

Modernization practices and Operating Models: An Empirical Study on a Retail Bank in Sri Lanka

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Abstract

Purpose: The purpose of this research is to investigate how modernization practices adopt concerning operating models, to comprehend how a retail bank has responded to such transformations, and to investigate the challenges in executing modernization strategies in a Sri Lankan local bank.

Research methodology: This study was conducted according to a qualitative single-case study at one leading licensed-commercial bank in Sri Lanka. Data was gathered from semi-structured interviews, direct observations, and archival documents.

Results: The findings revealed that unprecedented changes in customer behavior, fierce competition, and capitalizing on capabilities for surviving a dynamic operational landscape were the factors that led a bank to adopt modernization.

Limitations: As the study narrowed down to one leading retail bank, it does not cover modernization initiatives offered within the other services portfolio in the banking industry.

Contribution: The findings assist professionals to understand the need for modernization of a retail bank's operating model and thereby formulate strategies in order to capture the benefits of such a transformation.

Keywords: *Modernization, Retail-Bank, Institutional Theory, Operating System*

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1. Introduction

The journey of adopting modernization in an organization can be both exhausting and expensive, as it demands substantial investment and radical changes are introduced to the structure and processes, hence the constant pressure on innovation. This journey is transforming businesses to become more agile, making them cheaper, faster, and more productive to operate. Modernization driven by componentization and digital enablement requires businesses to build from within and partner with external organizations as much as pay attention to customer experience (Sofi, 2019). According to Imeson & Pugh (2012), fast-changing customer expectations, technologies, methodologies, and regulatory and compliance pressures emphasize how organizations are required to modernize their business and operating systems to benefit from the next period of growth (Chigora, Kapesa & Svongoro, 2021). According to Kumar and Gulati (2010), modernization in banking is rapidly changing the banking products, services, and operations. It also specifies how modern banking systems are comprised of partial or total automated and technology-based banking practices. Modernized banking system practices are recognized to be innovative and aggressive in terms of product development, diversification of services, and market-retention efforts (Gupta, Raychaudhuri & Haldar, 2018). Awasthi and Sharma (2001) emphasize how advances in technology are set to change the face of the banking business and also reveal (Vadlamani, 2011) that information technology has not only helped banks to deliver robust and reliable services to their customers at a lower cost, but also helped banks to make better decisions.

An organization trying to strive for stability and flexibility in their key areas will find the operating model provides an architecture for conducting business operations by adapting the operating elements in the model to incorporate flexibility, dependability, and quality of service within compliance and regulatory requirements ([Ditmore & Miller, 2021](#)). Modernization, however, demands the necessary change in banks for both back office and front office functions, which might have served different objectives and supported areas that require a change to suit the challenges and operations of tomorrow. Hence, making the operating systems more relevant and effective ([Imeson & Pugh, 2012](#)).

Sri Lanka was one of the pioneers in introducing economic reforms during the 1980s in South Asia to improve the efficiency of the financial market and competitiveness and thereby provide a better service to the customers, like leading financial markets in Europe. While embracing economic reforms, Sri Lanka has seen intense competition in the banking sector as private banks, foreign banks, and other financial service institutions enter the market, putting competitive pressure on the sector ([Piyadasa, 2007](#)).

The competitive economic reforms have led to changes within the market that demand a different approach to banking, hence increasing the internal pressures driving the need for the banks to transform their outlook and operations. Banks are now required to undertake radical changes to transform. Thus, modernization is guiding the path as to how banks can achieve the transformation they aspire to. According to [The Annual Report of the Central Bank of Sri Lanka \(2018\)](#), it has advocated and supported the local banks in order to create and achieve a transformation through modernization while the Central Bank has also started adopting modernization.

Accordingly, this study focuses on modernization in one major bank-situated financial services landscape in the Sri Lankan context. This study, not only considers the strategies to modernize the banking operating systems but also the underlying motivations to adopt modernization viewing from the lens of Institutional Theory and the challenges encountered in the execution of modernization strategies. An established context for the Sri Lankan banking industry is already created, and the banks must identify possible avenues to pursue modernizing their operations. This has led to the question of how a local bank would make itself 'Future-Ready' by modernizing its operating model. Having no previous studies concerning how a comprehensive view on this matter in both international and national contexts and a gap being identified in literature this study, therefore, creates a strong standing in terms of discussing and investigating the above interaction that occurs in a local bank in Sri Lanka. Whilst emphasizing the importance of modernization, this study seeks to investigate the research questions;

1. In what ways is a leading local retail bank influenced and pressured in order to adopt modernization?
2. How would the banks take the initiatives/strategies to embrace modernization?
3. What is the nature of the barriers for a local retail bank to modernize its operating system model?

The base theory for this research was Institutional Theory, which was used to understand how modernization is embedded in the operating model of a retail bank when it adopts a modernization. Institutional theory points out that organizations are not perfectly rational bodies for generating products and services but adaptors to the environment. Therefore, cultural and social elements themselves are expressed in the "institutional" sense of social norms and prescriptions as to what constitutes "legitimate" actions. Adoption of these legitimate factors, leading to isomorphism with the institutional environment, increases the possibility of survival ([Jaja, Gabriel, and Wobodo, 2019](#)). In the dynamic business landscape of organizations, particularly retail banks will have to embrace modernization in order to be agile and responsive to certain social and cultural norms that emerge from isomorphic pressures in order to gain legitimacy and thus secure sustainable growth prospects.

Accordingly, [Teece \(2012\)](#) states that organizations must be able to sense and assess new opportunities, seize value from these opportunities, and ultimately reconfigure organizational structures in order to enable organizational change and maintain a competitive edge. Thus, modernization tackles all such considerations of that very journey of organizational change while winning the competition, therefore,

adds a greater value to the existing literature. Also as emphasized by [Hinings, Logue & Zietsma \(2017\)](#), Institutional Theory offers a strong framework for studying how organizations adapt to their "Institutional Environment" and stresses that organizations are not entirely rational, but dependent on the context and forces in the environment within which they function. In terms of theoretical significance, the study understands the underlying motivations/influences in adopting modernization in order to achieve change in a local retail bank's institutional context by bringing a new viewpoint to the literature. This study contributes to the practitioner by documenting the modernization of one large retail bank concerning operating models, which determines how resources are allocated across the organization. In addition, it's important to identify and understand which factors and forces are influencing a retail bank.

2. Literature Review

Banks focus on design thinking that will lead to new product development reinventing how customers interact with business and incorporating customer inputs to make their experience a compelling one considered to be important ([Bollard, Larrea, Singla & Sood, 2017](#)). As a result, the banking services that used to be more product-centric and involved with maintaining multiple records for the same customer have to transform by placing the customer front and center giving much more attention towards customer relationship management and deriving digital customer identities based on customer's digital behavior.

Considering new product development, banks acting as the root of liquidity provision and making loans have now transformed into an increasing trend of introducing securitization. The trend is such that banks are becoming a one-stop shop for financial services in facilitating an improved and superior customer experience ([Federal Reserve Bank of San Francisco, 2001](#)). [Uppal \(2010\)](#) reveals that the quality of e-banking services in a changing environment made the customers satisfied with the different e-channels and the services provided by e-banking. A research study on retail bank customer preferences ([Durkin, McCartan-Quinn, O'Donnell, & Howcroft, 2003](#)) reveals that customer-bank relationship was improved through mobile, internet, and phone banking. Furthermore, banks inspired by 'Single-View-Customer' driving more customized and relationship-based pricing taking account of the customer-specific value to the banks have been constantly emerging in the banking sector. Hence having facilitated a 360 view of the customer will further facilitate up-selling and cross-selling ([Imeson & Pugh, 2012](#)).

Modernization and Delivery Channels in Retail Bank

The service process can be defined as the configuration of technologies through which service providers sense and respond to the dynamic and complex needs of their clients using advanced technology ([Dabholkar & Overby, 2005](#)). The bank's physical environment is as crucial as it is to be equipped with technology ([Barnes & Collier, 2013](#)). [Awasthi and Sharma \(2001\)](#) always specify that technology has changed the delivery of banking services in retail banking. It analyzed the impact of new technology on the banking sector and reveals that technology is changing the way business is done and it's making it more cost-effective. Widespread use of information technology to support the nature and the method of facilitating banking services among private banks has revolutionized the banking sector competitiveness and expectations of the customers, especially using automated banking technologies ([Mittal & Agrawal, 2016](#)). Mobility is one of the most important focuses towards a better delivery channel, proving a direct correlation between mobile banking and customer retention. As examples of different delivery channels ATMs, telephone banking, online banking, self-service kiosks, and mobile banking are being recognized ([Imeson & Pugh, 2012](#)). [Kumar and Gulati \(2010\)](#) highlight if the service systems and processes are being implemented properly how the organization will yield benefits from it. While [Girish and Preetha \(1997\)](#) emphasize how important the banking services are and the delivery method highlighting the way customers would continue to use the banking services online even though the bank is physically closed.

The concept of Banking Modernization has also been explained by the method of introducing conversational platforms allowing more customer interactions through methods such as Call-Center

to provide more personalized assistance ([Vadlamani, 2011](#)). To provide a better delivery channel, understanding important areas that contribute to customer value and thereby attempting to streamline such areas through modernized processes yet making sure the changes are integrated would be deemed important in order to ensure successful execution of modernization in terms of delivery channels ([Bollard, Larrea, Singla, & Sood, 2017](#)). Furthermore, [Imeson & Pugh \(2012\)](#) suggest that the banking delivery channels need to be adaptable so that the high-value customers are provided with exceptions while ensuring the rest of the customers are too, being provided an efficient service considering the client life cycle.

Modernization and Employee Capabilities in Retail Banks

[Mouawad & Kleiner \(1996\)](#) reveal that the human element in business relates to the customer-employee relationship and the interaction in facilitating the business service. The reason why people's capability and this human aspect are so important is that it affects the customer perception of the services of a bank, which in turn affects the overall performance as well ([Muhammad, Salleh, & Yusr, 2020](#)). According to [Mittal & Agrawal \(2016\)](#), a few concerns related to employees arising from modernization have been recognized, such as employees viewing modernization practices with their traditional mindset and a lack of trust placed in the use of technology, so it was observed that employees were repeating the tasks manually. Furthermore, [Macky and Boxall \(2007\)](#) also highlight that higher customer satisfaction can be achieved in an agile business setting by transforming employees to be more knowledgeable, empathetic, innovative, and energetic in delivering their tasks more effectively. [Imeson and Pugh \(2012\)](#) further demonstrate that the acquisition and management of people talent can be automated for instances such as recruitment, training, employee pay, and performance evaluation.

Institutional Theory

According to [DiMaggio & Powell \(1983\)](#), one approach to interpreting Institutional Theory would be through Isomorphism, where a unit tries to resemble the other different units within the same environment to gain legitimacy. Isomorphism is also explained as a method for organizations to change and adapt to three processes: coercive, mimetic, and normative. Coercive isomorphism is where organizations are dependent on expectations by powerful stakeholders that organizational practices may require to be altered as a result of the pressure perceived. Mimetic isomorphism can be identified in uncertain situations that influence the organizations to imitate the other units to ensure survival and gain an advantage over other organizations. Finally, normative isomorphism is where pressures are perceived by other external sources, such as professionals.

The institutional theory provides a rich background for analyzing how organizational change occurs and which factors or behaviors in the institutional environment cause the change. The studies further expand this idea, stating the motives such as in order to secure the accessibility of the resources needed for operations and to ensure the long-term survival of the organization ([Scott & Meyer, 1983](#)). Thus, [Hinings and Greenwood \(1988\)](#) further explain that the government's promoted change and innovations are widely adopted by the organizations, whereas the institutions may share a strong relationship with the government, which in this study may affect the public bank's performance. Institutional theory can also be used in explaining the adoption of innovations, whereas [Zucker \(1986\)](#) emphasizes that if the innovations or changes are linked to the outlook of the organization, which affects the corporate brand, they are more likely to be adopted commonly across organizations in order to secure its survival.

As explained by [Hinings and Greenwood \(1988\)](#), the early applicants for innovation possess a template for change, whereas these institutions will be able to explain the innovation rationally. This study aims to discuss the barriers to implementing certain modernization strategies. Institutional theory has provided a basis for challenges that banks/organizations will face as well. Therefore, this has been identified as an opportunity to extend the existing studies and provide a much more comprehensive picture by connecting the important dimensions of operations using operating models and connecting modernization that not only includes the products or the mode of delivery but also the overall process and policy changes and considering qualitative aspects of the operating model to make sure the banks will have a competitive advantage over their rivals.

3. Research Methodology

As this study aims to investigate the underpinning motivations that lead a local bank to adopt modernization, an in-depth analysis of modernization within the context of the banking industry is discussed through a qualitative single case study approach carried out at one large licensed commercial bank in Sri Lanka.

Empirical Site- Overview of the retail bank-A case organization

For this research study, the empirical site is named ABC Bank PLC, one of the largest licensed commercial banks in Sri Lanka with a 14 million customer base in retail banking and a fully owned subsidiary of the PQR group of companies. ABC Bank PLC was established in 1961, with 9 branches spread across the country and an initial employee base of 169. However, their computerization initiatives started in 1986, whereas operations at headquarters were completely automated by 1987. ABC Bank offers five main types of services that are tailored to the clientele being served by each service category within their product portfolio: Retail Banking, Corporate Banking, Enterprise Banking, Treasury and Investment Banking, and International Operations. ABC Bank PLC's Value Statement states that the bank is committed to fostering a "continuous learning culture and team spirit," as well as the acting CEO of ABC Bank praises the disciplined organizational culture and the commitment of ABC Bank employees to the company that makes it stand out in a variety of key areas such as risk management, governance, and leadership. The next mission of ABC Bank was to introduce digital transformation, which was initiated in 2015, and since then the bank has experienced significant developments where ISO/IEC 27001:2013 standard certification for information security management has been earned, being the first and the only bank to receive such an international accreditation on information protection and security. The crowning success of ABC Bank's digitalization drive is becoming the bank with the most downloaded mobile banking and finance app in Sri Lanka with 300,000 downloads.

Data Collection

For this study, interviews, direct observations, and archival documents are the sources used to gather data, with a strong reliance placed on interviews. The most relevant 15 participants have been chosen to undergo the semi-structured interviewing process, which was based on the current and previous roles held by each participant, representing diverse organizational positions within ABC Bank. The interviews lasted between 30 and 90 minutes, and all the interviews have been audiotaped and notes have been taken during the interviews as required, with the acknowledgment of the participants.

Under document review, data has been gathered by reviewing different documents such as annual reports on the banking industry, other expert industry analysis reports, internal project reports, internal magazines, manuals, and other publications have been utilized. Permission from ABC Bank is obtained to visit the corporate office; thus, the branch that is operating is embedded in the corporate office. This involved observing the physical workplace environment of ABC Bank for its employees across departments and throughout the visit to the bank's operational branch, explanations have been provided highlighting the new technologies that are exclusively implemented within the corporate office branch and the modernization strategies that are being readily operationalized within the branch network.

To promote that this study secures the credibility of the data collected, the authors' data triangulation has been undertaken to reduce the weaknesses in each data collection method, which is supposed to be compensated appropriately by another to preserve the overall quality of the study. Thus, upon gathering the data from interviews, observations, and field notes, the data has been verified using archival documents such as annual reports, project proposals, and other internal and external documents.

The data has been processed into the form of transcripts and documents being categorized according to the chosen dimensions, namely, customer service, delivery channels, and people capabilities as the components of the operating models when analyzing the modernization strategies and the common categories in studying the factors that drive modernization and the challenges faced in implementation.

The categorized data has been analyzed using the Content Analysis and the data has been interpreted from the primary sources, whereas secondary sources were used in data triangulation and enhancing the overall validity of the study.

4. Results and discussions

Influences embracing the Modernization in a Retail Bank in relation to ABC Bank PLC

Currently, the bank holds a diverse product portfolio in retail banking, corporate banking, enterprise banking, Treasury and Investment Banking, and international operations, whereas in retail banking there are tailor-made products in terms of savings, loans, and other channel products. The bank's operations have spread across Sri Lanka, with 739 branches by the end of 2019. As revealed by Assistant General Manager – Risk Management, who has previous experience of being the head of the Risk Management division, stated: I must mention that the top focus of senior management is to promote an environment to enable the bank to effectively address the emerging challenges evolving in various forms that may transform the banking industry. We now need to innovate new banking solutions and meet the evolving needs of our customers within our operating model. Our strategic plan offers a clear path to achieve this.

As a result, ABC Bank places greater emphasis and commitment on identifying the factors that necessitate transformation in order to ensure long-term growth, and in proposing the necessary strategies that can be embedded in the operating model. This has been readily emphasized by the Senior Deputy Manager – Retail Banking by stating how they keep updated on threats, challenges, opportunities, and trends emerging in the banking landscape, taking a proactive approach to adapt to such an uncertain environment.

Furthermore, the [Annual Report of ABC Bank](#) (2019) highlights its commitment to pursuing new business opportunities, investing in and developing new technologies to compete in a volatile market landscape, thus improving the resilience of the bank's operating model. The bank utilizes a materiality analysis in order to facilitate the identification of significant economic, environmental, and social impacts on business and responses from stakeholders based on analysis have been conducted on the probability of occurrence and the severity of its impact, and the outcome is being tied directly to the bank's philosophy. In addition, the outcomes of the materiality assessment have prompted ABC Bank to provide an unprecedented customer experience and to change the status quo in the banking industry by improving core organizational processes and re-examining some of its decade-old routines empowered by change and innovation to address the environmental challenges pertaining to the growth of the bank.

Institutional Theory provides a strong basis to comprehend the importance of being adaptive to environmental forces, as illustrated by [Jaja, Gabriel, and Wobodo \(2019\)](#). Organizational survival is only feasible in a setting of environmental awareness, rapid response, and adaptation, which is why it is suggested that organizations cultivate sustainable resilient practices through responsive capacity building, situation awareness, and keystone vulnerability management to be able to align various isomorphic persuasions.

As the Assistant General Manager – Risk Management stated during the interview: We formulate a materiality matrix that highlights which factors require immediate attention. Thus, resources will be allocated to execute a detailed action plan to ensure the addressing of such factors with a predetermined set of outcomes expected to ensure that each factor will either have a positive impact or minimize the negative consequences. If you refer to the strategic plan, you will see that the major developments that we carry out here in technology and changes to our operating systems are based on this.

As outlined above, it is abundantly clear that ABC Bank places a greater emphasis on identifying and addressing environmental conditions impacting the operations of the bank by embracing change and transformation. Thus, such a transformation demands a radically developed operating system and technology that is achieved through embracing various modernization strategies that are discussed in the next section.

Unprecedented changes in Customer Behaviour

[Imeson and Pugh \(2012\)](#) suggest that retail banks are now shifting their ultimate focus from offering high-complexity innovative products to being customer-centric as the banks are witnessing the repercussions of not providing products that are not aligned to the needs of the customer, which exactly makes the bank stand out from those of other banks and financial institutions with radically changing customer expectations. This is one of the major factors that drive a retail bank to adopt modernization as the solution that can facilitate a seamless customer experience is made easy with modernization. Whereas ABC Bank's annual report states that understanding customer needs and providing innovative solutions to address them, thus continuously enhancing service capabilities across all segments through investments in people, information technology, manufactured assets, and robust processes, the retail bank takes pride in being customer-centric, offering tailor-made solutions and providing improved multi-channel access. This was further emphasized by Assistant General Manager-Treasury Back Office: "I am certain that we have progressively modernized our service delivery processes in order to provide our customers with a smooth and efficient service." Digitalization has provided the perfect way to respond to these new and evolving customers. What is necessary now is to use the digital effect to obtain a competitive edge. " The interview conducted with the Regional Manager also revealed how changing consumer dynamics are forcing most banks, including ours, to rethink the operating model and the importance of looking at our portfolio of banking products and services from the point of view of the consumer and making the requisite changes to deliver value to different segments of the customer. The ability to self-serve mainly due to the implications of COVID-19 was emphasized by the Assistant General Manager – Channel Management by stating that one of the key benefits that they offer to their customers is 'unmatched convenience', whether it be physical access to their accounts through the 'brick and motor' branch network or internet and mobile banking. ABC Bank is embracing modernization as a means of responding to customer expectations, and the trends identified within the customer base are viewed as a means for them to gain legitimacy by adapting to reduce uncertainty ([Meyer and Jepperson, 2000](#)). Mimetic isomorphism involves the mimicking of currently existing business models from which a new business model can be created ([DiMaggio and Powell, 1983](#)) in order to position yourself within the market in different roles, such as market leader in order to reach a bigger customer base.

Fierce competition for Market Leadership

The outcome of materiality assessments that organizations may consider for the adoption and implementation of a given change and a development proposal to redesign their internal operating processes and systems in order to look like other organizations they perceive as defenders and explorers in the field, thereby driving the organizational isomorphic change. This highlights another important factor that led ABC Bank to adopt modernization, which is competition. Institutional Theory argues that mimetic isomorphism triggered by competition drives organizational survival behavior, which is why this change is oriented toward revamping the organization for greater success by implementing or mimicking tactics that have given other organizations leverage and credibility ([Jaja, Gabriel, and Wobodo, 2019](#)).

Accordingly, ABC Bank acknowledges in its recent annual report the ability to gain market reign by continuing to develop the corporate brand and retain high brand equity while delivering exceptional value to customers, in particular through the digitization process, to position the bank and its customers for acceleration. It further highlights the bank's strategic vision to position itself as Sri Lanka's unimpeachable market leader in the financial services sector and focuses on transitioning into the most digitalized and technologically advanced bank in the nation. As stated by Senior Deputy Manager – Retail Banking:

Even though we have pioneered many new banking products, similar products have entered the marketplace over the years, creating uncertainty among customers. We, therefore, need to use our strengths to our advantage. Digitalization of our delivery channels is one such strength that can be used to our benefit with effective digital engagement.

Furthermore, the Assistant General Manager – Risk Management stated during the interviews that the way they focus on ensuring that the bank remains the leading financial services provider in Sri Lanka; delivering excellent product innovation makes their bank a clear market leader and the choice for individuals who want the best banking experience.

Accordingly, ABC Bank focuses on achieving brand equity as a strategic priority, with the expected outcome of achieving a competitive edge by strengthening the brand reputation, which leads to increased market share. In order to achieve this, the annual report of ABC Bank acknowledges its pledge to become the nation's most digitalized and technologically advanced bank through continuous and continuing investment in modern technology solutions, a green-conscious culture, and a bank with strong ethics.

Capitalizing on capabilities for surviving a dynamic operational landscape

[Bollard, Larrea, Singla & Sood \(2017\)](#) report on 'The next-generation operating model for the digital world' by emphasizing that organizations are deemed to clearly define their talent goals in order to ensure that organizational talent blends in with the organizational plan and retains pace with customers as they shift the way they consider purchasing decisions. The annual report of ABC Bank recognizes employees as the greatest asset that enables them to fulfill their potential, achieve the vision, and execute the strategy. ABC Bank highlights its dedication to creating a positive environment that can deliver value by uplifting and supporting employees who are the creators of value. In order to meet the emerging needs and future growth of the bank, a strategic combination of deep operational expertise and leading-edge capabilities across the bank's team has been focused on developing through continuous training whilst embracing a forward-looking approach in succession planning in order to adapt to the dynamic banking environment and to ensure the necessary pipeline and capabilities are built within the bank. During the interviews, senior management at ABC Bank emphasized this, with the Assistant General Manager – Channel Management stating:

As a manager, I am attempting to develop an environment that can deliver value by encouraging and supporting team members who are value-creators. We are blessed with 'knowledge workers' who have the ability and expertise to carry out challenging and ambitious tasks. The development of the expertise and skills of staff members is, therefore, a priority without which we will not be able to survive in this rapidly changing, competitive environment.

Furthermore, it was revealed by the Regional Manager saying that the bank is driven by a group of 'knowledge workers' whose expertise is their strategic thinking. Hence, it is necessary to build on this strength by enriching the expertise, skills, and abilities necessary to succeed by continuously seeking new skills and knowledge related to evolving technology and the latest knowledge. ABC Bank in their [Annual Report \(2019\)](#) also recognizes this by identifying the need to ensure the skills, culture, organizational structure, and workforce profile necessary to meet the bank's strategic objectives are created and retained within the bank in the form of a motivated and highly engaged team of employees who have a wealth of knowledge and expertise gathered over the years.

In addition, Institutional Theory highlights that the employees within the organization may ensure that they follow and work in compliance with the professional standards, which tend to be perceived by the organizations that are complying as the ones with best practices. These perceptions are generally reinforced by socialization processes in professional development and networking ([Djelic, 2004](#)) annual conventions, and the presentation of monthly or quarterly bulletins to keep members' professional status alive at all times. Therefore, the employees themselves may ensure the modernization practices evolve within their organizations as if there's a strong norm within the industry and the profession to do so.

ABC Bank further supports this by hosting the innovation as a bottom-up approach, as stated in the [Annual Report \(2019\)](#). Furthermore, Consultant – Retail Loan Origination System stated:

“We really do have a bottom-up approach to bring out any suggestions we may have to improve the operations we are working on. I have personally, being able to do that as I’m directly involved with the IT department. I would say, the culture is changing that employee initiatives are also being shared more and more now”

Being investigated with regard to institutional theory in terms of isomorphism, which is a relatively recent sociological paradigm introduced by [\(DiMaggio and Powell, 1983\)](#) and is now considered to be the most prominent theory in this knowledge-based economy focused on issues of institutional growth and evolution. The factors leading a retail bank to adopt modernization, therefore, are three ways recognized within the context of ABC Bank PLC, investigated with regard to institutional theory in terms of isomorphism, which is a relatively recent sociological paradigm introduced by [\(DiMaggio and Powell, 1983\)](#) and is now considered to be the most prominent theory in this knowledge-based economy focused on issues of institutional growth and evolution. Therefore large companies are collapsing at a faster pace; the level of profit is diminishing as well as overall market performance; there is an immediate need for a strategic response to isomorphic change.

The survival of every organization operating in a dynamic and competitive market landscape has so much to do with how quickly they learn to adapt to the environment and make the most of their scarce resources. ABC Bank a leading licensed commercial bank in Sri Lanka has taken the initiative to act on this in terms of modernizing its operating model which has been discussed in the next section in-depth with strategies.

The strategies to adopt Modernization within a Retail Bank in ABC Bank context

An organization upon understanding its strategic priorities based on the materiality assessments need to next understand what transformations are required to be embedded in its operating model and then allocate the resources to implement the initiative.

Accordingly, the operating model of ABC Bank mainly focuses on its products, delivery channels, and the support services such as the departments of human resources, information technology, purchasing, marketing, risk management, etc in order to create value for the key stakeholders through resources, skills, and interactions as stated in the [Annual Report \(2019\)](#). Based on the key three components of the operating model, the author referred to the materiality assessment in order to understand which aspects of the operating model carry an immediate strategic priority influenced by the factors that lead ABC Bank to adopt modernization. Accordingly, customer experience, delivery channels, and employee capabilities have been chosen to investigate how a retail bank will adopt modernization strategies in its operating model.

Modernization in Customer Experience

Customer-centric banking focuses on personalized experiences, includes a single view of the entire customer relationship, and sets a relationship-based pricing model that is tailored for the segment [\(FIS Global Banking Solutions, 2018\)](#). Thus, ABC Bank focuses on improving its service capabilities through investments in an operating model that can facilitate a deep understanding of the needs of the customers, develop and produce creative, industry-leading products that maximize consumer value by providing cost-effective solutions while building persistent relationships. ABC Bank having over 14 million customer base island-wide with 600,000 customers added every year places greater importance on customer experience modernization to provide a personalized, digitally – enabled, omni-channel and a sustainable experience with the bank. According to Assistant General Manager – Retail Banking, We take pride in offering personalized, comprehensive solutions for all our customer needs to make sure that their every experience with us would be satisfying above their expectations. For this, we make sure we provide continuous innovations to our processes and deliver the best in class, sustainable products and services”

He further stated a few ways in which this has been facilitated for the customers in retail banking through a special focus on Customer Relationship Management through personalized products portfolio, omni – channel delivery of our products and services, customer engagement, and a strong focus on ethical operations including green banking initiatives. Accordingly, it investigated the specific strategies embraced in each aspect of modernization for customer experience for further evidence using data collected from diverse sources.

Personalized Products Portfolio

ABC Bank provides a wide range of products, including deposit products, advances, and other products such as cards. As stated by the Assistant General Manager – Retail Banking, with a thorough understanding of customer needs, they deliver products that are authentic, creative, adaptable, and cost-effective at every point of the customer's life. Furthermore, as he mentioned, they have the second highest deposit base for a retail bank in the country, which shows the quality of the products they offer. He went on to provide a holistic view of the structure of retail banking products, including deposit products, loan products, and card products. During the interviews, the Regional Manager stated about their most unique deposit products that are successfully taking the market leadership, i.e. deposit mobilization campaigns using school balance using the NFC card customized for the student's details and the school colors. Furthermore, the E-statement can be received via email to the customer or through internet banking as mentioned in the customer charter on ABC Bank PLC's corporate website. As mentioned by Digital Agent – 2, they also stated how normal savings accounts generate monthly statements while businesses receive weekly statements while activating SMS alerts once they make a transaction. The author also verified the existence of such a portfolio of products by referring to the [Annual Report \(2019\)](#) of ABC Bank and the corporate website, which outlines the features of each portfolio of deposits, loans, and card products provided by ABC Bank PLC. It is highlighted that the bank's commitment to enhancing productivity and customer experience through digitization, cost efficiencies, and simplifying processes is highlighted.

Customer Engagement

ABC Bank places greater importance on customer engagement as a means of securing long-lasting relationships with customers, with several initiatives in place to achieve this. The author was able to refer to an internal magazine with an article on initiatives that have been taken to enhance customer engagement, such as annual customer satisfaction surveys, a company website to share important information such as deposit and advance interest rates, exchange rates, and other applicable charges updated daily, customer education initiatives, a customer hotline number, and also the annual and quarterly reports for further communication.

In addition, ABC Bank also utilizes social media platforms to encourage customer engagement, whereas the bank has a Facebook community of 205,000 as stated in the [Annual Report \(2019\)](#) which also emphasizes revamping the corporate website to be more interactive and customer-friendly. The author visited the Facebook page of ABC Bank and thus verified the stats mentioned in the Annual Report. The author also obtained evidence on call center operations and customer grievance handling from the Regional Manager, who shared more insights on this. As mentioned in the [Annual Report \(2019\)](#), 1316 employees have been trained to handle complaints. Thus, the bank maintains a 65% completion rate as of the end of the 2019 financial year. The author was thus able to obtain the customer charter from the corporate website in all three languages which provides detailed information and procedures on customer complaints.

Ethical Operations

As the banking industry is approaching an era with an opportunity to provide services to 'new-age' consumers who are conscious of business values and ethics, ABC Bank has also taken a range of initiatives, especially in terms of its delivery channels to customers, to demonstrate business ethics. The author has elaborated on these delivery channels in the next section under modernization in delivery channels yet sought to mention how ABC Bank is taking the initiative to improve the overall customer experience with ethical business conduct. Accordingly, the interview with the Assistant General

Manager—Channel Management stated: Like I mentioned above, we are always willing to go an extra mile to provide our customers with the most proactive and innovative services. The Green concept is another initiative like that for us to provide products and services to our customers that we are proud to offer with modernized delivery channels. This has directly impacted our brand equity as well.

Upon reviewing the [Annual Report \(2019\)](#) and the internal magazines that carried articles on the green banking concept, the author was able to find a few ways how the green banking concept is implemented for better environmentally conscious customers. E-statements, Express-banking, Cash Deposit Machines, Automated Teller Machines that eliminate paper-based transaction processes, SMS and Internet Banking for paperless operations, and Cards that eliminate the need for physical cash are a few examples.

Modernization in Employee Capabilities

According to the Architecting an Operating Model to Accelerate Digital Transformation report by [Deloitte \(2019\)](#), employee capabilities within an organization provide the foundation for a transformed operating model with the right skills demanded by the transformation defined in order to acquire talent, set key performance indicators, and create teams. It has also been mentioned that clarifying and communicating the changes that are required within the culture to the employees who are involved in the transformational activities, tying incentives to drive results, and employee engagement through celebrations of milestones can be used as strategies to uplift overall people capabilities.

Training and Development

As mentioned by the branch manager during the interviews, they are not only excelling in terms of our services and customer base but also the most important asset that we have in ABC Bank, talent. He mentioned that they are committed to clearly defining and communicating to their employees what their roles are and how the roles they are executing create value to empower them, and also he highlighted how their staff has to be enabled with technical knowledge and skills for them to deliver better value. The Regional Manager during the interviews stated: To make use of expertise in the work we do, we plan to record and transfer information in many ways through collaborative learning activities, comprehensive training, and training and development resources.

Referring to the annual report of ABC Bank, it was able to find that the bank places greater importance on employee training and development initiatives, thus measuring and reporting on that as a strategic priority. Accordingly, ABC Bank has invested 104 million in employee training and development, completing 171,045 hours of employee training; whereas the bank has identified the importance of making the staff possess digital capabilities for the future for them to nurture the latest knowledge and skills, hence providing 2,152 hours of training on digital products and services.

Staff Engagement

Staff engagement is an important aspect of any organization and especially one that is implementing radical changes thus embraces an agile approach. For an organization, it's important to identify a roadmap that specifies what type of a culture they want within their organization thus assigning the responsibilities across different business units and levels of leadership in order to make it a success. According to the [Annual Report \(2019\)](#) ABC Bank takes pride in having its headcount remaining the same in times of improving productivity and 29.7% of its employees having a service of more than 15 years. Other than that, the bank follows a clear Promotion and Transfer Policy in order to provide incentives for its employees and this policy has incentive schemes for each level within the bank to balance motivation and career progress consistently. Assistant General Manager – Risk Management revealed during the interview how they highly appreciate the culture including the diversity irrespective of his/her gender, nationality, race, faith, and age, and provide equal opportunities through the promotions and transfer policy. The author was able to refer to the internal magazine the bank is issuing on a monthly basis to educate its employees on different initiatives the bank has embarked on and the added articles for improving their knowledge as well. There were few articles inviting the employees

to Sports Club, Art Club, and the yoga and other well-being programs as well. Accordingly, ABC Bank embraces different modernized strategies toward its employee capabilities as outlined above.

Modernization in Delivery Channels

ABC Bank has identified modernization of delivery channels as a strategic priority with significant investments incurred over the years with many proposed digital solutions soon to be launched. The Assistant General Manager – Channel Management’s insights during the interview revealed that they have decided to embrace the transformation with innovative banking solutions. According to him, the first thing they did was to make it an initiative visible by introducing a new logo and a color change and modifying all our delivery channels accordingly to communicate that they are transforming. Accordingly, it is discovered how ABC Bank is facilitating an omni – channel experience for its customer base, which has been investigated further below.

Retail Internet Banking and Mobile Banking

The authors were able to obtain the insights of the Assistant General Manager – Retail Banking during the interviews on how staff efforts are oriented towards going beyond the brick-and-mortar service culture. The retail banking division, along with the channel management and IT divisions, is, furthermore, aimed at revamping our corporate website in order to make internet banking convenient for our customers. We also developed and implemented many other additional functionalities to provide our customers with the best internet banking experience possible through social media platforms such as Facebook, Twitter, and Instagram.

The authors, upon requesting the changes outlined by the Assistant General Manager–Retail Banking from the IT division, received an internal document that outlines the changes made to the internet banking portal. This includes the functionalities of an online account opening facility, a chat box, an online loan application process, and the only portal that accommodates all three languages widely used in Sri Lanka, English, Sinhala, and Tamil. The Consultant – Retail Loan Origination System further revealed how they engage in the development and testing stages for a wallet app that will enable the customer to use a QR code generated from the wallet app that will show the merchant’s details and payment options.

Retail Loan Origination System – RLOS

The Retail Loan Origination System (RLOS), pursues paperless transactions whereas the process of loan requesting to approval process end-to-end has been transformed into a digital process, making the loan request and approval process efficient and hassle-free. The Consultant – Retail Loan Origination System also stated the importance of the above-mentioned systems as they can eliminate the time lag that existed before arising from document submission and approval. Furthermore, it is advantageous because the process is entirely paperless, with Customer Relationship Offers to assist in educating on the legal requirements and requesting the documents required to process the loan.

Service Culture and Branch Ambience and Self – Banking Units

Whilst ABC Bank heavily relies on digital delivery channels, the importance of conventional branches is also being understood and, thus, modernized in order to extend the level of customer service for an improved experience. The bank branches will now play an advisory role, with more digitalized solutions coming into the picture. ABC Bank has two counter- less branches that only provide the facilities for account opening and self-service banking. Self-Banking units include Automated Teller Machines, Cash Deposit Machines, and Kiosks. Customers can obtain a wide range of services from these machines to provide unmatched convenience as they operate 24 hours a day, 365 days a year. ABC Bank, according to their [Annual Report \(2019\)](#) has 239 self-banking units, whereas the ambience of self-banking has been made more vibrant in order to attract more customers and provide a better service.

The author was able to obtain the functionalities of each machine falling under self-banking units from the channel management division. Accordingly, functions of automated teller machines include balance inquiry, cash-withdrawal, cardless cash withdrawal, mini statements, cash advance, and even mobile

cash receiving—cardless. In addition to this, Cash Deposit Machines serve the features of balance inquiry, cash deposit – cardless, cash deposit – card present, and mini statements. Finally, Kiosks enable transactions such as balance inquiry, bill payments—card present, fund transfer (to own account), fund transfer (to other accounts), mobile reload—card present, mobile cash sending—card present, mini statements, and pawning payment.

Barriers for a Retail Bank to Modernize its Operating Model

The modernization strategies embedded in operating models demand talent overhaul, process transformation, and infrastructure redesign that an organization may need to carefully plan and execute. However, the process of modernization would also involve organizations recognizing and evaluating the challenges that may have an impact on the implementation of modernization strategies or may restrict the benefits derived from such an approach. As revealed by senior management and staff during interviews with the author, ABC Bank has faced a range of obstacles in its modernization journey. The author was able to identify three main barriers that need to be overcome by ABC Bank in order to make its modernization strategies fully effective. Some of the challenges have already been addressed by the retail bank.

Traditional Barrier to Modernization

Traditional barriers to implementing modernization involve the perception of customers and employees towards change in technology in their usual routines. According to the survey conducted ([Laukkanen, Sinkkonen, and Laukkanen, 2008](#)), the traditional barrier can significantly affect the effectiveness of the strategies being implemented. This highlights that the resisters do not like to lose the personal physical touchpoints they have maintained with the retail bank. In the Sri Lankan context, it was highlighted by this survey that the banking customer base in Sri Lanka appreciates personal customer service over systems, and when it comes to employees, ABC Bank has 20% of its employees with 20+ years of experience in the bank according to its Annual Report (2019). This may also pose a significant challenge in providing training and making them adaptable to the new technologies that ABC Bank has introduced with its modernization drive.

Risk Barrier to Modernization

There are two perspectives on the risk barrier to modernization, namely the consumer perspective and the bank's internal information and technology risk arising from modernization initiatives. From the customer's perspective, it may be the hacking of online accounts and the loss of PIN codes that are needed to log in to experience services, while from the bank's perspective, the possibility of data loss, password protection and access controls, and fire and other unexpected disasters are the significant risks perceived.

To provide risk in ABC Bank PLC's perspective, Assistant General Manager – Risk Management also revealed that technological risk is inherited because of their heavy reliance on information technology. In addition to that, security risks like hacking and stealing information, device breakdowns, and failures, technical obsolescence, and insufficient infrastructure to keep up with market volumes are also present.

Usage Barrier to Modernization

The usage barrier relates to the factors that affect usability, such as product or process complexity, thus the focus that banks need to devote in order to make the innovative solutions they implement 'user-friendly'. However, most of the customers who dislike conducting their banking needs on modernized delivery channels reject the idea that such online solutions are user-friendly, that they are willing to learn and familiarize themselves for a better experience next time, and that modernized delivery channels provide an efficient service to them, and that such delivery channels are flexible and interactive. Therefore, this has significantly affected the effectiveness of the modernization initiatives in delivery channels ([Laukkanen, Sinkkonen, and Laukkanen, 2008](#)).

5. Conclusion

The main research question was to find the ways in which modernization is incorporated into the operating model of a retail bank related to ABC Bank PLC's context, and the author was able to discover strategies related to the three main components of the operating model, services, delivery channels, and support services for which a specific dimension has next been chosen to investigate further specific strategies based on the materiality assessment of ABC Bank PLC. Accordingly, customer experience, delivery channels, and employee capabilities were investigated, whereas customer experience includes modernization strategies such as personalized product portfolios, customer engagement, and ethical operations. Employee capabilities involve training and development with a special focus on employee engagement and digital training, whereas the most crucial component, delivery channels, includes express banking, internet, and mobile banking, retail loan origination systems, service culture and branch ambiance, ATMs, CDMs, and Kiosks. The author discovered that there are three main barriers (traditional, risk, and usage barriers) to the modernization of an operating model in a retail bank.

Limitations and study forward

This study was conducted in the design of a qualitative case study, which has a few limitations as well. The main critique would be that this research was conducted only within one empirical site, which is ABC Bank PLC. Furthermore, the retail banking portfolio was chosen over the other products and services offered by ABC Bank to assess modernization strategies in order to provide an in-depth analysis of the banking service that the majority of Sri Lankan citizens receive. Another limitation of this study is that the modernization strategies have only been discussed to represent the overall operating model of ABC Bank, whereas support services other than human resources have not been discussed due to the limitation of time and resources in performing this study. The neutrality of the researcher from the results of the case study itself is questioned, as the researcher serves an impactful role in many types of case studies rather than accessing them at a distance. This research provides an approach for future researchers as to how they can connect modernization and operating models. Thus, the author believes that, beyond contributing to each of the theoretical sources that have elaborated preliminary aspects of modernization, this analysis may have the potential to evoke each of them separately and give way to a new generation of modernization in retail bank study.

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