

## Becoming one of Georgia's first agile banks

Global Banking Practice

### An interview with Vakhtang Bobokhidze, Deputy CEO and Chief Information Officer, Bank of Georgia

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In 2018, the Bank of Georgia—one of the country's leading universal banks—faced a challenge: they had strong business ideas for thriving against increasing competition, but their IT delivery had reached capacity, so they could not put all of their ideas into practice. Inspired by technology firms such as Google, Netflix, and Spotify, and by the few global banks that have successfully implemented agile to become more flexible and efficient, the bank embarked on such a transformation, aiming to change its entire IT delivery model from a standard waterfall approach to one based on agile methodology.

Given the context of increasing competition, the IT transformation needed to be fast-tracked: The “cornerstones” of the new delivery model were defined within 12 weeks and the rollout to the entire delivery organization completed within 20 weeks. This was a significant achievement given that they were one of the first organizations in Georgia to attempt an agile journey, and thus had access to a very limited pool of experience and talent.

Bank of Georgia's transformation has already improved time to market, increased innovation, and significantly boosted both employee morale and the bank's

attractiveness to potential hires. In this interview with McKinsey's André Jerenz and Timo Mauerhoefer, Bank of Georgia's Chief Information Officer Vakhtang Bobokhidze explains why the bank needed to change, how they accelerated their transformation in a market with little agile experience, what the key challenges and decisions were, and how the impact has become visible over time.

**McKinsey:** Most banks are facing increasing demand from consumers to provide digital solutions. What challenges do you face in Georgia when it comes to meeting these demands?

**Vakhtang Bobokhidze:** In Georgia, a few leading banks, ours included, have captured the majority of the market share. In this saturated market, customers have very high expectations for continuously better and more innovative digital solutions; for example, multi-currency accounts for standard retail customers.<sup>1</sup> Another expectation from customers is that we have highly localized and targeted products, molded to the everyday life of Georgians, who have different financial behaviors compared to clients in other markets. One example would be QR payment solutions for microbusiness merchants who conduct most of their business in cash.

<sup>1</sup> In Georgia, it is common for “mass” retail customers to have multi-currency accounts.

In 2018, we had strong business ideas that we believe would have helped us expand our market-leading position—but our IT delivery had reached its capacity. We faced a significant overload of business requirements, had no full view on the big picture and thus were not able to optimally prioritize our portfolio. As a result, there were intense debates about IT resource allocation without an objective basis. This hindered the entire organization.

**McKinsey:** To address these challenges, Bank of Georgia embarked on an agile transformation journey, including both business and IT. What was unique about your transformation and what were the key decisions you had to make?

**Vakhtang Bobokhidze:** We knew that we needed a quantum leap to significantly increase our IT delivery effectiveness and efficiency. And it needed to happen within months, otherwise we would have faced significant business challenges due to the delay of critical IT deliveries. Inspired by the examples of other banks that faced similar challenges, we were confident that a truly agile operating model based on

fully empowered teams comprised of business and IT employees with end-to-end responsibility would help us fix our key pain points. However, our transformation needed to be much faster than the existing examples.

So, we accelerated the diagnostic and design phase as much as possible; overall, we spent just 12 weeks on crafting the MVP<sup>2</sup> for the agile delivery model. This was only possible because we took three key design decisions:

First, we chose to focus the transformation solely on product delivery, the area with the most pressing challenges at that time. The scope was thus our entire IT (including run and change teams) as well as business resources from product management (retail and corporate banking products and services) and operations (payments, for example). For other functions like finance and risk we defined intermediate interfaces to allow for an accelerated rollout, knowing that we would refine the operating model later on.

Second, we set-up three types of squads with distinct

<sup>2</sup> Minimum viable product.



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responsibilities: technology foundations (providing the common infrastructure and tools for other squads), products/services squads (providing distinct products or services, like credit or trade-finance functionalities), and channel squads (combining different products or services to create an end-to-end consistent customer experience across our channels).

Third, we decided—facing significant resistance—to consequently change the organizational structure and reporting lines to fully enable the benefits of agile. We implemented a matrix organization where the functional expertise is organized in chapters (for example, engineers, testers, architects, UX/UI designers) and deployed them in product- and service-oriented squads with dedicated product owners. To ensure adoption of the new structure, we also adjusted our performance management, most importantly the KPI and incentive structure of all employees working in the new delivery organization. This turned out to be one of the most powerful decisions we made, and one we are continuing to refine.

We also committed our entire executive team behind the fact that the transformation itself would require agility—continuous adjustment of the structure and operating model. We knew that decisions taken in the beginning would likely be refined during the journey. As we are currently scaling our delivery model to further areas of the organization, we are refining certain parts of the model, that we originally designed in an MVP fashion, to be faster.

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**McKinsey:** How did you align the organization and get buy-in from senior management for the significant changes that typically come with this kind of transformation?

**Vakhtang Bobokhidze:** We were aware of the risks of becoming one of the first agile companies in Georgia. However, our goal was to remain the leader in the region with three key objectives for our agile transformation: First, reducing time to market; second, better meeting customer requirements while, third, increasing quality and reliability. These objectives were the cornerstones of the change story we deployed to align and motivate our employees and external stakeholders.

The key to aligning our top management team was to launch two frontrunners early on and thereby pilot the new operating model. This way, management experienced the benefits of an agile operating model first-hand and got the first glimpses of how powerful this new operating model could become for the Bank of Georgia. Seeing early improvements motivated our top management to really engage during the executive training workshops. By including all stakeholders during the design phase, they felt their voices were heard and that the new agile organization considered their experience and opinions.

**McKinsey:** How did you approach the transformation design and how did you roll out the program?

**Vakhtang Bobokhidze:** Overall, we designed our transformation over the course of 12 weeks—as I mentioned, we needed to be extremely fast and targeted to change as quickly as possible. Being one of the first organizations in the Georgian market to fully implement an agile transformation was a particular challenge, as there was no experienced talent available. This meant we had to establish an agile “academy” to develop the capabilities internally and initially we needed to convince our top management of our proposed approach.

So, we first invested in fully understanding the existing pain points, as aligning our top management behind these challenges was crucial. After having a bank-wide common understanding of what we needed to solve for, we could easily map out how agile would help us address these pain points. We then started the design phase in cross-functional design teams with employees from all business segments, operations, support functions, and IT. To not overinvest in the design, we started “doing” as early as possible by creating two frontrunners. This had two major advantages: First, we increased buy-in from the organization by showcasing that “it works” and second, it helped us prioritize and then refine the key elements

of our transformation.

As many of our employees were hierarchically structured in “boxes and lines” at that time, one of the most challenging discussions during the design phase was defining the new “structure,” as mentioned earlier. It required strong senior management commitment to develop our new structure of cross-functional teams around products and services rather than IT teams organized around IT systems. Changing the mindset and culture of our people is an ongoing topic that we underestimated a bit in the beginning.

This mindset shift is also supported by a new incentive scheme which facilitates performance management and focuses team members within the agile model to focus on teamwork, knowledge-sharing, and delivering value to customers and business as core values. In addition to setting the right incentives, top management buy-in, role-modelling, and change agents such as agile coaches and scrum masters, are key in this change management process.

Acknowledging the difficulty in a big-bang approach to change, we opted for a wave-based roll-out of the new operating model. It took us five months to transform our complete delivery organization—and improvements and refinement are ongoing. We started with the digital channels teams as they were already operating in an “agile-like” manner. Once we stabilized these teams and included the learnings in our playbook, we scaled further across all product delivery.

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**McKinsey:** What challenges did you face in the first weeks after go-live and what was the most drastic change you saw?

<sup>3</sup> Quarterly business reviews.

<sup>4</sup> Objective and key results.

**Vakhtang Bobokhidze:** One of the key challenges we faced was to bring our running strategic projects to a point where we could transition them seamlessly into the new agile way of working—this is one of the key arguments for the wave-based roll-out.

Adopting a completely new model of portfolio prioritization and management was an interesting challenge solved with the use of QBRs,<sup>3</sup> a quarterly definition of strategic priorities and review of the past quarter’s achievements. In combination with our new structure, our first QBRs were really eye-opening. For the first time, we had a comprehensive breakdown of our strategic priorities into squad backlogs. This way it became clear that we had serious IT resource constraints in some areas and an overall need for more engineering capacity to be able to deliver on our aspirational business strategy. Without this new transparency we never would have had this level of awareness.

However, as one of the first agile organizations in the market, the cornerstone of us being able to transform so quickly was to establish an effective and efficient agile academy to develop the talent we needed at scale. We had to start from scratch and so developed learning journeys for the new roles that come with agile, such as agile coaches, scrum masters, and product owners, as well as dedicated programs to reskill seasoned managers. Our academy also drives the culture shift across the entire bank, for instance with organization-wide agile awareness trainings. I’d say that our academy is where “the magic happened”: Squad members started to fully comprehend the new empowerment and opportunities they had and took full end-to-end ownership of their products. For a few of our employees this change was too much, but most of our employees experienced personal growth on a level we hadn’t witnessed before!

**McKinsey:** What are the results from the transformation so far and what are the key next steps?

**Vakhtang Bobokhidze:** We now have a working “delivery engine” with significantly higher productivity and shorter time-to-market—and we continue to optimize it!

The new level of transparency helps us keep a laser-sharp focus on delivering the highest business impact with each “feature.” The quarterly defined top-level OKRs<sup>4</sup> provide the “north star” for our teams and allow them to more independently align their work against these priorities. We’ve already seen a significant increase in employee satisfaction and managed to attract a significant number of additional engineers—in

a market with strong competition.

With the enhanced delivery capabilities, we were also able to accelerate our IT modernization and digitization of the whole bank.

Yet, there is still plenty of work to be done and mastery of agile is an ongoing process, with three imminent next steps for Bank of Georgia. Firstly, we are scaling agile horizontally and vertically: increasing the number of agile teams and reorganizing the product, services, and channel squads while also transforming IT support, sales, and back-office operations to agile. Secondly, continuous improvement of capabilities, structure, processes, and resources in the organization. And thirdly, driving the cultural change, for instance, with the gamification of agile elements in order to further boost employee motivation, engagement, and performance.

**McKinsey:** What are key success factors that other companies should look out for when starting a similar transformation?

**Vakhtang Bobokhidze:** Top management buy-in is crucial when it comes to any large-scale organizational change, especially agile. Combining this with enlisting

the help of all stakeholders across the business and IT in the transformation design ensures that everyone feels that their voices are heard and will support the new way of working. Once those are locked down, it's important to approach the work in the right way: first, by having a detailed understanding of the current state to find the most critical pain points, and then by beginning implementation as soon as possible to iteratively progress towards an agile organization. Then the resources and capabilities come to the fore, and the new roles agile brings, such as product owners and agile coaches, have to be filled by highly skilled and empowered individuals so they can take ownership of the decision-making. A capability-building program at scale is crucial in this regard—particularly in markets with scarce talent. Finally, a strong and targeted communication strategy followed with its execution to foster transparency within the organization and build an attractive brand outside ensure the momentum can really snowball into something beautiful.

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