Chapter 11
The Persisting Human Element of the Electronic Trading Habit

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ABSTRACT

The move towards electronic trading was believed by some to narrow the scope of information available to traders, due to the difference between the old paper-based and new IT-enhanced work environment. It was expected that a trader's job performance would transform from a physical, social, embodied experience, into an individualized, rational, and detached operation. In this chapter, we discuss how the human element to trading has remained central to job performance, by illustrating how particular trading companies have excelled under the new job environment. Drawing on a data collected on electronic trading firms between mid-2007 to late 2010, we focus on a smaller set to illustrate our findings. We find that trading has remained a human endeavor; traders group together for learning and coordination benefits. Furthermore, firms now tap into a global talent pool, and have incorporated monitoring benefits made possible by electronic monitoring of positions for better risk management.

INTRODUCTION

Developments in information technologies (IT) have both enhanced and supported the move towards the knowledge economy (e.g. Drucker, 1988, 1993; Blackler, 1995). One industry that has been strongly influenced by these developments is the financial services industry, in its various forms and shapes. In the stock trading industry in particular, the move toward electronic trading was found to significantly lower stock transaction costs, enable faster trade execution, and it provided more complete price information to traders (McAndrews and Stefanidis, 2000). More broadly, the move towards electronic trading lowers transaction costs in exchanges of capital (North, 1991). An early example of this transition towards electronic trading is the introduction of the electronic communication networks (ECNs) on the NASDAQ in 1997.

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This electronic trading was to replace paper trading, so that traders could do business beyond the confines of the physical stock exchange. Under the new conditions, access to the markets is now possible from any location, which initiated the move towards globalization of trading on financial markets. Barrett and Walsham (1999)

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argued that this change towards 'remote' trading (where traders do not need to meet in person) would radically change the way in which traders establish, continue, and enhance their relationships with each other. Such stock markets can be viewed as socio-technical arrangements of material devices. This arrangement determines the nature of the competition, as constituted by the participants. Dependent on the particularity of these arrangements, a competitive process is thus defined (Zaloom, 2006).

Under these new electronic conditions, new skill-sets were expected to be required, due to the difference between the old paper-based and new IT-enhanced work environment. The informants in that research argue that this will lead to more of a calculative and individualized work environment (Barrett and Scott 2004; Scott and Barrett, 2005). At the very least, these technological developments lead to changes in the nature and location of contact between individual traders. For example, individual traders can operate without an intermediating office, if they are able to provide their own capital (Yap, 2006).

While there is a great understanding of the dissatisfaction caused by the move towards electronic trading from the paper traders' point of view (e.g. Barrett, 1999; Zaloom, 2006), these accounts are perhaps informed by the interests of paper trading market participants to maintain the practices they are familiar with. As such, there is limited understanding on successful profitable engagement with stock markets in the age of electronic trading. This leads to our research question, *how have trading companies taken advantage of the electronic trading environment?*

Using the example of internationally operating daytraders, this chapter explores how one group of market participants has taken advantage of the new electronic trading environment. In the first section, we first review the literature on the move towards electronic trading in more detail. Following this, we describe our research methodology. Third, we explore how internationally operating daytrading companies have successfully adapted to the new electronic trading conditions. Finally, we elaborate on how our results impact on current thinking on the subject of the move towards electronic trading.

TRANSITIONING TO ELECTRONIC TRADING

It has been speculated that in paper trading, as opposed to electronic trading, that traders constitute the market by directly watching each other. In the physical paper trading setting, market participants emulate each others' behaviours by observing trading habits of the successful traders, and similarly examined the failing strategies of others in order to exploit their weaknesses for profit (Zaloom, 2004). In this set-up, the trading pit is the material technology which through its shape becomes the focal point of trading, by directing traders' information gathering, and price discovery. Because of the orderly and routinized way in which this set-up shapes trading in the pit, it was already considered a technology (Zaloom, 2003).

Others have noted that in a situated market presence, traders get a feeling for the market, and they engage with the market 'lifeform' as a whole to sustain a profitable relationship. As they cannot walk into such a space, they stand in its intimate space, attempting to assess its every tick and move. In this situation the market then is an embedding environment for the self (Knorr Cetina & Bruegger, 2000).

Research on the move towards electronic trading (e.g. Barrett and Scott 2000, 2004; Scott and Barrett 2005) indicates that the new work environment with IT would lead to a need for different skills. While in a physical trading pit physical cues lead to an embodied feeling for price movements, it was assumed that in the virtual trading pit intellectual skills will dominate – determining the 'correct' price through rational skills. As such, market participants that operated in paper trading

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