Speaker 1: Welcome to the MIT CISR Research Briefing Series. The center for information systems research is based at the Sloan School of Management at MIT. We study digital transformation.

Stephanie Woern...: Hi, I'm Stephanie Woerner, a research scientist with MIT CISR. Today, I'm pleased to share with you the April 2022, research briefing that I co-authored with Peter Weill and Andrea Patricia Diaz Baquero.

Coordinating multiple pathways for transformation progress

As the world rapidly digitizes, companies are racing to create and capture value from digital. Those traditional companies whose existing business model is no longer viable are being compelled to undertake a digital business transformation. In MIT CISR research on future ready companies, we identified four pathways that a company can follow to become future ready. The digital threat a company faces and the company's competitive position influenced the choice of pathways.

In our research, executives we talked with at many large companies, noted that a pathway well suited to one business unit may not work as well for another. For example, one business unit may need to address gaps in customer experience quickly, while another business unit has more latitude to iteratively address customer experience and operational efficiency. Or the company has an innovation it wants to scale and exploit, while at the same time the company needs to transform. In such cases, it makes sense for a company to progress on multiple pathways. There's a big caveat though. A company pursuing multiple pathways must coordinate across them or risk increasing complexity. For example, from overlapping or redundant products, systems, data, or processes and fragmentation with progress slowing down measurably.

In this briefing, we share our research on companies pursuing multiple pathways and describe the experiences of commercial bank, Bancolombia, as it progresses on and coordinates across multiple pathways.

The challenge of being on multiple pathways

In our latest survey, 76% of companies chose one primary pathway for their digital transformation. 22% of companies reported they were on multiple pathways at the same time. Of those companies on multiple pathways, 12% said they were well coordinated across those pathways, sharing data, innovations, components, or a combination of these across the pathways. These companies assessed their transformation progress as being 59% complete, higher than the average progress, 50% complete in the survey, and further along than any of the individual pathways. The companies that were on multiple pathways, but not coordinated, made the least progress on their transformation overall, just 30% complete.

Bancolombia's pursuit of two transformations

Carlos Mora, Chief Executive Officer of Bancolombia said, "Entrepreneurship for a bank the size of Bancolombia, which manages 42% of the financial transactions in Colombia is a tremendous challenge. It is more difficult to change a successful business than to start a business from scratch."

One example of a company that is coordinating its multiple transformation pathways is Bancolombia, the largest commercial bank in Colombia. And one of the largest in Latin America, with 2021 revenues of $1.1 billion.

Beginning in 2015, in response to new competitors, more demands from consumers and the disappearance of industry boundaries, Bancolombia embarked on a wide ranging digital transformation that encompassed two pathways. The implementation of an ecosystem strategy, and the launch of a neobank, an entirely online bank. Bancolombia's shift to a focus on ecosystems was prompted by leadership's belief that the bank would gain a competitive advantage by being involved in and supporting every aspect of its customers lives.

Luis Miguel Zapata, Vice President of Digital Ecosystems said, "People don't dream about getting a bank loan, they dream about buying their first home or having a better car. To offer non-financial services successfully and seamlessly, we needed to become an invisible bank. With the bank's financial services underlying the non-financial offerings."

In 2005, Bancolombia commenced a digital transformation that would alternate focus on improving customer experience and operations. Through 2014, the bank concentrated on unifying redundant technology platforms and replacing its banking core.

In 2015, bank leaders who aimed for Bancolombia to be a customer-centric company, saw changes in customer expectations and behavior that suggested the bank was not achieving that ambition. The leaders invested in building a technical foundation that would enable the bank to enter into new business partnerships and support the development of ecosystems. Bancolombia began this work by strengthening the bank's internal API layer with the eventual goal of creating a robust external API layer and API marketplace, or both. Focusing first on developing the internal API layer helped Bancolombia to isolate the bank's core. The bank built on its internal API efforts to develop an external API layer that exposed certain capabilities for outside consumption. This improved customer experience by enabling the availability of bank services via third parties.

Separately, anticipating the entry of new digital only financial competitors, in 2014, Bancolombia created its own digital only entity, Nequi, Colombia's first neobank. With Nequi, Bancolombia sought both to learn how digital only entities work and to challenge the bank's traditional work practices and revitalize its product and services. Nequi differentiated itself from its parent Bancolombia, through its products, diversity and different ways of working. Nequi prioritized an agile culture with employees collaborating through self organizing cross-functional teams, which bank leadership believe led to faster creation and implementation of capabilities and products.

Bancolombia designed Nequi to function as a test laboratory for innovation and technology, and to function as an internal competitor. This allowed Bancolombia to learn by observation, the ins and outs of alliances and partnering around APIs, new market segments and strategies, and engaging with customers. For example, Nequi's mobile app was the first 100% cloud application developed at Bancolombia and approached Bancolombia later moved to with its banking mobile apps. And Bancolombia tested part of its ecosystem strategy through Nequi, by experimenting with APIs to develop partnerships. Those learnings were eventually integrated into Bancolombia's operations. As a Bancolombia brand, Nequi was integrated with the bank through its accounting systems, which permitted Nequi's customers to use bank Bancolombia's ATMs.

For Bancolombia, simultaneously following two separate digitally based innovation paths, the shift to digital ecosystems and the creation of Nequi always raised the question of the end game. If Bancolombia eventually learned enough from Nequi, that it had the same capabilities, what then? Through 2021, keeping Nequi as a business unit of Bancolombia proved more beneficial to both Nequi and Bancolombia.

The end of 2021, however, proved to be the tipping point in Bancolombia's business case for Nequi. The COVID pandemic facilitated the rapid migration of Bancolombia's customers to digital channels. By the end of 2021, almost 80% of Bancolombia's clients were also digital users. At the same time, Nequi saw big growth in its user base and its fees. By the end of 2020, the neobank had 4.8 million monthly active users. And it finished 2021 with 10 million users. Separating Nequi from Bancolombia would give Nequi more opportunities to grow and exploit its technology. In late 2021, the Bancolombia board of directors authorized Nequi to operate as a 100% digital credit company, a separate business from Bancolombia with its own financial license.

Cipriano Lopez, Vice President of Innovation and Chief Executive Officer of Nequi said, "Nequi started as a lab experiment and it gave Bancolombia the leverage to explore things that would be difficult to do inside Bancolombia. That experiment has now become a big company. By 2025, we plan to be the largest financial and non-financial services marketplace in Colombia, present in people's daily lives and the daily operations of businesses and SMEs helping them to fulfill their purposes."

Leadership practices to coordinate pathways

Bancolombia, intentionally pursued two distinct pathways on its way to future ready. Alternating improvements to customer experience and operations, which the bank pursued in its core digital transformation is an example of what we call a pathway three transformation. Starting a new independent business unit as the bank did in launching Nequi is an example of a pathway four transformation.

Being on multiple pathways makes sense for many large companies, but to be successful requires purposeful coordination and sharing of best practices. Leaders play an especially important role in coordinating the pathways. When we compared leadership practices of companies on multiple pathways that were coordinated, versus those that were not coordinated, these three practices showed the biggest differences.

One, focusing on cross product customer experience. Successful customer solutions often involve integrating products and services from multiple business units. Creating a cross product experience is even harder when pursuing multiple transformations across different business units. Think about how the product and service modules need to work together. Specifically focusing on a cross product experience ensure coordination will be top of mind, making it more likely customers will receive a seamless experience. Creating reusable modules that are combined into services, and our API enabled is key to developing the cross product customer experience. Bancolombia's leaders focused on building out first, the bank's internal, then external API layers to enable development of cross product customer experiences.

Two, developing a coach and communicate orientation. A multiple pathway transformation is typically just too complex to manage centrally and requires every person's active involvement in creativity. To succeed, companies have to move away from a command and control management style, communicate the vision and plan and coach on how to succeed. Bancolombia's executives laid out their vision of developing ecosystems and consistently communicates that vision to the entire bank and to external stakeholders such as investors. A consistent common language helps keep people aligned in the transformation. Also, they drove adoption of agile methods, which involves coaching and requires that information is conveyed within and across teams and between executives and team members.

Three, leveraging innovation. Transforming on multiple pathways, while more complicated, opens up opportunities to apply and reuse innovations. Leaders who can solve the coordination issues of being on multiple pathways get more value from innovation. Bancolombia intentionally leveraged focused innovation to trial capabilities for reuse and implementation throughout the bank, developing Nequi in part to act as a test laboratory for Bancolombia.

For many large companies, following multiple pathways will be the right approach to digital transformation, but pursuing multiple pathways raises the bar for coordination, which has to be deliberate, measured and communicated, and leaders need to focus on integration, communication, and innovation to help ensure that multiple pathways are coordinated and the enterprise transformation stays on track.

Speaker 1: Thanks for listening to this reading of MIT CISR Research, and thanks to the sponsors and patrons who support our work. Get free access to more research on our website@cisr.mit.edu.