can offer.
- *Scope and approach can be tailored to the specific context:* Very few management consulting projects follow an exact framework as scope and approach have to be tailored to specific needs. Many organisations included in this review need support on scoping projects to their needs.
- *Mobilisation becomes more effective:* New teams can be brought into the context efficiently, connected to the right stakeholders and advised as the process proceeds.
- *Continuity is ensured across interventions:* As teams roll off, new interventions can effectively leverage previous deliverables and learning points can be used to improve future approaches.
- *Establishing a relationship as a trusted advisor opens further opportunities to support change:* There are tacit processes of change that can only be supported by someone who has established credibility over time. Also, interventions on areas such as coaching, leadership strategy and holistic change management are just not possible for outsiders to credibly pitch to executives.

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Structuring in-house capabilities and the engagement of service providers

When considering how to engage service providers and what capabilities are required internally, development sector organisations need to consider several factors. These include the benefits of continuity, operational efficiency and scalability, procurement processes and the benefits of in-house relationship management and subject matter expertise.

Many development sector organisations target lean operating models, leveraging the scalable capacity of external parties for specific interventions. This objective of a small permanent organisation has to be balanced with the above recommendations on long-term relationships and continuity.

Development sector organisations face challenges when seeking to provide financial institutions with long-term relationships by involving the same service provider over time. This may be subject to constraints such as public procurement policies. Procurement processes also need to be aligned to the funding cycle, which may be an obstacle.

The above points on how to engage with financial institutions are also relevant here. If the development sector organisation seeks to establish its brand and credibility and develop relationships with "key engagements" as well as "potential leads", there should be some in-house subject matter expertise and involvement in relationship management with the financial institutions.

There are several concrete options in how development sector organisations can structure their interaction with service providers (Figure 11):

1. *Funding standalone interventions:* Providing funding for the financial institution to source support from a service provider of its choice
2. *Funding multiple interventions with the same service provider:* Providing funding for the financial institution to source support from an agreed service provider that is expected to develop a long-term relationship and ensure continuity
3. *Engaging a service provider specifically for relationship management:* Engaging one service provider to act as a relationship manager and then sourcing specific interventions from multiple service providers
4. *Establishing in-house expertise and relationship management:* Having subject matter experts and relationship managers "on staff" and then sourcing specific interventions from multiple service providers

Option (1) clearly conflicts with recommendations on continuity across interventions and should be used with caution unless the intervention is considered a "pilot" or requires limited stakeholder and change management.

Option (2) address the continuity aspect and would be scalable and efficient, but may conflict with many development sector organisations' constraints when it comes to procurement policies and funding cycles.

Option (3) is more likely to comply with procurement policies, is still flexible and scalable and ensures continuity.

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Option (4) ensures continuity and enables the organisation to build up internal expertise and relationships. This comes at the cost of flexibility and scalability.

There is no general answer as to which of models (2) to (4) is optimal. In many cases a hybrid between (3) and (4) could be ideal to balance the need for flexibility with the build-up of internal subject matter expertise. Hopefully, the above options may serve as a basis for concrete discussions on what model is best aligned to specific objectives and constraints.

As argued in Section 4, financial institutions often appreciate the expertise and advice development sector partners offer. This suggests that development sector organisations should consider maintaining some level of assets and expertise internally. Alternatively, a long-term partnership between development sector organisations and a limited number of service providers could result in the latter establishing such capabilities. This is however a more risky approach as relationships may come to an end, and it may also be challenging from a procurement perspective.

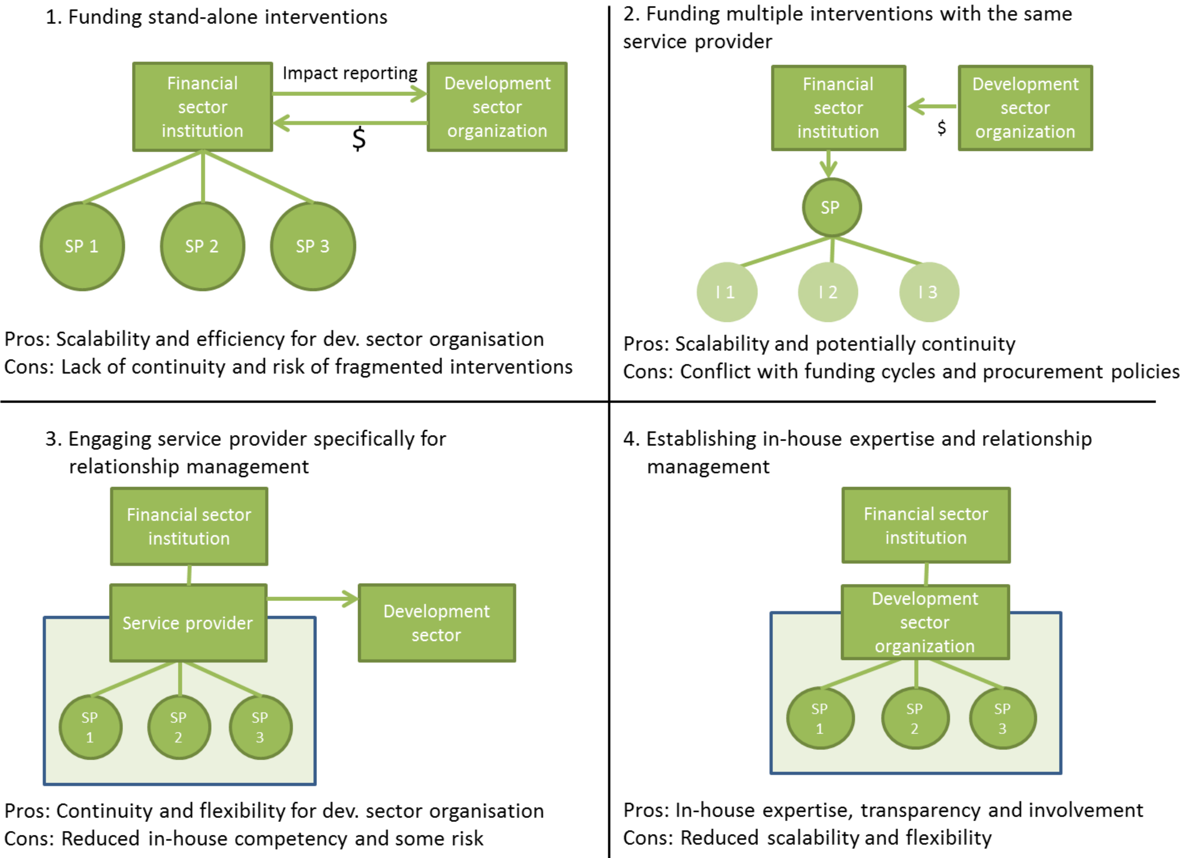

Figure 11: Options for the development sector organization's operating model for interventions that involve service providers and financial institutions

Managing pipeline and priorities

As the development sector organisation establishes a relationship with a set of institutions, there will typically be a higher volume of ideas ("demand") for support than capacity ("supply"). This is

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particularly relevant where the development sector organisation gets involved in relationship management and brings in internal resources and assets beyond pure funding. The absorptive capacity of the financial institution's organisation should also be considered a scarce resource to be prioritised accordingly. There is a risk of sub-optimizing support by assessing and initiating interventions "one at a time".

Professional services companies typically have an opportunity management process whereby a high volume of "leads" is gradually filtered through a number of stages. This ensures that concrete proposals are only made for a set of prioritised opportunities that maximise the impact, of using available resources (Figure 12).

By replicating this approach, development sector organisations can ensure resources are prioritised towards opportunities that are expected to have sustainable and significant impact, both on a standalone basis and as part of a longer-term plan for multiple interventions.

When prioritising, development sector organisations should seek to capitalise on urgency and existing momentum in the organisation to ensure maximum impact.

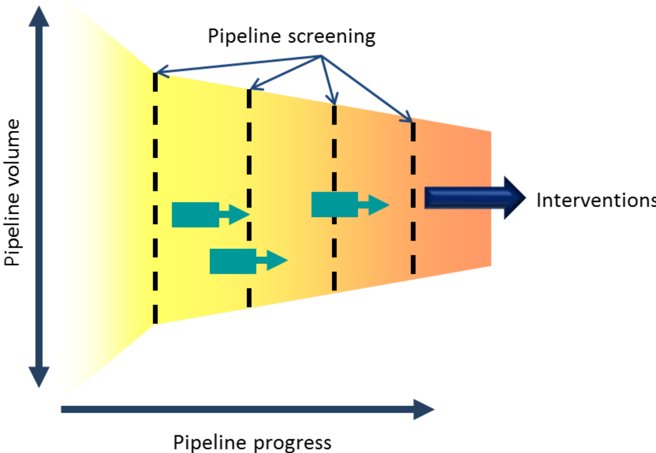

Figure 12: Pipeline management

In some cases, financial institutions have impact investors contributing with capital funding as well as technical assistance. This brings the impact investor into the internal decision making processes, e.g. through board representation, and enables the investor to offer assistance as part of a longer-term relationship. Some of the recommendations in this section are still relevant, although the situation is somewhat different from that of a "classical" development sector organisation.

Summary recommendations for the role of development sector organisations

In summary we offer the following set of recommendations for development sector organisations seeking to catalyse change in mid-tier financial institutions:

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1. *Select a few institutions and establish long-term relationships*
2. *Ensure that the commercial side of the organisation—not just the CSR function—shares the objectives and are involved in project governance*
3. *Involve relationship managers across interventions*
4. *Capitalise on urgency and existing momentum*
5. *Initiate relationships by solving concrete issues like process design, market research, data analysis, etc.*
6. *Develop a trusted advisor role with C-level executives to further increase impact*
7. *Establish the right level of in-house expertise and assets, while using service providers to maintain scalability and flexibility*
8. *Prioritise potential opportunities through a pipeline management process*

For larger institutions, progressing from giving support on concrete issues to becoming a trusted advisor seems unrealistic, given the complexity of the change portfolio and the imperatives driving executives' priorities. Hence, points 3 to 5 should be replaced with the recommendation to *identify leaders seeking to envision new opportunities and support them on developing and positioning growth cases within the organisation, in order to crowd in the financial institution's own investment.*

Partnerships from the financial institutions' perspective

The majority of partnerships between the private and development sector involve transfers of financial resources as opposed to knowledge sharing, capacity development and technical cooperation[6].

As the development community increasingly looks to private sector partners to achieve sustainable financial development, it is important for financial institutions to understand the differing perspectives of different organisations and the types of services that they provide.

Also, the financial institutions should consider how to align internal stakeholders and resources to ensure the support is effectively absorbed by the organisation.

The nature and priorities of development actors are often varied based on their incorporation and source of funding. We build upon the framework developed by The North-South Institute[6] to map the sources of funding within the development community. We also build upon its framework for types of engagements between development and private sector actors.

[6] "Mapping Private Sector Engagements in Development Cooperation", *www.nsi.ins.ca*

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Type	Definition	Examples
International finance institution (IFI)	International development finance and grant providing institution, operating across country boundaries	African Development Bank, Islamic Development Bank, World Bank International Finance Corporation
UN and OECD	Development-mandated UN agencies and OECD with publicly available information about their engagement with the private sector	Business Call to Action, International Fund for Agriculture and Development, International Trade Centre
Bilateral donor	Members of the OECD Development Assistance Community (DAC) that provide official development assistance	Australia, Germany, Canada, Japan, Norway, United Kingdom, United States, Finland
Development finance institution (DFI)	Financial institutions backed by OECD DAC member states that provide credit (loans, equity positions and risk-sharing guarantee instruments) for private sector development-oriented investments in developing countries	EU European Investment Bank, EU European Investment Fund, Norway Norfund, UK Commonwealth Development Corporation, USA Overseas Private Investment Corporation
South-South development cooperation provider	Providers of aid and other forms of development cooperation to developing countries that are not members of the OECD DAC	Brazil, China, India, Russia, South Africa
Foundation	Non-profit organisation with a development mandate which is independent, in terms of its governance, from for-profit private sector actors	Bill & Melinda Gates Foundation, Open Society Foundation, Ford Foundation, Rockefeller Foundation
Non-governmental Organisations (NGOs)	Non-profit organisation, principally independent from government, with an international development mandate	Aga Khan Foundation, CARE International, Catholic Relief Services, Plan International, Oxfam
Think tanks	Organisations endowed for doing research on themes related to development	Centre for Financial Regulation and Inclusion (CENFRI), Center for Development and Enterprise, Institute of Development Studies, Institute of Statistical, Social, and Economic Research

Table 6: Types of development sector organisations (“*Mapping Private Sector Engagements in Development Cooperation*”)

It is important to note that there are examples of successful engagements between financial institutions and the development community across the spectrum. Indeed, we have discussed IFC, an International Finance Institution, supporting FCMB’s expansion into the SME market through via a technical cooperation agreement. We have also discussed the partnership involving knowledge

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sharing and capacity development between a large financial institution, Barclay's Bank, and the NGOs Care and Plan International.

Policy dialogue	Discussion between or among stakeholders with the aim of bringing about or encouraging a specific change in policy or behaviour, or adoption of best practices and specific standards
Knowledge sharing	Reciprocal dialogue between and among stakeholders with the aim of sharing best practices
Technical cooperation	Includes grants to nationals of aid-recipient countries who are receiving education or training, and payments to consultants, advisers, and similar personnel serving in recipient countries
Capacity development	Process whereby people, organisations, and society as a whole unleash, strengthen, create, adapt and maintain capacity over time (OECD 2011)
Grants and donations	Transfers made in cash, goods or services for which no repayment is required
Finance	Transfers for which repayment is required (e.g. loans, guarantees, equity, etc.)

Table 7: Categories of interventions ("*Mapping Private Sector Engagements in Development Cooperation")*

By understanding the development sector organisation's mandate and interests financial institutions will engage with the right partners and be able to shape the type of engagement that can maximise shared value. Getting this right is often the key difference in developing long -term strategic partnerships rather than short-term iterative transactions unable to achieve mutually beneficial results.

Engaging in a partnership is an investment of time and resources also for financial institutions, and care should be taken in the selection of organisations to get involved with. Some of the questions the financial institutions should ask are:

- Do the partner's development objectives coincide with our commercial objectives?
- Do internal processes within the development sector partner align with our change dynamics?
- Do funding cycles and processes allow flexibility to adjust and extend projects as required by a commercial institution?
- Are we willing and able to deliver against required monitoring and evaluation processes?
- Does the development sector organisation seek to partner on engagements that complement our internal capabilities?
- What is the flexibility in terms of the support that can be offered?
- Does the development sector organisation seek a long-term partnership and do they have an approach that enables continuity? *(See the previous section on the development sector perspective.)*

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There are actors that have objectives and operating models that are well aligned to private sector engagement, and given the range of players the financial institutions should be able to find partners that are well aligned to their specific business and organisational context.

Finally, it is important for the financial institution to manage the relationship well from their side. Building on the previous sections, some observations can be made to this end:

- Representatives from the commercial side should be involved in setting up and managing the relationship.
- Internal resources should take an active part in the interventions, both in project delivery and through steering committees.
- The financial institution should, provided NDAs are in place, be willing to maintain transparency and share information and strategies to the extent required to align on longer-term plans.
- Co-funding should be committed according to longer-term plans, to ensure predictability.

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A. Framework for organisational change and capacity building

The strategic plan and business and operating models

Throughout this report, references are made to a company's strategic plan, business model and operating model.

A strategic plan is, as will be argued below, not a clearly defined term across organisations, but in general refers to a document outlining the objectives for the organisation, the strategic themes that will enable the organisation to deliver on these goals, and the actions required to this end. It typically confirms or describes required changes to the organisation's business and operating models.

The business model is the company's approach on customers, services, channels and strategic partnerships through which it will drive revenues. In this report, "new business models" will be used as a reference to projects seeking to drive growth by e.g. implementing new products or targeting new customer segments.

The operating model is the way that a business constructs its capabilities to execute its business models. New products will remain concepts until changes have been implemented into the operating model. It consists of two sets of decisions. Firstly there are the structural decisions; by who and where will capabilities be performed. Secondly there are the executional decisions; how will capabilities be executed through the right mix of process, people, technology and governance.

In the financial services context, examples of structural decisions include processing loan applications centrally rather than at branches and outsourcing the credit scoring process.

All organisations have an implicit operating model in the way go about their day-to-day business, delivering services to their customers. Some organisations have a defined and documented "target operating model" that describes the overall way they currently operate, their future model and a roadmap describing transformative actions required. This point is important, as challenges in managing complex project portfolios towards a target model often cause ineffective change programmes or failed growth initiatives.

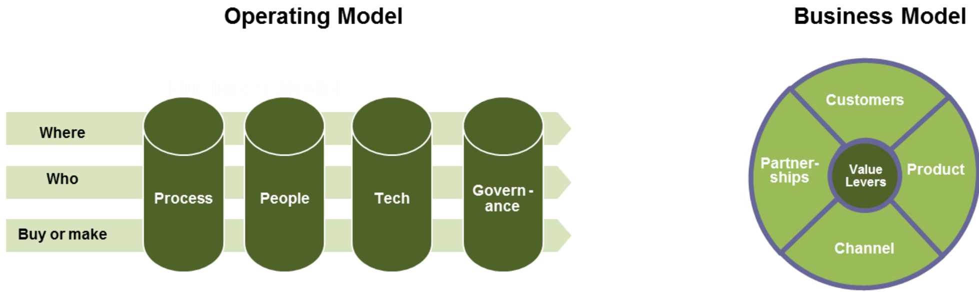

Figure 13: The operating and business model

Categories of change and transformation initiatives

Change and transformation occurs in many “shapes and forms” during the planning cycle:

1. Large-scale transformations, where the entire group/corporate business and operating models are re-structured through a multi-year journey
   - Not frequently observed and are usually triggered by paradigm shifts in regulation, market dynamics or major performance issues
2. Design and implementation of new business models within the current structure
   - May be triggered as part of a strategy formulation and business planning cycle or have a more ad hoc nature such as regulatory requirements, new ideas originating within the organisation or competitors’ activity. Sponsorship varies depending on how radical the change is from current models.
3. On-going initiatives to improve and build capacity
   - May be part of a specific action coming out of the strategy review or driven as a “bottom-up” initiative. Typically sponsored by business units.

The components of change and capacity building

As we seek to understand how financial institutions commit to and go about change, it is important to realise that change is not typically driven through a linear and well-structured end-to-end process.

Nearly all organisations encountered in this research have a framework in place for developing multi-year strategies and for revising these on an annual basis. We refer to this as the “strategic planning process” where, based on internal and external analysis as well as idea generation, a set of strategic themes is typically developed.

These themes are usually broken down into objectives concerning financial performance, customers, internal processes and organisational development. This is often summarised in a strategy map—a document laying out the strategies and how they interact with the business.

The strategy map is turned into concrete actions through operational plans in the form of projects and programmes aimed at transforming the business model and operating model, as described above. In practice, the path from strategy to actions varies from organisation to organisation –as will be discussed later in this report.

Actual change is typically driven through projects, which have dedicated resources, budgets and time frames. Some of these are directly linked to strategic themes and operational plans, but there are several other sources from which projects may be initiated. The ability to prioritise and trigger the right projects, develop implementable solutions and enable the wider organisation to support resulting changes is fundamental to effective and sustainable change.

Fundamental to all change processes are the organisation’s change capability. This includes how the total change impact across the project portfolio is managed, the approach to leadership and delegation and the impact of culture and mind-set on decisions. Performance measurement and incentives are structures that need to be aligned to any effective change initiatives.

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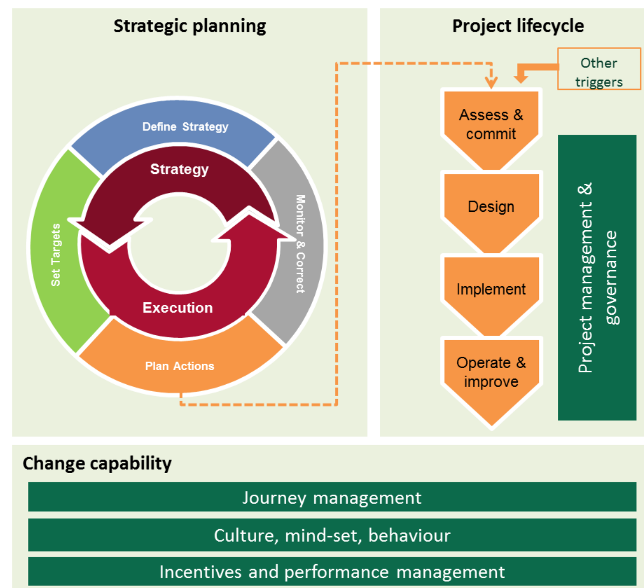

Figure 14: A framework for organisational change and capacity building

B. Change journey case studies

Four case studies have been particularly useful in understanding the change dynamics and partnership experiences between the private and development sectors. We have divided the case studies into change journeys driven by financial institutions on their own and those based on partnerships with development institutions.

Change journeys driven by financial institutions

We selected two case studies detailing change journeys triggered by government or regulatory institutions. In both instances, the case studies highlight how financial institutions can work together to either improve or create new access to financial products.

Case Study 1 – South Africa

Driven by the change in government and a desire to assist in the transformation of the population, the Financial Services Charter laid out several objectives and targets for the sector to help drive black economic empowerment. Based on the recommendations in the charter, Nedbank, Standard Bank, Barclays Absa and FirstRand created the Mzansi account as a collective. The account had an agreed-upon bundle of services, a cap on the price that could be charged for it, common use of the Mzansi brand and no monthly management fees.

This was also seen as a strategic move; the banks saw it as the “next big thing” that would lead to growth of the overall ecosystem. In various forms, banks designed business models to further differentiate and drive revenues based on the generic Mzansi product. As part of corporate

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strategies, design and implementation of the new business models had C-level support. Investment followed and the banks were able to roll out large-scale implementations.

The amount of account openings was massive and initially the Mzansi account was considered a South African success story. However, by August 2008, 30% of the accounts opened by the “big four” were inactive or closed. Reviewing their offerings, the banks realised that product and channel design did not provide a value proposition incentivising customers to use their accounts. The business areas overseeing these customer segments are now taking time to research and adjust offerings through a process of trials, potential failures, structured learning and scale-ups of what is seen to work.

Key insights:

- When C-level executives at large institutions see a business case to develop new models, private investment follows.
- Designing products for current “non-customers” requires insights beyond the existing customer base, which may have to be sourced outside the organisation.
- Designing products for “non-customers” often means there is no data available and a process of trials, potential failures, structured learning and scaling up of what is seen to work is required.
- A process of research and trials/failures requires continued and predictable C-level support combined with realistic performance targets.

Case Study 2 – Nigeria

The Central Bank of Nigeria (CBN) identified areas of concern and regulatory compliance gaps within one of the country’s large financial institutions, and instructed the bank to take the necessary actions to resolve the identified gaps or face punitive measures from the regulator.

In conjunction with a professional services provider, the bank worked to scope the critical areas for change necessary to address the key issues identified. The bank recognised several areas where transformational change was required in order for its operations to be compliant with CBN regulations.

As the bank re-defined its channel strategy during the transformation, executives within the institution recognised that there was an opportunity to expand into branchless banking. This expansion would allow the bank to better serve its customers and reduce operational pressure on existing branch infrastructure.

The branchless initiative focused on the expanded use of automated teller machines (ATMs) to improve access to financial services. The bank quickly realised that a cost-effective deployment of ATMs across the target areas identified would be impossible unless it involved a partnership with other financial institutions. By involving other banks, the business case could be improved to a point that allowed for the appropriate degree of ATM expansion.

To effectively manage the change across the banking industry, the bank ensured:

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- **Involvement of all large banks:** Participating institutions worked together to create, define and execute the branchless banking ATM strategy
- **Bring regulators along on the journey:** The financial institutions worked with the CBN to understand the necessary actions required for regulatory compliance, and also helped educate the regulator on key concepts of electronic banking and the use of ATMs
- **Leverage professional services support:** The bank contracted a professional services firm to act as an independent broker between the different stakeholders during the change process. The service provider was asked to help scope and design the nature of the transformation, and to leverage the institution's understanding of electronic banking and ATM strategies from other geographies.

Key insights:

- Regulators may provide the change imperative at financial institutions; necessity can trigger innovation and collaboration.
- Change often has an infrastructure component, which may require an ecosystem perspective.
- Professional services providers can successfully act as intermediaries in a collaborative change process.
- The regulator should be brought along for the change process; if only involved at the end it may put the change programme's ultimate success at risk.

Change journeys driven as partnerships between the financial and development sectors

An increasing amount of attention has been spent on developing shared-value partnerships between development community actors, governments and private institutions to generate economic and social value.

While sounding simple in concept, organisations have often struggled to achieve the "shared value" that Harvard Business School's Michael Porter heralded in 2011 as "the next wave of innovation and productivity growth in the global economy.[1]" Yet despite continued challenges faced by organisations working in unison but with separate goals, objectives and performance management structures, the number of partnerships has grown at an exponential pace. More often than not, these partnerships have positive results. While shared value has so far failed to "unleash the next wave of global growth" as Porter predicted, its ability to create positive financial and social impact between a diverse group of stakeholders cannot be denied.

Based on the report authors' experience working with each type of institution—and in some cases, designing shared value partnerships themselves—this study has distilled the most frequent challenges and opportunities into six critical success factors that should be considered in such partnerships.

[1] HBR Shared Value

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	Success factors	Challenge	Learnings
Strategic Factors	Agree to a common mission and roles	Partnerships often fail to articulate a definitive "ask" of each participant and define responsibilities clearly, resulting in unclear objectives and vaguely defined contributions.	Carefully judge whether this form of partnership is the most appropriate form of collaboration, and begin work only when there is clear understanding as to why partners cannot meet their respective goal by other means.
	Align partner incentives for the long term	There is continued appetite for engaging in sustainable partnerships where bolstering core capabilities helps to not only generate sustainable revenues but also has social impact.	Before beginning, promote and align to a shared-value model whereby all parties receive some form of benefit. This will enable a virtuous cycle of mutual benefit for all participants.
	Preserve flexibility	Financial inclusion partnerships are often about trying something new and challenging. These projects often face significant financial, social, political, technology and regulatory hurdles.	Maintain flexibility to change approaches or even changes in partners. Focus on a flat governance structure with equal weight among partners. Separate the initiative from the daily responsibilities to ensure activities get the right level of focus and attention.
Execution Factors	Create central delivery team	Attempting to achieve partnership goals alongside daily business activities often results in initiatives that are unable to reach scale.	It is critical to have a centralised "ring-fenced" team to shorten reaction times and move the programme forward.
	Leverage core partner capabilities	Partner capabilities are often not leveraged to their full potential and fail to achieve the level of capability depth necessary to make sustaining impacts.	Partnerships must move beyond requests for financial support and fully leverage the knowledge, capabilities and expertise available in the partnership.
	Start small and over-manage	Socially-oriented programmes will often face sceptics from private sector stakeholders.	When it comes to developing and scaling up partnerships, the psychological, relationship-building and reputational value of early victories cannot be understated.

Table 8: Key insights derived from case studies of partnerships between the financial and development sectors

Three financial inclusion case studies that exemplify the shared value that can be created between banking institutions and the development community have further been highlighted.

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Case Study 3 – World Bank IFC and FCMB

First City Monument Bank (FCMB) was established in 1982 and is headquartered in Lagos, Nigeria. The bank offers retail, wholesale, corporate and investment banking services to more than 2 million customers, and has emerged as a top 10 financial service institution in recent years[7].

In 2010, based on turmoil in the Nigerian financial sector and a strategic review of operations, the bank's executive committee identified the need to diversify the customer base with SMEs, strengthen corporate governance and improve risk management procedures. FCMB has been a strategic partner of IFC since 2007, and their relationship has grown over time. This strong relationship encouraged FCMB to request assistance from IFC and sign onto an advisory services (AS) agreement.

At the time of the partnership in 2010, Ladi Balogun, FCMB's group managing director, said, "This partnership with IFC will help First City Monument Bank achieve our strategic growth objectives. We view IFC's investment as a stamp of approval of our strategy and commitment to good corporate governance and risk management."

IFC provided a senior loan of $50 million as well as AS support. The AS team helped FCMB to strengthen internal operations and develop an SME business model, SME products based on analytics, and appropriate staff training. In addition to expansion in the SME market, IFC and FCMB's relationship has now expanded to sustainable energy and infrastructure finance[8].

IFC's objectives for the partnership were three fold:

1. Providing long-term financing to help well-managed banks achieve growth objectives and improve their reach to underserved segments, such as infrastructure and SMEs;
2. Helping partner banks improve corporate governance and risk management, and developing robust environmental and social monitoring systems; and
3. Supporting the recapitalisation efforts of distressed banks.

The bank's development over recent years has been impressive. The value of outstanding loans grew from US$191 million in May 2012 to US$544.7 million in June 2014, with non-performing loans decreasing from a peak of 24% to 10% within the same period. Moreover, the bank has increased its market share in Nigeria from 3.8% to a projected 8% by 2015.

Key insights

- To develop a trusting relationship, help deliver on concrete business needs and establish credibility.
- Each partner should make a meaningful contribution to the partnership and be unable to accomplish the initiative independently. FCMB's ambition of increasing revenue and profit were matched by IFC's ambition of improving finance to underserved segments and supporting the recapitalisation of distressed banks.

[7] First City Monument Bank – corporate website
[8] IFC Project Database

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Case Study 4 – Barclay's Bank, CARE International, and Plan International

Barclays is a British banking and financial services company with operations in over 50 countries and territories and more than 48 million customers. A core pillar of the bank's operating strategy of being a "go-to bank" is to have a positive impact in the communities in which it works[9]. This focus on community impact led the bank towards the "Banking on Change" programme, a joint initiative to extend access to basic financial services to more than 500 000 unbanked or under banked adults across 11 developing countries in which Barclay's operates.

The partnership focused on a savings-led community finance approach, providing a way for individuals to more effectively managed their money and increase the ability to deal with life emergencies. The partnership also included a provision to link a number of the informal savings-led groups to Barclay's through the design of bespoke bank products tailored to the group's needs.

While the partnership was not without challenges, it has made remarkable progress in improving access to basic financial services. The programme was renewed for an additional three years in 2013, enabling continued growth of both informal savings groups and linking these groups to financial institutions. As of January 2015, more than 700 000 people had access to informal savings groups.[2] Many of these individuals have graduated to the formal financial system, with roughly 13% of members willing and able to open individual accounts once they were linked to a group.[3]

Key insights

- There is often overlapping shared value between stakeholders that can help even the most diverse institutions resolve their differences.
- By objectively tracking the programme around key metrics (number of groups linked), parties were able to quickly identify, escalate, and resolve project issues.

Case Study 5: Oportunidades and Bill & Melinda Gates Foundation

Between 2008 and 2013, Oportunidades —Oportunidades, which has more than 6.5 million recipients— and Bill & Melinda Gates Foundation embarked on a journey to digitize G2P payments cash transfer program and build a network of more than 7,000 banking correspondents through a public rural retail network—DICONSA— as well as a state savings bank.

Electronic tracking of Oportunidades' delivery of payments through account-linked and biometrically-enabled cards increased program efficiency and transparency. For their part, recipients benefited from a 77% reduction in transaction and opportunity costs, as G2P pay-points were set up no further than 4km from their homes.

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[9] Barclays 2014 Annual Report

[2] http://www.barclays.com/citizenship/citizenship-in-action/banking-on-change.html

[3] http://www.barclays.com/content/dam/barclayspublic/docs/Citizenship/linking-for-change-davos-savings-charter.pdf

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But success did not extend to the subsequent financial inclusion initiative. The banking correspondent footprint was neither significantly nor sustainably expanded—the number of agents stood at 261 in July 2013 and only 115 were disbursing G2P payments to a mere 14,000 recipients.

It is believed that the key challenge was misaligned goals and lack of a common mission between the key partners. While the donor had clear goals to increase financial access, Oportunidades' core mission was to digitise payments. The potential was limited when Oportunidades mandated requirements that compels rural recipients to cash-out their benefit in full, at a designated pay-point then use the card solely for identification purposes. This restriction effectively renders rural recipients' accounts into bimonthly, temporary repositories of G2P funds, and nothing more.

Key insights

- Partners should begin their work with a clear understanding of why they are coming together, why they cannot meet their goal by other means
- Misalignment of objectives can result in the design of products that are unlikely to deliver on the objectives of the development sector partner
- Metrics should be designed to deliver on common goals; a 77% cost reduction clearly delivered on the Financial Institution's objectives to efficiently serve existing clients, but did little to support the Development Sector organisation's objectives of bringing in new and underserved clients

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