Investment firms get ahead with innovation

Transcript

NARRATOR 1: Welcome to the Industries Podcast Series, where Grant Thornton shares information through an industry-specific lens about the most important business issues of the day.

NARRATOR 2: In this podcast excerpted from a recent webcast, Grant Thornton National Managing Partner for Asset Management Michael Patanella discusses the ins and outs of digital transformation in asset management with Eliaz Niedober, the firm's senior manager for asset management innovation.

MICHAEL PATANELLA: Now that we're coming out of — in the US, certain areas of the world may be a little bit different — coming out of the pandemic, we're at an inflection point for a lot of companies that may have started an innovation, automation journey well before the pandemic and then either put it on hold, paused it, or really accelerated with the working from home and some of the changes that happened to our day to day. But that doesn't mean that if you didn't start it that you couldn't start, or maybe you're thinking about starting now with your new phase, or upgrading and going to a different version and enhancing your overall focus on innovation and automation. So Ellie, how important would you say innovation and overall automation are to an asset management company?

ELIAZ NIEDOBER: It's a great question. We see an increasingly competitive landscape due to a multitude of factors that I'm sure many of us are already aware of. What we've seen is that when innovation is done right, it makes organizations more efficient. Stakeholders, customers and clients are generally happier. And those within the organization tend to have higher job satisfaction, all of which help the bottom line and are necessary for long-term success. At its broadest level, I would say innovation is the intersection of process, technology and people, that when formulated correctly, drives positive change for an organization. I want to stress that innovation is not a one-time process. Innovation should become part of the fabric of an organization. The only question is the magnitude that change will have, not if it will affect it at all.

As a generalization, there are two ends of the spectrum, companies where innovation is an important part of the general organizational strategy and companies that see

innovation as more of an expense. The pandemic only enhanced this contrast as the companies that already had started their journey continued to make progress and on the opposite end, the companies that saw it as more of an expense, the pandemic was an added reason to hold off on any new implementation or further discussion on innovation.

MICHAEL PATANELLA: So with that, Ellie, I think if you haven't started the process, years ago it was much more cumbersome, difficult. You had to hire individuals to help write code. There's been a lot of advancement, some of it expedited by the pandemic. Maybe you can talk just a little bit about some of those changes for those that are listening, that maybe their company hasn't gone down that road yet.

ELIAZ NIEDOBER: Of course. It doesn't mean all is lost if an organization hasn't actively implemented an innovation strategy or has been holding off altogether. One benefit of starting now is that technology has advanced in the last five to 10 years and various players in the market have started to differentiate themselves in the different industries. With a more mature market, the strengths and weaknesses of any particular software and/or process is more clear. Historically innovation was largely seen as being driven by software companies where asset managers would be the end user. There was always the exception where individuals would create a custom script or an advanced macro that would definitely fall under the category of innovation. However, there was no standardized way of leveraging the larger workforce innovating across the organization.

From a technology standpoint, 10 years ago you were more likely to pay a developer for customized automation. Now we have tools that can provide a customized experience which require minimal to no coding at all. With that, I am not suggesting that CTOs should start providing group licenses for automation software across the organization. On the contrary, the tools we are using now are very powerful. We can automate entire processes within the organization, taking a process that used to be measured in days or weeks and now measuring it in hours and in some cases in minutes is very powerful. But on that same note, without proper guidance on the building, implementing and reviewing, errors can potentially be incorporated just as quickly in addition to potentially opening up your organization to additional cybersecurity risks.

Also, it's important to note that not everything that can be automated should be automated. It's important that, as part of an innovation strategy, all necessary business processes are assessed. A recent example — we have a client that was supplying us information that was summarized in Excel across multiple files. This was due to limitations of Excel to handle mass quantities of data, and this cost the client roughly

two days' worth of time to pull everything together. We were made aware of this while working with the client to understand their process. Within two minutes we suggested a solution using our data processing tools and we were able to deliver that solution within an hour, giving the client's finance team two days back and letting our team advance the project in a shorter time frame.

In this case the client's additional processing to summarize the data was no longer necessary. But the risk, and I've seen this play out, of automating without an innovation strategy is as follows. If you were to ask that individual in a finance group what they would like to automate, they would most likely focus on the manual aspects of their job. This is not wrong, but it misses the larger picture. In many cases, review of a process and the larger orchestration needed across the entire business results in a holistic view of what's important and where innovation will have the greatest impact. Buy-in from process and subject matter experts is needed, but taking a step back to see all the processes that make up the day to day of an organization is a critical step in developing a long-term strategy. And it's only at this level that organizations can start to ask themselves some of the more important questions, such as:

- "Do we need to be doing it this way?"

- "What tools are out there that can help us?"

- "Is there anything that we can outsource?"

MICHAEL PATANELLA: Ellie, outsourcing is something you just referred to, and when we think of outsourcing sometimes we're not directly linking that to innovation and automation. How do you see those kind of come together?

ELIAZ NIEDOBER: Outsourcing can and should be a significant element of innovation strategy, as it can have far-reaching benefits. Now the companies that hand-build the majority of back-, mid- and front-office operations directly had a greater challenge back in 2020, throughout the pandemic. Going from minimal or no work-from home to an entirely remote organization in short order is a situation that we're all aware of now, but up until that point, business continuity planning pretty much maxed out at a hot site where you could work when the primary office was unavailable. The scenario of, "What do we do if every single one of our employees needs to perform their job independently from their own home?" was not a usual consideration. The companies that had already onboarded a third-party administrator were much more adept at the transition to work from home. And as the volatile markets created extreme investing opportunities, they had an easier time scaling for the significant trading activity that ensued.

This wasn't a surprise because third-party administrators are naturally aligned with leveraging technology to seamlessly integrate back-, mid- and front-office functions with their systems. Outsourcing necessary business activities to others who have specialized in those areas can allow you to focus on what differentiates your organization. From a global perspective, we are currently working with many asset managers providing people solutions in their finance, reporting and processing groups. In some cases, this is part of their short-term strategy as part of a larger restructuring, but for others it has become a key part of a long-term strategy. This new model of service gives our clients peace of mind with our quality and expertise in asset management and provides them the scalability of the GT network.

This model has shown its resiliency through the pandemic, talent shortages, overall economic environment, and our clients are seeing the value of our highly skilled people and innovation brand. For these clients, the question of, how do we effectively expand our capacity throughout the team for innovation was answered by partnering with our team to continue to continue to bring that forward-thinking innovation mindset every day. As with anything you do as a part of strategy, the outsourced solutions are a proxy for your organization. Therefore, you want to make sure that they themselves have an innovation strategy that aligns with your own.

This should be assessed from a functional level, so as in the technical details of the cloud infrastructure being used, to the more general areas such as their process for reviewing and onboarding innovative technology and systems. As an example, here are GT we have a centralized innovation group and our decentralized creator network. This combination allows us to innovate at the individual team level, or when multiple teams or more complex issues arise, allow the firm's centralized innovation group to supply the resources needed to develop a solution. Over the last 24 months, this has resulted in more than 1,700 solutions being delivered to teams and clients, and that's just counting the ones our centralized innovation team has developed, as every day our teams that are part of our creator network use the technology that's available to provide value efficiently and effectively to our clients.

MICHAEL PATANELLA: Thank you. And maybe you can talk a little bit about how Ultrix and some of the other softwares are able to conform day-to-day coding and change that into something that — still obviously you need the skills — but is something that can really help you with, like you said, 1,700 different solutions.

ELIAZ NIEDOBER: Sure, sure. So with the actual technology, that should be part of a strategy overall. Anyone can go out and buy a license, but it's kind of how you implement that at scale. So there are a few ideas that are important to keep in mind

with any sort of innovation strategy whether it be automation via software or outsourcing. And that's going to be based around short- and long-term goals, communication and people, and what I'm going to point out is endurance. For starters, it's not uncommon to hear of innovation and instantly think of automation, and it's often the case that innovation strategy will heavily focus on automating current processes.

However, driving change in an organization, especially through innovation, is much more nuanced than that. The more complex an organization is, the more detailed and specific its strategy should be. Successful strategies will have both short-term and long-term goals with clearly understood metrics that can be used to assess progress and success against meaningful key performance indicators. That's crucial. It's easy to understand when thinking about process improvements as a means for cost reduction, but cost reduction at most should only be one element of a larger innovation strategy. I see it in the context of the saying, "The best defense is a good offense." Reducing costs can be thought of as more defensive in nature as opposed to increasing organizational output and growth via innovation.

As an example, we had a case where we helped a leading US asset management firm expand globally. In order to do that, they realized they needed to streamline their financial data and reporting groups so they could make decisions with more real-time data. We brought our asset management industry expertise and worked with the company's leadership to develop and deliver tools, process and implementation they needed for data-driven decision-making on a global level. This allowed centralized reporting across the front, middle and back offices of 16 business units and saved more than 50 hours a month of analysts' time and also resulted in 60% faster reporting lead time. It wasn't about reducing costs or headcount. It was about how can we strengthen our operations and where can we do more with the people that we have.

The managing director on the engagement said, first and foremost, we're upskilling people. We upskill people not only in the outcomes of the work, but through working together. We're teaching people how to think differently about what they do and how they do it. This touches on the important point of people within an organization and therefore highlights the importance of communication.

A huge part of implanting any part of any innovation strategy is communication. In many cases you might be dealing with specific individuals in business units that might have a process that we're trying to improve. For example, as part of a short-term goal you might have an RPA solution that's being implemented within a process to automate a potential bottleneck. This could be to reduce the time it takes to review or produce financial statements, or to improve the investor reporting process, or as we just

discussed, to collect the data necessary to make data-driven decisions. In either case, this will change the day to day of the individuals in your organization that are currently performing those tasks. As with anything, there is going to be a learning curve at the very least, and maybe even some additional work in the interim. But it's important to acknowledge the tradeoff that the groups or individuals will face. Your employees will have to sacrifice time and energy learning new processes, and that will replace or augment what they're currently doing. Ultimately the long-term solution might involve overhauling an entire business system to one that more seamlessly integrates multiple components of various business units.

But in the short term, holding over a new system implementation via automation can have an instant impact on efficiency and employee satisfaction, as no one really enjoys manually working through a process that can be automated. For some, figuring out a better way to perform their tasks is a welcome challenge. They can see that over time this will benefit them, their colleagues, other groups, and in the greater scheme the organization at large.

On the other hand, there are those that will only see what they're giving up for an unknown. It is critical to not only communicate the plan but confirm and validate the tradeoff that they will have in the short term. Success across an organization — and this is key — is going to hinge on the cumulative expense of the tradeoffs that are felt across the organization, which is why being transparent and communicating effectively are key.

Individuals that have that innate drive to improve can be very powerful allies for the overall process as it gives them a permitted structure for what they've always wanted to do, and in some cases have already been doing. Lastly, endurance, grit, persistence, determination — you can add in your own term there — are all terms that fit with the mindset that is needed to have a real change within an organization.

Change is never easy, let alone implementing a holistic innovation strategy with short- and long-term goals. And it goes without saying that business doesn't stop while an organization is working through this change. However, as your organization, continues to take steps forward through a well-thought-out innovation strategy, what we've seen is that there's a certain momentum that starts to carry everything forward.

As an example, we were engaged by a client to rebuild a key system with additional functionality that was used in their financial reporting and accounting group. After reviewing their requirements and understanding the larger process, our recommendation was that newer technology that was low-code would be a more efficient mechanism for overhauling the system for the group. As with any key system

migration the decision was not taken lightly, but we were able to deliver under budget and ahead of schedule with added functionality that helped a wide range of people in their group. As the co-workers of the financial reporting and accounting group, the co-workers of those individuals in other business units heard about how innovation transformed the processing in the financial reporting and accounting group for the better, those individuals and those groups started reaching out to management to see how they could start transforming how they did work. And this is the power of true innovation. When processes, people and technology are brought together in the right way with the right tools and the right guidance, you're able to not only improve the organization in the short term but ultimately improve your innovation strtaegy, change the fabric of how your organization works, giving you an advantage for long-term success in the future.

MICHAEL PATANELLA: Thank you very much, Ellie. Well said, and really, this type of innovation strategy will be a significant factor in determining who the overall winners are going forward.

NARRATOR 1: Thanks for listening. Find out how Grant Thornton goes beyond expectations at GT.com.

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