

Focusing on the **customer:** An interview with the head of Merrill Lynch's operations and IT

Merrill Lynch has combined operations with IT in a single unit. Diane Schueneman, the head of the company's Global Infrastructure Solutions, explains how she is changing both to focus on the customer.

Allen L. Weinberg

Merrill Lynch is one of a growing number of financial-services companies that have combined their IT and operations units in an effort to smooth the connection between services delivered and the technology and processes that deliver them. After all, says Diane Schueneman, the head of the company's Global Infrastructure Solutions, customers are won or lost through the quality of the service they receive rather than any assessment of what part of the company delivered it.

But even where functions depend closely on each other, integrating them poses a challenge. Schueneman, who leads the integration of IT and ops, approaches it by encouraging people to change along with the organization—through new educational opportunities, ambitious collaborative goals, and an environment that supports and rewards taking risks.

In this interview, Schueneman discusses the rationale behind Merrill Lynch's integration of IT and operations with Allen Weinberg, a principal in the New York location of McKinsey's business technology office. In the discussion, which took place at Merrill Lynch's corporate headquarters, in lower Manhattan, Schueneman explains how this integration has poised the company to set new and ambitious goals for its combined operations and IT units and how it is building the capabilities to achieve these goals.

Article at a glance

In financial institutions, operations and technology units work together to carry on the processes of the business, as well as to develop new services. Financial-management leader Merrill Lynch has combined the two units and put them under one leader to integrate their activities more fully.

The head of Merrill's Global Infrastructure Services, Diane L. Schueneman, says that this integrated structure empowers the company to meet the customer's needs more effectively.

To transform her organization, Schueneman believes in transforming its people—through educational opportunities and an environment that supports collaboration, experimentation, and the creation of new value-generating services.

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The Quarterly: *You're in a somewhat unique position, with technology and operations both reporting to you. Why is it better to have technology and operations together than apart? What does this structure enable you to do?*

Diane Schueneman: I try to remember that we're not a technology company; we're a financial-services company that supplies solutions to our customers around their financial needs—simple as that. Customers don't say, "You do a really great job creating an equity product." They ask, "How well do you deliver it to me?" and "Does it meet my needs?"

So the whole reason to combine technology and operations rests on the customer's needs. And to deliver

against those needs requires the best operational processes and the best technology. But you can't start with one and graft on the other. It's the integration of technology and operations, from beginning to end, that really allows you to serve customers effectively, anywhere in the world. It's one example of how we're transforming our organization to think differently from the ways that financial-services companies have thought in the past—which is to say you have to move beyond an individual silo mentality.

The Quarterly: *So you're saying that when you redraw the organizational chart from a customer perspective, it looks very different?*

Diane Schueneman: That's the guiding principle: don't connect the dots according to your whims but around the interests of the one who pays the bills. After all, customers are not buying technology or process from us; they're buying a solution.

To do that, you have to ask your customers what they want and then listen carefully to the answer. You also have to be able to dissect what a customer says and know how to put that into action. For example, everyone hears that customers want one-stop shopping. And some companies interpret that

as, “Give clients just one person to talk to.” But we asked ourselves, “Does that mean that with all of the intellectual capacity generated by 50,000 people at the firm, the customer only wants to draw on the talent of one person?” No. What the customers are really saying is that they want consistency; they want a common way to access all of their information with us. And they want simplification. When they want to open a relationship across five products, they want to be treated like one customer, not five. Can we do the paperwork once, instead of five times? In other words, they want the power of all 50,000 people, but organized in such a way that we deliver their service in a simple way.

The Quarterly: *Does that apply to institutional clients as well as retail clients?*

Diane Schueneman: Customers, whether in retail or institutional banking, all want to see things from their perspective. Consumers expect integration across asset classes, regions, and capabilities. They want



Diane Schueneman

Vital statistics

Born April, 1952, in Philadelphia, Pennsylvania

Married with 1 child

Career highlights

Merrill Lynch (1971–present)

- Head of Global Infrastructure Solutions (2006–present)
- Senior vice president and head of global operations and infrastructure services (2004–06)
- Various management roles, including responsibility for international equities in United Kingdom, global futures execution and clearing services, global fixed-income and derivatives operations, operations and administration for investment managers around the world, and global private-client services and technology (1971–2004)

Fast facts

Serves on board of directors of Depository Trust & Clearing Corporation (DTCC) and on advisory board of BITS, nonprofit consortium of US-based financial-services companies

Serves as senior adviser to Merrill Lynch Women's Professional Network

to see everything together; they don't want it delivered piecemeal. Consumers can easily walk to another firm any time they want. It's a bit more complicated for institutions, since they have a broader range of needs that include liquidity, execution capabilities, and service. But the same principle applies to both—if I can rally my organization around the customer's vantage point, I can deliver higher productivity and greater effectiveness.

What is interesting is that this also drives employee satisfaction. When managers ask, "How do we get people in a support group like IT or operations to feel like they're part of the business?" the answer seems to be: connect people to the company's value proposition and to customers. People want to feel like they're valued, and there's nothing like the customer telling you that you're valued to make you feel good about your contribution. Sometimes people think that customer value is all on the front line, the face. But if the technology behind the scenes can't process the requests, the customer is not going to be happy. So I need to have the IT and operations staff recognizing how the end goal is dependent on their contribution. Everybody's got a role to play and everybody needs to understand the value of their role.

The Quarterly: *Has this reorientation to the customer viewpoint been more challenging than you would have thought as far as changing people's perspectives?*

Diane Schueneman: No question. I think anytime you ask people to change, they wonder if they've done something wrong. To move past that, you explain the rationale and the vision of where you want to go—in our case, moving from an internal focus to an external one centered on the customer's perspective. Once you get people excited about change and give them the freedom to think, you unleash their intellectual capabilities. They do amazing things, and that's how you get innovation.

Let me give you two examples. The first is our research library, which was created through the inspiration of four of our technologists connecting two dots. One dot was a business problem: we have all this great research, but it is hard to find and organize quickly in the ways our salespeople, traders, and bankers find useful when doing their jobs. The other dot was new search technology developed by a company called FAST.

The team understood how this technology could solve the problem and put a prototype together. The research library became a huge hit because it provided instant access to 700,000 reports, with an easy ability to

customize searches for the specific information being sought. It all came together in a couple of months. Since December, we have rolled out the research library to more than 25,000 users across our sales and trading, investment-banking, and global private-client businesses. We are now exploring ways for the research library to be merged with the firm's external research tools so we can make it available to clients on the Internet.

Our global support model initiative is the other example. This is where our infrastructure team got together to basically rethink and reinvent what our entire technology platform should look like. How do we become more efficient, agile, and scalable than we are today? How do we train our people so they have the best skills in the business? How do we organize ourselves so we are delivering all of the firm's capabilities to clients in the ways clients want them delivered?

So in a top-to-bottom examination of our technology infrastructure, the global support model program is systematically looking at how our tools and processes can be improved, how we turn our global footprint into an integrated platform operating from strategically situated centers of excellence, and how we improve training and career opportunities to attract and retain the best workforce.

We have told our people, "Go out and invent a better way of doing things." To empower them, we have supplied resources and management support. That combination of ideas and follow-through is how you create new possibilities.

The Quarterly: *So it sounds as though innovation requires more than just smart people with good ideas; it also requires an environment in which it can flourish.*

Diane Schueneman: Right. You have to encourage innovation. People often focus on the potential for problems, but people are willing to try new things if you show the way forward, provide the right environments, and make resources available for pilot projects. Change like this doesn't happen overnight; it happens in small steps.

Another thing that I focus on very heavily is creating learning and development opportunities for employees, because if you don't do that, then you can't ask them to take risks. We have to teach them how to take risks, how to make change happen. We've started a six-month technology innovation program, which grew out of a successful innovation program one of our groups was running. It combines periodic classroom training

with an ongoing contest where ten teams will each create a business proposal and compete to have it funded by our technology-investment committee.

All of our training programs are supported by our technology career framework, which shows people the skills required to advance in our company. Specifically, it describes the competencies required for success, illustrates different career roles and paths, and shows how individuals can develop the skills critical to success.

We're also taking advantage of external programs. For example, 100 of Merrill Lynch's employees are involved in a three-year program at Wharton that is run in conjunction with the Securities Industry Institute. The objective is helping participants to increase their job effectiveness and leadership capacity and to strengthen their management skills through courses that build industry and investment knowledge, as well as leadership development.

The Quarterly: *You're talking about employee career paths, but it seems like you're also talking about the transformation that you're putting the organization through at the same time.*

Diane Schueneman: You have to. You can't do one without the other. I think that's a common mistake companies make—they separate the two as if they're independent. I don't know how you change an organization unless you ask the people there to change as well.

The Quarterly: *What skills will institutions need if they are to thrive in coming years?*

Diane Schueneman: I believe over the next ten years there will be a couple of characteristics and skill sets that, if you don't have as a company, you probably are going to be in big trouble. There's no question you'll need collaboration and teamwork skills. Data-management skills will also be essential, since the ability to understand and integrate information into your organization is critical.

Successful partnerships will also be important as financial-services companies learn they can no longer be all things to all people. They'll learn from other industries that have gone through economic crunches that they have to become more effective in their delivery of services. We can't produce everything ourselves.

We'll also have to become better at procuring, and globalization will be key. That raises another important need: how well do you operate in a virtual world, where you can't control everyone? When the people working with you are across the world, in China or India, you can't control outcomes; you can only influence them. Collaboration tools will be critical. I'm encouraging videoconferencing because we're going to have to use technology to work more effectively. People want to see who they're working with, but we can't have leaders on an endless airplane trip around the world. It's very hard on productivity.

Related to that, companies will need a better balance between their global ambitions and their regional execution. Customers expect us to bring to them, from anywhere in the world, the power of our organization. For that, the proper architecture and management alignment of IT and operations is essential. Along those lines, I am engaged in a review with my management team to make sure the shared accountabilities for global and regional execution are fully understood. Getting the global–regional balance right requires clarity around roles and responsibilities. That's not to say you will ever eliminate ambiguity and gray areas, but the better job you do of explaining who does what and which things need to be done in concert, the better your chances for success.

The Quarterly: *How are you getting people comfortable with this?*

Diane Schueneman: It can be a difficult change, getting comfortable with this lack of direct control. But our people are getting better at it. When we first started doing IT work in India, we looked at this as a staff augmentation—hiring someone to do a piece of a project. But the person doing that piece of work had no idea how the coding fit into the overall system that we were building. That's not very efficient, and it leads to higher turnover because highly skilled people are not going to stay if their job isn't satisfying.

So, increasingly, we have to think about their skill set, how we value it, and how it fits into our overall picture so that they can own a piece of the process. There's some resistance to this, at least in financial institutions, because we've grown up with a product mentality that says, "We will do it all, soup to nuts. We will develop and test the code, we will operate it, and we will maintain it." And that's hard to let go of, because that mentality makes you hard to replace. But at the end of the day, it may not satisfy the customer's needs, because everyone is doing their own thing—doing it well, perhaps, but doing it within their own world. You don't see the benefits of integration.

But if you approach change in a way that says, “This is the impact that the process is having on a customer,” you’re more likely to get people to recognize the need for change. It’s not that people were doing a poor job; it’s just that what they were doing wasn’t fully benefiting the customer. When you explain it that way, you see the light go on, and then people come up with ways to fix the process.

The Quarterly: *What sorts of things have they proposed?*

Diane Schueneman: As a team, we came up with some ambitious goals that we aim to deliver over the next three years—six very tangible, very measurable, very specific things to transform Merrill Lynch. The first is a radical shift in budget priorities: we plan to spend 70 percent on new development and 30 percent on maintenance. Think about the innovation that will spur.

The Quarterly: *That’s pretty ambitious. Were there concerns from your application maintenance people about shifting so many resources to innovation? It seems a little daunting.*

Diane Schueneman: As long as you can get people excited, I don’t think they mind if goals are daunting. Understand, these goals aren’t from me; they are the goals from a team of the top 100 people in the IT and operations organization around the world. When you create excitement in an organization, you see some uncommon things happen.

The second goal is to substantially increase our straight-through processing to 99 percent of our commoditized, high-volume transactions. The team said, if you really want to satisfy customers, let’s make sure that human beings aren’t touching processes and slowing them down. Related to that, a third goal is to really go after downtime by ensuring 99.95 percent availability of our critical business applications.

A fourth goal is to improve our global-sourcing abilities by making sure we have the right people with the right skills in the right locations to serve our customers. More and more of our customers are outside the United States, so it wouldn’t make sense to have 80 percent of our resources here. Let’s find the skill sets we need in the places we need them.

Another goal is to increase client satisfaction. Not a surprise, but we wanted to make it measurable so that we are in the top tier of client satisfaction as measured by external means, such as reports on the timeliness and accuracy of our confirmations, benchmark tracking for collateral and valuations, and surveys that measure us against competitors.

Finally, we want to be best-in-class with our e-channels. There's no question the business is going that way, but we have to continue to ask ourselves whether we're serving our customers the way they want to be served. Here, we're working closely with other parts of the organization—marketing, research, strategy—because this touches so many things within our business: transactions, our financial content, customer service, and our proprietary information that gives us a competitive edge. And there are several ways to provide these things—through a Web portal, a direct link, or software. In this case, technology and operations are the glue that holds all these efforts together, providing the capabilities to deliver what the rest of the organization wants to do.

All of these goals are about building an organization that meets customer needs. And we do that by harnessing the power of everyone in our company—which is really the only competitive weapon a company has.

The Quarterly: *You've talked about the pathway you're providing for the people below you, but how do you see your role evolving?*

Diane Schueneman: I think any CIO role has to evolve to become an integral part of the business's fabric. There's a lot of talk about whether CIOs have a seat at the table, but in a way that misses the point. You don't get the seat at the table and then suddenly succeed; you have to drive a capability in a company, and then you get a seat at the table. Ask yourself what are you doing that is transformational? What are you doing that's a differentiator? Are you thinking differently or are you an order taker?

That aspiration, I find, is lacking in some CIOs. But the opportunity is there for them to think like CEOs and to use the power of the organization to achieve greatness. To do that, they have to work broadly across the company—with the CFO, the head of sales, and other functional leaders. They have to understand these different roles and be very involved in bringing new ideas to them.

I believe that's what is expected of me and I certainly am not waiting for somebody to tell me what to do. I see my role as leading people through significant change, to focus on the client. **Q**

Allen Weinberg is a principal in McKinsey's New York office.
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