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Technology Responsible for Crisis?

By Paul Gibson



As markets in Spain, Europe and around the world continue to recover from this past summer's crisis in the mortgage market, experts are not only pointing the finger at banks and greedy executives, but at a grave mismanagement of technology.

In a recent article published in the *Harvard Business Review*, technology is partly responsible for the vast global impact of the crisis. In today's business world, technology connects markets almost instantaneously. This means that many financial services companies are more and more interconnected, lowering the cost of transactions, but also adding a certain growing ingredient of risk to potential operations. The write-offs of EU banks as a result of the crisis in the U.S. is indicative of the power that technology holds.

Risk analysis is one of the most important challenges in our world today. As technology enables businesses to reduce their

transaction costs, while increasing transparency, it also leaves them open to potential risks. The worst part is that the creation of firewall-protected silos, initially created to protect confidential information, seems to have isolated management and departments to such a degree, that analysing risk is virtually impossible. This means that once potential risks are evaluated, they are normally considered from a local or departmental level, without looking horizontally at the entire organisation.

And the most interesting fact about the mismanagement of information technology is that it normally stems from non-technical members of the organisation. In fact, if we focus on the banking industry, we see that in the past five years, most IT budgets were highly monitored and controlled, because they represent the highest organisational expense (just after wages, salaries, etc.) These managers were asked to control costs, while at the same time continue to produce great numbers. The result? Many banking and other financial institutions invested little or none in implementing new technologies that could have increased transparency and made risk analysis that much easier.

There were also secondary effects to such ill-conceived decisions: IT functions were placed in hands of non-technical personnel that simply delegated these responsibilities to individual departments. The consequences

were disastrous. While individual business units procured to reach objectives, the company left itself open to potential risks and lack of transparency, to say nothing of the lack of financial control or account auditing.

Finally, for those of you who may think that the role of technology may not have played such an important part in the crisis, we will make the following consideration. The only financial institution that was exposed to potential risk that was virtually unaffected by the crisis, was the institution that has invested the most in company-wide IT architecture: Goldman Sachs (well-known investment bank). Information technology is a very powerful tool that can either contribute to the success or failure of your business, depending on how you manage it. If advanced IT technology is used to make life easier for managerial control and supervision, (and grant more autonomy to different departments), we need to make sure that it also works effectively as a control mechanism and not another systematic constraint.