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Renee Boucher Ferguson

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A New, Analytics-Based Era of Banking Dawns at State Street

J.R. LOWRY (SSGX), INTERVIEWED BY RENEE BOUCHER FERGUSON

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On the heels of a global financial crisis, what used to work in the world of custody banking no longer does. Once-trusted partners are now cash-strapped and credit-unworthy, and new federal regulations are pervasive — factors that have created a need for more reporting, more analytics and more insight into the entire trading lifecycle.

In this new world, State Street Corporation — the hallowed banking giant that services 12% of global assets — faced a fundamental question: What lies ahead, as not only its business model, but also its clients' businesses, are shifting? How could it reimagine itself in a relevant way for clients, continue to build capabilities, and constantly innovate?

The response: State Street Global Exchange (SSGX), a new business launched in April 2013, which enables the organization to partner with its clients to apply a wrapper of information, insights and analytics around the investment process.

But launching a new analytics-focused business in a 222-year-old company with 30,000 employees is no small feat; it requires a massive cultural shift. "You have to continue to adapt to thrive. This is one of those places where we're adapting," says J.R. Lowry, senior vice president and chief operating officer of SSGX.

Lowry spoke with *MIT Sloan Management Review* contributing editor Renee Boucher Ferguson about the launch of SSGX, and how his group is implementing a new culture.

Before we dig into the specifics of the State Street Global Exchange, let's just get a level-

set of where State Street was at with analytics prior to launching SSGX.

In general, data and analytics have pervaded our business for many, many years, but it wasn't something that we were focused on in any kind of coherent way. So, when we ultimately decided to stand up State Street Global Exchange, we knew we had to pull pieces of our existing capabilities from across the company and also bring on new, differentiated talent to help us reach for the white space.

What became the driving force for creating this business was that our clients are facing, like people in most industries, all of the challenges associated with managing big data and what that's doing to business models. Financial services are no different in that respect. In the wake of the 2008 market crisis, the financial services industry has seen a tremendous amount of regulatory change, and it's a topic that seeps into just about every conversation.

Ultimately, several questions kept on being asked: How do I better manage, measure, visualize and report on risk? How do I deal with all of this regulatory change? How do I continue to find new sources of return? What new types of investments, asset classes and geographies do I have to expand into to achieve better yields? How do I keep my costs down, and how do I make sure I'm getting a fair shake in my trading activity?

It felt more and more obvious to us that we needed to have a more purposeful approach to data and analytics across the company, and that was what really led to the genesis of SSGX when we started it just about a year ago.

There are different parts of State Street that are coming together under SSGX. What are those different parts?

At the beginning, we pulled in a research team that sits in Cambridge [Massachusetts], which partners with academic institutions like MIT and Harvard to deliver research on global asset allocation and currency management. We also pulled in software capabilities and analytics groups focused on risk, as well as most of our electronic trading platforms focused on foreign exchange, fixed income and derivatives trading. Operating this business requires both service and application layers, so we pulled the best parts of our existing business to help fit those capabilities.

Ultimately, there were at least five acquisitions that State Street had done over the years that we've wrapped in to the foundation of [State Street] Global Exchange. That combined with the new talent we're bringing on board makes this a bit like a post-merger integration in some ways, and a bit like a start-up in others.

Was there an inflection point — a competitive advantage saturation, or the recession — that led to the theme of focusing on data and analytics to drive change?

There wasn't any one inflection point. The last five or so years have been a pretty interesting time in financial services, to say the least. We went through a market crisis and a complete market collapse, and the industry has been clawing its way back since then. Interest rates are still low, which for most financial services firms makes the going tougher than would be the case when interest rates are higher.

And so we're dealing with this difficult external environment, which includes a lot more regulation. Part of navigating that new environment includes understanding how to respond to all of this change and how to seize the opportunity.

For example, we spend a lot of time and money complying with regulation, but at the same time, some of the regulatory changes, Dodd-Frank among them, have created new business opportunities for us that didn't exist before. It's imperative for us to take advantage of those opportunities and continue to grow our business and adapt how we support our clients. So there was no "burning platform," in the sort of traditional sense of the phrase. We feel like we're starting from a position of relative strength from a capital/balance sheet perspective. And it's preferable to try and drive change when you *don't* have a crisis.

At the same time, it's also harder. It's like the old adage of the frog in the pot of water. If you throw a frog into boiling water, it's going to jump out; [but] if the heat goes up gradually, the frog doesn't realize it's boiling. So we've had to get people to see the need for change from a position of strength, not from a position of crisis.

That sounds like a cultural shift. What were some of the hurdles that you went through, as you went about implementing that change?

The process is certainly not without its hurdles. Three dynamics stand out for me among others. The first is remaining agile within a large organization. State Street is a 30,000-person company, and in companies of that size, decisions can take time and require a lot of discussion.

With the introduction of SSGX, we're not only competing with our traditional custody bank competitors but also against technology firms and startups or small companies that by nature can move a lot faster, most of the time, than a big company can. We have to move fast enough to compete with them and leverage the fact that we've got good scale and very strong relationships with our client base to create an advantage for ourselves.

The second challenge is inspiring everyone we've pulled from different parts of State Street to become part of SSGX, as opposed to remaining culturally assimilated to the different component organizations that they had come from.

The third thing is that we have to be more nimble. In a broader context, we're seen somewhat as a cultural prototype for the company overall. One of the things that Jay Hooley, State Street's CEO, wants to see come out of SSGX is not just a new source of growth, but also the potential to evolve State Street's culture in a way that allows us to be more adaptive, more nimble and more market-savvy.

How have you accomplished a cultural shift and, in turn, a nimble approach?

We've developed and implemented a framework, AC²TION, in which the A is for accountable, the two C's are for collaborative and client-focused, T is for transparent, I is innovative, O is owner-oriented or owner mindset, and the N is for nimble.

Reinforcing that framework and understanding if it's resonating with our employees [requires] talking about it. Every quarter, we send out a quarterly "pulse-check" employee engagement survey. The Pulse Check questions are aligned against that AC²TION framework. We just did the first one in January. We received good feedback the first time in terms of response rate, and it helps give us a baseline to assess how we're measuring up to the AC²TION framework. Our goal is to take that, digest it, and put things into action prior to the next survey.

How do you push those findings out, and how do you make that culture keep rolling throughout the company?

To a degree, it's leading by example. And groups like marketing and HR help evangelize our successes internally.

To some extent, I also think we feel like we have a bit of an obligation to shake things up a bit. That's probably one of the big things that the leadership team thinks about almost every day: how hard we push people to change, and how we pull them along. We all agree that we need change, but when it comes down to day-to-day practices, it's hard to break out of old habits.

I have my mental list of things I'd like to change, and I pick my spots and work several of them every quarter. But it's a journey; we have work to do within SSGX, and I think like all culture changes, it's a multi-year process.

How much of the message that you're putting out from SSGX is also being reinforced by your CEO or other C-level executives? And how important is that support to get the message to stick?

SSGX represents the first time in 25 or 30 years that State Street has stood up a new business. It's not common for us to start new businesses from which we hope to achieve growth on a significant scale. When you start something like that in a company, there is in some ways an "escape velocity" that you have to hit, to use a physics term. You have to get enough air cover and support from the executive team to make sure people aren't killing the idea right out of the gate.

Starting SSGX with 850 people, solid revenues, and a client base was important because we've self-funded a lot of what we're trying to do from a growth perspective. Even with that executive level support right out of the gate, it was harder than we thought it would be.

When we launched this business in April, everybody had known it was coming for at least six months before that, but it still took a lot of conversations to get people on board. State Street is historically a risk-averse culture, and it took a while to get people over that. My boss, Jeff Conway, and I — among others — spent many, many hours in meetings with people last summer explaining what we were trying to do, why it made sense and why it was the right thing for our clients.

I think we've turned that corner, but it took nine months. Now I think we're at a point where we've achieved escape velocity. Now the support we really need is to continue to help us fuel growth and strike the right balance between demanding near-term execution while not losing sight of innovation. That balance is really, really important.

The *ask* of the executive team has evolved over time. Now that we're out of the gate, we really need help to continue to grow and keep moving fast. The last year has been a very busy, hectic whirlwind.

At the same time, I can look at where we are and feel very good about what we've accomplished, and at the same time look ahead and say, we've got to continue to up our game, both within SSGX and at State Street more broadly. It's a tough world out there, and you have to stay ahead to be ahead.

About the Author

Renee Boucher Ferguson is a contributing editor for the Data & Analytics Big Ideas Initiative at *MIT Sloan Management Review*.

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