

Modelling Digital Transformation Within the Financial Sector: A South African Perspective

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ABSTRACT

Digital transformation is a socioeconomic change across organizations, individuals, societies, and ecosystems formed by the utilization and adoption of digital technologies. This study modeled the factors that drive the degree of digital transformation in the financial services sector in South Africa. Data from 350 participants was modeled in terms of seven factors: organizational IT application portfolios; organizational culture; organizational structure; organizational dynamic capabilities; leadership; employee roles and skills; and ethics. The analysis showed that organizational culture predicted 81.7% of the digital transformation.

KEYWORDS

Digital Disruption, Digital Innovation, Digital Transformation, Financial Services, Leadership

INTRODUCTION

Digital transformation is a tool for changing business cultures, processes, and organizational viewpoints to satisfy changing market requirements that digital technologies affect (Nasiri et al., 2020). It is also the adoption of digital technologies and the substitution of nondigital processes with digital ones, leading to changes in the organization and the advent of new business models (Radziwon et al., 2021; Verhoef et al., 2021) or the amendment of existing ones (Dabrowska et al., 2019). According to Dabrowska et al. (2022), digital transformation is a socioeconomic change across organizations, individuals, societies, and ecosystems formed by the use and adoption of digital technologies. Digital technologies surpass organizational boundaries (Nakarni & Prugl, 2020) because they outline organizational value propositions and business models and can infer new organizational identities (Wessel et al., 2020).

Digital transformation is regarded as a holistic notion that includes technologies, organizational changes, and strategic changes (Matt et al., 2015). It can be seen as a process undergone by an organization to revamp its outdated approach while embracing new ways of working and thinking by using social, digital, mobile, and new technologies (Terrar, 2015). The financial sector is going through intense transformation, and digital technologies are used for payments, insurance, lending and wealth management while this process has been exacerbated by the COVID-19 pandemic (Feyen, et al., 2021).

DOI: 10.4018/irmj.320642

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The digital transformation of financial service systems has been accelerated by the financial technology (FinTech) organizations because of the disruptive innovations by these new market entrants that oppose the position of the mainstream financial institutions (Breibach et al., 2020). Mandela (2018) also holds the view that the emergence of FinTech companies has further disrupted and challenged traditional banks, resulting in a competitive and intensified digital transformation. The retail banks have been at the vanguard of this technological revolution distinguished by rapid implementation of digital innovation services and innovative breakthroughs altering conventional banking practice (Krasonikolakis & Tsaropoulos, 2020).

The South African banking sector has pursued and embedded digital mechanisms such as digital wallets, blockchain, cryptocurrency, online banking, and mobile banking (Jenkin and Naude, 2018). Louw and Nieuwenhuzen (2020) point out that the traditional South African banks have commenced implementing digitization across their business models and services by presenting Internet banking services to their customers as well as access to their websites. Digitization is acclaimed as a strategic focus area for the sector, and it is one of BankSETA's five strategic priorities (BankSETA, 2018).

The main problem in the financial sector is that not many traditional financial service providers have implemented comprehensive digitization (Groberg et al., 2016; Kelchevskaya & Shirinkina, 2019; Niemand et al., 2020). Consequently, they often offer an incomplete range of services and are thus faced with both operational and strategic barriers within the digital transformation process (Diener & Spacek, 2021). A report developed by Capgemini research institute (Capgemini, 2022), revealed that many financial services organizations are lagging in digital transformation compared with other industry sectors.

Financial services institutions are lagging their digital capabilities owing to a shortage of skills, leadership, and collective vision required to shape the digital future. There is a gap in the literature on this issue because no research on modeling digital transformation within the financial sector has been carried out. For this reason, this paper contributes to the issue of digital financial sector transformation and identifies the factors (variables) that enhance digital transformation within the financial sector from the South African perspective. In line with this research objective, this study identifies the factors contributing to digital transformation within the financial sector leading to the development of a model using a methodological approach based on surveys conducted using financial sector managers and employees and exploration of multiple best-practice approaches. Moreover, the research in this study focused on answering this question: How can we conceptualize a model for the digital transformation within the South African sector?

In this paper we review the literature, as well as the conceptual framework; present the research methodology; examine analytical results; and discuss the conclusions, limitations, and future work of the study.

LITERATURE REVIEW

Phases of Digital Transformation—Digitization, Digitalization, and Digital Transformation

Mikalef and Parmiggiani (2022) argue that the notions of digitization, digitalization, and digital transformation have different meanings and that they require a radical approach. They describe digitization as a process of moving from analog to digital, whereas digitalization is defined as “the way in which many domains of social life are restructured around digital communication and media infrastructures” (Brennen & Kreiss, 2016, p.1). Additionally, digital transformation is defined as “a process that aims to improve an entity by triggering significant changes to its properties through combinations of information, computing, communication, and connectivity technologies” (Vial, 2019, p 9.).

Digitization is the “encoding of analog information into a digital format (i.e., into zeros and ones) such that computers can store, process, and transmit such information” (Loebbecke & Picot, 2015, p.150 ; Dougherty & Dume, 2012, p.1468). Moreover, Verhoef et al. (2019, p 889.) defines digitization as “describing the action to convert analog information into digital information”; that is, digitization

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