

Surviving and Thriving in the 4th Industrial Era of the Financial Service Industry

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Abstract

The financial service industry globally has been one of the most impacted industries by the technological, demographic and socio-economic disruptions. Moreover, the volatility, uncertainty, complexity, and ambiguity (VUCA) conditions in the world has created a greater challenge to most companies including Bank Mandiri. As one of the biggest state-owned banks in Indonesia, Bank Mandiri is mindful of the importance and vital role of their leaders to survive and thrive in the fourth industrial era. Along with other strategic initiatives, Bank Mandiri developed and implemented an extensive and integrated leadership development program to build leadership capacity in facing this disruptive era. Hundreds of its high potential employees have participated in the Middle Management Development Program (MDP) which started in 2014. This paper provides insight on the effectiveness and potential value of an integrated leadership development approach in building its leadership capacity by exploring how MDP graduates applied the tools and knowledge from MDP in their careers and how the business leaders as the “users” of MDP graduates values them. A survey was conducted with MDP graduates and their previous year performance evaluation and talent classification were analysed. The findings indicate that 79% of MDP graduates believe they were successful in applying MDP knowledge and 95% of MDP graduates’ performance appraisal from their supervisors are classified as exceeding expectations. Based on Bank Mandiri’s experience and lessons learned, the effectiveness of an integrated leadership approach requires strategic and extensive content for learning, an innovative learning journey, and strong commitment from top management.

Keywords: Leadership Development, 4th Industrial Era, Bank Mandiri, Financial Service Industry

Introduction

Bank Mandiri was established on October 2nd, 1998, as part of the bank-restructuring program of the Government of Indonesia. Four state-owned banks were merged into Bank Mandiri. After the merger, Bank Mandiri conducted several corporate transformation programs. (Bank Mandiri, 2018a). Today, Bank Mandiri has become the biggest state-owned integrated financial institution in Indonesia. The bank is also known for its successful merger story in the banking industry.

Bank Mandiri provides banking, insurance, leasing, and investment services all over Indonesia. As of September 2018, its assets were US\$33 billion with US\$1.7 billion profits and US\$8.1 billion revenue. It employed more than 74,000 employees, 68% of which are millennials. The operation covers 2,600 branches, 2,400 micro outlets, 12 subsidiaries, and 7 overseas branches in London, Hong Kong, Shanghai, Singapore, Malaysia, Cayman Island, and Timor Leste. (Handaya, 2018a).

On the bank's 20th anniversary in October 2018, Bank Mandiri was ranked 11th among the world's best employers by Forbes Global 2000. It was among other global companies like Alphabet, Microsoft, Apple, Walt Disney, Amazon, CNOOC, Daimler, Kasikornbank, Celgene, and BMW (Forbes, 2018).

Literature Review

Disruption Forces Transformed the Financial Industry

Horney, Pasmore, & O'Shea (2010) described the current business environment as volatile, uncertain, complex and ambiguous (VUCA). The U.S. Military first introduced the term when the Cold War ended. Organizations are struggling to navigate in a VUCA world. This can be seen from the volatility of the global economy, the uncertainty of the shifting of customer expectations, and new players in the market. The intense pressure from regulators have created a complex process and a shorter and faster innovation cycle.

Furthermore, Schwab in 2015 stated that the world is entering the fourth industrial revolution era that is fundamentally changing the way humans live, work and relate to one another. The fourth industrial era is evolving at an exponential rather than a linear pace and will have a major impact in many industries. The technology revolution will significantly disrupt existing industry value chains.

These disruptive forces are radically transforming the financial industry globally and domestically. The financial technology ("fintech") firms are disrupting the financial service industry reported by the Economist Intelligent Unit (2015). They are challenging banks in every product line in their portfolios from payments to lending to foreign exchange. Moreover, new competitors are using the power of technology to upend conventional wisdom and transform banking (Deloitte, 2016). Ant Financial in China is an example of the fastest growing bank that leverages the power of technology to take over intermediary functions from the bank (Cheng, 2018).

The Need and the Will to Reskill

Financial services industry executives globally are facing these pressures and challenges. Digitization has reshaped the banking competition landscape significantly. Bankers agree that their work is going to change as a result of the disruptions (Deloitte, 2018). The changing of financial business models and the integration of the financial eco-system has created a greater risk. As a result, risk management skills need to be elevated. Moreover, the Indonesian financial industry workforce is flooded by millennials. Septiari & Kusuma (2016)

indicated that 44.9% of the Indonesian workforce was born between 1980 and 2000. The 2018 OECD Economic Surveys: Indonesia stated that half of Indonesia's population is under 30 years old. This potential demographic dividend can be an advantage for Indonesia

These millennials are in a transition to become the next leaders with different styles of how to see the world. Most of them lack essential leadership skills required for organizational success (Nye, 2017). Thus, to tackle those challenges, bankers would need develop their roles as business leaders by considering three circumstances:

1. The development of leadership skills plays a significant role in the creation of sustainability competitiveness and performance (Edwards, Elliot, Iszatt-White, & Schedlitzki, 2013).
2. It is critical to build the dynamic capability for the leader, which is an ability to renew and recreate the organization strategy to continuously tackle the wild environment (Neo, 2018).
3. The integrated solution approach to leadership development represents a more strategic, synergistic, comprehensive, and sustainable way for organizations to build the leadership capacity to gain a competitive advantage. (Weiss & Molinaro, 2006)

The above actions require serious commitment from all members of the organization from the Directors, senior business leaders, and the Human Capital team. The process is more complex but in the long term it delivers a greater value to the organization and ensures that the investment in leadership development is optimized.

Bank Mandiri Talent Management

Bank Mandiri's Human Capital organization are continuously improving its operation to drive business value, one of the initiative is linking the right person to the right position. It's talent strategy is to get the right people into the right places and doing the right things with the right attitude (Handaya, 2018b). This resonates with Ingham and Ulrich (2016) which explain the importance of managing talents, developing leadership capabilities and culture to build organization competitiveness. In developing the talent dynamic capabilities, the integrated leadership development has been designed starting from the management trainee level up to the executives' level (Handaya, 2018b). The structure is as follows:

1. The Officer Development Program (ODP) aims to introduce new recruits to the banking industry and develop its personal leadership.
2. The Master Degree Scholarship Program (S2) provides opportunity for high performing employees to pursue master's degrees in top global universities. The program aims to provide employees with global exposure and enhanced their skills.
3. The Middle Management Development Program (MDP) aims to develop high potential employees to become managers that are able to articulate the strategic directions, manage the team and execute the strategies.
4. The General Management Development Program is aimed for high potential employees who are the successors or are already in the executive's position. They are equipped in managing complex issues and navigating the business in this VUCA world.
5. The Executive Development Program (EDP) provides a development program for Bank Mandiri's Board of Directors to broaden their horizons and knowledge with the current and future global issues and trends.

The structure can be described in the below graphic:

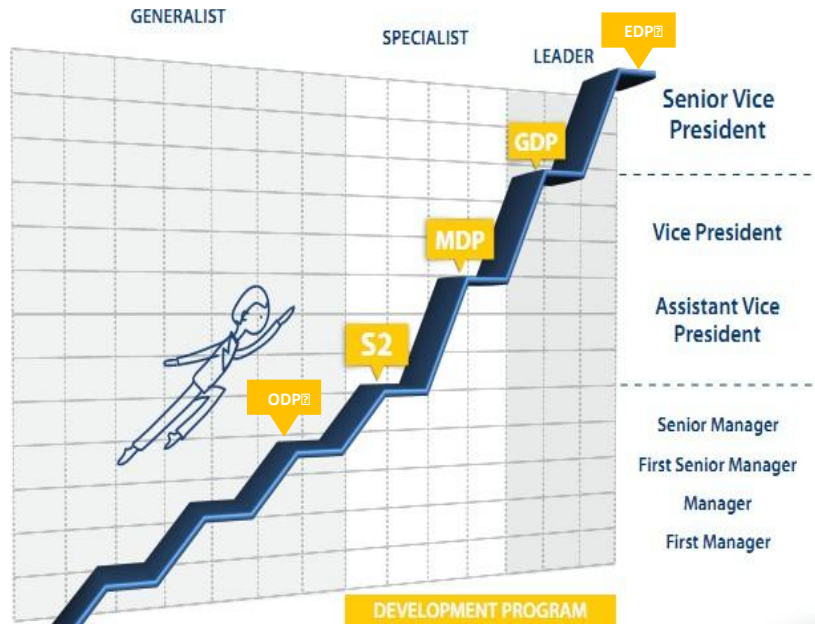


Figure 1: Leadership Development Structure

Research Methodology

Research Purpose

The focus of research that has been conducted for four years is the Middle Management Development Program (MDP). The research purpose is to explore the effectiveness and potential value of the integrated leadership development approach in building its leadership capacity. The research aims to answer the following questions:

- Are MDP graduates applying the tools and learning from MDP in their careers?
- How do the business leaders as the “users” of MDP graduates value them?

Research Methods

Quantitative research is applied in collecting and analysing the data. Data was collected through an online survey to MDP graduates and a review of MDP graduates’ 2017 Performance Management and Talent Classification generated by Bank Mandiri’s Talent Management Department.

The online survey was conducted by MDP’s Academic Director, Associate Professor Maxim Sytch of Michigan Ross Business School in July 2018 (Sytch, 2018). The survey was distributed to 200 respondents. 107 or 53.2% of MDP graduates responded to the survey. The identity of respondents was not tracked and their confidentiality was assured. This research analysed parts of the survey results to investigate whether MDP graduates are applying the tools and learning from MDP in their careers.

Annually, Bank Mandiri’s employees’ performances were evaluated independently by their supervisors using performance management tools called Mandiri-Easy (Employee Appraisal System). The performance management ratings range from exceeding expectations, meeting expectations, and below expectations. This linked to their bonus and other compensations (Bank Mandiri, 2017). Based on the employee’s performance and potential, employees are mapped into talent classifications. Employees are categorized into five type of talent classifications: high potential, critical resources, key contributor, underachiever, and limited contributor. This research analysed the MDP graduate’s 2017 performance management and talent classification data to explore how the business leaders as the users of MDP graduates evaluate and value MDP’s graduates’ performance and potential.

Research Findings

The Middle Management Development Program (MDP) was established in 2014, with the purpose to equip high potential employees with capability, culture, mindset, leadership, and purpose to become the managers that are able to articulate Mandiri's strategic directions, manage the team, and execute the strategy. As of 2018, eight cohorts have been conducted to develop 207 high potential employees.

The learning journey of MDP duration was six to seven months where the participants were learning while still working in their current jobs. The integrated program involved the BOD and senior executives in conducting an action learning project that relates to strategic business issues. Moreover, the participants were expected to collaborate with their peers from different units and listen to customer voices. An executive coach coached them to improve their personal leadership skills. To gain insights on the current issues and trends, Bank Mandiri partnered with one of the top business schools in the world. The MDP participants were given an opportunity to create a global network by visiting global companies in the United States, United Kingdom, Hong Kong, China and Singapore to practice their executive presence. At the end of the program, they presented their action-learning project, which has to be innovative and implementable in solving the business problem. These presentations were conducted in the Board of Directors and Seniors Executive Forums where they were challenged and valued. It was an opportunity for the board and business leaders to see the potential successors of the organization.

Data Interpretation

The overall survey result indicates that 79% of MDP graduates believe they were successful in applying MDP knowledge. The survey results indicated that the percentage of MDP graduates agreeing with the knowledge application are as follows: 89% stated they applied the insight and skills, 90% indicated MDP enabled them to do their jobs better, 89% helped them prepare for the next strategic roles at Mandiri, 90% enabled them to embrace the customer-centric mindset, and 92% developed their personal leadership awareness for how to develop themselves in the future.

The MDP's graduates stated that what is most useful to them in MDP are: Learning how to build and leverage networks and relationships, collaboration across silos, managing teams and leadership, skills to manage change, art of communication and influencing people, communication, marketing, and project management, and a broad network and the cohort system that enlarged their network

The MDP graduates' 2017 performance management and talent classification data analysis (Bank Mandiri, 2018b) showed that: 95% are exceeding their supervisors' expectations and 5% are meeting expectations, 66% are classified as high potential, 33% are critical resources, and 0.5% are key contributors.

In terms of career progression, MDP's graduates also stated that 59% have been promoted, 56% are at the expected position level and 75% have significantly changed in their job. This is part of providing new exposure and continuously developing them by assigning them to a strategic and critical role in the organization.

MDP's Impact

The impact of MDP can be comprehended from three perspectives:

1. Personal: MDP graduates have experienced a transformation of behavior, confidence, and professionalism such as global mindset, executive presence, and strategic application of core learning topics. They have become more engaged and improved their leadership skills. They have also become purpose-driven leaders. One of them testifies that:
“After graduating from MDP, I launched several initiatives to be more engaged with my team. These initiatives instantly boosted my team’s motivation to work harder and better.”
2. Teamwork: MDP has created a strong and effective cross-functional collaboration and increasing appreciation of the value created by others outside their core area and business. One testifies that:
“I searched my personal network to discuss a situation who knew other alternatives; understood who the person in charge was and his surrounding contacts, trying to persuade them of the idea. As a result, we showed some alternatives to customer, and they were happy. Furthermore, the relationship with the customer improved, which led to other deals.”
3. Bank Mandiri: The organizational impact has been achieved through the implementation of an action learning project where new ideas and business were generated as a result of cross-collaboration and development of a new cadre of future business leaders within Bank Mandiri. One testified that: *“With the collaboration between loan, branch and wealth unit, we made acquisition of our region's targeted customer. All team members are cooperative and far less siloed. More revenue was generated with multiple units collaborating.”*

MDP's Success Factors

Weiss & Molinaro (2006) stated that integrated leadership development is complex and intense. The research findings support the arguments and identified that the key success factors were “real time” implementation of program content to solidify and integrate learning, top management coaching of high-potentials helps to build relationships, trust, and enhanced feelings of empowerment, participants must “step up” to a higher level of strategic thinking and leadership, and finally, participant’s cross-functional understanding must be built to acquire a bank-wide perspective.

Conclusion

The research findings indicate that an integrated leadership development program in Bank Mandiri was developed and implemented in a strategic, synergistic, comprehensive, and sustainable way. More importantly, the data shows the effectiveness of an integrated leadership approach. This can be seen from how the participants viewed the benefit of the program in their job and how the business “user” values their performance. 79% of MDP graduates believe they were successful in applying MDP knowledge and 95% are exceeding their supervisor’s expectations. The effectiveness of an integrated leadership development approach requires first of all a strategic and extensive content of learning which covers technical, thinking, and leadership skills, project management, team dynamic, agility to embrace business needs, and soft aspects such as mindset and purpose. Second, a transformative learning journey such as an action learning project, coaching, market visits, and global networking, and third, serious and consistent commitment from top management to ensure the sustainability and credibility of the program.

These, however, are early and preliminary findings generated from 8 cohorts of MDP graduates. Future research is recommended to further explore data from a range of other sources to identify areas to improve the effectiveness of the integrated leadership program in the future.

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