

# THE ENTERPRISE OF THE FUTURE

...IN THE BANKING INDUSTRY



Based on interviews with more than 1,100 CEOs worldwide, the IBM Global CEO study revealed five core traits of successful enterprises of the future. What are the key implications for banking leaders in each of these areas?<sup>1</sup>

**HUNGRY FOR CHANGE**

Banking CEOs are clearly being bombarded by change – across their organizations, their industry and the global economy as a whole. Rising regulatory complexity. Shrinking talent pools. And, most recently, a massive worldwide credit crisis that is leaving a trail of failed banks, “fire sales” and fear among financial institutions and their customers. In our survey, 80 percent of banking CEOs said they expect significant change over the next three years – a dramatic increase from the 50 percent who felt that way just two years ago.

**Implications:** To cope with today’s crisis and manage the inevitable change ahead, banks must develop intrinsic flexibility – in their strategies, processes, IT and even their corporate cultures. Approaches such as service-oriented architecture, open standards, multisourcing and shared services become critical as banks anticipate and respond to competitive threats and new opportunities. Banks will also need to improve risk mitigation and business resiliency. In fact, banking executives rate superior risk management and organizational flexibility as the top two capabilities that will enable future growth.<sup>2</sup> These will be the critical rungs that allow banks to climb out of today’s industry trough.



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“We need to radically transform our organization to enable innovation to flow from all parts of our talent base.”  
*CEO, Central Bank, United States*  
.....



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“Ubiquitous information and global collaboration have put the client in the cockpit of the world economy.”  
*CEO, Retail Bank, Germany*  
.....

 **INNOVATIVE BEYOND CUSTOMER IMAGINATION**

Like their peers in other industries, bankers recognize the rise of a more informed and collaborative consumer. Eight of ten believe this trend will have a positive impact on their businesses. However, their convictions aren't backed with cash. Banking CEOs not only trail the overall average in terms of current investment in serving today's more informed consumer, but also intend to increase it by only 11 percent over the next three years, as compared to 19 percent across industries.

**Implications:** With customers clamoring for greater control and becoming more resistant to mass-market offerings, banks are in a precarious position. If they continue to hesitate, nontraditional competitors – like payment providers, telecoms, retailers and new online entrants – may lure customers away with convenient, simplified and integrated products. Banking innovations such as personalized mortgages and mobile payment offerings will require greater collaboration with customers. Banks also need to be responsive to customers' emotional needs – providing advice in whichever setting a customer trusts most, whether that is a branch or an online social network. Underpinning all of these initiatives should be a strategy for managing massive amounts of data and turning it into insights that empower customers in new ways.

 **GLOBALLY INTEGRATED**

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“Globalization is the industrial revolution for the services sector.”  
*CEO, Global Bank, Asia*  
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Saturated domestic markets, rapidly developing economies and increased cross-border capital and trade flows are driving banks to operate globally. Fifty-five percent of financial services executives in mature markets – and even 35 percent in developing markets – expect to generate more than half of their revenues outside domestic markets.<sup>3</sup> Not surprisingly, banking CEOs told us they are making major changes to their business designs – deeply changing their organizations' mix of capabilities, knowledge and assets and partnering extensively. But bankers' global integration ambitions are not nearly as bold as those of other industries. Only half of the banking CEOs were categorized as “globalizers,” as compared to two-thirds across the full sample. This finding echoes another IBM survey of banking executives in which 69 percent rated their level of global integration as poor to moderate.<sup>4</sup>

**Implications:** Global integration is critical to turning globalization into the growth, talent and scale that banks need. As banking functions become more sophisticated and complex, demand for specialized skills is increasing, and “wage arbitrage” is rapidly shifting to “skill arbitrage.” Banks need the ability to manage capabilities globally – using talent and knowledge from around the world wherever they’re needed and optimizing partnerships and supply chain opportunities across the enterprise. In rapidly developing economies, windows of opportunity close quickly; globally integrated banks are better able to move at the speed required.

### ● DISRUPTIVE BY NATURE

Under pressure from competitors outside the industry that are introducing new, disruptive business models, banks are understandably focused on innovating their own. Sixty-four percent told us they are planning significant business model changes over the next three years. But that figure still falls short of several industries that are attacking the sweet spots of the banking sector: across telecommunications, media and entertainment and financial markets, more than 77 percent of CEOs are pursuing major business model innovations.

**Implications:** To combat nontraditional competitors such as peer-to-peer lenders, mobile payment providers and online advice communities, banks must turn the tables and become market shapers themselves. Banking CEOs need to look beyond their own industry to identify market and competitive trends that can inspire innovation; areas of industry convergence are fertile ground for new business models. To drive innovation, banks must identify who their true innovators are and find ways to uncover fresh ideas. Developing and implementing business model innovation will depend on collaboration across the enterprise – and with partners and customers. Integrated IT can facilitate the dialog, knowledge sharing and business model pilots that bring innovation to the marketplace faster.

### ● GENUINE, NOT JUST GENEROUS

Customers’ expectations about corporate social responsibility (CSR) are rising, and 59 percent of banking CEOs see this trend as a positive opportunity. However, a surprising one-quarter still believe this shift will have no impact on their businesses.

#### EXAMPLES OF BANKING BUSINESS MODEL INNOVATIONS

- Banks without their own products
- Banks that enter new markets without a local presence (using direct Internet banking)
- Banks that provide health- and wealth-related offerings to an aging population who need help managing these overlapping needs.

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“We talk too much and don’t do anything about increasing customer expectations of corporate social responsibility.”

*CEO, Retail Bank, Turkey*  
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IBM Global Services  
Route 100  
Somers, NY 10589  
U.S.A.

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NOTES AND SOURCES:

- 1 "The Enterprise of the Future: The IBM Global CEO Study" IBM Institute for Business Value. May 2008. Of the 1,130 interviews conducted for the IBM CEO Study, 128 were from the banking industry. Of this subset, 30 percent were from Asia Pacific, 23 percent from the Americas and 47 percent from Europe, the Middle East and Africa.
- 2 Feller, Wendy, Cormac Petit and John White. "No bank is an island." IBM Institute for Business Value. February 2008.
- 3 Ibid.
- 4 Ibid.
- 5 Hittner, Jeff and George Pohle. "Attaining sustainable growth through corporate social responsibility." IBM Institute for Business Value. February 2008.

**Implications:** As banks seek to develop deeper relationships with their customers, connecting on a more emotional level will be increasingly important. Some banks are beginning to do that through ethical investment funds, "green" mortgages and banking offerings for underserved communities. In a recent survey, 68 percent of executives across various industries indicated their CSR initiatives are creating new revenue streams.<sup>5</sup> We believe leading banks can address broad sustainability issues, including energy, carbon emissions, water, waste and human resources, in ways that benefit their own profitability as well as society at large. To succeed, banking CEOs must capitalize on their employees' passion and innovativeness and lead through their own personal commitment and support.

**BUILDING YOUR ENTERPRISE OF THE FUTURE**

We look forward to learning more about where you think business is heading – and working with you, as you build your Enterprise of the Future. For additional information about the IBM Global CEO Study, please visit [ibm.com/enterpriseofthefuture](http://ibm.com/enterpriseofthefuture)

To discuss these industry implications further, we invite you to e-mail one of the following contacts:

<b>Global</b>	<b>Shanker Ramamurthy</b>	<b><a href="mailto:shanker.ramamurthy@us.ibm.com">shanker.ramamurthy@us.ibm.com</a></b>
<b>Americas</b>	<b>Richard Walker</b>	<b><a href="mailto:richard.walker@us.ibm.com">richard.walker@us.ibm.com</a></b>
<b>Asia Pacific (excluding Japan)</b>	<b>Neil Thomas</b>	<b><a href="mailto:neil.a.thomas@us.ibm.com">neil.a.thomas@us.ibm.com</a></b>
<b>Japan</b>	<b>Yoshiki Minowa</b>	<b><a href="mailto:LC029322@jp.ibm.com">LC029322@jp.ibm.com</a></b>
<b>Europe</b>	<b>Likhit Wagle</b>	<b><a href="mailto:Likhit.Wagle@uk.ibm.com">Likhit.Wagle@uk.ibm.com</a></b> and
	<b>Pablo Suarez</b>	<b><a href="mailto:suarez.pablo@es.ibm.com">suarez.pablo@es.ibm.com</a></b>
<b>IBM Institute for Business Value</b>	<b>Wendy Feller</b>	<b><a href="mailto:wefeller@us.ibm.com">wefeller@us.ibm.com</a></b> and
	<b>Cormac Petit</b>	<b><a href="mailto:cormac-petit@nl.ibm.com">cormac-petit@nl.ibm.com</a></b>

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