

Strategic Management of Financial Service Organizations

Documentation for the FSO Course

Those who cannot remember the past are condemned to repeat it.—SANTAYANA

GENERAL PURPOSE OF THE COURSE

The course's cumbersome name accurately describes its contents. Courses of this type used to contain the words "Financial Institutions" in their titles, but to some this label smacks of granite columns rather than the delivery of financial products. Is General Electric a financial institution? Microsoft? American Express? Was Enron? So, for the moment at least, we are stuck with calling the objects of our study FSOS. And, in considering the future of these organizations, it is valuable to know a little about their past. As with ammunition ships, when one blows up, you try to find out why so that mistake can be avoided in the future.

Why concentrate on the strategic management aspect of the FSO? First, this aspect of FSO management has been the make-or-break decision for FSOS in recent years. Some segments of the FSO industry end up with capital needs and others with surplus but expensive capital. Either problem can be fatal. The marketplace continues to change dramatically, with items of significance to the class discussion reported almost every day in the *Wall Street Journal*. Furthermore, once the strategy has been selected, the implementation decisions (although not necessarily the implementation itself) are comparatively straightforward. If you want economies of scale, you merge with a similar institution, preferably nearby. If you want geographic span, you merge with a similar FSO in another area. If you want product scope, you merge with or develop a related business. If your market is mature, you try to find new products for your existing customers, new customers for the existing products, a new business, or all three. The events since early 2007 suggest how difficult these simple concepts are to execute.

Second, the strategic perspective permits the course much broader scope than would the alternative of concentrating in depth on a narrower set of institutions to cover all aspects of management in that segment. It's possible that a broader perspective on FSOS and their strategies would have helped reduce the severity of recent economic events. Broad perspective is also important for the course to make the maximum contribution to the career decisions and success of those considering jobs with financial service organizations, institutions that are virtually excluded from the corporate-finance focus of the first-year curriculum.

The FSO course is intended primarily for those who are considering careers with financial service organizations that serve as competitive financial intermediaries, such as commercial banks, investment banks, money managers, and insurance companies. Non-competitive institutions (e.g., pension funds, whose funding is usually mandatory) are not considered directly because of their much narrower scope for strategic action.

TOPICS COVERED

- I. **Innovations:** Success as an FSO may depend on the ability to innovate (or at least quickly to copy the success of others) through the introduction of new services as well as the ability to handle the blocking-and-tackling of implementation. The new services are often technology-driven.
- II. **Transformations** of existing FSOS to meet new market demands: Investment banks, thrifts, insurance companies, commercial banks, and investment managers have all had to move quickly to adjust to changes in their environments. The course will look at the strategic challenges in these areas.
- III. **Management Challenges:** Strategic responses are not useful if they are confined to reports and strategic decisions are not effectively implemented. The last section of the course will consider problems of strategy implementation.

CURRENT EVENTS

Because of rapidly changing developments relevant to the FSO world, after the end of the add-drop period, each class will begin with a brief report and comment based on an article in the *Wall Street Journal* or the *Financial Times*. Members of the class will be invited to volunteer for this opportunity, with open spaces assigned by random drawing.

SPEAKERS

To bring the class the benefit of those who have been taking leadership positions in the FSO industry in an efficient manner, executives from several types of financial service organizations will participate in a teleconference panel discussion with the class. This session is tentatively scheduled for September 29, 2011. The date is subject to change because of changes in the panelists' schedules.

To make efficient use of the panelists' time, the panelists will be asked to discuss several specific topics, such as "What should the financial service industry do to restore public

confidence in its ethical behavior?” A question-and-answer session with the class will follow the discussion of each topic by the panelists. Topics and panel members will be announced later, but the panel will likely include representatives from investment banking, investment management, commercial banking, and insurance.

In addition, we may benefit from the occasional visitor to class, as noted on the course schedule.

SUNDRY NOTES

There is no required or recommended text for the course. *Financial Markets and Institutions*, by Saunders and Cornett, describes the structure and function of significant types of financial service organizations reasonably well and reasonably currently. Copies of the book have been put on reserve for the benefit of those who want to look up the basic aspects of organizational types with which they are not familiar.

The reason some of the cases are elderly is that the problems they introduce are yet to be resolved effectively. It appears a better use of the School's resources to prepare material dealing with new problems than to write cases dealing with enduring problems for which material already exists.

Prospective participants should realize that the course deals almost exclusively with financial institutions headquartered in the United States or Canada. A major reason for the lack of “international” cases is the U.S. market is still the foreign market in which most of the rest of the world would like to participate. Furthermore, in 15 classes it is difficult to create a reasonable understanding of the institutional and regulatory characteristics of one or perhaps two markets, let alone attempt to establish that background for additional environments.

Although concern with grades is alleged to decline rapidly in the second year, some information on that subject with respect to FSO may be useful. I expect to weight class participation and the final examination each 50 percent. The full range of grades, from DP to F, will be available for use as required.

As soon as possible after each class, I record class participation grades on a scale of 0 (no participation) to 8 (carried from the room on the shoulders of cheering classmates). A participant's grade on class performance depends both on quality and quantity of participation.

As in any professional workplace, attendance is expected at all scheduled meetings but is not mechanically tied to performance evaluation. If you cannot attend a class, for example, professional courtesy and wisdom indicate you should explain your absence in advance and

determine how best to compensate for the material you will miss. You will be evaluated on what you contribute to the class discussion, but it is hard to contribute unless you are present.

There is seldom any reason in this course for laptops to be used during class. Except in a few instances, which will be specifically announced, you should therefore prepare and print in advance any material you need for class discussion. Open laptops will not be allowed except when specifically announced.