Living in the Case Study

The financial crisis that began to unfold a year ago continues to expose strategic problems in many organizations. Rebounding from stalled performance by revising and executing new strategic intent is a survival imperative.

By Jonathan Ward

The cracks appeared just over a year ago. Today, as the financial crisis unfolds, industrial giants are reeling, and seemingly rock-solid institutions have crumbled. Yet the ultimate effects on each organization still largely remain to be established.
When the history of this crisis is written, the question of how businesses recovered - or otherwise - will become a rich source of material for case studies.
The problem for today's management is that we are living in the case study: it will be our actions that others will study and assess in the future.
How can we become one of those great examples of recovery? What lessons can synthesise into our recovery plan? What actions should we take? What should we avoid?
The answers lie in studying past managerial experience and how others recovered from similar scenarios.
Britain's second largest insurer, Prudential, rebounded from a situation that challenged its very survival, thanks to a breakthrough 1,000-day plan. Its story is inspiring for today's managers as they struggle to rescue their organizations from the crisis encompassing the global financial system.

It's in the strategy- a new imperative

The evidence for management being able to learn from history is unfortunately not strong. As far back as 1974, Herman Minsky identified that the financial system swings between robustness and fragility. Given this well-established view, it would not be unreasonable for strategic planners in the financial services sector to be prepared for a downturn.
Yet the sub-prime meltdown and ensuing trouble seems to have taken them by total surprise, though some argue that it was the very strategy executed by certain banks to counter falling sources of revenue and commoditization of services that catalyzed the crisis. In any case, only a small number of financial institutions remained reasonably unscathed, and now organizations outside of financial services are being negatively

impacted.
The financial crisis is by now presenting challenges to businesses across different vertical markets. The credit crunch has stalled corporate growth and in some instances business size, capitalization, and revenues have shrunk.
How can management rally the business from these setbacks? A March 2008 article in the Harvard Business Review, "When Growth Stalls," suggested that fewer than 46% of organizations were able to return to moderate or high growth within a decade of a stall. The challenge facing strategic planners is twofold: first to develop innovative strategies that provide a vehicle for recovery and secondly, to ensure the effective execution of such strategies.
Evidence suggests both aspects are equally problematic.
Strategy development can be hampered by sheer absence of knowhow or daring. In a recent article, The Economist criticized the banks for collectively executing what Philip Kotler calls a "Market Follower Strategy," a passive strategy that tries to attract attention by subtle differentiators, allowing an organization to position itself so others need to respond. It is typical in industries that are stable and where organizations just want to "hitch a ride". A commentary in the Financial Times in June 2008 pointed out that many boards at leading banks, composed largely of the "good" and the "great," lacked sufficient recent industry expertise to question the underlying business strategy and act before the financial crisis unfolded.
While in recovery mode, the financial markets no longer have the stability and competitor predictability that previously existed. The need for strategic change in the context of uncertain outcome due to external factors becomes glaring. Given recent criticism of boardroom ineffectiveness, there is a risk that faced with a combination of new strategies and uncertain market conditions, terminal paralysis may result.
The key for the strategy director is to create multiple strategic scenarios and to present a compelling rationale of their successful execution to the board.
As history has shown, achieving both strategic innovation combined with the ability to execute, is testing for the average financial institution.
Also, strategic planners are challenged to evolve new strategies for their organization while many of their traditional competitors and other organizations are doing the same thing. Not many strategic planners for example would have anticipated UK retailer Tesco's recent announcement to enter the UK High Street banking market.
As the credit crunch unfolds, most banks will be reinventing themselves at the same time: the planner must indicate the imperative for agility to alter the selected strategy as market conditions and competitor actions unfold.
Recovery is predicated on the firm's strategic change governance and execution process being robust. As the Chief Operating Officer at a UK fund manager put it, "We have great strategies. Our problem is that we don't just seem to make them happen!"
A French insurer stated even more boldly, "Our problem is that we often cannot deliver what we can afford."
In a recent conversation Rosie Harris, Group Risk Director at the Old Mutual British Financial Services Group said: "Inability to efficiently execute the strategic initiatives remains a large operational risk many banks fail to address."
In the recovery from the credit crisis, a firm cannot afford the "cannot deliver." It must forge a recovery strategy that it is certain it can deliver. The keys to execution lie in control of the investment portfolio and discipline.

It's in the portfolio - the right investment decisions

It is sadly not rare at banks and financial institutions for the strategic plan and the change portfolio not to join up.
Tefen UK recently undertook an alignment analysis of the strategic portfolio at a UK bank. We found that fewer than 30% of the projects contributed to the organization's strategic goals, and that increasing levels of regulation burdened the change budget.

The head of change management at another UK-headquartered bank said that last year, this non-discretionary element reached nearly 28% of the bank's total organizational change budget.
Some financial institutions adopt a bottom-up approach: local business units are allowed to bid for the corporate business change budget, but when requests for strategic change projects are developed at the local business level, they may be prioritized and executed without reference to organizational strategic imperatives.
Bottom-up development of the strategic change portfolio cannot solve the problems presented by the credit crisis. The solution requires much more consistency in approach and direction.
The Prudential provides an example of successful major change through a top-down approach, maximizing the efficient deployment of resources.
Upheaval in the British life assurance and pensions market presented Prudential with challenges that threatened its business core: rising costs, falling profits, and increasing levels of customer dissatisfaction. The Prudential decided to transform its business, rebuild its brand, lower the cost base, and regain customer trust.
Over the course of 1,000 days the firm executed more than 400 change projects, increasing revenues by 40% and delivering £201 million in cost savings a year.
How did they achieve this?
When beginning its 1,000-day plan, the company assessed its entire change portfolio for alignment with recovery goals. Non-essential projects were stopped and their budgets - and perhaps more importantly, their resources – were reassigned. To this day, Prudential has retained its top-down strategic planning process, as shown in the diagram.
To recover from trouble, organizations must be single-minded in joining up strategic intent with change activities, lest scarce resources, budgets and perhaps more importantly management intention be diverted.

It's in the discipline – assuring execution

Anecdotally, Jamie Dimon, CEO of American Bank JP Morgan, implemented a review of all projects with budgets of more than $5 million. Each project is reviewed at least three times during its life. The objective of the review is to stop the project.
Top managers at JP Morgan say that this process has had two benefits. First, the original business case for the project is kept up to date and secondly, the managers are able to reprioritize approximately 30% of their project budgets to more deserving causes.
In the financial crisis recovery scenario, when most organizations are reinventing themselves and changing strategy, the process of monitoring

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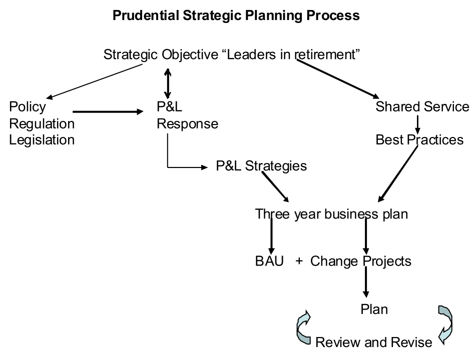

the business case based on current market conditions and competitor activity is an imperative. Failure to use this technique could potentially mean that the firm is investing in a project that will not deliver. The diversion of money, time, and resources may even derail recovery.

Being disciplined about change is a common theme in organizations that have successfully managed a turnaround. The disciplined actions taken by Jack Welch during the recovery at GE are legendary. At Prudential, a simple but rigorous project management discipline was enforced. The weekly change report, for example, gave senior management visibility of the ongoing projects, enabling them to identify blockages and resolve them. The 1,000-day plan tracked progress across five specific areas: deliverables, costs, benefits, change impacts, and resources. Precision is key when executing a recovery strategy.

Many financial institutions steer their business based on instinct, which can lead to haphazard output and waste. For example, at one UK High Street bank, Tefen UK found significant change projects that had not produced a status report in 90 days, let alone been reviewed by senior management.

Some institutions complain that discipline is cumbersome. They argue that agile project management is about creating a velocity for delivery. But measuring the velocity or rate of the delivery of the project deliverables, or enablers of the recovery, is an essential ingredient in the firm’s recovery strategy.

At the Prudential velocity was created by the 90-day or quarterly components within the 1,000-day plan. The publication of the 90-day release schedule created a sense of urgency and short term focus. The passing of the responsibility “baton” between the senior executives prevented burn-out and ensures that momentum is maintained. It is the combination of single-mindedness, discipline in execution and the absolute engagement of senior management at the Prudential that drove the company's successful recovery.

Creating organizational change velocity

The credit crisis has stalled the growth projectory at many businesses. Research shows that less than half of the firms that experienced stalls have managed to regenerate moderate or high growth profiles within a decade. The example of Prudential shows that control over the portfolio (applying scarce resources and cash to the right things) and discipline in execution (focusing executive time and attention to detail) are key to ensuring survival.

The management at Prudential recognized that it was in a fight for survival: In just three years, the firm had moved from the highest-cost insurance provider to the lowest-cost provider in the kingdom. The Chief Executive, Mark Wood, powerfully articulated his vision to all levels at Prudential in what became known as “Mark's Story.” His 1,000-day plan created organizational change velocity via a series of 90-day increments or time-boxes.

Wood ensured that the whole organization was involved by concentrating on this single initiative while ceasing all other activities. Portfolio Management Techniques were introduced to prioritize and sequence the change initiatives. Prioritization included an assessment of the business unit’s ability to change while continuing to operate, to safeguard existing business and end customers.

The executive team were hands-on in orchestrating change. The “baton” of responsibility for each quarter’s deliverables was passed among the executives. Handing the quartermaster’s role from one to another fostered a strong sense of teamwork among the executives. It also established a solutions-orientated culture. The quartermaster was given authority across the organization to align everything with that quarter’s objectives.

Prudential created a business transformation function by bringing all key project management and business analysis capability from all business units into resource pools similar to those used by most consulting firms.

A simple project management process was rigorously enforced. Weekly problem solving sessions were held with the delivery director and between the delivery director and the quartermaster. A day-by-day tracker of the delivery of change across the whole business was implemented.

The discipline applied to resource allocation and management rewarded the Prudential by accelerating the rate of change per month, from 15 change deliveries per month at the outset to a regular delivery rate of 37 at the completion of the 1,000 day plan.

The Prudential prepared a release schedule identifying key milestones, completion dates and funding to ensure that capital was allocated optimally. Continuing the theme of total involvement by the senior team, each member signed the release schedule for the upcoming quarter. As cost savings were achieved, the Prudential switched the emphasis in the portfolio to the business growth and customer satisfaction objectives. Lean Six Sigma techniques were used to identify waste and opportunities for improvement. Establishing a detailed project governance and execution structure proved critical to the Prudential’s success story. Rigorous yet flexible, it equipped the organization to trade off between the delivery of capability, costs and output quality. Portfolio management enabled it to be selective about which activities to include and to absorb the rate of change.

Prudential used this approach to manage major transformation. More recently following a change of executive members, it has adopted a less stringent mechanism for strategic execution. Nevertheless, we are assured that it will remember its success in the past and revert if need be. Perhaps by following the example set by Prudential we can avoid being the subject of case studies of the future.

Jonathan Ward - Senior Partner, Tefen UK

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In the financial crisis recovery scenario, when most organizations are reinventing themselves and changing strategy, the process of monitoring the business case based on current market conditions and competitor activity is an imperative