

Digital Transformation

Relationship-First Digital Transformation: How Small Financial Institutions Can Compete in an Open-Banking World

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Digital transformation does not have to privilege scale and automation to be effective.

As open banking advances in Canada and the United States, digital transformation in financial services is often framed as a race for scale, automation, and speed—an approach that appears to disadvantage small and mid-sized financial institutions (SMFIs). This article challenges that assumption. Drawing on a multi-year, mixed-methods study of Canadian banks and credit unions, we show that many SMFIs pursue a **relationship-first digital transformation**, using digital tools to amplify trust, relational continuity, and human judgment rather than replace them. We develop an integrative framework showing how selective, ROI-driven digital choices enable SMFIs to compete effectively in increasingly open and commoditized markets.

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Introduction: Rethinking Digital Transformation Beyond Scale

As open banking advances in Canada and continues to evolve in the United States, digital transformation in financial services is commonly framed as a race for scale, automation, and speed. In this view, competitive advantage increasingly accrues to large banks and fintech platforms capable of spreading technology investments across vast customer bases. Small and mid-sized financial institutions (SMFIs) are often portrayed as structurally disadvantaged, too small to compete digitally and too slow to keep pace with platform-driven innovation.

This narrative, however, obscures an important strategic question: **Is scale-driven digitalization the only viable path to competitiveness in increasingly open and commoditized financial markets?** For many SMFIs, competing on speed or automation alone is neither feasible nor strategically coherent. Yet these institutions continue to play a vital role in local and regional financial ecosystems, particularly where trust, advisory relationships, and continuity of service remain central to value creation.

In this article, we challenge the assumption that digital transformation must prioritize scale over relationships. Drawing on a multi-year, mixed-methods research program examining Canadian banks and credit unions, we show that many SMFIs pursue an alternative transformation logic, one that places enduring customer relationships, rather than automation or reach, at the center of digital strategy. Instead of using technology to replace human interaction, these institutions deploy digital tools to amplify trust, relational continuity, and human judgment. We refer to this approach as **relationship-first digital transformation**.

Canada provides a particularly instructive context for examining this logic. Compared with the United States, Canadian financial services are characterized by higher concentration, strong incumbent banks, and a growing push toward open banking. For SMFIs operating within this environment, digital transformation unfolds under conditions of structural constraint rather than abundance, making strategic selectivity unavoidable. These constraints, however, also illuminate alternative pathways for aligning digital investments with distinctive sources of value.

Our analysis shows how relationship-first digital transformation reshapes key strategic choices, including customer segmentation, channel design, vendor relationships, and innovation investment. We synthesize these patterns into an integrative framework that helps managers reason about digital transformation in increasingly open and commoditized data environments.

Research Context and Evidence Base

The insights in this article draw on a multi-year program examining digital transformation and organizational resilience in small and mid-sized financial institutions. Supported by a Social Sciences and Humanities Research Council of Canada (SSHRC) grant, the research focused on how transformation strategies evolve under conditions of regulatory change, technological constraint, and intensifying competition.

Our evidence integrates multiple sources. First, we conducted a structured survey of 109 senior executives from Canadian banks and credit unions to assess digital transformation priorities, perceived constraints, investment patterns, and reported outcomes. Second, we developed nine in-depth case studies of small and mid-sized financial institutions across Canada, drawing on interviews with senior leaders responsible for digital strategy and operations, as well as reviews of internal materials and customer-facing digital channels.

Finally, we convened a roundtable of executives actively leading digital transformation initiatives to validate emerging patterns and compare experiences across institutional contexts. This research was not intended to identify best practices or rank performance. Rather, it sought to understand how leaders in relationship-intensive financial institutions

make strategic digital choices when scale-based strategies are neither feasible nor necessarily desirable. The recurring patterns across these data sources provide the empirical foundation for the relationship-first transformation logic developed in the sections that follow.

Relationship-First Transformation

For small and mid-sized financial institutions, digital transformation is not primarily about replacing people with technology. Instead, it involves using digital tools to extend, reinforce, and make visible the human relationships that already underpin their competitive advantage. Across our cases, digital initiatives were consistently designed to enhance relational continuity and flexibility rather than to maximize automation or scale.

Executives emphasized that technology investments were evaluated through a relational lens. One vice president of digital transformation at a regional credit union explained that her institution adopted e-signature capabilities not to reduce staffing costs, but to “meet members where they are, even at their kitchen tables.” Similarly, digital channels introduced during the pandemic were retained because they preserved personal service for customers who valued continuity and reassurance¹.

This logic contrasts sharply with dominant digital transformation narratives that equate progress with labor substitution or frictionless self-service. In the institutions we studied, efficiency gains were welcomed but treated as secondary outcomes. As one chief operating officer noted, “We don’t invest to scale. We invest to stay close.” Digital technologies were viewed as mechanisms for sustaining proximity in an increasingly digital environment, not as tools for distancing the organization from its customers.

Importantly, this relationship-first logic did not reflect resistance to innovation. Rather, it reflected a deliberate prioritization of relational capital as a strategic asset. Executives described digital transformation as a means of improving visibility into customer needs, enabling continuity across channels, and supporting richer interactions between customers and staff. Technologies that risked eroding trust or depersonalizing service, even if technically sophisticated, were often deprioritized.

When relationships are treated as the core objective rather than a residual concern, decisions about customer segmentation, channel design, vendor partnerships, and innovation investment take on a fundamentally different logic. The sections that follow examine how this relationship-first approach manifests across four strategic domains, revealing a coherent alternative to scale-driven digital transformation.

Archetype, Not Age

A defining feature of relationship-first digital transformation is a shift in how institutions understand and segment their customers. Rather than treating digital preferences as a function of age or generation, the institutions in our study organized service design around customer archetypes that cut across demographic boundaries. This reframing allowed them to align digital investments more closely with relational value rather than assumed technological fluency.

Executives consistently challenged the belief that younger customers are uniformly “digital-first” while older customers resist technology. Several institutions reported that retirees were among the most active users of mobile and remote services, while many younger customers actively sought human interaction for complex or consequential financial decisions². These observations underscored the limits of age-based segmentation in predicting how customers engage with digital channels.

In response, institutions replaced demographic segmentation with archetype-based design. Rather than assuming that older customers require branch-centric service or that younger customers prefer self-service, they developed hybrid models tailored to distinct relational needs. Common archetypes included self-directed users who value speed and autonomy, reassurance seekers who prioritize access to trusted advisors, and digitally capable customers who nonetheless prefer human confirmation for important decisions.

Designing digital tools around archetypes rather than ages enabled more selective and effective deployment of technology. Digital channels supported efficiency where autonomy was valued, while advisory capacity was preserved where trust and judgment mattered

most. As a result, digital transformation reinforced, rather than diluted, the relational core of the organization.

Branch and Brand as Trust Anchor

Despite repeated predictions of a branchless future, physical presence continues to play a strategic role for relationship-oriented financial institutions. In the organizations we studied, branches were not viewed as inefficient remnants of a pre-digital era, but as visible signals of long-term commitment to customers and communities. Where trust remains central to financial decision-making, physical presence carries symbolic value that digital channels alone cannot replicate.

Executives emphasized that trust is often reinforced through moments of personal interaction, particularly during complex or high-stakes decisions. As one vice president of operations at a community-focused credit union explained, “Financial guidance from someone who knows you personally still matters.” Rather than eliminating branches, many institutions reimaged them as advisory spaces that complemented digital channels.

Across cases, branches were repositioned as relationship hubs rather than transaction centers. Routine transactions migrated to digital channels, while branches became places for advice, reassurance, and community engagement. This configuration allowed institutions to manage operational pressure without undermining the relational foundations of their business. Digital and physical channels were treated as mutually reinforcing, not substitutes.

Branches also reinforced institutional brands as local trust anchors. Long-standing community relationships functioned as reputational capital that buffered institutions against competitors offering more polished digital interfaces. As one executive noted, while fintech experiences may be seamless, “that trust factor, that brand behind it, still matters.” By anchoring digital innovation in visible commitments to continuity and community, relationship-first institutions preserved credibility as customer interactions became increasingly digital.

Vendor Dependency as Strategic Risk

A less visible but consequential challenge facing small and mid-sized financial institutions is their dependence on a narrow set of core technology vendors. Unlike large banks that can negotiate bespoke solutions or build proprietary platforms, SMFIs often rely on standardized vendor ecosystems that constrain the pace and direction of digital innovation. In our study, vendor dependency emerged not simply as an operational limitation, but as a strategic risk shaping transformation choices.

Executives described how vendor priorities frequently reflected the needs of larger clients, leaving smaller institutions with limited influence over development roadmaps. One executive recounted a prolonged delay in launching a digital pilot because the vendor could not prioritize a small client. Others noted pricing structures that disproportionately increased costs for smaller organizations, further limiting flexibility.

These asymmetries shaped how institutions approached digital transformation. Vendor constraints slowed experimentation and narrowed available options, particularly for initiatives designed to enhance relational service rather than transaction volume. As digital tools became increasingly necessary to meet customer expectations, dependence on external vendors reduced strategic autonomy over how those tools could be deployed.

In response, many institutions sought to mitigate dependency through collaborative and modular strategies. Executives described forming consortiums with peer institutions, sharing services, and selectively adopting interoperable solutions where possible. While these approaches did not eliminate vendor dependence, they improved bargaining power and restored some control over innovation priorities.

Importantly, vendor dependency reinforced, rather than undermined, the logic of relationship-first transformation. Because expansive, vendor-driven digitalization was often infeasible, institutions became more disciplined in evaluating which technologies genuinely supported relational value. This constraint-driven discipline set the stage for a more selective and ROI-oriented approach to innovation.

Selective, ROI-Driven Innovation

Operating with limited budgets and lean teams, small and mid-sized financial institutions cannot pursue digital transformation through broad, exploratory investment. Instead, the institutions we studied approached innovation selectively, evaluating digital initiatives based on their ability to deliver both relational and economic returns. This disciplined orientation was not a constraint-driven compromise, but a deliberate strategic choice aligned with relationship-first transformation.

Executives described screening digital initiatives through a narrow set of questions: Does this technology strengthen customer trust? Does it improve continuity across channels? Does it enable staff to serve customers more effectively? Technologies that failed to meet these criteria, regardless of their sophistication, were often deprioritized. In several cases, institutions chose not to deploy advanced chatbot solutions after customer feedback revealed a strong preference for human interaction, instead investing in secure messaging tools that connected customers directly with staff.

This approach reflects a form of strategic minimalism: innovation that is pragmatic, focused, and measurable. Efficiency gains were valued only when they reinforced relational objectives. Digital investments were expected to demonstrate clear returns through improved retention, deeper engagement, or more effective advisory interactions. Large-scale transformation programs driven by imitation or technological hype were viewed as misaligned with organizational identity.

Selective innovation did not imply technological conservatism. Several institutions deployed analytics and AI in ways that complemented their relational strengths, using data to enhance advisory services and contextual understanding rather than to automate customer interaction. Across cases, technology was used to extend trust and relevance, not to replace human judgment.

Taken together, these patterns show how relationship-first transformation translates into concrete innovation choices. Faced with structural constraints and heightened competition, SMFIs do not innovate less—they innovate with greater focus.

A Framework for Relationship-First Transformation

Synthesizing the patterns observed across our cases, we propose a framework for understanding relationship-first digital transformation. Rather than serving as a step-by-step guide, the framework functions as an interpretive lens that explains how small and mid-sized financial institutions align digital investment decisions with relational strategy under conditions of openness, constraint, and intensifying competition.

At the center of the framework is the trusted customer relationship. Across institutions, trust emerged not as a by-product of digitalization, but as its primary objective. Digital technologies were evaluated based on whether they strengthened relational continuity, enhanced visibility into customer needs, and preserved human judgment in moments that mattered most to customers.

Surrounding this core are five interrelated dimensions. First, institutions continually re-examined where trust was created in their business and how technology could reinforce—rather than erode—those interactions. Second, customer strategy was organized around archetypes defined by relational needs rather than demographic characteristics. Third, vendor dependency and platform lock-in were treated as strategic constraints shaping feasible innovation choices. Fourth, data, analytics, and AI were selectively deployed to scale human service and advisory quality, not to replace interpersonal engagement. Finally, branches and brand were reimagined as trust anchors that stabilized relationships as interactions migrated across digital channels.

Relationship-First Digital Transformation Wheel

Selective, ROI-Driven Adoption that strengthens—not replaces—human connection.



Exhibit 1. The Relationship-First Digital Transformation Wheel, illustrates how these dimensions reinforce one another. The circular structure emphasizes that transformation is iterative, cycling between relational priorities and technological choices. The outer ring highlights selective, ROI-driven adoption, underscoring that digital initiatives endure only when they deliver both relational and economic value.

Taken together, the framework clarifies how relationship-first digital transformation differs fundamentally from scale-driven approaches. It shifts managerial attention from speed and automation to coherence and intent, offering executives a way to reason about digital transformation when trust, proximity, and human judgment remain central to competitive advantage.

Managerial Takeaways

Several managerial implications emerge for leaders navigating digital transformation in increasingly open and competitive financial services markets.

1. Trust becomes the primary differentiator when products are commoditized. As open banking lowers switching costs, competitive advantage increasingly rests on trust, continuity, and relational depth. Digital transformation strategies that treat trust as a secondary outcome risk eroding the very assets that sustain long-term relevance.

2. Digital technologies are most effective when they extend, rather than replace, human service. Across institutions, the highest-impact digital investments enhanced visibility into customer needs and supported advisory interactions. Automation created value when it reinforced relationships, not when it displaced human judgment.

3. Customer strategy benefits from archetypes, not demographic assumptions. Age-based segmentation often misrepresents how customers engage with financial services. Archetype-based approaches organized around relational needs enable closer alignment between digital tools and customer expectations.

4. Strategic restraint can be a source of resilience. Selective, ROI-driven innovation helps organizations avoid costly imitation and technological overreach. Focusing investment on initiatives that deliver clear relational and economic value preserves flexibility under constraint.

5. Collaboration can partially offset scale disadvantages. Vendor dependency is a strategic constraint, not merely a technical issue. Consortium arrangements, shared services, and modular approaches can restore bargaining power and increase strategic

autonomy.

Taken together, these takeaways suggest that successful digital transformation is less about adopting more technology and more about aligning technological choices with an organization's distinctive sources of value. For relationship-intensive institutions, this alignment requires deliberate choices about where digital tools add value, and where restraint is strategically warranted.

Conclusion: Competing Through Trust in an Open-Banking World

Open banking is reshaping competition in financial services by lowering switching costs, accelerating entry, and weakening product-based differentiation³. While prevailing narratives emphasize scale, automation, and speed as the primary levers of digital competitiveness, this article has argued that such a framing is incomplete.

Drawing on a multi-year research program examining small and mid-sized financial institutions, we show that digital transformation does not inevitably privilege scale-driven strategies. Instead, it can be pursued through a relationship-first logic in which digital technologies are deployed to extend trust, reinforce continuity, and enhance the quality of human interaction across channels. As data portability makes products increasingly substitutable, these relational assets become more, not less, strategically valuable.

Our findings indicate that relationship-first digital transformation is neither nostalgic nor technologically conservative. The institutions we studied made deliberate use of digital tools, analytics, and AI, but applied them with discipline. Digital initiatives were evaluated not only for efficiency gains, but for their ability to strengthen customer relationships and deliver measurable relational and economic returns. This selective, ROI-driven orientation contrasts with large-scale transformation programs driven by imitation or technological hype.

The Canadian context highlights the broader relevance of this logic. If relationship-oriented institutions can sustain relevance and growth within one of the world's most concentrated banking systems and under impending open-banking reforms, the assumption that openness inevitably favors large, platform-based players warrants reconsideration⁴.

By articulating relationship-first digital transformation as a strategic lens, this article offers executives a way to rethink digital priorities when competitive advantage can no longer rest on proprietary products or closed data. In increasingly open and commoditized markets, competing through trust may prove to be not a constraint on digital transformation, but its most durable foundation.

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