Enterprise 2.0: Game-Changer for Investment Banks

Executive Summary: Early Adopters Show Enterprise 2.0 Promise

- Banks increasingly use wikis, blogs and other Web 2.0 tools for mission-critical processes, as shown through the examples of Citi, DrKW, Morgan Stanley, ING and JP Morgan.
- Enterprise 2.0 is a new term that denotes corporate adoption of Web 2.0 and social software tools. It offers investment banks an unusual opportunity to reduce risk and improve their earnings and profits by increasing returns on process, human and knowledge capital.
- However, Enterprise 2.0 also confronts banks with changing some of their assumptions, approaches and sensibilities. It represents an *emergent, self-organizing network of relationships*, so the formalized, restrictive cultures of many banks will serve as a significant barrier to adoption.
- Enterprise 2.0 is not your father's enterprise software. The tools are relatively open, inexpensive to deploy and manage, and an order of magnitude easier to use; however, they are also robust and secure. They enable unprecedented collaboration.
- Technology is giving collaboration new teeth. Everyone has always praised teamwork, but when communication and administrative processes were so inefficient, monetizing collaboration was excessively difficult. Enterprise 2.0 is a discontinuous change for the better.

> *Market Advisory*
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> *Enterprise 2.0 enables executives to digitize and monetize collaboration for the first time. This is so simple that many will miss it and open themselves to disruptive competition.*

Unprecedented Risk and Reward for Investment Banking

- Investment banks are facing increased competition from traditional and emerging players:
  - Private equity groups threaten investment banks' hegemony in high-return investing, as many have bested the banks' returns during the past five years. Many a banker wonders whether private equity groups manage risk better than the more regulated banks. Most worryingly, private equity has been leaching the most talented and aggressive people out of their ranks.
  - Integrated banks utilize their (relatively) cheap capital to muscle into investment banking strongholds like M&A advisory, pressuring margins.
  - Banks are being forced to unbundle knowledge from services and expertise. Their clients increasingly ask for Web service APIs to directly access banks' systems and automate information flow. Information intermediaries like Google and Yahoo can provide clients with financial knowledge that was formerly available only from banks.
- Major banks are global by default, but the world is rapidly changing around them, increasing complexity and risk. Barriers are falling, and capital flows with unprecedented freedom. Innovation in exotic products like weather risk, mortality risk, emissions, and catastrophe insurance elevate risk and reward in the market.
- "Emerging" markets used to be approached opportunistically, but now every banker knows their strategic importance, which necessitates long-term investment and uncertain returns.
- The compliance and regulatory environment seeks to protect investors from unfair investing practices, and each legislative arena has a different interpretation of protection. In the U.S., for example, investment banks have recently endured embarrassment and hefty charges to resolve

conflicts between their corporate banking and analyst departments (several star analysts were found to be promoting stocks to enable their corporate banks to win business).

- Worldwide, global consolidation continues at a brisk pace, constantly reconfiguring market power through new combinations. The ABN-AMRO ordeal reflects the stakes and complications.
- Banks are becoming larger and more complex. Organizationally, they have added value by concentrating expertise within product or operational areas, which become silos that do not collaborate easily with other areas. However:
  - Many clients prefer a seamless service approach in which banks bring the most relevant expertise to bear on the challenge at hand; banks struggle to unlock the collaborative potential of their people.
  - Very few bankers have a holistic picture of their clients' businesses.
- The integrated bank model is still on probation. Banks like JPMorgan Chase, Citi and UBS have larger, more complex organizations (and costs) than independent banks like Goldman Sachs and Merrill Lynch:
  - The model's success is predicated on cross-selling, yet most banks have a poor track record of coordinating and focusing offerings from several product areas on strategic client needs.
  - Siloed banks have a hierarchial culture, and so-called "cross-boundary" initiatives regularly fail to achieve their objectives.
- High staff turnover and incestuous hiring practices result in high salaries and training costs as well as a lack of innovation: rather than innovating for the new employer, star new hires try to duplicate what made them successful elsewhere. The siloed environment makes it difficult to get connected and adds to an uncertain job environment.
- Banks have focused on cost reduction since the retraction of the early 2000s, which frustrates creative, innovation-oriented people. Much successful innovation will stem from approaching clients holistically.

> *"M&A requires intensive collaboration, and the Cisco Wiki enabled us to close WebEx in 8 days. We didn't use the wiki with Scientific Atlanta last year, and it took 45 days."*
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> –John Chambers, CEO Cisco

How Enterprise 2.0 Boosts Competitiveness

- Enterprise 2.0 enables widespread collaboration, which means increased cross-selling and decreased research and coordination costs.
- In January 2007, the Economist Intelligence Unit conducted a Web 2.0 survey in which 21% participants were in financial services and 23% were CEOs:
  - 38% of the respondents anticipated that Web 2.0 would help them to acquire new clients
  - 25% projected that Web 2.0 would drive product innovation
  - 30% expected cost reductions in client service and support
- Investment banks are in an excellent position to diminish their cost to serve—as illustrated by Cisco's experience with its WebEx acquisition in February 2007:
  - CEO John Chambers attributes the acquisition team's stellar performance to the use of the Cisco Wiki, which enabled global team members to contribute their granular expertise, asynchronously. This is key when the team is located in numerous time zones.
  - Delays were minimized since work papers resided on the wiki, not on team members' machines. Everyone was working with the latest information, and the wiki's robust rollback feature set enabled full audit trails and tracking.
  - The wiki seamlessly accommodated all employees, partners and customers on the team.
  - The wiki reduced the time required to execute the transaction from 45 days to 8 days.
- As shown in numerous industries, clients will help each other, given the tools and a collaborative culture, which eases the burden on employees. Cisco Connection Online is a classic example.
  - "Instead of a call centre with 5,000 people, you could have one with 2,000," says Harvey Koeppel, CIO of Citigroup's Global Consumer Group, "Because customers can find their own answers to questions online."

- Enterprise 2.0 enables cross-boundary collaboration with clients and partners—and therefore better relationships. For example, Toby Hoden, CMO of ING's U.S. Financial Services, noted:
  - "ING has extensive channel relationships with independent financial planners. Web 2.0 technologies might enable the independent planners to come together (and) make it more efficient for ING to call on them virtually. (Those who) know our salespeople do the most business with us.'"
- High-stakes communications with regulators are often focused on administrative coordination between the bank and the regulator and extensive document sharing. Wikis can significantly reduce the time required for the bank to get a clean bill of health. Hans Classen, a director of risk IT at Dresdner Kleinwort, explains:
  - "We met with representatives of (the German regulator) BaFin. We showed them how we are using the wiki for our documentation. They said that a wiki was the best way to do documentation. We got a lot of praise for that. The world is changing."
- Bankers are much too familiar with serially passing around documents to iterate information in spreadsheets, reports and presentations, and delays accumulate very quickly. Wikis have rich functionality for sharing and collectively deciding what is correct, eliminating the "pass-around"; each wiki page has a threaded "discussion" tab behind it that everyone uses. For example, Stuart Berwick, Dresdner Kleinwort Wasserstein's Director of Digital Markets Sales, says:
  - "We had to give a senior management presentation in New York, and needed to put together a set of slides collating information from the management team. Within about three of four hours, a presentation evolved that would have taken days and been a much more frustrating process had it been through email and PowerPoint attachments."

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- Enterprise 2.0 work styles often mean multiple, concurrent modes of communication. Many banks have seen the value of conference calls increase due to the chat sessions that take place. These are digital and can be captured and mined to learn what the group is thinking.
- Podcasts are used by most investment banks to enable clients to "dial in" to reports and speeches asynchronously. Well-made podcasts can improve sales productivity considerably by educating clients before their meetings with client executives.
- Current graduates from top schools expect Enterprise 2.0 tools because they have gone through school using wikis, blogs and tagging.
- Enterprise 2.0 tools enable creativity, collaboration and innovation. They enable new employees to get and stay connected by helping them to find others based on interests and expertise, share information and do collective work. They also help employees to invite other people to the workspace, including appropriate advisors, partners and clients.
- Adam Carson, an Enterprise 2.0 evangelist at Morgan Stanley, explains:
  - "Morgan Stanley has 70 to 80 Web 2.0 projects underway, many involving creating online communities with clients and wikis. Basically Morgan Stanley or any other corporation faces the choice of forcing the younger generation of employees to learn the old way of doing business or adapting to new models of work and organization."

Enterprise 2.0: A Different Breed of Enterprise Software

- Enterprise 2.0 is practical for CIOs—from people, process and technology perspectives:
  - It does not call for reorganizations or implementing complex, expensive technology solutions. It overlays an emergent web of relationships onto existing enterprise systems and processes.
  - It is not an all-or-nothing proposition. Due to the nature of networks and the technologies, CIOs can enable open collaboration in areas that do not harbor conflicts of interest. The technology is rapidly increasing in sophistication, and it will increasingly automate access and permissions.

- Enterprise 2.0 coexists easily with existing enterprise systems like email, document management and ERP.
  - Wikis, tagging and blogs are highly distributed, and many are built on light, evolved platforms.
  - They are so easy to use that minimal training is required of average business users.
  - Their work patterns and culture are open, and their organization is emergent: structure is not imposed; it gets iterated as needs emerge. Organization is collaborative and distributive.
- Enterprise 2.0 tools are exceedingly simple, transparent and real-time. If using proprietary enterprise software solutions is like driving a Ford Model T, Enterprise 2.0 tools are like hopping into a Ford Focus: instead of tweaking the carburetor, turning the crank and fussing with the choke, you just insert the key and go.
  - Current enterprise software solutions generate extensive resistance because they impose highly structured designs and processes.
  - Because people think and organize thoughts differently, structured systems alienate some while accommodating others. Their training and learning costs are high.
- Enterprise 2.0 underlying technologies like Ajax are highly evolved and object-oriented; they are robust and interface easily with SOA-enabled enterprise systems. For example, JP Morgan has been experimenting with Web 2.0 technologies. Carl Carrie, head of algorithmic trading in electronic client solutions at the US bank, says:
  - "Web 2.0 is about moving away from the desktop as the centre of computing towards use of the web as a platform. It's also about having a rich, customisable user interface that escapes the traditional limitation of old-school web pages."
- Says Citigroup's Harvey Koeppel, " Web 2.0 is no longer bleeding edge, now it is leading edge. "Within the next two years, Web 2.0 will be less hypothesis at big companies and more experience."

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Conclusions

- Jaded executives will muse that Enterprise 2.0 is another technology buzzword in search of a home. However, they should ask their CIOs about the transformation of enterprise software, and they will answer that technology is steadily emerging from its legacy cage. Service-oriented architecture and Web services are enabling more responsive IT, while virtualization offers a quantum leap in flexibility. Enterprise 2.0 technologies *natively* enable people and process to adjust to changing requirements. People who do not recognize this distinction will regret it later.
- The adoption of Enterprise 2.0 will unfold over the next four years, but may well be faster due to the technologies' and processes' relative ease of use, affordability and interoperability. The term began to get traction this summer, and more case studies are emerging every week.
- Enterprise 2.0 natively enables cross-boundary initiatives, so conduct pilots in important (but not bet-the-company) initiatives. You want the business drivers to be important, so success will be visible, but you do not want to over-burden the team with unreasonable pressure.
- Select evangelists carefully. Enterprise 2.0's key challenge is that it appears to be too simple; how could it deliver such value? You need leaders who are respected, visible and persistent.
- Early adopters stress that quantifying results is difficult because communication and administrative activity are rarely quantified. Inclusive collaboration transforms both.

- Enterprise 2.0 adoption will likely produce some disruption in the market. As a group, global enterprises tend to be fast followers. If one/more competitors adopt more quickly, it could have a disruptive impact on your business.
- Think about Cisco's results with the WebEx acquisition. We can assume that investment banks would, at a minimum, achieve a fraction of Cisco's results. Now multiply that by how many acquisitions the bank does. Obviously, results would be similar in many other bank transactions and services that require discussions among far-flung team members, extensive information exchange and negotiation with myriad parties.
- Enterprise 2.0 is a discontinuous change because it represents a quantum leap in technology interoperability, fungibility and malleability—along with an influx of global workers who are native with digitally-enabled collaboration. They comprise "young" workers in mature markets as well as a more numerous group, tech-enabled workers in emerging markets.
- Digital collaboration will be a core competency for driving competitiveness at investment banks. It holds the key to leveraging the global workforce for innovation and cost savings.
- Everyone recognizes that banks are highly regulated and have significant restrictions to information sharing; however, everyone is playing with the same deck. Pliable technology will offer increasing opportunities to manage conflicts of interest. Those who figure it out first will benefit the most.

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> – Adam Carson,
> Enterprise 2.0 Solutions
> Morgan Stanley

2007-2008 Action Steps

- Companies that value collaboration and innovation will realize the best results with Enterprise 2.0. CEOs should reflect on how collaborative and innovative their company cultures are:
  - How much shared destiny exists regarding compensation and privilege? No technology will produce stellar results if people will not share because they are trying to beat the other guy.
  - How open are senior executives and middle managers to new ideas? How often is your company first to market with a new type of offering?
- CEOs should explicitly promote collaborative culture and innovation. Explain to employees and senior executives that technology is giving collaboration new teeth. Everyone has always praised teamwork, but when communication and administrative processes were so inefficient, monetizing collaboration was excessively difficult. Enterprise 2.0 makes collaboration actionable, and collaboration should be the high priority.
- CEOs should appoint a top executive to chair a working group comprised of business development, marketing, legal, public relations and IT. They should work out policies that address legal and reputational risk while minimizing restriction. This executive must understand the strategic advantages of global collaboration.
- CEOs should consider tasking a senior executive to run the ball with collaboration and to be the champion of Enterprise 2.0. The role codifies the strategic importance of digitally-enabled collaboration and explicitly tries to develop the core competency in the context of the extended enterprise. Companies are contemplating the "Chief Collaboration Officer" role.
- CIOs should conduct due diligence on leading Enterprise 2.0 technologies as soon as possible and verify how they fit into the portfolio of enterprise systems. Create policies that maximize collaboration while mitigating undue security risks. In the meantime, aggressively pursue pilots behind the firewall, where security is less of an issue.

- IT management should resist the urge to control Enterprise 2.0 initiatives—that is a sure way to leach the oxygen out of the room. A vital element of 2.0's value proposition is emergent organization. Instead, put needed boundaries around projects, let people discover how to move forward and be ready to support them. Structure imposed from without is Enterprise 1.0.
- An excellent place for CIOs to explore using wikis is managing IT projects that require extensive, real-time communication with (business) customers.
- CEOs and CIOs must prepare to wrestle with the measurement dilemma. Enterprise 2.0 will improve client relationships, but it will be some time before we can find a way to measure this quantitatively. Challenge dissenting executives to measure their administrative and communication costs meaningfully as a baseline—they likely have little visibility into them. In addition, Enterprise 2.0 represents a modest investment compared to Enterprise 1.0 projects, which should make it easier to justify.
- Most IT shops are using wikis, blogs, podcasts and tagging already, but recognize that business users will create even more benefits. CIOs should push Enterprise 2.0 as close to the front lines as feasible, focusing on revenue production and fat cost centers.
- Investment banks' biggest obstacles are their siloed structures, hierarchial cultures and individually-oriented reward systems. Minimize their effect by selecting 2.0 pilots in which stakeholders are committed to cross-boundary collaboration. Make sure their business drivers are significant.
- Appreciate that Enterprise 2.0 tools are different, and usage usually increases rapidly through word of mouth. Experiment: put the tools out there and observe what happens.

Further Reading

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- *Serious Business: Web 2.0 Goes Corporate*, The Economist Intelligence Unit, http://socialmediagroup.ca/wp-content/uploads/2007/06/smg_eiu_web20.pdf
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About CSRA

Christopher S. Rollyson and Associates advises global enterprises and high growth firms on their strategy and implementation plans for customer-focused innovation. CSRA helps executives to create vision and pragmatic action plans for leveraging collaboration and consumer empowerment into increased competitiveness. Clients learn how to collaborate with Web 2.0-enabled customers to drive innovation and to engage emerging markets.

Founder Chris Rollyson has been a technology and marketing pioneer for 20 years, with distinction in corporate strategy and innovation. As a consultant and marketing executive, he has had a leading role in launching such game-changing offerings as: Java with Sun, e-business strategy with PricewaterhouseCoopers Consulting, and SOA, Web services and architecture solutions with IBM and nVISIA. In 2006, he launched The Consumer Empowerment Adoption Curve™ and Transourcing™, a new approach to innovation that leverages high performance collaborative partner networks. In addition, he launched the Global Human Capital Journal in 2005 to address the most poignant issues of day for chief executives. For additional information, please visit http://rollyson.net/consulting/ or http://globalhumancapital.org