

The stakeholders' perspective of the digital transformation phenomenon

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Keywords

Cannibalization, digital mindset, digital maturity, digital transformation polarization, perception

Abstract

Digital transformation is the most buzzing topic, widely discussed among all business practitioners as well in academia, as every business sector is largely at the precipice of adapting itself to the dynamic evolution of technology. Despite of the available expertise and resources, the many of the organisations fail to achieve success in Digital Transformation (DT). This research paper digs in deeper to explore the reasons for these failures by applying the qualitative approach to conduct this research, this study aims to explore the reasons of current state of DT in the Wealth Management companies (WM), through stakeholder perspectives exploring their lived experiences of the digital transformation journey. The research uses the interpretive method with a phenomenological approach to explore the human perspectives from wider hierarchical layers in the chosen case study firms of the Wealth Management sector. The study finds a few major gaps such as a polarised understanding of digital transformation strategies, calibration issues in capability and agility mechanisms within the chosen sector. This research makes recommendations for business practices, which can facilitate a in charting the frictionless investment journey to their ultimate end customers.

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Introduction

The unprecedented evolution in technology has built up pressure clouds over heritage sector of the Wealth Management (WM), these firms are adopting to DT by massive investment in digital scaling-up, digitalising their traditional processes exposing themselves to the newer risks and challenges of competition, cyberthreats and changing customer behaviours and expectations towards investments. According to Gartner (2020) survey, only 40% of firms have reached scaling of their set digital initiatives, and Alpha FMC's report (2022) on Asset & Wealth Management, confirms that more than three-quarters (77%) of these businesses acknowledge their digital capabilities fall short in matching their client expectations. The UK wealth management is the second largest wealth management centre by its market size preceded by Switzerland¹, which encourages the industry players to consistently attempt to transform their services and offerings to potentialize the blooming market.

Research Statement

The existing research body provides some hallmark contributions towards understanding the concept of the (DT). The trends observed in the current literature body specifically focus on a particular industry, sector, or process. There is strong evidence of opinion variations among the multidisciplinary scholars in the space of the DT, wherein few researchers advocate imperative role of technology over the organisational capabilities while another set of researchers strongly believes in calibrating the organisational capabilities before adapting to dynamic technology. This study undertakes to explore the granular factors, which hinder the DT strategy within traditional WM firms, straight from the involved practitioners from their lived experiences of DT phenomenon.

¹Sources: UK Finance/Wealth Management Association (Feb 2020). The UK FACT SHEET: UK wealth management expertise.

Literature review

The Digital Transformation in the WM Industry

According to Oliver Wyman's report (2020) on WM companies, the most significant challenge is about shaping the digital business for tomorrow from yesterday's legacy (Allchin, 2020). The Financial industry is constantly adapting to significant transformations over the many decades within the regulatory frameworks, the endogenous factors usually impact the WM industry with the slightest changes in political, geographical regimes and legislative changes. However, in present times, the major challenge unfolding its impact is "Fintech", the firms providing services loaded with advanced technology to provide tailored end-to-end seamless and cost-effective services to their customers.

There are the multidisciplinary research communities conducting a soaring number of studies to understand DT, the synthesis of all available definitions has one commonality among researchers highlighting the imperative role of technology in every business sector, technology is enhancing the service accessibility, approach, and affordability. The evaluation of DT definitions by researchers provides wide-ranging perspectives on the DT phenomenon as this research is centred specifically to particular chosen case study industry, sector and process (Herrmann et al, 2018; Agarwal et al,2010; Kossowski et al,2020; Valdez-de-Leon,2016; Colli et al, 2018; Canetta et al,2018; Hess, 2016). The digital transition involves the change management process is an ever-present feature of a business organisation to identify and develop the ability required for the future course of action at operational and strategic levels (Burnes,2004). The DT change transition aims to improve an entity by triggering, computing, communication, and connectivity technologies (Vial,2019). As per the Deloitte survey report (2019), the Financial Services industry (FSI) in the UK confirms that nearly 90% of firms are attempting to be digital champions. However, only 28% of financial organisations are flourishing pragmatically by embracing the right approach. According to the leading author in change management, Kotter (2012) stated in the book "XLR8 (Accelerate)" that most digital projects have failed not because of challenges but due to human element issues.

The growing research interest in DT space provides a scant view of the issues associated with the human element although being the most critical component of the digital navigation cycle. Continuing with arguments and views presented over the significance of clarity of phases of DT, it is unclear whether organisations consider these concepts of digitisation and digitalization as part of large-scale DT change or it is assumed that phases are the DT. Holistically, the DT encompasses various phases, "Digitisation, Digitalization and Digital Transformation", but these three stages have different implications in DT implementation within complex change mechanisms. There is inadequate clarity on the significance of these phases in the digital transformation cycle, this calls for the in-depth study of the digital understanding among the stakeholders of the organisations to ensure the approach adopted is rightly aligned with the set objectives.

Digital Maturity

Digital maturity refers to an organisation's capability of quick adoption towards change leveraging on the technology to create value for their customers, which needs strong integration of clarity and objectives from digital transformation. This requires transparency, trust and investment in technology and most importantly in human assets. The earliest information tracked about "Wealth Management" connects as early as 1933 (Fowler, 1933), this term was interchangeably used with money management or asset management, and the range of services in the form of investment, tax and financial advice extended as concierge banking and investment services to only wealthy customers supervised by asset managers (Traff, 2016). This advisory services industry was popularized in the 1970s when top companies like Goldman Sachs and Morgan Stanley started providing enhanced and exclusive services to wealthier customers to distinguish wealthier clients from mass-market customers (Traff, 2016).

The researchers Parviainen et al., (2017) and Hughes (2016) emphasised that the digitalisation of legacy processes can enhance internal efficiency and is a significant reason for the change in customer expectations, in current business practices the "Digitisation", "digitalisation", and "digital transformation" these phrases are overused in practices for any transformation-related change with very little clarity about significance of these phases in DT process among the stakeholders of this industry . KPMG (2019) stated that getting the digital right states that confusion lies in a lack of clarity, communication, and leadership management skills.

The significance of the DT in Industry Revolution 4.0 is not only about technology (Westermann et al.,2011; Kane et al.,2015) but the right culture with the right set of capabilities under the direction of the right leadership is important. Kane (2017) has stated in his article "Technology Fallacy", that his research findings indicated that culture is a key driver in the adoption of digital transformation.

However, changing the existing culture towards adapting digital culture is the most critical challenge in traditional WM organisations as the internal ecosystem is engrained with legacy process and hierarchical mindsets and values. The ultimate aim of each WM firms to provide a frictionless experience of investment journey to their customers, but the underlying gap in the existing state of process and the desired state enforces pressure on the senior leadership team to transform the legacy processes and business model approach.

Leadership in Digital Transformation

There is a collective opinion among all researchers that setting the right culture by well-informed senior leadership leads to digital maturity. According to Wade et al., (2017), the digital transformation is viewed as the conduct of a digital orchestra, wherein the leader in charge of this DT is a maestro. Thus, culture is directly linked with leadership as leaders bring new approaches, knowledge, awareness, and strategic capabilities to adopt the DT process. However, when the leadership style does not align with the DT strategy, leads to inertia and resistance issues, and problems might deter the set DT objectives (Allio, 2015). Leaders must be influential and able to adopt the DT strategy influencing positively towards change rather than being barriers to adoption. Organizations must have an e-leadership model in place to promote successful strategic change related to digital transformation and provide a level of much-needed stability during the change process (Li Liu, Belitski, Ghobadian, & O'Regan, 2016). There is very limited literature available to understand the leadership aspects specific to the WM industry in focus on the DT strategy, but organisations look upon the senior management and leadership team for their knowledge of the DT and their emotional intelligence to deal with major decisions positively.

According to Oberer & Erkollar (2018), Digital leadership is cross-hierarchical, team-focused, agile, and innovation-oriented. In connection to the research context, a vital aspect of a leadership element is about creating a vision and clarity on the current existing state to the expected state to achieve successful transformation. Firstly, the crucial element is to have a unified understanding of the digital transformation phenomenon in a total sphere of the organisation and secondly, the topmost priority of the traditional organisation is to have an exemplary leadership steering the DT integration with complete transparency and trust. However, according to Nucoro's report (Further Challenges of Wealth Management, 2020), leading industry advisors revealed that 84% per cent of firms fail to achieve the DT goals due to a lack of strategic leadership skills, vision , value integration and capability rearrangement The significance of the DT in Industry revolution 4.0 is not only about technology (Westermann et al.,2011; Kane et al.,2015) but the right culture with the right set of capabilities under the direction of the right leadership.

Thus, dynamic leadership is critical in initiating the digital culture, while literature reveals the digital culture can be developed based on the digital maturity levels of organisations. Due to the lack of literature focus on the WMS case study, it cannot be confirmed if the above-stated elements are key critical success factors for adopting the DT switchover. Hence it is necessary to involve the senior leadership team in this research to hear from them about ground reality and their perspectives about digital maturity, as due to inadequate literatures evidence in specific to the WM industry, it fails to configure the granular level issues from the ongoing digital maturity expertise in increasing business efficiency and integration with customer expectations.

Method

This qualitative research is phenomenological in nature and adopted an interpretative approach to interview the research stakeholders from various hierarchy groups involved in DT to explore the granular view of the factors leading to the strategic failure of the DT. This research design is the preferred method to understand the perception of various stakeholders regarding digital transformation and their views on this phenomenon. The interview method will enable each participant to share their experiences and views over the cycle of digital transformation, which will allow me to determine the righteous approach in business

practice regarding DT adoption and implementation. As per the existing literature, there is scant literature to specific to the WM industry to understand the perceived understanding and knowledge about the various phases of DT, such as differences and significance of “Digitization & Digitalization.” In addition to this confusion, the technical knowledge about the evolving Technology is very limited to explore from the existing literature specifically among decision-makers and leadership strata within the WM industry.

This research emphasises exploring the perception in the totality of the Digital Transformation phenomenon, which involves the various aspects of technical know-how, leadership and strategic approach. This study primarily constructs upon characteristics of the TAM model, perceived usefulness, perceived ease to use and behavioural intentions. The three pilot interviews were conducted before designing separate research questionnaires for each stakeholder followed by stakeholder analysis for the purposive objective of this research study. Thus, this research study uses purposive sampling to handpick the key stakeholders from three core layers of stakeholders, the core leadership team, and designers of digital transformation strategies for the organisation. Secondly, the middle management participants, closely work with a strategic top team of respective organisations as well as managing the clientele of the firms, followed by external participants from the consulting team, working in partnership with the leadership team on the implementation of DT strategy and lastly, this study will approach the customers to explore their perceptions and opinions over the digital transformation in investment process.

The semi-structured interview questions were based upon the perceptions of leaders and their approach towards DT practices, as each stakeholder had a prominent role in this research so their number of experiences in the WM industry and role profile were major characteristics and input to this study. Specifically, thirty interviews were conducted, which included top management, leaders, wealth advisors, relationship managers, external consultants working in DT implementation in WM firms and lastly customers, who have been investing/trading through these WM firms for five years. Each interview was conducted thirty five -forty five minutes in length, and a few interviews got stretched for more than an hour due to lengthy conversations, since the interviews were recorded, the researcher transcribed the data to identify the trends, patterns, and cluster of themes among the responses, the data was highly important in determining the inside-out perception and challenges in DT practices specifically in the WM firms, this information which was relevant to the study results.

Results

The results yielded from the thematic analysis of collected data from all semi-structured interviews were relevant to this research study, using NVIVO software for analysis led to several nodes, clusters, sub-themes and themes were drawn, but as all participants were from similar industry and line of business, many theme clusters surfaced during analysis were confluence of repeated themes, hence to compartmentalize these emerging trending themes according to nature of this research study, the GINC framework was designed to catalogue the themes, by fixating these themes in GINC components (*Gaps, Issues, Needs, Capability*) it provided deeper meaning and help in understanding the connections between these themes.

Gaps	Issues Identified	Need Element	Capability
Customer alignment	Digital transitioning Constraints. Adaption challenges	Sustainability perspectives	Management approach and involvement in change adaption
Polarised Perception	Legacy processes & model impediments	Hybrid Business model	Talent upskilling
Customer expectations	Stakeholders perspectives External influences		

Figure 1: GINC analysis framework (Author's contribution)

GAP component: As shown above following themes: customer alignment, polarised perception and customer expectations, the current scenario in this industry is that the traditional WM firms are under pressure to transform their business model by adopting advanced technology, but the key factor is trusted relationship is the key competitive advantage of these traditional firms over fintech firms but the underlying issue with the traditional firms is product-centric approach rather a customer-centric approach. The existing polarised perception within the business practices has raised alarming insight of lack of complete understanding of DT advantages, the resistance among middle management perceives interjection of technology into business is cannibalizing the traditional business by reducing touch points with customers' base. While customer's perceptions vary with demographical backgrounds the highlights the unsettled disappointment over the increasing service charges and repetitive digital changes irate the investment mindset with their trusted firms.

ISSUE component: According to Behnam et al. (2019), an investment of \$1.3 trillion was spent till 2018, and around \$900 billion was wasted on financial service transformation. The existing literature indicates the investment wastage linked with leaders' inability to steer the projects due to a lack of technology knowledge and integration of all elements with DT strategy. The hallmarks of data analysis indicate the lack of unified understanding among key stakeholders leading the technical team to lead the DT change within an organisation which triggers resistance to transitioning from a legacy to a dynamic approach. So, in overview, the due to digital mindset and cultural issues within the organisational ecosystem led to digital change failures.

NEED component: The business sustainability challenges in traditional WM firms are pertinently linked with changing customer behaviour and external influences, with younger generations (Gen X, Z and Alpha) venturing into the investment market raising the expectations bar for the firms in terms of transparency, agility, and frictionless experiences. Building the pressure clouds over the management to invest and revolutionize the integration of front, middle and back-office processes. According to Deloitte (2020) reports on "Tech trends" highlight those disruptive technologies like AI, Machine learning and data analytics are the currently dominant technologies in the WM industry, which distinguishes fintechs from traditional WM firms.

CAPABILITY component: According to Matt et al., (2015), DT is a company-wide transformation in length and breadth, not just technology transformation. The organisational structure is a significant factor in facilitating any change, the case firms discussed in this research are very old organisations (one firm is more than 100 years old in the UK investment sector), and the legacy practices are major hindrances in the DT implementation. As per Statista, the global DT spending is forecast to reach \$3.4 trillion by 2026, but this research highlights that still, organisation leadership teams are solely investing in technology rather than building the right structure, mindset, and digital culture.

Conclusion

It is an "adapt or die" situation for the traditional WM firms, due to the speed and impact of disruptions caused by imperative technologies. Despite of accessible expertise, resources, and skills, there is still a large underlying gap in synergising identified capabilities to interlace the digital mindset and approach within the financial firms. Leadership is a critical recipe in making digital transformation successful, there is a formidable requirement of technical knowledge, and trust factor among key stakeholders with a defined understanding of digitation, digitalization and digital transformation phases mitigating the resistance, fear, and anxiety of legacy process automation. The paradigm shift of mindset within traditional WM firms is highly recommended towards creating digital fluidity within the organisational ecosystem, and it is possible by consistent digital education, flexibility in legacy and the awareness to embrace the perpetuity of technology evolutions. According to yielded results, strategic teams within traditional financial firms need to develop a holistic approach integrating the technical infrastructure, unified perceptions across all stakeholders and agility in core operations by reducing the silo nature within departments, and issues in inter-department communication channels with transparent and seamless customer interaction technology.

Talent harvesting strategy is critical, as technology changes faster than the adaptation rate by people. The key hindering factor highlighted by this research is ageing and outcoming managers in this industry, hence robust strategy is significantly required to sustain the changing operating business model.

Research Limitations

The limitations are crucial for any research as they cannot escape the limitations and disparities during the entire journey. As these variations occurred during the study will be scope for further research to be conducted. The research findings were purely perspective-focused and followed the phenomenological approach in exploring the participants' experiences. The other identified factors, such as regulatory elements, trading cost/fees, technicalities of technology and other factors in the supply chain, do not focus on this research. The research earlier planned for ethnography methodology in empirical data collection but encountered constraints due to the financial industry protocol of no access to any outsider or student. Hence phenomenological perspective was employed for semi-structured interviews using platforms such as MS Teams, Zoom and Skype

The research identified many factors and overviews during the research journey like Leadership, management approach and organisational structure, cannibalization of legacy business model and Robo advisory as the focus of research is to explore the perspectives towards digital transformation. Hence, there is enormous scope to research further on these aspects specific to the WM sector. This qualitative research shortlisted the case study sector specifically to the WM firms only within the London region due to time and pandemic as constraints and limitations on movement. Hence there is considerable scope to conduct a comparative study among different regions to analyse the digital maturity and embrace the process.

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