Research & Planning, Inc.
222 Third Street, Cambridge, MA 02142
(617) 547-5061

Wall Street is paralyzed when it comes to automation.
Here's a way to get moving again.

Planning for the Next Market Break

BY WILLIAM H. GRUBER

On October 19, 1987, all the forces that are reshaping the world of financial services had their say: computerization, institutionalization, globalization and deregulation. Each one added its own special quality, creating an unprecedented historical event.

Even those who see the causes of the crash in an overvalued market or a weak economy concede that it took place at a faster rate, affécted more people in more countries around the world and involved a greater diversity of institutions and a wider range of securities than would have been conceivable even ten years ago.

The term "market break" that is widely used in reference to the crash is an apt term: It was not just a break that ended a bull market; the crash marked a decisive break in the operation of the financial services industry.

For years Peter Drucker has warned management that we are riding the high waters in an "age of discontinuity," a period rife with rapid-fire "breaks" in economic and social currents.

These ruptures come about when the normal swirl of the business world — the success, failure, renewal and decay of individual companies and industries — is complicated by other external factors. In the case of the financial services industry, these external factors include the opening of new world markets, changes in government regulations, the creation of overpowering financial institutions and the relentless pace of information technology — the familiar four horsemen of globalization, deregulation, institutionalization and automation.

Without question, most industry executives are aware of these forces. Some are very articulate in calling for specific measures and countermeasures to deal with them. But precious few have incorporated their awareness into a changed management style.

Most financial services executives manage as if tomorrow will be just a logical continuation of today, as if their own experiences from the past are still their key asset in plotting the future.

Drucker advised that in a discontinuous period such as ours, experience doesn't count for much. What you learned in the past won't hold up in the future. No one has any real experience in creating a global network of financial services. Creating today's integrated computer systems is a painfully slow process for everyone, for which there is no real precedent.

To restate this in the language of the management consultant, "The pace of change in a discontinuous age is beyond the traditional adaptation response of an experience-based learning curve." Therefore, it is critical to rethink the way you have traditionally responded to the challenge of change.

Failure to come to grips with what it means to manage in discontinuous times is dangerous to a company's continued survival. A kind of management paralysis sets in. The firm makes periodic attempts at renewal, but never sustains the momentum to keep it all going.

Paralysis in Technology Planning

It is the kind of paralysis that I now see among those who are managing the implementation of the new information technologies. Computers have wrought great changes in the markets — indexing, quantitative analysis, program trading, back-office processing. While managers grapple to stay abreast of the competition made possible by technology, internally they are overwhelmed by the struggle to get the most basic office automation systems up and running. The result is an unusually high level of resistance to technology.

For example, in a survey of more than 500 financial industry executives conducted this year by Research & Planning on behalf of computer and data vendors, we

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asked executives what they thought of systems that can do real-time analysis of market events. Because most analysis is done after the fact, when it's too late, systems that can do analysis on information as it happens would be an unquestionable boon to financial firms. Yet, many executives indicated they had no use for such a system, or would not use it even if they had one. The following answers were typical:

- "We don't do analytics."
- "We're primarily 'gut feel' traders."
- "Analytics. I don't have time to do analytics. I can barely keep up with what I have to do now."

In the survey, we also asked about attitudes toward equipping traders with workstations that make it easier to manage multiple feeds of information. Again, the level of resistance was high. Overall, fewer than 10 percent of the respondents to our survey were actively seeking new technology as a way to become more competitive. For some it is a basic fear of the technology itself; for others it's a fear that the technology won't pay for itself. All of these concerns are valid, but beside the point. In an era of discontinuity, technology is one key means by which financial services institutions will defend against and profit from sudden turns in the market.

This is not to say that financial institutions are sitting on their hands. They are clearly *trying* to remain competitive. They have followed Drucker's advice and replaced a reactive, experience-based management style with one that is at least nominally future-oriented and proactive. Rare is the Wall Street firm that does not have someone in charge of strategic planning. All too often, the result of this planning is a formal document that is long on description and short on direction.

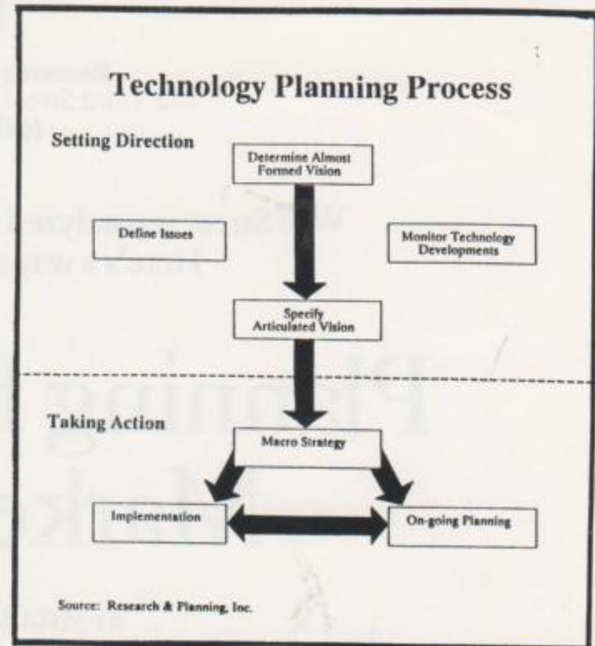
They forget the reason for the planning process in the first place: In an age of discontinuity, the planning process is more important than the plan. Because it's not possible to predict a specific future, any planning process must aim at a moving target. The best you can do is make yourself ready for change, able to fend off unexpected challenges *and* capitalize on unexpected opportunities.

The accompanying chart outlines a planning process that overcomes the deficiencies in the methods that now exist throughout the financial services industry.

The process begins with an "almost-formed vision." Executives have a good feel for their business. They can sketch out an almost-formed vision that establishes some basic strategic directions.

If the almost-formed vision is created in the first step, little upfront time is required to get the whole process moving. The challenge is in moving from an "almost-formed" to an "articulated" vision. There are some real traps that can be avoided by using some very specific management techniques:

- **Shared vision.** It is essential that stakeholders (that is, the various departments involved in a new strategic move) are made aware of the almost-formed vision articulated by management. The planning process must be partly an internal marketing process that "sells" stakeholders on whatever direction management has in mind.
- **Technological literacy.** All of the stakeholders must become well educated in the technology being implemented, the forces driving that technology and the impact the technology can expect to have on business strategy.



Technology planning really means planning to manage change.

- **Executive support.** Technology management must be recognized as a senior-level responsibility with the creation of a chief information officer or equivalent senior-level position.
- **Ongoing planning.** The organization must devote resources (time, people and money) to staying in touch with the forces that are driving change. Once a strategy is implemented, it must be updated constantly.
- **Advanced technology group.** A separate advanced technology group must be established apart from the group assigned to implement ongoing technology developments. Financial services firms must separate their new product/service R&D efforts in the same way that leading manufacturers have made R&D into new products separate and distinct from ongoing manufacturing.

Planning is management's coping mechanism in an era of discontinuity. It is by no means perfect, but neither was the instinctual, experienced-based management style that preceded it. The point of the ideas and techniques outlined here is to create connections between actions taken and the planning process itself. That is essential if planning is really to support experience and enable today's leading financial services firms to survive and thrive in an era of discontinuity.

William H. Gruber is president of Research & Planning of Cambridge, MA, and has consulted for many leading banking and securities firms as well as computer and data vendors. Formerly on the faculty of the Massachusetts Institute of Technology Sloan School of Management, he is coauthor of Information Resource Management (John Wiley & Sons, 1981). He graduated from the Wharton School and received his Ph.D. from MIT.