Patterns of Strategic Control

An Investigation of British, French and German Retail Banking Practice

by

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Abstract

This study provides detailed evidence as to the current state of strategic control in European retail banking. In so doing, it also provides an unique insight into the rigour of the strategic management of the banks investigated.

The increasing rapidity and magnitude of change experienced by today's society and its chaotic nature, results in many business organisations discovering their plans to be obsolete almost before they have finished creating them. Companies are faced therefore with the need for a systematic surveillance of the factors of change, both internal and external to the organisation, that will allow for a methodical monitoring of strategic progress and for a rapid evaluation of whether the strategies themselves require adjustment. Such is the process of strategic control.

Strategic control is further defined from a comprehensive literature review of the subject area and its component parts are identified. A generic research model is conceptualised to facilitate the investigation of the range of factors that can influence strategic control practice.

A sample of British, French and German retail banks is investigated in order to identify current strategic control practices. The principal research method used is in-depth, semi-structured interviews with key retail banking executives. The findings based upon their commentary are reproduced in a narrative format. Leading strategic control experts are also interviewed

The different approaches to strategic control amongst these seven leading European retail banks are compared and analysed in order to distinguish patterns of practice. The advantages and disadvantages of current practice are contrasted to recommended strategic control practice.

The value of the generic research model for the investigation of strategic control practice is assessed and a rigorous, yet easily implemented range of strategic control tools are put forward as an improvement to the retail banks' current practices.

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Chapter 1: Introduction

> *"Two ships set sail in the self same breezes blow, but it is the set of the sail and not the gale that bids them where they go."*[1]

European retail banks find themselves today in some unusual 'sailing' conditions. These unusual conditions have been identified by many commentators (see for example: Anderton 1995 pp. 7-12; Palmer and Lucas in McGoldrick and Greenland 1994 pp. 118-120; Howcroft and Lavis 1986 pp. 17-20), the key factors of which can be summarised as follows:

- *Deregulation* Statutory changes have facilitated the opening up of the financial services sector to many new organisations. Many financial institutions also now have a broader spread of business operations than before. The retail branch network was yesterday's asset and, because of the arrival of new forms of competition, may become tomorrow's liability.
- *Globalisation* Companies already think of the 'global market', but soon they will be faced with customers wanting to shop in the 'global village'. The internationalisation of the marketplace, stimulated by the advent of the Euro, the internet and cheaper telecommunications for example, will bring new challenges in terms of the supply and demand of retail financial services.
- *Market focus* An increasing customer sophistication is forcing the pace of change, with increasing demands for personalised, bespoke financial services. Retail banks have already shifted from process focused organisations to more of a customer focused operation, but banks will have to continue to keep adapting to meet the challenges of changing consumer requirements and the services offered by new market entrants.
- *Technology* The impact of technology is forcing banks to be more explicit about their strategic decisions, such as to be market leaders or followers. The cost and speed of the introduction of 'new' technology will be increasingly dictated by

[1] At the start of this study, I had the opportunity to conduct an interview with David Asch, Dean of the Open University Business School, who mentioned the above words to me and which remain for me a powerful analogy for the whole subject area of this thesis. The original words, slightly different to the above rendition, come from the first stanza of a poem by Ella Wheeler Wilcox (1916) entitled The Winds of Fate.

market competition as much as reflecting an internal choice and will have a direct impact upon organisational productivity and culture.

- *Management* Managers need to incorporate specialised banking knowledge with broader functional expertise to keep apace of the organisational and cultural changes brought about by an increasingly dynamic environment.

This thesis does not attempt to provide any panacea for dealing with these forces of change, that must be left to the strategic decision makers within each retail bank, but instead investigates a generic framework to better manage the strategy once chosen. In so doing, this thesis agrees with Howcroft and Lavis (1986 pg. 3) that:

> "*The application of a strategic methodology to retail banking as an interpretative and practical exercise is a vital element in structuring and focusing bank energies towards an increasingly complex and volatile business environment.*"

It is this pursuit of a rigorous strategic methodology, as will be discussed in further detail in the following chapter that leads to the need for strategic control.

Strategic control as its name clearly indicates is about maintaining control over strategy. This looks at first glance simple enough, but unfortunately it is not as simple as it appears. The root of the complexity is that strategy is about a future position and we can not guarantee that we can arrive at that future position or indeed what is going to happen en route to trying to attain it (Rumelt, Schendel and Teece 1994 pp. 9-47). Furthermore, how we deal with the future strikes at the heart of how we deal with the present, requiring also an understanding of how we dealt with the past. This complexity leads to the inevitable conclusion that "*strategy isn't easy*" (Whittington 1993 pg. 2), that strategic issues are "*messy and complex*" (Finlay 1994 pg.152) and the realisation that the control of strategy must be equally difficult.

This study maintains that despite our inevitably incomplete knowledge about the future, it is preferable to have a strategy with which to face the future. Given this position and the fact that a strategy is to be defined, then this study also maintains that some form of 'control' over the pursuit of strategy should be exercised. Returning to the above nautical analogy, strategic control can be likened to good seamanship, where the sails need to be used to best effect, along with all the equipment on board, in order that the ship attempts to reach its port of destination. Likewise, the crew of the ship need to keep a careful watch, throughout the ship's journey, on what is happening both within the ship and with the weather outside. Indeed, by maintaining this watch, the crew can make changes to try to keep the ship on course, and similarly, if something unexpected arises, such as the arrival of pirates off the port bow, changes can be made to best cope with those eventualities, for example preparing for battle, changing course or ultimately climbing into the lifeboats!

Business organisations today are faced with rapid change, both internal and external to the organisation, which forces managers to deviate from the best of plans. Business organisations in all modern day societies have some notion of the importance of maintaining a close eye on budgets and exercising some form of control over finances. Many people, particularly bankers, would even call this just plain common sense. The need to balance income with expenditure and to budget for the following year is usually perceived as good financial practice. Furthermore very few business managers would spend time producing a budgetary plan and then fail to monitor real progress with that planned. Strangely however, whilst financial plans are usually modified and updated, when it comes to strategy and strategic plans this logic appears to be often lost (Coad in Berry et al. 1995 pp. 119-138). At first glance, it would appear that finance and an awareness of the profit and loss situation is more important to managers than the actual objectives of all the expenditure or profitability, i.e. the strategy pursued (Bungay & Goold 1991, Byars, Rue & Zahra 1996 pg. 264).

The ' gic of this position however, must surely be flawed. The strategy must have changed and the organisation must be aware of the change, because it will be moving toward a different goal or trying a different route to attaining the original goal. It is merely the fact that the strategic plan has not been formalised into a document for distribution, but it will be known informally by members of the organisation. Strategic control, therefore, appears to be informal as well as formal. But what exactly are the components of strategic control?

This study attempts to provide an answer to this difficult question. It does this by investigating strategic control practice within European retail banks. Europe is the birthplace of retail banking and today each country within Europe still has many different retail banks in existence. On the eve of the introduction of the European

Single Currency it will be interesting to see which one will develop its core business away from its domestic market to become the first true European retail bank. This opportunity for European retail banks is set within an even wider context of change, with it being generally noted that the:

> "*European banking and financial markets currently find themselves in a decade of fundamental change. Intensified competition, a new regulatory framework, the increasing role of technology and more sophisticated and mobile customers all place pressure on traditional credit institutions.*" (European Commission 1996 Section 23 pg. 9)

The European Commission (1997 Section 24 pg. 1) noted further, that these "*dramatic changes*" have resulted in "*pressures for the adaptation of business strategies.*" This thesis argues that as banks become increasingly strategic in their outlook they will need greater control over their strategy.

A certain paradox has been noted by some observers (see for example: Horovitz 1980, Goold & Quinn 1990a; Asch 1992) that whilst strategic control writers have called for greater use of strategic control, businesses are apparently not using any system or using an inadequate system of strategic control. This research investigates this paradox, it identifies the state of existing practices within European retail banks and compares and analyses their different approaches to strategic control. It also identifies a number of 'tools' that allow for a rigorous and appropriate 'best' practice strategic control system.

Prior to any investigation of strategic control practice, however, an exploration of what is meant by the term strategic control is required. The literature pertaining to strategic control is therefore considered in Chapter 2, with a focus upon its origins in strategy and control theory. This literature review also allows for the identification of the 'best' practice from the strategic control theory and sets the scene for identifying the 'determinant' or causal factors of strategic control.

Chapter 3 identifies the research framework for the exploration of patterns of strategic control within European retail banks, making note of a number of national differences as identified by comparative management writers. A generic research model is introduced as the basis for the research framework, allowing for the specification of the research objectives.

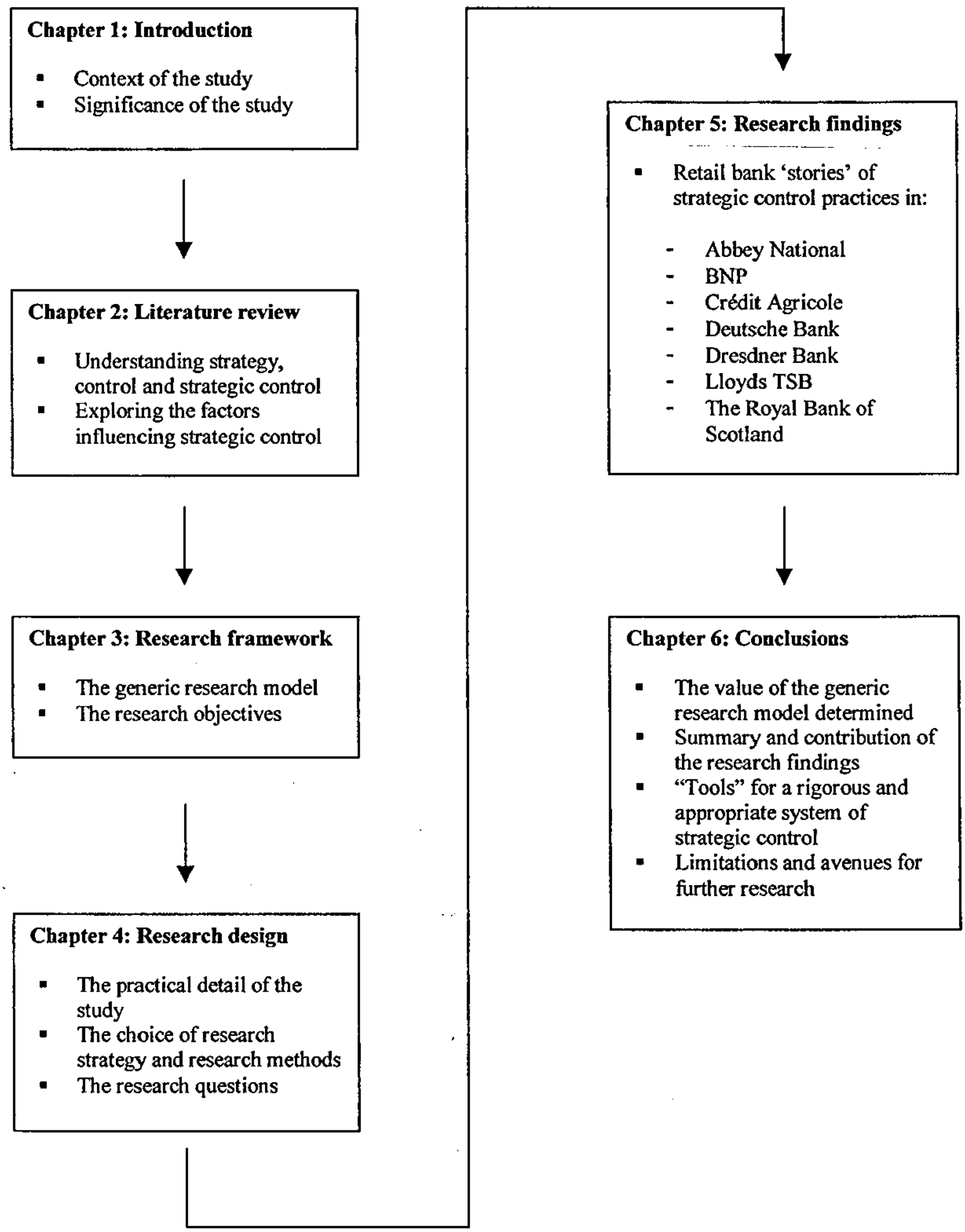
In Chapter 4, the practical detail of the research design is outlined. The precise research questions to be investigated are specified and the choice of research methods is justified. The rationale behind the selection of retail banks chosen for this investigation is discussed and details of the respondents participating in this research are given.

The findings of the different retail banks investigated are detailed in a narrative format in Chapter 5. Each retail bank 'story' is outlined in a similar way, allowing for a comparison of 'stories', and easy referral back to the generic research model.

Chapter 6 draws together the conclusions of the study. The value of the generic research model is determined, as are the practical implications of this study for practitioners. The limitations of the research are noted and the potential areas for further research are highlighted.

A graphical interpretation of the structure of this study is provided in Figure 1 below to help the navigation of the reader through the thesis.

Figure 1: An Overview of the Thesis Structure



Chapter 2: Literature Review

2.0 Introduction

This Chapter explores the concept of strategic control as outlined in the existing body of literature. In order to gain a full understanding of strategic control, however, the terms 'strategy' and 'control' need to be reviewed and defined. These terms will be discussed in sections one and two respectively. Once this background detail has been exposed, the third section of the literature review will deal specifically with the 'strategic control' literature with a view to highlighting the best state-of-the-art practice. Finally a fourth section will identify and analyse the factors that influence and shape strategic control practice.

Section 1: Strategy

2.1.0 Origins of Strategy

The term 'strategy' originates from the Greek word 'strategos' meaning *"art of the General"* (The Oxford English Dictionary 1989). This origin clearly links strategy to the management of battle campaigns and the strategic manoeuvring of forces for better competitive position. It fixes strategy in the heart of military analogy and, although not completely pertinent in today's business world, it does provide some valuable bases of comparison, with, for example, companies competing within market places, carrying out strategic thrusts and formulating strategic plans. Indeed, managers often talk about 'attacking' markets and 'defeating' rivals, etc., but the analogy must stop, however, when realism is introduced and the slaughtering of one's competitors is compared to the realities of outselling them and the confines of permissible market practices.

Strategy in everyday English is used to mean the 'overall plan of campaign'. However despite the fact that the subject of strategy appears to have found its way into business related literature in the 1960s (see for example: Andrews 1987- in its latest edition; Ansoff 1965; and Chandler 1962), agreement on the exact definition in current management literature is still elusive and seemingly inconsistent today. Consultants and theorists, actively pursuing and at times competing for a business advisory role, appear to find the agreement on the exact definition of this much debated subject difficult to come to (Mintzberg 1990).

This said, strategy has been defined by many commentators, and, in one much read definition (Johnson and Scholes 1993 pg. 10), is expressed as:

> "*strategy is the direction and scope of an organisation over the long term: ideally, which matches its resources to its changing environment, and in particular its markets, customers or clients so as to meet stakeholder expectations.*"

Mintzberg (1995 pp. 13-21), however, perhaps summarises the different views of strategy the most clearly, he notes that strategy is typically viewed as a plan, a pattern of actions, a competitive position or a perspective. The view of strategy as a plan clearly refers us back to the military origins of the word, with the business manager implementing consciously intended courses of action. The definition of strategy as a pattern conjures up consistencies or trends in behaviour, whether intended or not, for example, when Picasso went through his 'blue period' this could be perceived as his current strategy at that time. Similarly, the perspective definition of strategy leads us to behaviour once again, but this time behaviour is ingrained into the corporate ideology: it is the shared concepts and culture of the organisation that distinguishes McDonald's 'quality, service, cleanliness, and value' from other fast-food retailers or Audi's 'Vorsprung durch Technik' from its competitors (particularly non-German ones). Lastly, the definition of strategy as a position, links the organisation with its environment, for example, a company develops its competitive advantage and pursues a strategy of differentiation or economy of scale (Porter 1980). Indeed, various commentators have formulated descriptive models that illustrate the types of strategy pursued by different business organisations; Simons (1990) provides a succinct review (see Table 1) of several of the more influential of these, and notes that:

> *"strategic archetypes demonstrate that firms can compete successfully in a variety of ways".*

Table 1: Illustrative Studies of Strategic Archetypes

Study	Identified archetype	Features
Mintzberg (1973)	Entrepreneurial	Opportunity seeking, founding CEO, bold decisions, growth oriented high uncertainty.
	Adaptive	Reactive, incremental goal setting, relative certainty in decision making.
	Planning Mode	Analysis dominates decisions, integrated strategies, placid environment.
Utterback & Abernathy (1975)	Performance maximising	Uncertain environment, offers unique products, searches for new opportunities.
	Sales maximising	Standardised products, more stable environment, high level of competition, some product differentiation.
	Cost minimising	Standard product, extreme price competition, high efficiency, low innovation, sophisticated control techniques.
Miles & Snow (1978)	Defender	Stable environment, limited product range, competes through low cost or high quality, efficiency paramount, centralised structure.
	Prospector	Always seeking new product and market opportunities, uncertain environment, flexible structure.
	Analyser	Hybrid. Core of traditional products, enters new market after viability established, matrix structure.
	Reactor	Lacks coherent strategy, structure, inappropriate to purpose, misses opportunities, unsuccessful.
Porter (1980)	Overall cost leadership	Low price, high market share focus. Standardised product, economies of scale, tight cost control.
	Differentiation	Product uniqueness brings brand loyalty, emphasis on marketing and research.
	Focus	Focus on defined buyer group, product line or geographic market. Niche strategy.

Source: Simons, R. (1990)

Finally, Band and Scanlan (1995) note that:

- strategy is a product of rational analysis, ideally comprehensive but in reality bounded by certain cognitive limits which condition the assumptions upon which strategy is built.
- strategy is a function of leadership, particularly of the symbolic role that leaders play in setting vision and mobilising the organisation to achieve it.

- strategy is interactive, a product of negotiation or information exchange between leaders and followers.

2.1.1 Strategic Management

The above points suggest that a certain amount of thinking and planning is required for strategic management to be successful. It is perhaps useful to make the distinction clear at this point between strategic thinking and strategic planning. The Strategic Planning Society[1] defines these terms in the following way:

> *"Strategic thinking is the creative thinking and learning process of the board and senior managers that focus on policy formulation, analyses of the changing political, economic, social technological and physical environments, and the competition, which allows them to position the organisation for maximum effect in its markets."*

> *"Strategic planning is the organisational work and process through which purpose, vision, missions, objectives, strategy, major policies and key goals are developed in a systematic way. Strategic planning in large complex organisations is required to develop: corporate strategy, business strategy and functional strategy. Strategic planning should provide an integrative framework for other forms of planning, and is a necessary preliminary to financial projection, project planning, operational planning and budgeting in any strategically managed organisation."*

Strategic thinking and planning, as seen from the above, becomes essential therefore to any strategic management process. It must be remembered however, that there are many different approaches to strategic thinking and planning. Morgan (1986) identified 9 approaches or cognitive mindsets (which he called metaphors) to explain how managers might view the organisations within which they work. The names of these metaphors are

[1] Source: The Economist Intelligence Unit (1993) and The Strategic Planning Society Membership Handbook (1996)

illuminating in themselves, where he identified organisations as: machines, organisms, brains, cultures, political systems, psychic prisons, instruments of domination and of flux and transformation. Interestingly, the belief of an individual in any particular perspective is suggested to predispose them toward a certain way of understanding of an organisation and to lead them to a certain predisposition in their involvement with it. In this way, a narrowness of scope can result and even conflicts of interest could arise, which can clearly lead to extremes of action if a suitable compromise is not found (see, for example, the clash between strategy and finance: Kaplan and Norton 1992; Grundy 1992; Tomkins 1991; Barwise et al. 1989).

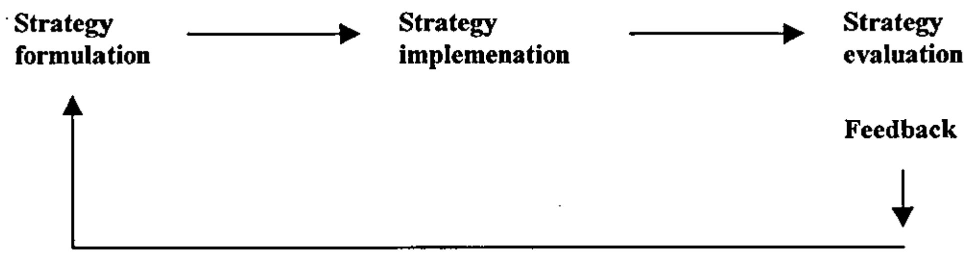
Likewise, strategic management has been approached in various ways, typically that of a process or as a result of structure or arrived at through logical incrementalism or as a necessary contingency. A brief outline of each approach is given below.

The Process Approach:

Many commentators (see for example: Byars, Rue & Zahra 1996; Pearce and Robinson 1991 pg. 1; Thomas 1988), break the strategic management process down into three stages: strategy formulation, implementation and control (see Figure 2 below). This approach is founded in the rationalist school, where one assesses the environment, formulates a strategy and then goes on to secure its implementation (Kay 1995 pg. 337). It is an approach that because of its logical sequencing is particularly popular amongst teachers of strategy and practitioners: strategy managers can follow an easily charted process, using the many strategic tools and guides that have been designed to help. It fits the military origin of strategy and is 'comforting' in its mechanistic, impersonal and unemotional framework.

At this point it is perhaps useful to note that this rational or systematic view is particularly valuable when discussing and implementing controls (see Section 2 of this chapter for further details).

Figure 2: The Traditional Strategic Management Process



Source: Preble (1992)

The Structure Approach:

The 'structure approach' to strategy was developed from Chandler's (1962) ground breaking work which described structure following strategy: i.e. changes in strategy ultimately resulting in changes in organisational structure. In thinking about the logic of this approach it is useful to refer to a definition of organisational structure; Mintzberg (1979 pg. 2) defines structure as:

> *"the sum total of the ways in which the organisation divides its labour into distinct tasks and then achieves co-ordination between them."*

The "7 S's" of Peters and Waterman (1982) however, remind us that structure alone does not make an organisation. Structure, on the one hand, plays a vital role in shaping the organisation and as a result influences strategy, and conversely, strategy shapes an organisation and influences organisational structure (Galbraith and Nathanson in Schendel and Hofer 1979 pp. 249-283). Mintzberg (1995 pp. 350-371) points to a range of *"situational factors"* that influence organisational structure, namely: the age and size of the organisation, its technical system, the characteristics of the organisational environment and the influences of power systems. These factors or contingencies, engender *"pulls"* on the organisation, thus resulting in various differently shaped organisational configurations: that of an entrepreneurial or machine or professional or diversified or innovative or missionary or political organisation.

The Incremental Approach:

The incremental approach to strategy was born from the observation that organisations changed their strategies in ways which were at odds with that prescribed in the strategic planning literature of the 1970's. Rather than following a logical step by step process, strategies were perceived to emerge:

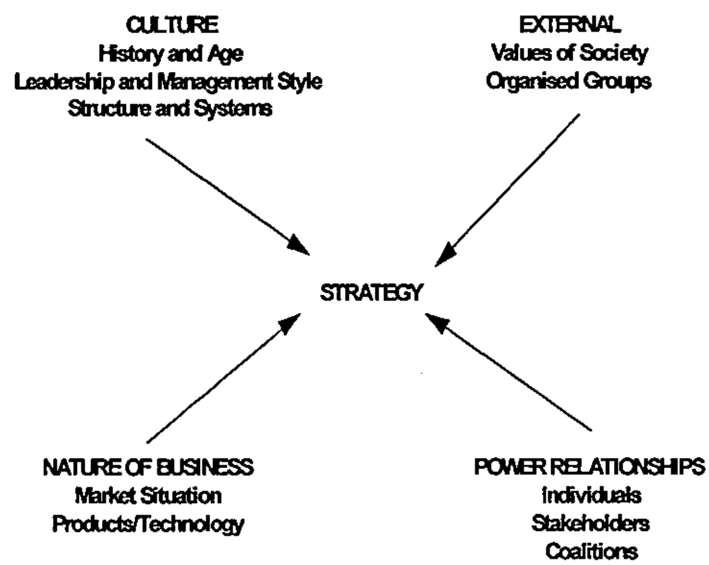
> "'*Logical incrementalism' is not 'muddling' as most people use that word. It is conscious, purposeful, proactive, good management. Properly managed, it allows the executive to bind together the contributions of rational systematic analyses, political and power theories, and organisational behaviour concepts. It helps the executive achieve cohesion and identity with new directions. It allows him to deal with power relationships and individual behavioural needs, and permits him to use the best possible informational and analytical inputs in choosing his major courses of action...*" (Quinn 1978).

The Contingent Approach:

Contingency theory leads us to the conclusion that no 'best' form of organisation can exist, but rather successful organisations have arrived at a fortuitous match between the organisation and its environment (Kay 1995 pg. 361). Similarities here exist with the Ricardian economics theory of comparative advantage, with each nation state pursuing areas of excellence, surviving through international trade, and in so doing producing an efficient market. In management terms, however, the organisational form is arrived at as a match between internal and external forces.

The current state of internal competing values (see for example Quinn 1988 pg. 48) undergoes constant change, being buffeted through a continuous process of negotiation and imposition. The organisational strategic management process is, indeed, not set in a vacuum, but rather formulated with reference to complex inter-relating factors. Johnson and Scholes (1988 pg. 113-5) comments upon these influences (see Figure 3 below).

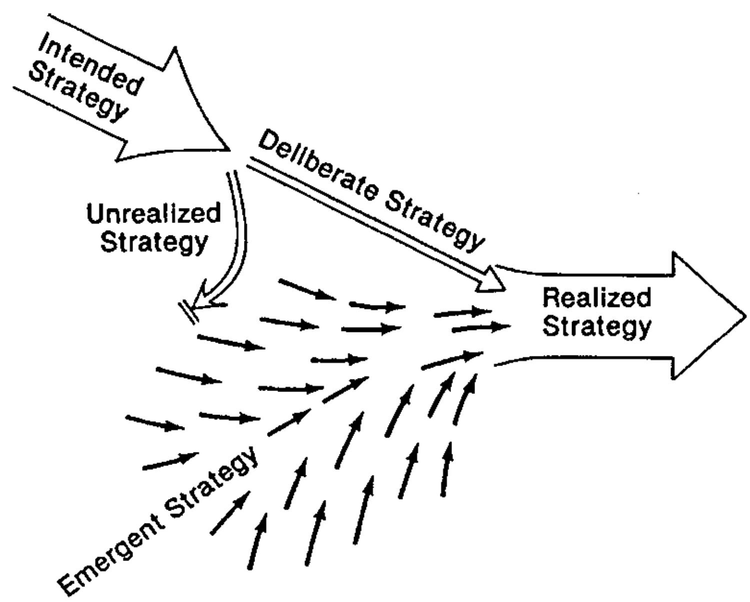
Figure 3: Influences on Organisational Strategy



Source: Wilson et al. (1992) adapted from Johnson and Scholes (1988 pp. 113-5)

It is clear that the factors affecting strategy are numerous and specific to the strategy in question and the organisation as a whole. Morgan, similarly, concludes his discussion of "*images of organisation*" by noting that "*organisations are many things at once!*" His book is as much a critique of existing perspectives as it is a review, and one is left searching for new metaphors. Likewise, the complexity of organisations and the impact upon strategic management is highlighted by Stacey (1991) in his treatment of 'scientific chaos and dynamic management'. All of these complexities of organisational management as a whole and strategic management in particular, lead us to the paradox that on the one hand our perspectives are flawed and can never be fully perfect, and on the other, that because understanding the organisation's advantages and disadvantages, in both a past and future time frame, is so important, it is necessary to improve that vision. Indeed, the rationalist view of an organisation with 'X' inputs and 'Y' outputs and the strategy process as a logical sequence from formulation to implementation and evaluation, including various control feedback loops, is at odds with Mintzberg's compelling practitioners' picture of emergent strategy (see Figure 4). The need to understand how strategy emerges and how intended strategy can become unrealised, is indeed the basis of much strategy research and provides a key rationale behind the need for strategic control.

Figure 4: Deliberate and Emergent Strategies



Source: Mintzberg (1995 pg. 15)

In terms of strategy, Kay (1995) noted that the distinctiveness and success of an organisation lies in its mix of business relationships and capabilities. The business relationships being both internal and external to the organisation, in other words the relationships the organisation has with its stakeholders (suppliers, customers, employees and shareholders) and its environment within which is operates (competitors, government, economic pressures, etc.). The distinctive capabilities (derived from organisational architecture, reputation, innovation) and a business organisation's strategic assets (for example, coming from the benefits of a monopoly situation or from a protected market or from the cost advantages of being already incumbent in the marketplace) together create the firm's competitive advantage.

Looking at an example in European retail banks, according to Heffernan (1996 pg. 312):

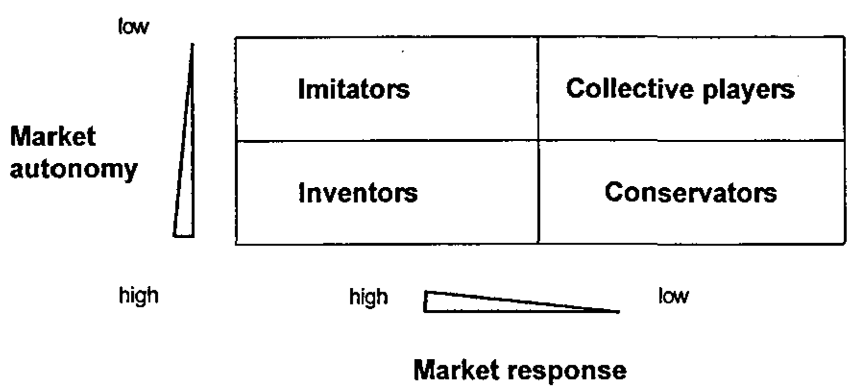
> *"In banking, external and internal architecture is related to the establishment of long term relationships between the bank and its customers and the bank and its officers. Architecture varies considerably amongst countries. In Germany and Japan, shared directorships and cross-holdings of shares give rise to strong relational contracts between banks and non-financial firms, whereas British and American banks tend to rely on transactional or classical contracts, making lending decisions on the basis of security of assets and project feasibility."*

Reputation in retail banks is of extreme importance, as shown clearly in the history of bank insolvency, where a loss of depositor confidence in a bank's liquidity leads quickly to a 'run' to remove deposits, which can snowball into bankruptcy. A bank's reputation may also be one reason for the inertia in consumers' banking habits, with few customers moving from one retail bank to another partly because of the efforts of the banks to portray themselves as solvent and secure institutions (backed up by protective regulatory systems), thereby assuaging their depositors fears (Kay 1995 pg. 291-292).

Innovation, for example the recent introduction of telephone banking services, is generally more of an uncertain distinctive capability than perhaps in other industries, due to the problem that bank innovations tend to be expensive to implement and when they are implemented they tend to be easily copied. As a result of this certain categories of "*strategic attitude*" amongst bankers can be distinguished (see Figure 5 below), where: a conservative banker has a high degree of personal intuition and instinct (independent of the market) which could lead to a 'I have always done it this way, I know best' approach; compared to an inventive banker who is highly sensitive and responsive to the market place; or an imitator who is guided by the principle 'never do something the first time' and is a strong follower of 'herd instinct'; or finally, the collective player attitude amongst groups of bankers be they in savings banks and co-operative banks or joint ventures and strategic alliances. An individual bank's strategy tends to be shaped by the sum of the total of different bankers' attitudes, where in some banks one strategic attitude may become pervasive in its culture and in others the attitude may be confined to a sub-cultural element (Schuster 1996 pg. 6-7).

Examples of strategic assets amongst retail banks would be the branch network and loyal customer base, both of which, as Kay points out (pg. 300) have remained nationally based within Europe to date.

<u>Figure 5: Strategic Attitudes of Bankers</u>



Source: Schuster (1996)

The state of the mix at any point in time of these business relationships and capabilities in turn defines the existing state of competitive advantage of the business organisation. Kay argues further that success comes from capitalising upon unique features. A successful strategy therefore should pursue and safeguard these unique features, rather than more generic strategies, such as differentiation or cost leadership, because they are less appropriable by competitors. Returning to the example of European retail banking, the current situation would appear particularly difficult: on the one hand new market entrants (such as the supermarket banks in the UK) can bring with them good business relationships with potential customers, and on the other, change in the market place (with the arrival of the Euro for example) erodes the protected nature of the banking market and facilitates the potential entry of competing banks with similar or better business capabilities.

2.1.2 Summary

Organisational strategy in simple terms is about positioning the business organisation and its component parts in a particular way in a defined future. In so doing however the manager needs to understand a multitude of influencing factors upon strategy. These factors are both internal and external to the organisation. The total number of factors considered by the manager is perhaps dependant upon his own perspective of the organisation or more realistically the perspectives brought to the fore during the strategic thinking and planning processes. To summarise the various approaches to strategic management one could say strategy is based on the juxtaposition of internal focus versus external focus, centralisation versus decentralisation and 'best' strategic fit. The definition of 'best' strategy consequently is perhaps more aptly described as the 'most successful' strategy, which of course can only be definitively judged with the benefit of hindsight.

Section 2: Control

2.2.0 The Meaning of Control

The origin of the word 'control' is the French term meaning 'inspection' and indeed, control has this connotation in several European languages (Hofstede 1968 pp. 9). It is however, a word with many different interpretations and nuances, including that of 'checking' and 'testing', as well as the idea of 'domination' and 'power' and that of 'regulation' and 'monitoring'. Indeed, Rathe (1959) has listed '57 varieties' of meaning for the word control.

2.2.1 Control Systems in Organisations:

The focus of this study is the investigation of strategic control practice. As we have seen in Section 1 of this chapter, however, strategy is a complex issue as it affects all the systems within a business organisation. Managers must 'struggle' for some form of control over these numerous systems. Before discussing this further, however, we first need to explore what is meant by the terms (a) systems and (b) control.

(a) What is a system?

Broadly speaking, a system can be described as a collection of interacting components (Shwarzenbach and Gill 1992; Beer 1966 pp. 241). It needs to be born in mind however, that the point of interest could also be one single part of a system or perhaps the wider 'universe' within which the system lies. The system of interest, for example, may be that of a vehicle, the engine of the vehicle, or a particular valve within the engine; it may be a human being, or a part of the human body such as the human nervous system; likewise it might be the economy of a particular country, or of an individual industry within that country. The interaction of the system in question with that of its surroundings or environment, may on the other hand be of interest to the observer, for example, a study might be made of the impact of a nuclear power station on the surrounding community, rather than on a specific system within the nuclear reactor.

In any definition of the system of interest, careful consideration needs to be made of where to draw the boundaries to the system and of which signals crossing the system boundary, and internal to it, are of relevance (Shwarzenbach and Gill 1992; Miller and Rice 1967 pp. 7-10). The signals entering across the boundary to the system can be called 'system inputs' and the signals leaving the system across the boundary to the environment can be termed 'system outputs'. In this way the system can be simplified into a simple 'model' of cause and effect relationships, often represented by a block diagram, where blocks are used to represent separate functional parts of the system and arrowed lines are used to depict signal flow paths. A mathematical model of the system can then be made. The separate equations of input-output relationships of components as a result can be calculated and combined in order to build up a more complex model of larger systems made up of several component parts.

Types of system

Boulding (1956) noted a hierarchy of systems, his "*system of systems*", with nine levels each having different control characteristics:

1. Static structures or frameworks (e.g. a bridge or the pattern of electrons around a nucleus), the accurate description of which being the origin of organised theoretical knowledge in nearly all fields.
2. Simple dynamic (mechanical) systems (e.g. a clock).
3. Cybernetic or closed-loop systems, with given goals, (e.g. a thermostat or biological homeostasis), where the communication and interpretation of information is an essential part of the system.
4. Open, self-maintaining systems (e.g. a cell), often capable of reproduction and having a 'life'.
5. Plant, or society cells, with "*differentiated and mutually dependent parts (roots, leaves, seeds, etc.) and second, a sharp differentiation between genotype and phenotype*[2]*...*"
6. Animal, characterised by the brain.
7. The human system, characterised by language and self-consciousness. In particular, self-reflection introduces knowledge of life and death, with notions of life span (and after-life), history and future aspirations shaping human behaviour.
8. Social organisations. (i.e. the impact or "*role*" of individuals on social systems and their channels of communication).
9. Transcendental systems (i.e. "*the inescapable unknowables*").

This hierarchy succeeds in highlighting the gaps of theoretical and empirical knowledge; it also highlights the differences between the social and physical sciences. In the physical sciences definitions for many of the intangibles have been agreed upon, whilst in the social sciences there is general agreement with many systems models existing up to the fourth

[2] Phenotype is defined by The Oxford English Dictionary (1989) as: "*A type of organism distinguishable from others by observable features; the sum total of observable features of an individual, regarded as the consequence of the interaction of its genotype with its environment*", cf. genotype: "*The genetic constitution of an individual*".

level, however with considerably fewer existing beyond that. The traditional organisational theory of Taylor (1911) and Fayol (1949), for example, fits the second level type sub-systems in Boulding's hierarchy, whereby extra productivity could be obtained from a worker through a simple increase in an individual's wages over that of the average level. Cybernetics, in addition, has led to many sub-systems at the third level which form the basis of much of the current management accounting and operational systems, albeit that these systems can be complex with numerous interacting feedback loops. Beyond that, however, consensus in social sciences' literature is less forthcoming with often divergent views appearing. Sociologists and the later day behavioural scientists and industrial psychologists have attempted to contribute to the systems theory of organisations at the eighth level, albeit that they themselves are at the less complex level seven. Hofstede (1980 pg. 15) notes:

> "*Man the social scientist is at level 7; he is less complex than his object. He can never completely grasp what goes on at the level of social systems, and therefore his perception of them will never be the same as his colleague's perception.*"

This does not mean however, that our exploration of these higher order systems is fruitless, but rather we must be aware of its shortcomings and the need to look at our subjects from many different angles. Hofstede suggests further that:

> "*Social scientists approach the social reality as the blind men from the Indian fable approached the elephant; the one who gets hold of a leg thinks it is a tree, the one who gets the tail thinks it is a rope, but none of them understand what the whole animal is like. We will never be more than blind men in front of the social elephant; but by joining forces with other blind men and women and approaching the animal from as many different angles as possible, we may find out more about it than we ever could do alone.*"

Checkland (1981 pp. 110-122) introduces another systems typology, his "*systems classes*":

- natural systems which are fundamental to the universe as it exists.
- designed physical systems which are conceived by humans for a purpose, e.g., a vehicle.
- designed abstract systems which are conceived by humans to represent and order the product of human consciousness, e.g., mathematics, philosophy, etc.
- human activity systems which provide coherency, purpose and sustainability of human life, e.g., from simple bartering as a means of existence to the formation of complex international organisations.
- transcendental systems which include all systems beyond knowledge.

These classes could be seen as a reductionist's attempt at minimising the number of systems that can be used to describe reality. Checkland, indeed, designed this typological map as a means of simplifying systems theory, however many social systems do not fall clearly into one of the above classes. Taking Boulding's systems hierarchy, by way of comparison, levels one, two and three are designed physical systems; levels four, five, six and the existence of man in level seven would be natural systems; transcendental systems are clearly a direct copy of Boulding's level nine; but levels seven and eight are both human activity systems and designed abstract systems, as well as being partly based upon human emotion which is fundamentally part of the nature of man and consequently falls into the class of natural systems. This over simplification can as a result lead to confusion and so in order to avoid this, this thesis will only refer to Boulding's more specifically detailed hierarchy of systems.

Both systems typologies however, highlight the complexity of social systems, whereby business organisations, which is what this thesis is concerned with, are depicted as human activity systems that make use of designed physical and abstract systems, but are characterised by a natural order of relationships or natural systems. Interestingly, Checkland quotes the 19th century sociologist Tönnies, distinguishing between the 'community' to which we belong, made up of family, neighbours and friends, and 'society' where we associate ourselves with others for a particular purpose and end. This distinction he argues forms the basis of human behavioural activity.

Beer (1966 pp. 256-257) notes that 'complex' economic, social and industrial systems must have viable characteristics which include the ability:

- to respond to a stimulus which was not included in the list of anticipated stimuli when the system was designed;
- to learn from repeated experience the optimal response to that stimulus;
- to grow and renew themselves;
- to be robust against internal breakdown and error;
- and, most importantly, to be capable of change and survival in environments that may not have been envisaged by their designer.

He adds that treating these systems:

> *"through concepts, models and controls that are deliberately of low complexity is to rob these systems of their viability."*

In this way, any artificial isolation of a system, for ease of management, risks denying the system any hope of viability. Likewise, concentration upon a particular sub-system to the exclusion and detriment of the other parts of the system risks system dysfunction.

(b) Types of control

Let us now take a snapshot of a business organisation at a particular moment in time as our system for analysis. Its legal entity could be likened to that of a static structure; it may use many basic manufacturing tools that are simple dynamic systems; its accounting and production control is likely to be based predominantly upon cybernetic closed-loop systems; a meritocratic career progression policy could be seen as a human system; its use of quality circles and the formation of a company football team would fulfil the criteria of social organisations or social systems. Clearly in this highly limited description of a company numerous levels of system can be seen to exist based potentially upon all of the systems classes. How then does this knowledge help us to control the business organisation?

Before answering the above question it is important to first note that numerous types of control exist and structure the world in which we live. This thesis deals however with management control and in particular strategic control.

The relatively new science of cybernetics, which according to Wiener (1962 pp. 11) encompasses "*the entire field of control and communication theory*" in the animal (including man) and machine, has taken over the subject of control in the same way that chemistry has taken over the chemical elements. The chemical elements existed before, but it was not until chemistry studied them that a periodic table was produced and many new insights into the elements were made, likewise control has always existed, but cybernetics has contributed a new structure for our understanding of control. The science of cybernetics, named by Wiener in 1948 from the Greek for steersman, allowed organisms for the first time to be discussed and analysed in the same terms as purposeful machinery with defined inputs and outputs. The classic example of a Pavlov dog (Pavlov 1849-1936) was thus absorbed into the new cybernetic school. Of particular interest here however, is how cybernetics had the effect of introducing a 'simplistic' framework and terminology with which human organisations and their control systems could be depicted. Cybernetic control models thus allowing for valuable insights to be made into management control systems and providing the means to design and improve these systems.

At this point it would be useful to put forward a working definition of cybernetics, however, as Apter (1966 pp. 2-20) points out, genuine differences of opinion exist as to what cybernetics is and what it should be. On the one hand cybernetics is defined as a science (Wiener 1948) and on the other an art (Couffignal 1963). For the purpose of this chapter therefore, I will follow the broad path outlined by Ashby (1956), where, in the words of Pask (1961), cybernetics:

"gives emphasis to abstracting a controllable system from the flux of the real world."

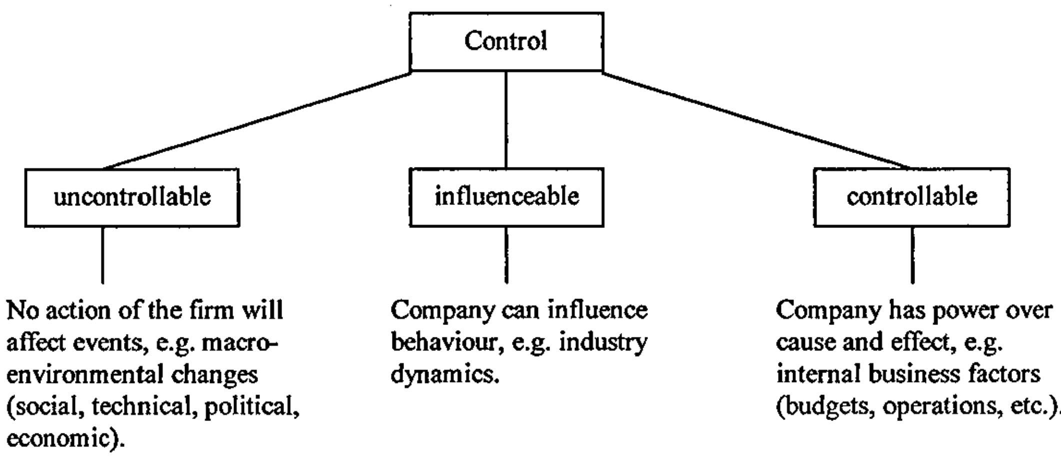
This above statement, whilst not a definition, still limits cybernetics to level 3 in Boulding's hierarchy –at this point in time of human knowledge. The rationale behind this statement is that other systems above level three on Boulding's scale, are clearly not so easily depicted. Not only are the systems more complicated, which makes control design more difficult, but preference and human emotion appear further up the hierarchy making the prediction of system outputs from inputs more uncertain. Any attempt at controlling these systems must therefore be more complex and more judgmental.

Management Control

The science of cybernetics has enabled the design of 'simplistic' models of organisms and their control systems, to varying degrees of accuracy. Models of business organisations' management control systems have also been created which are often simple in nature. Often, however, they are not fully capable of representing the complete picture of reality, with, for example, many of the inputs or stimuli to the control system being ignored or forgotten. This said, if the limitations of the model are known or at least realised, the outputs or actions can be modified accordingly and degrees of error allowed for.

Lorange (1986) highlights a valuable set of limits for management control, as seen in Figure 6 below:

Figure 6: Generic Control Types



Source: Adapted from Lorange (1986 pg. 9)

The limits of control are shown in the Figure 6 to be dictated by the system environment: there is little hope of control or no control at all in systems where the management have little or no influence. This depiction is similar to the three levels of uncertainty encountered in cybernetics (Beer 1966 pp. 259-261), firstly, that of mishap or system 'emergency', where no control can be exercised other than by pursuing ad hoc crisis measures or by ensuring a fail-safe system design, secondly, the existence of inherent 'probabilistic' system behaviour, where management must strive to improve their knowledge and experience of system behaviour in order to reduce unpredictability, and thirdly, system 'indeterminancy', which puts forward the hypothesis that is impossible to measure a system completely and so uncertainty must be accepted. These limitations as outlined above, highlight the paradox of control system design, on the one hand they show that no system can be completely controlled, on the other, it becomes clear that without controls, system utility is lost. Control systems must therefore be designed and monitored so that control is optimised given the current level of certainty and uncertainty.

In looking at what dictates the level of management control that can be obtained, Otley and Berry (1980) note that all controlled management systems require four necessary conditions to be met before a process can be called controlled. These state that there must exist:

- an objective for the system being controlled (without an objective control has no meaning);
- a means of measuring results along the dimensions defined by the objective;
- a predictive model of the system being controlled (so that causes of the non-attainment of the objectives can be determined and proposed corrective actions evaluated);
- a choice of relevant alternative actions available to the controller.

They explain that failure of any of the above can cause the system to go 'out of control'.

Similarly, Anthony et al. (1989 pp. 7) highlight that all controlled management systems need at least four components, namely:

- an observation device that detects, observes and measures, or describes the activities or other phenomena being controlled;
- an assessing device that evaluates the performance of an activity or organisation, usually relative to some standard or expectation of what should be, and identifies out-of-control activities and conditions;
- a behaviour modification device for altering or changing performance if the need for doing so is indicated;
- a means of transmitting information within and among the parts.

They note further that these components interrelate with each other, forming the core structure of all controlled systems.

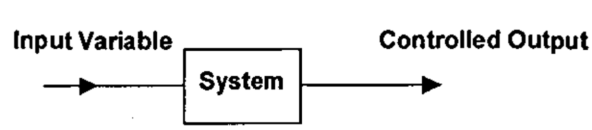
Certain similarities exist between the two viewpoints. The four components and four conditions can be combined to produce a list of fundamental requirements for a management system to become controlled. These being:

- a means of observation or description;
- a means of transmitting information within the system;
- a measurement device against which performance is compared to that predicted, based upon the system objective;
- a means of modification or corrective action.

Having established some of the fundamental requirements of management control, let us now investigate how management control can work in practice. Firstly we shall outline open-loop control systems (at Boulding's level two) and closed-loop control systems (at level three), then we shall contrast these to behavioural control systems (at level eight).

A pictorial description is the easiest way to distinguish between open-loop and closed-loop control (see Figures 7 and 8 below). Open-loop control is effectively about 'getting things right in the first place', through the formulation of objectives and the preparation of methodology to achieve them, taking into consideration all possible eventualities. No amendments are made to the system once it is under way. Deficiencies in open-loop systems arise from predicting accurately and for all eventualities, what the desired inputs should be in order to obtain the desired output, for example: the quality of toast will depend upon the type of bread and temperature of the toaster; and the effectiveness of an interest rate change will depend on numerous factors affecting the whole economy

Figure 7: Open Loop 'Control'

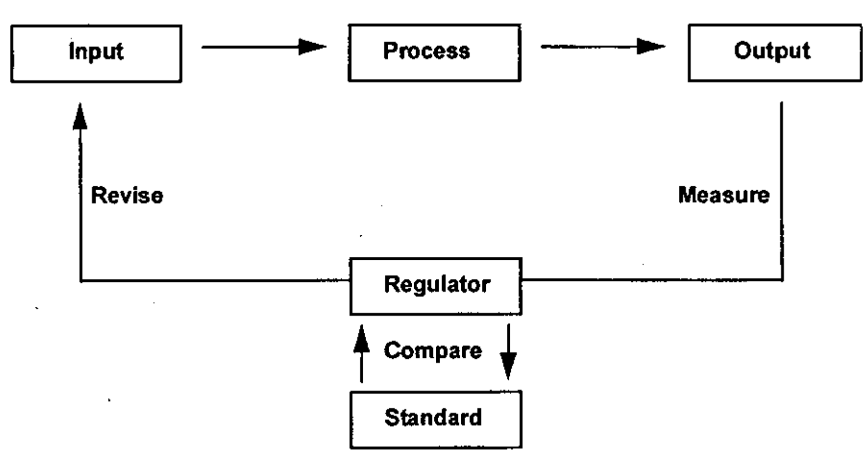


Closed-loop control is a refinement to open-loop control, whereby a standard is used against which the final output or outputs of the process stages are measured and compared, thus allowing for any modification to be made in an attempt to minimise the error between the output and the objective desired (for example, a thermostatic control on a heating system or, where the loop is closed through human action, the keeping of a steady speed whilst a car is being driven along an undulating road). Theory leads us to two classifications of closed-loop control systems: feedback and feedforward control systems. Cushing and Romney (1987 pp. 101) explain that:

- Feedback controls operate by measuring some aspect of the process being controlled and adjusting the process when the measure indicates that the process is deviating from plan (see below).
- Feedforward controls monitor both process operations and inputs in an attempt to predict potential deviations, in order that adjustments can be made to avert problems before they occur (see below).

Figure 8: Closed Loop Control

A feedback control system



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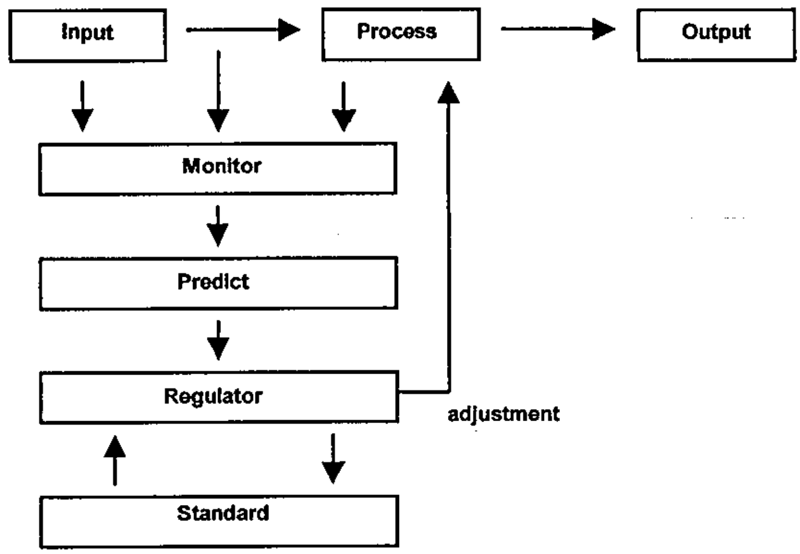
A feedforward control system



Closed loop control systems have been used widely in the design of control systems for machinery, operational logistics and other technical systems. Furthermore, they have been highly influential in the design of management control systems (Wilson 1973 and 1974). Anthony's (1989 pp. 26-28) seminal work certainly put forward a view of organisational processes as a closed-loop system, including organisational programs, budgets, operations, performance measures and reports, likewise his view of management control as focusing on various types of responsibility centre with monetary inputs and outputs (i.e. expense, revenue, profit and investment centres), has contributed to financial control being synonymous with management control in many organisations.

Financial control systems are clearly however, only one possible approach to management control (Goold and Campbell 1987). Hofstede (1978), indeed, reminds us that management control in an organisation is a social process. Social systems and to a lesser extent socio-technical systems are based upon groups of people with variable human behaviour. Communication in particular is prone to error and similarly there is no guaranteed compliance of individuals to the dictates of the control system. Kaplan and Norton (1992) integrate both of these different views of the organisation, amongst other things, into a balanced approach to performance measurement, noting that:

> *"The traditional financial performance measures worked well for the industrial era, but they are out of step with the skills and competencies companies are trying to master today."*

Their "*Balanced Scorecard*" includes financial, customer, internal business and innovation and learning perspectives, with the aim of providing managers with a more comprehensive and relevant range of information in their bid for control.

According to Simons (1994), management control systems are:

> *"the formal information-based routines and procedures used by managers to maintain or alter patterns in organisational activities."*

He highlights four types of management control system, where:

- belief systems are an "*explicit set of shared beliefs that define basic values, purpose and direction*";
- boundary systems are "*formally stated limits and rules that must be respected*";
- diagnostic control systems are "*feedback systems used to monitor organisational outcomes and correct deviations from pre-set standards of performance*";
- interactive control systems are those that "*managers use to regularly and personally involve themselves in the decision activities of subordinates.*"

Management control systems, as discussed above, are clearly varied and are not purely cybernetic. Management control systems are clearly also formulated within an environment of economic, political, social and technological flux, which directly influences how control is exercised over corporate finances, operations and human resources. Indeed, this view of management control systems portrays an organisation that must deal with dynamic change, with continuously shifting and often conflicting demands and objectives for its business activities. It is far removed from a rationalist view of an organisation with 'X' inputs and 'Y' outputs.

Deficiencies of Cybernetic Control for Organisations

It can be seen from the Boulding hierarchy, that system development becomes increasingly complex the further up the scale that one goes (partly because that was the way he designed it, but also more importantly because we have an almost complete understanding of static structures and simple dynamic systems at levels one and two, yet a scant knowledge of systems at levels seven and eight) and it is therefore not surprising that 'man made' systems attempting to satisfy the requirements of the higher levels fail to be fully comprehensive and that similarly simpler 'man made' systems, despite their validity, are often limited in nature. Boulding's hierarchy, indeed, provides a useful reminder that typical management science models and control systems in particular are only level three and can only claim to cover certain problems at level eight, i.e. those aspects at level eight that are really on level three! It needs to be remembered however that most of management activities revolve around Boulding's level eight.

Clearly cybernetic control, which deals with fully controllable systems, requiring a complete knowledge of all system inputs and outputs, can not be the only means for controlling business organisations. Other control systems are required to help provide organisational control over business systems.

2.2.2 Major Features of Organisations (level 8 systems):

Systems theory provides the conceptual framework for the analysis of complete systems and their interaction with the environment. It encourages a holistic viewpoint, whilst accepting the value of breaking down systems into 'simpler' or more readily understandable sub-systems for the purpose of analysis. In so doing a commercial organisation, for example, can be split into numerous processes or specialisations whereby the focus of attention can be placed upon a particular sub-system of interest. This 'abstract' vision of organisational sub-systems can facilitate the establishment of a normative view of what should be done and a descriptive view of what is done (and, hopefully, that can lead to a view of what can be predicted to happen) for each sub-system. This clearly is of considerable use to those involved in trying to understand organisational systems, in particular for those who need to control them and for those seeking to design improved systems and, of particular interest here, control systems.

Problems arise however, when the observer wishes to no longer focus on the control of a discrete cybernetic system for example, but to tackle issues affecting a complete organisation, including the human element. Boulding's hierarchy reminds us that social organisations contain human behavioural systems at level seven and indeed many, if not all, of the other lower level systems. This introduces considerable complexity into control systems analysis and design.

Indeed, when analysing level eight organisational systems and, in particular, business organisations, it is important to remember the complexity and sophistication of the systems being studied. Returning to Morgan (1986), he reminds us with his metaphors that different images can be obtained from analysing the same business depending upon our interpretation and understanding of its systems. These are all valuable viewpoints and may help us to simplify and explain the organisational system, however each is fundamentally biased in approach and limited in scope as they do not include other values gained from different perspectives that are continuously growing in number. Morgan (1986 pp. 342) explains:

> "*In trying to understand an organisational situation we have to be able to cope with these different and potentially paradoxical meanings, identifying them through some form of decomposition while retaining a sense of their interrelationship and essential integration.*"

He notes further that fundamentally our vision of organisations will be determined by ourselves and the different dimensions in our minds rather than in the system itself.

Indeed, one viewpoint put forward by Organisational Behaviourists is that an organisation is made up of 'formal' and 'informal' elements. This viewpoint, first identified following the Hawthorne Studies in the 1920's and 1930's, introduced new levels of understanding into human action, showing that motivation, attitude, sentiment and behavioural norms (being certain 'informal' elements compared to the legitimate and officially recognised 'formal' elements) had a significant impact upon organisational function. Later research on job design (see, for example, Walker 1950; Hackman and Oldham 1975; Campion and Thayer 1987), satisfaction (see, for example, Maslow 1954; Herzberg 1959; Locke 1968; Smith, Kendall and Hulin 1969), team work (see, for example, Homans 1950; Stogdill 1974; Yukl 1989), etc., has also contributed to our view of what exactly an organisation is and what contributes to its behaviour. Many of the above organisational behaviourists would argue that organisations are not simple mechanistic structures, but are people centred. Organisational controls can therefore on the one hand provide valuable frameworks for human activity and on the other kill individual initiative and autonomy. Lawler (1976) concurs, noting that "*because of people's intrinsic motivation to do well, a 'properly' administered control system will motivate people to exercise self-control.*" Indeed it could be argued that organisational control is a reflection of society's values toward control and the current understanding of those values.

2.2.3 Overview of the Control Literature

This second section has discussed the methods of organisational control and their subsequent limitations. It introduced the notion of control in a systems context, relying upon Boulding's (1956) hierarchy of systems as a framework to define the boundaries of control systems and as means of comparison. Cybernetic control and social organisational control were contrasted, with the limitations to each control system being highlighted. It was also noted that cybernetic control is a fundamentally rational approach to systems control, which indeed works well where a complete knowledge of the system is available. It was made apparent, however, that degrees of error are introduced, commensurate to the existence of imperfections in our knowledge of the system in question. In dealing with business organisations it was argued that cybernetic control systems can still be a valuable tool, as in the case of budgetary control for example, although over-reliance was warned against in systems with higher levels of complexity. In these more complex systems, other approaches to control were shown to be needed, albeit whilst maintaining an awareness of the imperfections in control system design in such cases.

Section 3: Strategic Control

2.3.0 Origins and Characteristics

Strategic control finds its origins in the rationality of the long range planning era of the 1960s and 70s. Indeed, the classical approach to strategic management, leaves strategic control as one control method amongst many, but one that provides feedback of strategic performance (Band and Scanlan 1995). This traditional approach encourages managers to develop measurable standards of performance, to measure and evaluate performance against these standards, and subsequently, if necessary, to take corrective action. This viewpoint is still advocated by some recent writers (see for example: Kellinghusen and Wübenhorst 1990; Harrison 1991). A frequently quoted definition of strategic control by these 'feedback' strategic control commentators is that of Schendel and Hofer (1979 pg. 18) where:

> *"Strategic control focuses on the dual questions of whether: (1) the strategy is being implemented as planned; and (2) the results produced by the strategy are those intended."*

Other strategic control commentators however, as discussed below, highlight the complexities of strategic decision making and the continuously changing nature of the business environment as the basis of their argument against the classical feedback model. In so doing, they argue for ways of coping with ambiguity and they put forward new forms of strategic control as solutions.

The call for greater strategic control dates to around 1980. Horovitz (1979) called:

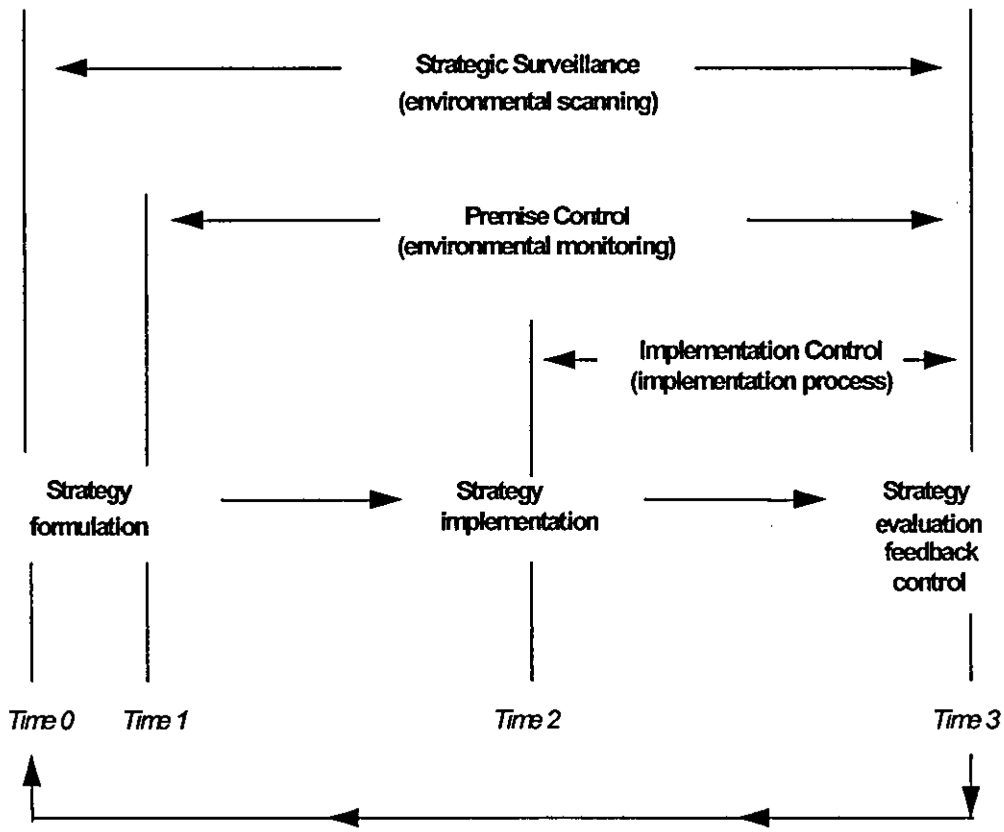
> *"for new tools - strategic control - focused on setting standards, measuring and evaluating performance in the following areas: key assumptions concerning the evolution of the environment and the resources of the firm, the constance of crucial factors of success, the development of distinctive competences and key results."*

The ground breaking work of Schreyögg and Steinmann (1987) has been highly influential in developing the concept of strategic control from a purely feedback approach to that of a feedforward process. They note that waiting for feedback until strategy has been implemented, may be too late for corrective action to be taken, and also, that because feedback control is 'single loop' (Argyris 1976), all deviations away from the standard are portrayed as bad or at least undesirable. They refer to the definition of strategic control as:

> *"the critical evaluation of plans, activities, and results, thereby providing information for future action."*

The need to monitor strategic 'means' (i.e. strategy implementation), as well as strategic 'ends' (i.e. the achievement of the formulated strategy) is fundamental to their "*3 step model of strategic control*". This model introduces premise control, implementation control and strategic surveillance during the strategic formulation and strategic implementation stages of the strategic management process (see Figure 10 below). Strategy formulation begins at "*time 0*", "*time 1*" defines the point at which initial strategic premises are made, "*time 2*" is the point where strategy implementation starts and "*time 3*" indicates the end point of the strategy life cycle.

Figure 9: Strategic Control Components



Source: Schreyögg and Steinmann (1987)

Premise control is designed to systematically and continuously check the validity of all premises or underlying assumptions established during the planning and implementation processes. Premises will be made for, for example, inflation and interest rates, likely legislation, potential competition, etc. *Implementation control* evaluates continuously whether any adjustment to strategic direction should be made following recent developments and information now available since strategy implementation has begun. Strategic milestones (e.g. critical times, costs, new product developments, etc.), intermediate goals (e.g. short term production targets, return on investment, cashflow, etc.) and strategic thresholds (e.g. time and cost limits) can be used for the implementation control of new and current strategy, and when they are reached, in simplistic terms, a 'stop/go' decision is taken as to whether the strategy is to be pursued or halted. *Strategic surveillance* monitors the full range of factors that may impact upon strategic activities, it endeavours to provide early warning of all critical events so as to provide the greatest response time and flexibility possible in the pursuit of potential responses.

A development of this model to include special alert control, to manage surprise occurrences, was made by Preble (1992). *Special alert control* deals with unlikely, yet high impact eventualities, and like Lorange's strategic leap control, it can be said to require "*a shift from peace to wartime approaches*" (Lorange 1986 pg. 118). It allows for a rapid review of organisational strategy in the given new context (Pearce and Robinson 1988), drawing on the tools of strategic surveillance and crisis audits in order to manage the crisis effectively and efficiently. Starting at "*time 0*" special alert control is maintained permanently throughout the strategy life-cycle to "*time 3*".

Clearly, *operational controls* will also be required within the above model to assess whether the implementation of strategy is proceeding as planned (Schreyögg and Steinmann 1987). Existing operational controls being the first tools used in the design of the strategic control system, hopefully providing much of the information required to allow for strategic control and thereby reducing the need to introduce new supplementary controls (Kellinghusen and Wübenhorst 1990). In this way, operational controls are used permanently during the normal day to day operational activities of the business organisation and are 'mined' throughout the period "*time 0 - time 3*" for strategically relevant information. The use of a balanced scorecard would appear to facilitate this mining process (Kaplan and Norton 1996).

In addition, in order for premise control and implementation control to be carried out adequately, information is required on environmental changes. This information needs to be managed, so that all relevant data is highlighted, collected and acted upon (Aguilar 1967): such a process is called *environmental scanning* and, like premise control, is a subset of Schreyögg and Steinmann's strategic surveillance. Unlike premise control however, it is not a directed system of surveillance but instead is a permanent environmental scanning system for the identification of change operating throughout the period "*time 0 - time 3*".

Scenario planning can also be used for strategic control purposes: this is a function where plans are formulated for and tested against a diverse range of eventualities (Lorange 1986 pp.112-117). Typically a range of worst and best case scenarios are envisaged, so that management are aware of the implications of certain possible occurrences and so that the most resilient of plans can be developed. In this way, it is hoped, the need for crisis management is reduced. Scenario planning if it is to be fully effective needs to be part of an on-going organisational learning process (Van der Heijden 1996, Wack 1985). As such it will take place formally at periodic moments in an organisation's strategic planning process and ultimately learning information will be gathered informally and continuously throughout the day to day activities of the organisation's staff. In both cases it will occur during the period "*time 0 - time 3*".

A full breakdown of the types of strategic control is contained in Table 3; this table is based on the valuable summary of characteristics of strategic control as used by Preble (1992), however it is expanded to include operational control, environmental scanning and scenario planning.

Other contributors to the strategic control literature highlight the need for alignment and focus if strategic control is to remain not just a theoretical concept but is to become a practical and implementable reality. Organisational structure, strategic planning and performance management need to be aligned in accordance with an organisation's critical success factors (Bungay and Goold 1991) and controls need to be focused on strategic uncertainties (Simons 1991). Indeed, strategic control systems need to be designed:

> "*to assure the maintenance of competencies and insure against adverse effects from contingencies*" (Band and Scanlan 1995).

In so doing, competitive advantage can be maintained through the protection of core competencies and reinforced by exploiting new opportunities and tackling perceived threats prior to any competitor action.

It is valuable to note that strategic controls will make use of all types of control, from financial control through to behavioural control. All types of control are required due to the complexities and the wide range of factors that influence the control of strategy. Indeed, as seen from a more recent definition, strategic control has developed in scope and has been made more practical in nature since 1979:

> "*Strategic control involves the continuous monitoring and evaluation of organisational strategy with an emphasis on the attainment of long term objectives within estimated resource constraints*" (Band and Scanlan 1995).

Table 2: Characteristics of Strategic Control Components

Components of Strategic Control	*Characteristics*					
	Purpose	*Mechanism*	*Procedure*	*Degree of Focus*	*Information Sources*	*Organisation/people*
Premise Control	Keep planning and implementation premises valid	Strategic surveillance	List premises Identify key success premises Track assumption development Update premises Modify strategy	High	Multiple sources Updated forecasts	Internal scanning staff and specialists Consultants Top managers
Implementation Control	Evaluate strategic direction in the light of past events	Stop/Go assessment during implementation	Establish strategic thresholds Determine intermediate goals and strategic milestones Continuously evaluate results relative to strategic direction	High	Classical accounting/ financial reporting and other operational controls	Operational control personnel Special project team personnel Top managers
Operational Control	Day to day management of operations (to see if implementation proceeds as planned)	Functional and/or departmental controls	Establish standards Determine intermediate goals Periodically collect control data (e.g. monthly reports, annual planning cycle) Evaluate results relative to operational targets	High	Multiple sources and methods Internal and external Personal and impersonal	All employees on a functional and/or departmental basis Consultants Relevant experts
Strategic Surveillance	Early detection of internal and external changes that could affect strategic activities (directed and non-directed surveillance)	Environmental scanning	Maintain a wide scanning process. Continuously scan Feedback strategically relevant data	Moderate (wide angle)	Multiple sources and methods Internal and external	Scanning unit personnel Technical specialists Issues management team Environmental monitors Top management team
Environmental Scanning	Provide information on operating and remote environment changes (non-directed surveillance)	Identification of change	Establish current position and/or norm Identify any deviation	High (wide range)	Multiple sources and methods Internal and external Personal and impersonal	Scanning unit personnel Organisational planning staff and managers Consultants
Scenario Planning	Formulate plans for a range of eventualities (proactive)	Annual planning cycle Long range planning meetings	Establish current position Identify a range of potential future outcomes Evaluate potential outcomes	Moderate	Multiple sources and methods Internal and external Personal and impersonal	Planning staff and business level managers Top management team Consultants and relevant experts
Special Alert Control	Strategic readiness in times of crisis	Crisis audits/crisis management Scenario planning	Determine vulnerable areas Develop alternate scenarios and action plans Practice reaction via simulated emergencies	High	Scanning system Manager(s) at crisis Media informs company	Planning staff and business level managers conduct crisis audits Crisis management team Communication consultants Scientists, medical personnel, neutral experts

Section 4: Factors Influencing Strategic Control

2.4.0 Introduction

A review of the literature leads to the identification of three broad categories or sets of factors that can be seen to influence strategic control, these are outlined below in sections 2.4.1, 2.4.2 and 2.4.3. Before they are discussed in detail however, it is important to remember that increased complexity is introduced, when the realisation is made that the various types of strategic control that exist, can be used to maintain control over one aspect of strategy or over the whole strategy. This can clearly lead to a duplication of resource needs, for example, in information requirements, and consequently calls for an integrated strategic control system so as to ensure maximum efficiency and effectiveness. Likewise, the often blurred distinction between operational and strategic controls adds to the complexity of strategic management and the need for a categorisation of what is strategic and what is operational or what is both, as well as an understanding of which resources are required for one strategy and which of those resources can be used for more than one strategy.

2.4.1 Human Resource Issues: *people factors*

One of the earliest studies into strategic control mechanisms, and the closest of all studies to the investigation reported in this thesis, is that of Horovitz (1979). In looking at planning and control practices in medium to large British, French and German companies, in particular the practices of senior management, Horovitz identified four areas of empirical findings. Firstly, the length and makeup of long range planning activities was found to be relatively distinct between the three nations. British organisations tended toward the aggregation of SBUs five year plans, with information moving in a 'bottom-up' process toward a central planning department. German firms, followed this pattern, however the information was found to be usually more operational than strategic and was offered up in conjunction with the budgeting process and based on a three year time span. France on the other hand, was shown to carry out very little long range planning at that time, with, indeed, some French managers viewing its worthiness with significant scepticism, and with those that did pursue long range planning, using it more as a financial forecasting exercise for the next three year period, rather than any form of strategic review.

Secondly, on the whole, information was found to be "*mostly detailed, short term, dealing with operations and internal.*" British firms, by comparison with their continental counterparts however, were shown to have a greater degree of centralisation, more separate control and planning departments, and more sophisticated planning processes.

Thirdly, information was "*biased by cultural factors*": British management emphasised financial performance and French and German managers placed emphasis on production. Horovitz's reasoning for this was the educational backgrounds of management, i.e. British management were believed to have predominantly a background in accountancy and the French and German managers were largely engineers.

The final area of findings, was the lack of monitoring of key success factors. Over half of British Managing Directors were able to state their key factors of success, compared to only very few German Chief Executives and only slightly more French. Of particular importance however, is that in *no* country was any monitoring of the key success factors found, nor was any information system found in existence to do so. Indeed, it appears:

> "*Top management looked at operational results rather than monitoring directly whether a strategy was well implemented.*"

The findings of Horovitz lead to the proposal that *nationality* is an important influence upon strategic control practice. It follows therefore that employee, top management and the firm's legal nationality, as well as the organisation's country of operation, may affect the organisational strategic control system. This proposition would tend to be supported by comparative management writers such as Weinshall (1977), Hofstede (1980), Laurent (1986) and Lawrence (1995 and 1998).

What constitutes nationality is a complex issue and can not be treated fully here, however, certain key aspects can be identified, for example, the existence of commonly shared values, a common culture and history, reinforced perhaps through a common education system and a common territory.

Similarly, as discussed previously in Sections 2 and 3 of this Chapter, on a more individual or personal level, *an individual's own experiences, aspirations, beliefs and values* will impact upon the business organisation and the management of that organisation. Top management education, the level of commitment and individual preferences, for example, will all impact upon the organisation and should therefore ultimately impact upon strategic control practice. The organisational culture, the level of employee involvement in decision making or level of empowerment, the degree of centralisation or decentralisation in decision making and the type of incentive system, for example, can similarly be expected to impact upon the strategic control system.

2.4.2 *Strategic factors*

In the same way as an individual's aspirations, beliefs and values can be expected to impact upon the practice of strategic control, then so should the *shared values* of the organisation. As already discussed in Section 1 of this chapter, these common beliefs and practices, often referred to as organisational culture, are the bedrock of organisational strategy underlying the strategic initiatives pursued by a firm. This suggests, for example, that an entrepreneurial organisation would have different strategic control practices to those of a mutual or co-operative organisation. Taking this logic further, one might expect the strategic control practices of an organisation pursuing one form of strategic archetype to be different to another pursuing a different strategic archetype, for example, one business maintaining Porter's (1980) cost leadership strategy compared to another maintaining his focus strategy. This would mean potentially different strategic control practices for each strategic archetype outlined in Table 1. Lorange (1993 pp. 153-164) appears to support this argument, noting for example that in new or high growth organisations strategic control practices should be oriented to monitoring strategic premises, the progress of key strategic programs and implementation of strategy closely; the aim being to secure future strategic strength. In more mature organisations, however, where there is already existing strategic strengths, Lorange argues that strategic control needs to ensure budgetary and operational control over the strategy. In this way, a new firm would emphasise market share performance indicators and a more established mature business would emphasise efficiency and profitability indicators.

Fiegner (1994) also supports the argument that strategic control practices should be different depending upon the strategy pursued, stating that:

> "*(1) firms demonstrating Cost-leader tendencies have more effective strategic control systems when their controls are 'tighter' (i.e., greater degree of formalisation, upper management supervision, and role specialisation); and (2) firms demonstrating Differentiator tendencies have more effective strategic control systems when their controls are 'looser'.*"

He notes further that companies that are neither pursuing a cost leader or differentiator strategy, show that implementation control is more effective when loosely managed and strategic surveillance when tightly managed.

One last perspective on the impact of strategy upon strategic control practice, can be gained from looking at the different approaches taken by managers to strategic management process. Goold, Campbell and Luchs (1993a and 1993b) portray three *stereotypes*, as to how the corporate headquarters "*adds value*" to large, diversified companies, namely through "*strategic control*" or "*strategic planning*" or "*financial control*".

3 Control Stereotypes

- *Strategic Planning* companies focus on a few core businesses with the centre actively participating in formulating strategies with the business units.
- *Financial Control* companies mainly delegate strategic decisions to profit responsible business unit managers and the centre agrees and monitors short term financial targets.
- *Strategic Control* companies are committed to decentralisation, but in addition have extensive strategic planning systems through which the centre challenges, reviews and monitors business level strategies.

Source: Goold et al. (1993b)

These stereotypes suggest that the level of interest the parent company has in the strategic management of a subsidiary will dictate the type and degree of control they will exercise over the subsidiary. Similarly therefore, it could be argued that whichever approach is taken to strategic management (whether process, structure, incremental or contingent as outlined in Section 1) will influence strategic control practices.

2.4.3 Operational Issues: *control factors*

We have seen above that human and strategic issues can be shown to have a direct influence on strategic control practices. The inter-related nature of these factors and their relationship to other aspects of the business organisation now needs to be examined.

The relationship between strategy and structure was first noted by Chandler, since then a growing body of research has been developed by way of supporting evidence, with many writers concurring with the notion that "*structure follows strategy*" (Chandler 1962 pg. 14), see for example: Rumelt 1974; Hammond in Rumelt et al. 1994 pp. 97-154. Chandler's work showed how different strategies, such as vertical integration and diversification, presented different types of organisational difficulty which tended to result in different forms of organisational structure being introduced to help deal with these difficult issues. Later commentators (Peters and Waterman 1982; Mintzberg 1979; Bower and Doz in Schendel and Hofer 1979), however, re-introduced the independence of strategy and structure from one another, whilst still underlining their inter-related nature.

Other commentators have also researched the relationship between structure and control, one notable example being Weber's (1947) bureaucratic control over bureaucratic structure. Similarly, however, to developments in commentary on the strategy-structure relationship, later writers distinguish between control and structure, with, for example, Ouchi (1977) noting that "*structure is related to control*", yet "*the structure of an organisation is not isomorphic with its control system*", and that other environmental factors need to be considered as a variable in the relationship.

It is valuable to note at this point the range of factors that impinge upon organisational structure, and likewise, it is important for business management to be aware of what the likely impact of a certain structure might be. Mintzberg's configurational approach to structure (Mintzberg, Quinn and Ghoshal 1995 pp. 350-371), lists *the age and size, the technical system of production, the environmental characteristics and power system* of the organisation as situational factors that influence the shape of organisational structure. Mintzberg notes:

Age and Size

- *The older an organisation, the more formalised its behaviour*
- *The larger an organisation, the more formalised its behaviour*
- *The larger an organisation, the more elaborate its structure; that is, the more specialised its job and units and the more developed its administrative components*
- *The larger the organisation, the larger the size of its average unit*
- *Structure reflects the age of the industry from its founding*

Technical System

- *The more regulating the technical system - that is, the more it controls the work of the operators - the more formalised the operating work and the more bureaucratic the structure of the operating core*
- *The more complex the technical system, the more elaborate and professional the support staff*
- *The automation of the operating core transforms a bureaucratic administrative structure into an organic one*

Environment

- *The more dynamic an organisation's environment, the more organic its structure*
- *The more complex an organisation's environment, the more decentralised its structure*
- *The more diversified an organisation's markets, the greater the propensity to split it into market-based units, or divisions, given favourable economies of scale*
- *Extreme hostility in its environment drives any organisation to centralise its structure temporarily*

Power

- *The greater the external control of an organisation* (e.g. by a corporate parent or government), *the more centralised and formalised its structure*
- *A divided external coalition will tend to give rise to a politicised internal coalition and vice versa*
- *Fashion favours the structure of the day (and of the culture), sometimes even when inappropriate*

Certain configurations of organisation are identified by Mintzberg to be the result of these influences, i.e. an entrepreneurial, machine, professional, diversified, innovative, missionary or political organisation structure. Table 4 below provides an overview of the key differences of Mintzberg's organisational configurations.

Table 3: Types of Organisational Structure

Configuration	Prime Coordinating Mechanism	Key Part of Organisation	Type of Decentralisation
Entrepreneurial organisation	Direct supervision	Strategic apex	Vertical and horizontal centralisation
Machine organisation	Standardisation of work processes	Technostructure	Limited horizontal decentralisation
Professional organisation	Standardisation of skills	Operating core	Horizontal decentralisation
Diversified organisation	Standardisation of outputs	Middle line	Limited vertical decentralisation
Innovative organisation	Mutual adjustment	Support staff	Selected decentralisation
Missionary organisation	Standardisation of norms	Ideology	Decentralisation
Political organisation	None	None	Varies

Source: Mintzberg (1995 pg. 365)

The range of organisational configurations or structures is useful not only in identifying and distinguishing between the typology of one company compared to another in a different industry or sector, for example highlighting some useful structural differences between a professional law firm and a production line based car manufacturer, but is also equally valuable at distinguishing between same sector or same business firms. In the case of banks for example, an 'entrepreneurial' bank could be seen as one that is 'top down, with simple structures and having few support staff' compared to a 'diversified' bank which could be seen as 'a set of independent identities with their own structures, which emphasises performance standards'. It is this comparative aspect that makes Mintzberg's configurations of particular value, allowing for clear distinctions between organisational structures to be made.

Other influences on organisational structure, not mentioned explicitly above, include the capacity of information systems, specific choices affecting multinational corporations and differences resulting from varying systems of corporate governance. Firstly, it is clear from even a cursory glance at the various types of strategic control in Figure 10, that they are dependant upon *information availability*. Indeed, careful consideration of information and the management of that information is required for strategic control to work (O'Brien 1991), and various information management systems have been produced to help with strategic management and performance measurement (a comprehensive review of which can be found, for example, in Business Intelligence 1993).

Many choices are also open to multi-national corporations in how they control their strategy and organise their corporate structure. The issue of centralisation or decentralisation is at its most complex with these multinational corporations, which often have more than half of their assets, turnover and profits emanating from abroad. Complexities arise, for example, from the multiplicity of different cultures, competitive structures, host governments and partner relationships with other firms. Prahalad and Doz (1981) note that:

> "*as subsidiaries mature and become autonomous with respect to strategic resources, such as technology, capital, management and access to markets, the HO's* [head office's] *ability to control the strategies of subsidiaries is significantly reduced.*"

In order to maintain control, they note further that the creation of:

> "*a sophisticated organisational context - a blending of organisational structure, information systems, measurement and reward systems, and career planning and a fostering of common organisational culture - can compensate for the erosion of HO's capacity to control subsidiaries.*"

This said, however, varying degrees of strategic control are possible (Prahalad and Doz talked of four categories: fragmented, dependant, autonomous and integrated multinational corporations) and constant awareness of the influences on strategic control needs to be maintained.

Lastly, it is important to mention explicitly the influence of different corporate governance systems upon strategic control. Prowse (1994 pg. 71) argues in his study of the *corporate governance* of large non-financial firms in the USA, UK, Japan and Germany that:

> "*corporate control systems observed in each country are uniquely related to the broad legal and regulatory environment*[1] *of the firm.*"

Clearly, this viewpoint reinforces the importance of national background upon strategic control and the need to understand the complex issues that arise as result of it.

Another fundamental observation of how strategic control is managed will depend upon the extent of the strategy's capital requirement. Clearly, an expensive, financially critical strategy will be more closely and frequently controlled than a cheaper, less financially critical strategy. Following on from this, as already mentioned briefly above under corporate governance, the source of the finance may also dictate the level of strategic control: with for example, a strategy with external finance having to be monitored more closely and frequently, to satisfy the investors requirements, than an internally financed strategy.

2.5 Conclusion

This Chapter has shown that various types of strategic control exist and that human resource factors, strategic factors and control factors impact upon strategic control and

[1] Prowse (1994) notes that the environment includes: "*laws on antitrust, insider trading, financial disclosure, the ability of financial institutions to be large stakeholders in firms and the ability of firms to tap non-bank sources of external finance.*"

ultimately effect strategic control system design. It has also been shown that in order to understand strategic control fully an understanding of strategy and control is needed, as is the realisation that many different 'choices' are open to managers in the 'struggle' for strategic control.

It has been shown that strategic control in simplistic terms provides a system for the management (i.e. evaluation, inspection, surveillance and monitoring) of strategy and, like other areas of management, strategic control is open to a diverse range of influences from inside and outside the organisation. In managing strategy, strategic control requires that various questions are answered and that choices are made. It demands that managers think continuously about the key success factors of the organisation: what they are and whether they are still valid. Strategic control provides a system that attempts to reduce uncertainty and help in decision making. It does this through providing a comprehensive framework, that first of all requires an understanding of the current organisational position and then goes on to ask for justification for where the organisation wants to go. Once these fundamental questions are satisfactorily answered, it asks for continuous updates on whether this decision is still the right one for the organisation and whether progress towards attainment of the strategic goal is proceeding correctly. It also demands that provision be made for emergency manoeuvres. In all cases strategic control aims to provide an early warning of change away from that foreseen. In short strategic control assures that a comprehensive and integrated approach is taken to strategic management.

An evident paradox, as a result of operational complexity, however, would appear to exist, between what strategic control theory is recommending and the actual practice in industry. In particular, Goold and Quinn (1990a) note that the following problems need to be overcome in the development of a strategic control system:

- devising strategic controls that can accommodate uncertainty and flexibility in the implementation of strategy;
- defining strategic goals that are suitable for motivating managers;

- ensuring that strategic control systems assist, rather than attempt to replace, management judgement;
- building a strategic control system that enhances, rather than destroys, mutual confidence between management.

Chapter 3: Research Framework

3.0 Introduction

It is useful at this point to remind ourselves of the primary aim of this study. This study aims to explore how European retail banks control their strategy in today's rapidly changing environment with a view to offering some propositions for improvement of current practice. In order to investigate fully the different practices of the retail banks, this study sets out to compare actual strategic control practice with the recommended practice as identified in the strategic control literature and summarised in Table 2.

A comprehensive literature review as outlined in Chapter 2 was therefore carried out at the start of this study in order to ascertain the existing state of the 'art' as described by strategic control commentators. Subsequent revisits to the literature up and until the time of writing has kept this body of knowledge up to date.

This chapter critically analyses the literature review, highlighting the relationships in the research variables, leading to the identification of a generic research model and a number of specific research objectives for the study.

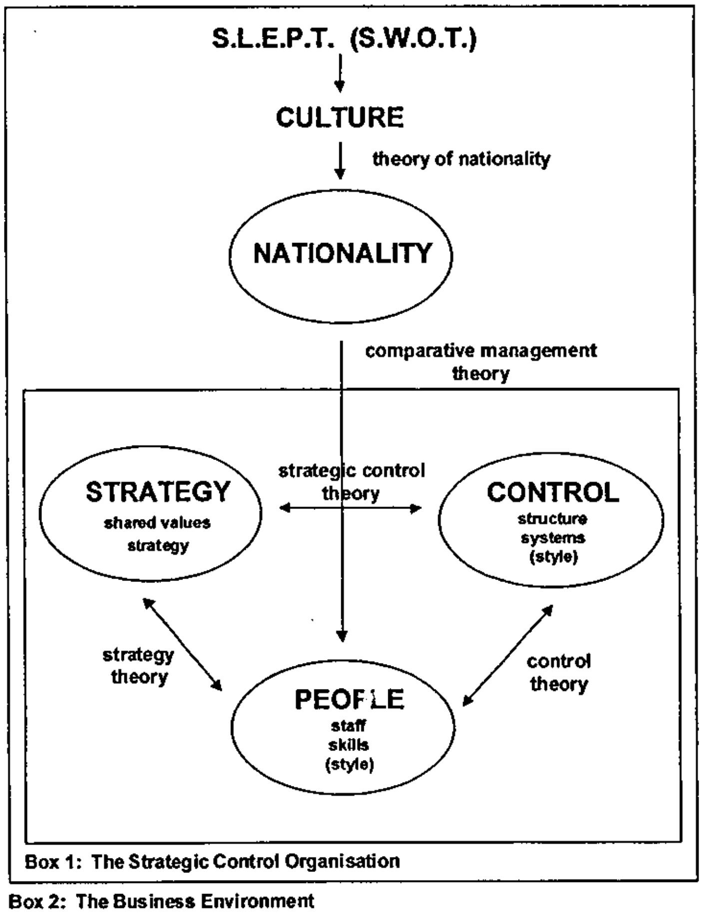
How these research objectives are in turn translated into an appropriate research design is discussed in the next chapter.

3.1 Development of the Research Framework

The first task has been to translate the broad aim of the study into a set of parameters covering the research area. These research area parameters, as examined in Chapter 2, have been distilled into a conceptual research model, as detailed in Figure 10 below.

In describing the conceptual research model, the McKinsey 7-S framework is taken as the point of departure (Peters and Waterman 1982). This framework, created as a useful way to think about business organisations, stressed the existence of at least seven variables, namely: strategy, structure, systems, style, staff, skills and shared values. These seven "*S's*" have been reduced to a smaller number of fundamental parts, thereby creating a workable model of the 'strategic control organisation' (see Figure 10, Box 1). Strategic control it must be remembered, is essentially about keeping control (through systems and structures) over the strategy (the long and short term direction and goals) of the organisation. The relationship between the 'strategy', 'people' and 'control' parts of the strategic control organisation is represented by arrows; along side these arrows is the name of the 'theory' relevant to this relationship.

Figure 10: PhD. Generic Research Model



The strategic control organisation (box 1) is positioned within 'the business environment' (box 2). This environment comprises social, legal, economic, political and technical pressures on the organisation (abbreviated to S.L.E.P.T.) which in turn present opportunities and threats to the strategic control organisation with the organisation's exact position at any given time vis à vis the outside world being able to be described in terms of strengths and weaknesses (abbreviated to S.W.O.T.).

Based upon the theoretical construct of the McKinsey 7-S framework, this conceptual model is proposed as a generic research model for the exploration of strategic control practice in all business organisations –and not just the retail banks of this investigation. Indeed, the research model is broad in its nature, so that as many different contexts as possible (including those currently undefined in strategic control literature) can be explored and cross referenced with one another, so that patterns of strategic control can be ascertained.

It was decided that an investigation into all areas of the strategic control organisation (box 1) would be a complicated task and so the influence of the business environment (box 2), whilst it couldn't be ignored, would need to be limited in some way. In order to limit this influence, it was decided therefore to explore one area of environmental influence only.

The impact of nationality on the strategic control organisation was chosen and arrows once again are used to depict this relationship in the generic research model, with the relevant 'theory' to the relationship written along side. By selecting this one environmental influence to explore, it was hoped that a meaningful result could be obtained, rather than aiming to explore the influence of the entire environment or any arbitrary number of environmental influences on strategic control and so risk getting a weak and blurred response.

This procedure would ensure that all individual differences in strategic control systems were highlighted for each retail bank investigated, and that patterns could be drawn in the findings on the basis of, it was hoped nationality, or perhaps because of internal influences, such as company structure or shared values. The research objectives were identified therefore as:

- to identify the strategic control practices in retail banks of different nationalities;

- to compare and analyse the different approaches to strategic control in order to distinguish any patterns of practice;
- to compare and analyse these different approaches to strategic control in order to identify a 'best' practice model.

These objectives originate from the researcher's own interest in the subject area and have been developed and focused into their current form as a result of a subject area literature review, see Chapter 2. An awareness of cultural diversities, witnessed at first hand from periods spent in different countries and developed through wider investigation of the complexities as reported in the Comparative Management literature, have provided a valuable starting point for this investigation. In addition, an awareness of the apparent importance to business organisations (and to humanity in general) of planning for the future, and their desire for greater control over their organisations', provides another rationale. Interestingly, management's desire for control over business issues, including strategy, can be seen to form the raison d'être behind much of management literature.

3.2 Perspectives from Different Countries

Having set out the research objectives it is useful at this point to examine in further detail the issue of nationality.

In Chapter 2 the views of organisational behaviourists were shown to have identified commonalties of human behaviour, with certain fundamental recurrent patterns of behaviour being identifiable in all people and organisations (and presumably therefore in all countries). Indeed organisational behaviour is only one element of the convergence theory argument first put forward in the 1960's that stressed the homogeneity of management in countries around the world (Kerr et al 1960). The pursuit of profit maximisation (Marx's capitalistic goal) through efficiency and cost minimisation, helped by the same easily accessible technology, were also identified as commonalties of purpose for all business organisations across the world (Lawrence 1995).

Contrary to this view, however, is the culture based management perspective. Weinshall (1977), Hofstede (1980) Laurent (1986), Lawrence (1995 and 1998), amongst others, have been influential in identifying differences in management style and practice in different countries.

Weinshall (1977) was one of the first commentators to document some of the differences amongst management practice in different countries. He noted, for example, that British managers, whilst being more reserved than their American counterparts, used frequent verbal exchanges, such as face to face meetings or the telephone, as their favoured means of communication within organisations compared to French managers who favoured the written word. Another early study led by the Laboratoire d'Economie et de Sociologie du Travail (Maurice et al. 1980) in Aix en Provence, France, identified that some French companies were more hierarchical than their German counterparts, with French firms often having a greater number of supervisory personnel.

The most influential study in shaping the way many commentators think about country differences, has however been perhaps that of Hofstede (1980). Hofstede's research was based upon answers to some 100,000 survey questionnaires distributed to IBM employees based in 72 different countries (the results from 40 countries were used in the first instance and later on data from 50 countries and 3 regions was identified). He developed four dimensions from these findings, namely: power distance, individualism, masculinity and uncertainty avoidance (see Table 4 below). Each country was allocated a score for each of these dimensions, the higher the score the closer the fit with the definition of the dimension (the distance between the highest and lowest scoring countries being about 100 points).

The power distance dimension describes the extent to which the unequal distribution of power is accepted within the workplace. France for example can be seen to have a higher tolerance of unequal power distribution or inequality (scoring 68) than Britain or Germany (both scoring 35).

Table 4: Hofstede's Scores on Four Dimensions for 50 Countries and 3 Regions

Country	Power Distance		Individualism		Masculinity		Uncertainty Avoidance	
	Index	Rank	Index	Rank	Index	Rank	Index	Rank
Argentina	49	35-36	46	22-23	56	20-21	86	10-15
Australia	36	41	90	2	61	16	51	37
Austria	11	53	55	18	79	2	70	24-25
Belgium	65	20	75	8	54	22	94	5-6
Brazil	69	14	38	26-27	49	27	76	21-22
Canada	39	39	80	4-5	52	24	48	41-42
Chile	63	24-25	23	38	28	46	86	10-15
Colombia	67	17	13	49	64	11-12	80	20
Costa Rica	35	42-44	15	46	21	48-49	86	10-15
Denmark	18	51	74	9	16	50	23	51
Equador	78	8-9	8	52	63	13-14	67	28
Finland	33	46	63	17	26	47	59	31-32
France	68	15-16	71	10-11	43	35-16	86	10-15
Germany (Federal Republic)	35	42-44	67	15	66	9-10	65	29
Great Britain	35	42-44	89	3	66	9-10	35	47-48
Greece	60	27-28	35	30	57	18-19	112	1
Guatemala	95	2-3	6	53	37	43	101	3
Hong Kong	68	15-16	25	37	57	18-19	29	49-50
Indonesia	78	8-9	14	47-48	46	30-31	48	14-42
India	77	10-11	48	21	56	20-21	40	45
Iran	58	19-20	41	24	43	35-36	59	31-22
Ireland	28	49	70	12	68	7-8	35	47-48
Israel	13	52	54	19	47	29	81	19
Italy	50	43	76	7	70	4-5	75	23
Jamaica	45	37	39	25	68	7-8	13	52
Japan	54	33	46	22-23	95	1	92	7
Korea	60	27-28	18	43	39	41	45	16-17
Malaysia	104	1	26	36	50	25-26	36	46
Mexico	81	5-6	30	32	69	6	82	18
Netherlands	38	40	80	4-5	14	51	53	35
Norway	31	47-48	69	13	8	52	50	38
New Zealand	22	50	79	6	58	17	49	39-40
Pakistan	55	32	14	47-48	50	25-26	70	24-25
Panama	95	2-3	11	51	44	34	86	10-15
Peru	64	21-23	16	45	42	37-38	87	9
Philippines	94	4	32	31	64	11-12	44	44
Portugal	63	24-25	27	33-35	31	45	104	2
South Africa	49	36-37	65	16	63	13-14	49	39-40
Salvador	66	18-19	19	42	40	40	94	5-6
Singapore	74	13	20	39-41	48	28	8	53
Spain	57	31	51	20	42	37-38	86	10-15
Sweden	31	47-48	71	10-11	5	52	29	49-50
Switzerland	34	45	68	14	70	4-5	58	33
Taiwan	58	29-30	17	44	45	32-33	69	5
Thailand	64	21-23	20	39-41	34	44	64	30
Turkey	66	18-19	37	28	45	31-33	85	16-17
Uruguay	61	26	36	29	38	42	100	4
United States	40	38	91	1	62	15	46	43
Venezuela	81	5-6	12	50	73	3	76	21-22
Yugoslavia	76	12	27	33-35	21	48-49	88	8
Region:								
East Africa	64	21-23	27	33-35	41	39	52	36
West Africa	77	10-11	20	39-41	46	30-31	54	34
Arab Countries	80	7	38	26-27	53	23	68	27

Source: Hofstede and Bond (1988)

Individualism deals with the attitude toward group behaviour within an organisation, where:

> *"At one end of the scale we find societies in which the ties between individuals are very loose. Everybody is supposed to look after his or her own self-interest and maybe the interests of his or her immediate family... At the other end of the scale we find societies in which the ties between individuals are very tight. People are born into collectives or in-groups. Everybody is supposed to look after the interest of his or her own in-group."* (Hofstede 1983)

According to the findings, Britain (scoring 89) is less collectivist or its people are more individualistic than France (scoring 71) and Germany (scoring 67).

Masculinity, as its name implies, describes the extent to which employees adhere to 'masculine' values, such as an assertive and competitive attitude, or 'feminine' values, such as a modest and nurturing attitude. On this index, the French score 43, identifying them as more feminine than the British and Germans who both score 66.

Finally, the uncertainty avoidance dimension describes the extent to which new, unusual or surprising situations are avoided by employees, with those countries scoring highly on the uncertainty avoidance dimension often trying to avoid such situations through close adherence to rules, beliefs and accepted practices. Here, France stands wide apart from Britain, scoring a high 86 compared to 35, with Germany falling in-between with a score of 65.

A fifth dimension was later added (Hofstede and Bond 1988) called Confucian Dynamism, which was described as dealing with "*the time perspective in a society for the gratification of people's needs*" (Hofstede 1993, pg. 9). The results of this dimension (carried out amongst students within 22 countries) show in particular a clear distinction between East Asian countries and English speaking countries (see Table 5 below). Hoftstede (1988) noted this difference commentating that Confucian Dynamism deals with a society's search for "*virtue*" whilst uncertainty avoidance cultures believe in "*absolute truth*", the former he calls a uniquely Eastern dimension, the later a uniquely Western dimension and the other three dimensions (power distance, individualism and masculinity) common to both.

<u>Table 5: Confucian Dynamism Scores</u>

Country	Confucian Dynamism Index	Country	Confucian Dynamism Index
Hong Kong	96	Germany (Federal Republic)	31
Taiwan	87	Australia	31
Japan	80	New Zealand	30
Korea	75	USA	29
Brazil	65	Great Britain	25
India	61	East Africa	25
Thailand	56	Canada	23
Singapore	48	Philippines	19
Netherlands	44	West Africa	16
Sweden	33	Pakistan	0

Source: Hofstede and Bond (1988)

Hofstede's studies highlight some fascinating differences between countries and indeed groups of countries. Other commentators however, have also contributed to the development of our understanding of country specific differences. Horovitz (1979) it must be remembered, reported that top management control in Britain, France and Germany is short term and focused on internal operational detail:

> "*Chief executives appear to receive information on short term performance more than long run issues. Content analysis of daily, weekly and monthly reports sent to chief executives show that information deals predominantly with sales, profit, personnel, cash, deliveries, cost, output and balance sheet information.*"

He adds that the cultural differences of the managers from the different countries studied also appear in the type of information that they use:

> "*British chief executives put predominantly emphasis on finance whereas French and German chief executives put first emphasis on production, matching well educational backgrounds of managers (accountants vs engineers).*"

Laurent's study (1983 and 1986) showed that conflict avoidance varied from country to country, see below, with for example the UK and Germany having a greater and more similar tolerance to conflict than their French management counterparts.

"Most organisations would be better off if conflict could be eliminated forever."

	Positive responses %
Sweden	4
USA	6
UK	13
Germany	16
Holland	17
Switzerland	18
Denmark	19
France	24
Belgium	27
Italy	41

On the other hand, as seen in the following illustration, the French and German managers were more similar in their requirement to have precise answers to subordinates' management questions than their British counterparts:

"It is important for a manager to have at hand precise answers to most of the questions that his subordinates may raise about their work."

	Positive responses %
Sweden	10
Holland	17
USA	18
Denmark	23
UK	27
Switzerland	38
Belgium	44
Germany	46
France	53
Italy	66

Lawrence has also been an influential commentator in adding some more country specific detail to the cultural differentiation studies mentioned above. His studies, for example, on German, French and British management illuminate our depth of understanding of management in different countries, see Figure 11 below.

Figure 11: A Thumbnail Sketch of British, French and German Management

Britain	France	Germany
▪ Management is about the individual and their leadership ability, rather than the system: "*People with the right human qualities... - are presumed to be capable...*" ▪ Managers are recruited and promoted on the basis of general credentials, e.g. social and political skills, judgement, charisma and that ubiquitous British humour. ▪ Organisations tend to be short-termist, relying on equity finance and not debt finance. Profit is the rationale; hence the use of profit centres.	▪ Management is about the application of educated cleverness: "*managers need to be qualified educationally, to be capable in the area of analysis and synthesis, to be good at logical argument.*" ▪ Intellectual virtuosity is key; managers must demonstrate their ability. Safeguarding *la patrie*, one's motherland, and its status is a plus. ▪ Organisations tend to be formal and bureaucratic. There is close co-operation between government and industry.	▪ Management is about engineering knowledge or specialist skills, known as "*Technik*", and their application. ▪ Experts are recruited as managers: with acquired specialist knowledge and relevant job experience being prized. Likewise promotion depends upon demonstrable achievement. ▪ Organisations tend to be organised functionally and have few layers of general management.

Source: adapted from Lawrence (1995)

Trompenaars (1996) reminds us that:

> *"Strategy is a systematic way of acting on the environment. By definition this process in intimately related to the cultural context in which it unfolds...*
>
> *Every country and every organisation faces a) dilemmas in relationships with people; b) dilemmas in relationships to time; and c) dilemmas in relations between people and the natural environment. While cultures differ markedly, they do not differ in needing to make some kind of response...*
>
> *In the final analysis culture is the manner in which these dilemmas are reconciled, since every nation seeks a different and winding path to its own ideals of integrity."*

In looking at the management of banks, certain bank specific factors as well as some more general country or culture specific norms can be seen as an influence; see Figure 12 below:

Figure 12: Influences on Bank Management

General Factors

Cultural 'foundations'

- Current state of development (social, economic, political, legal, technological, etc.)
- Customs and habits
- Language
- Communication
- Role of sexes
- Conflict orientation
- Inter-relationship of systems

Bank Specific Factors

International

- Globalisation
- International bank and loan agreements
- EU-banking rules and regulations
- Interbank business
- International consortia
- Joint ventures
- Strategic alliances
- international communication
- international customs
- international customer groups

Country specific

- Historical development
- National banking law
- Local markets (stock exchange)
- Impact of technology (e.g. payment transaction habits)
- National customs
- National customer groups in retail and wholesale business

Source: Schuster (1996)

The degree of influence of the above factors is however more difficult to judge. What needs to be underlined in the above figure is the inter-relationship between the internal organisational influences with those of the external environment. These inter-relating influences can also be seen from a look at a 'typical', albeit not comprehensive, SWOT analysis for a traditional high street retail bank; see Figure 13 below.

Interestingly in terms of strategy, Edwards and Lawrence (1996), note that:

> *"the particular industry is more important in structuring executive perceptions, defining issues and developments, and in shaping strategy than is the national culture of the country."*

This does not mean that they do not believe national culture to be important, but rather it does not have a determinant effect. Indeed, all of these studies illustrate the differences in management behaviour in each country, as a result of the managers' different cultural background and business environment. They show that different approaches exist and that managers have different styles. The question of whether they will have a determinant effect on strategy and strategic control in particular is however unclear. One aim of this study will be to investigate this question further.

Figure 13: SWOT Analysis of a Typical Retail Bank

Strengths	**Weaknesses**
Traditional family based relationships Customer inertia Branch network Product range Management skills/resources Processing technology Communication network Brand image Trustworthy reputation	High level of fixed costs Poor level of customer services Lack of customer information Product, not market, focus Lacks brand strength Lack of flexibility to respond Traditional management practices Complexity of operations
Opportunities	**Threats**
Develop enhanced customer service Develop effective marketing systems Reduce cost structures New distribution opportunities Market/product/customer segmentation Product innovation Social changes Brand positioning/strengthening	New market entry competition New technologies Product innovations Changing customer attitudes/needs Innovative delivery systems Legislation

Source: Pragma Consulting in McGoldrick and Greenland (1994)

Chapter 4: Research Design

4.0 Introduction

This Chapter describes the practical detail of the investigation. It highlights the choices that have been made in the selection of an appropriate research strategy, drawing on the commentary of McGrath (1982). The research methods chosen to investigate the four research questions are described, as are the attempts that have been made to ensure valid and reliable findings. It identifies the sample frame, the sample of respondents investigated and it explains how the information gained from these respondents was treated. The limitations of the research design and problems faced in conducting this research are also explored.

4.1 The Research Strategy

This research at first sight appears to be rooted in the phenomenological tradition: one that perceives the world as a subjective and social construct, with the academic observer being an integral and fundamental part of the observed research (Easterby-Smith 1991 pp. 21-43). Features of the phenomenological paradigm, first outlined by 19th century writer Husserl (Gibson 1931), suggest a research focus on the interpretation of meanings and the development of ideas and understanding through inductive reasoning. This research philosophy as a result, is particularly suited to qualitative research methods.

Pragmatism however, demands a more 'dirty' (less pure) approach in the use of research methods in order to corroborate, or reject, a degree of generalisability of the research findings within a short time frame. This pragmatic approach, aims to allow for a significant level of theoretical analysis and reflection, as well as providing the opportunity to apply the research findings, in the sense of providing some meaningful explanations and proposals, for the benefit of business. In this way, a positivist philosophy will be assumed for certain aspects of the research; positivism being a philosophy that describes the world as externally existing and objective, with the academic observer being independent and the research value-free (Easterby-Smith

1991 pp. 21-43). Features of the positivist paradigm to be used (for example: the use of other researchers' work as a basis upon which to explore further in research interviews) will speed-up the lengthy nature of certain aspects of phenomenological research.

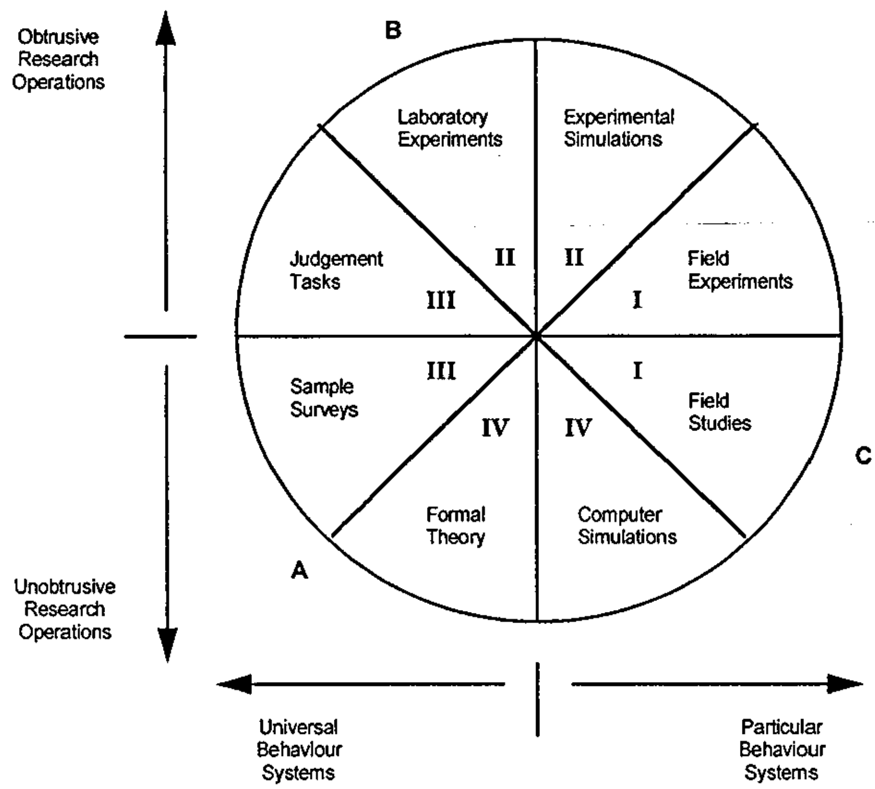
The nature of the research area is one that requires the identification and exploration of varying types of organisational behaviour. Furthermore strategic control practices are relatively unknown, due to the rather putative state of current strategic control commentary. These two observations suggest that a more qualitative, rather than quantitative approach to the research framework, should be followed, whereby some form of relationship is built up with the respondents in order to investigate the subject area fully and extract meaningful data. This process suggests also the need for a relatively unstructured research agenda, in order to allow the respondents themselves to be the guide to their own strategic control practices.

McGrath's (1982) description of the dilemmas in choosing a research strategy fit well the pragmatic approach of the researcher and the approach followed in this study. Drawing upon McGrath's discussion, it must be realised that every research strategy is a matter of 'best fit'; one which attempts the best compromise for the various choices that have been made and that need to be made in the future in the selection of the research method. Indeed, other research strategies exist and could, ultimately, have been pursued, however, all of which would have been less pertinent and valid to the investigation of the research questions than the chosen research strategy. The list of possible research strategies is listed in Figure 14 below.

McGrath lists eight methodological strategies for acquiring knowledge about a research problem (listed in the slices below[1]). Three 'points of maximum concern' are also identified, labelled A, B and C, which are conflicting pressures in all research activities, whereby, for example, the total appeasement of one, will only force a 'dilemma' in terms of the two other criteria. In summarising the rationale for the selection of an appropriate research strategy an outline of each will be given.

[1] Interesting cultural differences exist in describing the diagram, as an American McGrath likes to view these research strategies as eight "pie slices", being British I see them as "slices of cake", and so do Germans, whereas a Frenchman is taught to think of them as "slices of camembert".

Figure 14: Research Strategies



A Point of maximum concern with generality over actors.
B Point of maximum concern with precision of measurement of behaviour.
C Point of maximum concern with system character of context.

I Settings in natural systems.
II Contrived and created settings.
III Behaviour not setting dependent.
IV No observation of behaviour required.

Runkel and McGrath (1972)

Field studies Field studies are at the point of maximum concern about realism of context. The natural setting for the participants is of paramount importance in the carrying out of this research strategy. Field studies are as a result as unobtrusive as possible, to the detriment of the precision of measurement and generalisability of the findings. An example of which in the business context would be non-participant observation of supermarket customers going about their shopping in order for a picture to be built up about buyer behaviour.

Field experiments Also taking place in a 'real' setting for the participants, they compromise unobtrusiveness in an attempt to increase precision of measurement of behaviour. In this situation, a supermarket may, for example, test new product displays along side existing displays in order to gauge their impact on the customer's buyer behaviour.

Experimental simulations In the case of experimental simulations, the settings are contrived for the participants, albeit whilst attempting to maintain some form of realism. Both experimental simulations and field experiments lie in between the points of maximum concern about precision and context, but fall short in dealing with the concern of generalisability.

Laboratory experiments Here the setting is created and contrived to the extent that a 'generic setting' is maintained for the purpose of the research. This is done in order to maximise the precision of measurement of the behaviour being studied, compromising generalisability and concerns with context. Here the experimental reality is what counts.

Judgement tasks Judgement tasks are not context dependent, with instead 'universal' behaviour being dominant. Realism of context is at a minimum therefore, with moderate generalisability and precision of measurement being the reward.

Sample surveys Generality is a prime concern for researchers using sample surveys, with contextual issues being 'neutralised' through the use of behaviour related questions rather than context related questions and precision being gained through the use of effective population sampling techniques.

Formal theory McGrath (1982) points out that quadrant four strategies differ from those in the other quadrants in that they are not empirical. As such the influence of behaviour and the presence of actors is removed from the theoretical constructs of quadrant 4 strategies. Formal theory maximises generalisability, but compromises on realism of context and precision of measurement.

Computer simulations Similar to experimental simulations and judgement studies, computer simulations attempt to satisfy two dilemmatic extremes. In this case generalisability and contextual concerns are optimised at the expense of the precision of measurement of behaviour.

The above summary helps in identifying the choices available in the selection of an appropriate research strategy. Computer simulations must be put to one side due to our incomplete knowledge of the subject area, as it is currently known; similarly the lack of a single widely applied theory prevents a formal theoretical approach to the research strategy being taken. In addition, time limitations prevent the use of field studies and the practicalities of commercial activity rule out the option of field experiments, laboratory experiments and experimental simulations.

Sample surveys are also ruled out in this particular research, because the strategic control context can not be fully 'neutralised' or put more simply the context can not be explicitly and unambiguously defined at this point in our understanding of the subject area. According to McGrath (1982), when following a sample survey strategy:

> *"the investigator tries to neutralise context by asking for behaviours (often, responses to questions) that are unrelated to the context within which they are elicited (often, doorstep or telephone)."*

Such an approach, in practical terms, requires either a complete understanding of the subject area and the likely responses to research questions or requires a very precise small study to be carried out in order that a full range of responses can be captured to a small number of open ended research questions. In the case of strategic control practice however, there is no full knowledge about the likely responses to the research questions, making the design of any survey questionnaire imprecise. This imprecision would force assumptions to be made about the likely responses or would lead to an unwieldy survey questionnaire, with too many open ended questions to be completed, leaving too much room for ambiguity. In either case construct validity would be difficult to justify and much of the richness to be gained form an investigation into the subject area would risk being lost.

The research strategy is thus limited to a judgement tasks strategy; in this case, it is the best way of instilling confidence in the respondents and thereby eliciting the 'best' (most valid) data. A judgement task strategy can be described, using the McGrath model, as a compromise between the need for generalisability of actors actions (i.e. can the respondents behaviour be generalised?) and precision in the measurement of behaviour (i.e. are the research findings an accurate picture of real practices?). In this way, a 'general overview' of strategic control practices within the sample of retail banks can be ascertained which is 'satisfactorily precise' in its measurement. Concerns for the character of the context of the research, whilst clearly not being dealt as completely as would be in the case of non-participant observation in a field study, are also 'satisfied' by the use of relevant expert respondents. As Mcgrath (1982) notes;

> *"The judgement study typically uses only a few population units, constructed as 'judges' of stimuli..."*

The fact that the judges or expert respondents reported strategic control 'behaviour' is not setting dependent also facilitates the research process, highlighting the fact that contributions from external sources can be equally valid and pertinent as those from within the sample of retail banks. A description of how the judgement task research strategy was translated into a detailed set of research methods is discussed in further detail in Section 4.2 below.

4.2 Research Methods

Figure 14 highlighted the need to satisfy the dilemmas of the judgement task research strategy, namely to nullify contextual concerns through the use of expert respondents and to ensure a degree of generalisability and precision of measurement. These three requirements were kept in the forefront of the researcher's mind in selecting the most appropriate research methods.

The choice of a judgement task strategy led to a research design with three integrated parts:

- a sample of retail bank respondents were interviewed and asked to report behaviour in given situations and provide detail of organisational strategy and control;
- follow up interviews with the same respondents were carried out to probe specific areas;
- other sources (internal and external to the retail banks) were investigated and the findings were compared with interview data.

This research design made use of four different data collection methods:

(a) interpretivist interviews within the retail bank sample - to gain a 'rich' picture and develop content validity;
(b) more positivist follow up interviews with the same respondents - to probe specific areas and so gain necessary precision;
(c) interviews with 'generic judges' - to explore construct and content validity;
(d) secondary data sources – to supplement and check upon findings.

Interpretivist interviews within the retail bank sample were carried out with at least one senior member of each retail bank's management team and at least one specialist 'strategic thinker' (often to be found within the corporate headquarters). The aim of these interviews was to gain as 'rich' a picture as possible of strategic control practices within the particular retail bank. Considerable effort was made to ensure that several respondents were interviewed in each banking organisation in order to provide for some triangulation of responses, thereby ensuring some degree of content validity from the respondents. It is for this reason that three interviews were required within the German banks and four were necessary within one of the French banks. In the same way, at least two banks from each country were studied in an attempt to establish some degree of generalisability from the findings (see Table 6 below).

Table 6: Retail Bank Interview Distribution

	Britain	France	Germany
Bank 1	2	2	3
Bank 2	2	4	3
Bank 3	2	-	-
Total Interviews (18)	6	6	6

More positivist follow up interviews with the same respondents were carried out by telephone in order to probe specific areas and clarify the information given or indeed plug any information gaps that were found. Where respondents were unavailable to be spoken to on the telephone, they were written to and asked to supply the relevant information by post. These interviews and follow-up contacts were an essential part of the research design in gaining the necessary triangulation and precision required in the findings.

In addition, several interviews were carried out, at different stages throughout the study, with leading experts from all three countries (see Table 7 below) in order to gain an overview of perceived national strategic control practices.

Table 7: Expert Interview Distribution

	Britain	France	Germany
Academics	2	1	1
Other experts	3	-	-
Total Interviews (7)	5	1	1

Excerpts of these interviews can be found in the Appendices. National experts in the research area were selected from amongst British, French and German academics[2] who have commented on the subject of strategic control. One leading strategic thinker, one senior management consultant and one European banking analyst were also interviewed. These interviews have been particularly valuable for ensuring that an appropriate research design was used, for example, encouraging the researcher in the

[2] Leading strategic control commentators were interviewed, including David Asch, Michael Goold and Georg Schreyögg, and in addition, considerable support was given by members of Loughborough University Business School and its Banking Centre.

use of interpretivist interviews and in the rejection of a sample survey (questionnaire) research method. All of these interviewees were treated as 'generic' judges of the research area, whereby national strategic control practices could be explored from both a theoretical and practical viewpoint. In this way, the wide ranging semi-structured interviews were used to provide construct validity of the research design as well as content validity of the research findings.

The proposed methods for data collection have also been designed around the need for validity and reliability in the research in order to assure some form of precision and generalisability in the findings. Careful attention was paid to content and construct validity for the interview questions (where the following questions, posed by Sekaran (1992 pg. 172), are answered for content validity: "*does the measure adequately measure the concept*?" i.e., is the complete scope of the area of interest fully covered, and for construct validity: "*does the instrument tap the concept as theorised?*" Construct validity was maintained by starting with highly open interview questions in a relatively unstructured format. More directed closed questions were only asked once a full picture of strategic control practice had been ascertained from the respondents and a clarification of the detail was needed. Emphasis throughout the interview process was on allowing the respondents to tell their own story of strategic control practice 'warts and all'.

The interviews were carried out in the same general format in all three countries (a list of typical interview questions used can be found in Appendix 1). Interviews were conducted in the offices of the interviewees in all cases, except in the case of follow-up interviews which were conducted by telephone. In the UK and France, the interviews were carried out in the interviewees' own language, with the researcher at ease with his ability to ensure that all the nuances of behaviour could be captured in either language. In Germany English was used mostly, due to the fact that nearly all the respondents could speak fluent English, but on occasion a mixture of English and German was used to facilitate the flow of the discussion, and on one occasion German was used throughout with a translator being present in order to ensure that no misunderstandings were made. All the face to face interviews were tape recorded, except for two, where the respondents declined to be recorded, but agreed that notes could be taken during the interview instead. Detailed notes were made of all telephone interviews.

The interviewees responses have been combined, allowing for a relatively comprehensive picture to be built up and a detailed 'story' to be told for each for each of the retail banks investigated. In the editing of these 'stories' the fullest description given by a respondent has been used in preference to less complete descriptions. Effort has also been made to try to ensure that the respondents are not directly identifiable. None of the respondents were told the names of the other organisations participating in this study at any time. In addition none of the names of the other respondents from within the same organisation were volunteered, and was only requested and supplied once.

The sampling method for the interviews was carried out on a judgement sample basis. Sekaran (1992 pg. 237) describes the advantages and disadvantages of this non-probability sampling as "*sometimes, the only meaningful way to investigate*" with respondents being "*selected on the basis of their expertise in the subject investigated.*" This approach was perceived as the most appropriate method of selection. In particular, it was perceived that one of the best people to tell the 'story' of strategic management in a retail bank is one of the managers within the bank's 'strategy department' or a member of its senior management team.

The contextual concerns, as identified in Figure 14, were also compensated for by the fact that retail banking practices are relatively well documented. Banking it must be remembered has a long history, one with religious and socio-political roots[3], and is fundamental part of any economy, both of which have contributed to it being the foc of attention of many commentators over the years. The body of published retail banking literature has been used as external references against which the research findings of this study have be checked, allowing for similarities and differences in findings to be examined. Company information in a similar way has also been used to

[3] The story of the 'money lenders' outside the Temple of Jerusalem as described in the new testament, perhaps sets the tone for many people's first thoughts on the practice of banking. This said, the polemic over usury (i.e. whether one should lend money at interest) certainly appears to have been overcome with payment for financial services now being an accepted practice throughout the world today.

introduce and supplement the retail bank stories. The sources of all non-interview data are identified where this information is used.

The rationale for the selection of the three nationalities to be studied, i.e. British, French and German, have been selected because of their relatively distinct national cultures, as outlined by, amongst others, Hofstede (1980), Horovitz (1980) and Lawrence (1995 and 1998), see Chapter 3. They are also three relatively easily accessible countries for the researcher, both in terms of geography, language and understanding. In addition, the retail banks within these countries operate within the three largest economies of Europe and as such posses some of Europe's largest retail banks.

The extent to which, however, particular findings can be translated into a statement of broader national characteristics, i.e. this is how the French carry out strategic control, is strictly limited. This research has been based upon retail banking alone. Strategic control practices in other sectors have not been investigated. The validity and reliability for any generalisation that moves away from the reported patterns discovered in retail banking is therefore unclear. The rationale behind this is that the industry context may not be the same in another industry: the backgrounds and aspirations of the people working in different industries may well be different; the strategies pursued and the controls used may also be different. Each change in context will make generalisability of the findings increasingly erroneous.

The limitations to the validity of the findings were not so much one of worries over reliability in the sample of respondents, but rather one of accessibility to the information. Gaining access to the respondents was often difficult, due to the busy nature of the respondents' professional lives. But more difficult at times was gaining the fullest of pictures of actual strategic control practice. Some respondents were more open in the information they provided than others. Some interviews led to 'the door being opened' and further information being available, with perhaps subsequent interviews being arranged with other employees. In other cases, however, a more limited and less co-operative response was the outcome. In some cases, of course, the outcome was not particularly rewarding in terms of strategic control behaviour, not because of the respondents lack of co-operation, but because the strategic control behaviour itself was rather limited.

4.3 Summary and Conclusion

This chapter has identified the research strategy choices that were faced at the outset of the investigation of strategic control practices within European retail banks. It has highlighted the rationale for the selection of a judgement task strategy and has gone into the detail of how this strategy was implemented in the research process. The research methods for the investigation have been set out, outlining the choices that have been made and noting the problems that have been overcome as well as the highlighting limitations within the research.

The precise research questions used in the investigation can now be identified as follows, as a guide for the interpretation of the research findings as described in the next chapter.

1. How is strategy controlled by British, French and German retail banks?
2. Do British, French and German retail banks employ distinct strategic control methods that differ significantly from one another?
3. What are the advantages and disadvantages of these strategic control methods?
4. How does current strategic control practice amongst the retail bank sample compare to commentators' theoretical models of strategic control?

Chapter 5: Research Findings

5.0 Introduction

Seven banks are the subjects of this research. These banks are well known 'high street' names in their respective countries. Three banks have been researched in the UK, two in France and two in Germany.

The evidence detailed here is a faithful portrayal of that reported from always more than one respondent in each banking organisation. Where supplementary information has been obtained this has been incorporated accordingly, with a note made of its source.

In this chapter the three principal elements of the strategic control organisation, as described in the Generic Research Model in Chapter 3, are used as the basis of comparison. As such the findings from each retail bank are grouped under the headings of strategy, control and people.

The findings from each banking organisation are outlined in turn and, where possible, the respondents own comments have been used to tell their own 'story'. Care has been taken, however, to ensure the anonymity of the respondents and employees within the banks, with, for example, commentary being kept in the third person where appropriate or employees' general positions being referred to rather than their names or exact titles.

Preceding each bank's story is a brief description of basic impartial data, such as financial results, number of employees, etc. This data is provided by way of introduction, giving the reader a thumb nail sketch of the banking organisation's general business situation and a flavour for where this positions the bank in its domestic market and in the wider European context. A brief overview of each bank's history is also provided to help situate each bank in its national and cultural context. The sources of secondary data used for these purposes are stated where quotes or use of such information is made.

An overview of the position of the retail banks that have participated in this research within the league-table of The Banker's 'Top 50 Europeans' can also be found on the following pages as a supplementary 'positioning' mechanism (see Tables 8, 9 and 10).

For ease of reference the research findings from each bank are listed in alphabetical order. The order therefore is as follows:

Abbey National
BNP
Credit Agricole
Deutsche Bank
Dresdner Bank
Lloyds TSB
Royal Bank of Scotland

At the end of each bank's 'story' are two short summaries. The first summarises the specific characteristics of each bank's strategic control components. The second provides a 'quick reference' summary of the findings for each banking organisation.

Table 8: 'Top 50 European Banks 1997'

Rank	Name	Capital Strength ($ million)	Asset size ($ million)
1	HSBC Holdings	27,392	473,608
2	Crédit Agricole Groupe	22,280	419,980
3	Deutsche Bank	17,731	581,979
4	ABN AMRO Bank	15,864	414,654
5	Union Bank of Switzerland	13,570	396,878
6	Barclays Bank	13,020	388,955
7	Credit Suisse Group	12,984	473,832
8	Rabobank Nederland	12,680	209,692
9	National Westminster Bank	12,342	306,605
10	Halifax	11,995	216,802
11	Banque Nationale de Paris	11,521	339,819
12	Groupe Caisse d'Epargne	10,971	214,854
13	Dresdner Bank	10,456	372,594
14	Lloyds TSB Group	10,408	261,462
15	Société Générale	9,745	441,115
16	Commerzbank	8,829	287,891
17	ING Bank Group	8,730	190,269
18	Bayerische Vereinsbank	8,729	249,709
19	Compagnie Financière de Paribas	8,538	245,188
20	Abbey National	8,067	249,393
21	Banco Santander	7,952	171,092
22	Crédit Mutuel	7,852	108,373
23	Westdeutsche Landesbank Girozentrale	7,792	331,225
24	Crédit Lyonnais	7,131	250,279
25	Banco Bilbao Vizcaya	6,800	139,346
26	Swiss Bank Corp	6,371	301,620
27	Dexia	5,951	202,762
28	Cariplo	5,946	121,374
29	Bayerische Landesbank	5,946	233,063
30	Kreditanstalt für Wiederaufbau	5,607	147,856
31	Groupe Banques Populaires	5,427	111,222
32	Banca di Roma	5,374	118,001
33	1st Banca San Paolo di Torino	5,339	145,929
34	Bayerische Hypotheken & Wechsel-Bank	5,208	203,981
35	Argentaria	5,069	76,922
36	Royal Bank of Scotland	5,012	117, 117
37	Banca Commerciale Italiana	4,717	115,789
38	Bank of Scotland	4,486	89,948
39	Bankgesellschaft Berlin	4,480	196,242
40	Bank Austria	4,241	124,157
41	Standard Chartered	4,189	78,024
42	Generale Bank	4,176	160,136
43	Instituto Mobiliare Italiano	4,101	51,829
44	Credito Italiano	4,101	51,829
45	Banca Monte dei Paschi di Siena	3,996	87,897
46	Den Danske Bank	3,932	77,169
47	Banca Nazionale del Lavoro	3,680	103,308
48	DG Bank	3,619	205,227
49	Kredietbank	3,588	112,989
50	Banco Central Hispanoamericano	3,454	77,386

Source: The Banker, September 1998

Table 9: 'Top 50 European Banks 1996'

Rank	Name	Capital Strength ($ million)	Asset size ($ million)
1	HSBC Holdings	25,716	401,685
2	Crédit Agricole	22,235	477,336
3	Deutsche Bank	18,517	569,906
4	ABN AMRO Bank	16, 098	341,396
5	Union Bank of Switzerland	15,743	324,756
6	Barclays Bank	12,635	315,846
7	Groupe Caisse d'Epargne	12,368	224,301
8	National Westminster Bank	11,914	314,716
9	Banque Nationale de Paris	11,612	355,366
10	Credit Suisse Group	11,611	389,300
11	Rabobank Nederland	11,423	190,019
12	Compagnie Financière de Paribas	10,765	290,720
13	Société Générale	10,735	339,996
14	Swiss Bank Corp	10,264	267,339
15	Dresdner Bank	9,325	355,605
16	Lloyds TSB Group	8,937	250,241
17	Westdeutsche Landesbank Girozentrale	8,320	295,774
18	Commerzbank	8,157	287,692
19	Crédit Mutuel	8,065	111,432
20	Crédit Lyonnais	7,757	310,040
21	ING Bank	7,609	178,614
22	Abbey National	7,460	210,581
23	Bayerische Vereinsbank	7,348	258,505
24	Banco Santander	7,034	149,881
25	Cariplo	6,615	125,910
26	Dexia	6,592	215,781
27	Banco Bilbao Vizcaya	6,288	131,069
28	Kredit. für Wiederaufbau	6,093	153,207
29	1st Banca San Paolo di Torino	5,943	171,317
30	Banca Nazionale del Lavoro	5,805	112,857
31	Banca di Roma	5,662	141,077
32	Bayerische Landesbank	5,648	221,488
33	Argentaria	5,593	83,832
34	Bayerische Hypotheken & Wechsel-Bank	5,558	218,294
35	Banca Commerciale Italiana	5,327	115,448
36	Bankgesellschaft Berlin	5,245	216,265
37	Instituto Mobiliare Italiano	4,889	52,228
38	Groupe Banques Populaires	4,525	115,445
39	Generale Bank	4,395	173,226
40	Banca Monte dei Paschi di Siena	4,368	93,177
41	Den Danske Bank	4,277	75,989
42	Royal Bank of Scotland	3,967	95,479
43	Standard Chartered	3,980	71,554
44	Svenska Handelsbanken	3,752	83,121
45	Bank of Scotland	3,595	77,044
46	Credito Italiano	3,504	114,378
47	DG Bank	3,457	210,156
48	Caja de Ahorros y Pen. de Barcelona	3,445	75,773
49	Kredietbank	3,430	113,217
50	Crédit National	3,323	55,089

Source: The Banker, September 1997

Table 10: 'Top 50 European Banks 1995'

Rank	Name	Capital Strength ($ million)	Asset size ($ million)
1	HSBC Holdings	21,445	351,601
2	Crédit Agricole	20,386	386,388
3	Union Bank of Switzerland	19,903	336,188
4	Deutsche Bank	18,937	503,429
5	CS Holdings	13,751	358,734
6	ABN AMRO Bank	13,372	340,642
7	Groupe Caisse d'Epargne	12,667	229,916
8	Swiss Bank Corp	11,733	250,566
9	National Westminster Bank	11,501	260,846
10	Banque Nationale de Paris	11,453	325,250
11	Rabobank Nederland	11,310	182,944
12	Barclays Bank	11,068	261,705
13	Compagnie Financière de Paribas	10,980	272,213
14	Société Générale	10,474	326,507
15	Dresdner Bank	9,203	332,909
16	Westdeutsche Landesbank Girozentrale	8,717	291,314
17	Commerzbank	8,210	281386
18	Crédit Lyonnais	7,835	339,394
19	Crédit Mutuel Confédération Nationale	7,775	105,306
20	Lloyds TSB Group	7,171	229,495
21	Cariplo	7,015	117,640
22	San Paolo Bank Holding	6,796	160,908
23	Banco Bilbao Vizcaya	6,439	116,426
24	Bayerische Vereinsbank	6,278	247,648
25	Internationale Nederland Bank	6,254	154,049
26	Kreditanstalt für Wiederaufbau	6,228	167,139
27	Bayerische Hypotheken & Wechsel-Bank	6,116	208,276
28	Abbey National	6,109	159,870
29	Banco Santander	6,021	135,614
30	Bankgesellschaft Berlin	5,853	196,410
31	Argentaria	5,645	105,058
32	BNL-Banca Nazionale del Lavoro	5,493	107,871
33	Banca di Roma	5,360	134,016
34	Bayerische Landesbank	5,208	211,676
35	Banca Commerciale Italiana	5,118	100,386
36	Groupe Banques Populaires	4,633	112,653
37	Instituto Mobiliare Italiano	4,530	43,909
38	Generale Bank	4,521	161,114
39	Banca Monte dei Paschi di Siena	4,168	85,989
40	Den Danske Bank	4,075	70,319
41	DG Bank	3,712	200,138
42	Svenska Handelsbanken	3,665	71,538
43	Skandinaviska Enskilda Banken	3,554	65,900
44	Banco Central Hispanoamericano	3,409	92,389
45	Caja de Ahorros y Pen. de Barcelona	3,326	75,838
46	Royal Bank of Scotland	3,305	80,651
47	Norddeutsche Landesbank	3,239	139,746
48	Kredietbank	3,199	104,575
49	Crédit Local de France	3,178	94,066
50	Union Européenne de CIC	3,134	112,871

Source: The Banker, September 1996

The Abbey National Story

Introduction

Two different viewpoints were found during the investigation of this story: on the one hand a clear and comprehensive formal strategic management and strategic control system was outlined, on the other a difference was highlighted between this formal system and reality. Indeed, emphasis was placed by one respondent on the supremacy of the informal system over that of the formal system. The informal system, particularly when a consensus of opinion was formed, was used in preference to the formal system. The rationale suggested for this by the respondent was that the informal system was:

- more flexible;
- it allowed for quick and yet still effective actions to be carried out; and
- it benefited the share price of Abbey National.

Description of the bank

Abbey National changed from a Building Society to become a bank in 1989. Today it comprises retail banking, Finance House (business finance), general insurance, life assurance, wealth management (private banking) and treasury & wholesale banking businesses. Abbey National Group total assets amount to £151 billion (£34 billion on conversion), net income equals £0.954 billion and capital resources equate to some £4 billion. In terms of security it has a: Aa2 Moody, AA Standard & Poor and AA IBCA rating. The number of ordinary shareholders totals some 2.4 million. The number of employees totals 25,500 (some 16,500 in Retail Banking), who serve some 15.3 million customers.

The Retail Banking arm contributes almost 50% of the Group profit. It has some 850 high street branches. Distribution of banking services is via the traditional branch network, via some 2,000 automated teller machines and 768 remote machines, electronic banking and through a range of card products (i.e. debit and credit cards).

The Abbey National "*corporate purpose*" is the following:

"To achieve above average growth in shareholder value over the long term by meeting the needs of our customers, our staff and all of the other stakeholders in our business."

Source: Abbey National PLC Directors' Report & Accounts 1997

Table 11: Abbey National's place within its local, European and world markets

Year	Ranking (in terms of Tier 1 capital $m)			Assets	Pre-tax profit	Return on Assets	Cost/Income Ratio
	UK	Europe	World	$m	$m	%	%
1997	6 (8,067)	20	39	249,393	2,115	0.85	45.69
1996	5 (7,460)	22	43	210,581	1,982	0.94	41.60
1995	5 (6,109)	28	54	159,870	1,590	0.99	-
1994	5 (5,788)	24	53	147,373	1,456	0.99	-
1993	4 (5,017)	21	53	124,133	1,043	0.84	-
1992	4 (4,814)	26	54	108,576	853	0.79	-
1991	3 (5,557)	21	44	107,379	1,156	1.08	-
1990	3 (5,203)	17	35	89,639	1,122	1.25	-
1989	4 (3,940)	NA	42	59,732	804	1.35	-

Source: The Banker, July & September 1988-98

A history of Abbey National

Abbey National sees its beginning in 1849 with the formation of the National Permanent Mutual Benefit Building Society (set up not to act as a building society but instead to exploit a loophole in the Electoral Law of the day that conferred voting rights on landowners). The National Permanent Mutual Benefit Building Society was to benefit from the removal of the last of usury laws in 1854 and the general trend of people dissatisfied by the yield from government bonds brought about by the UK economic crises following the Crimean War and that of 1866, and was soon concentrating on becoming "*more emphatically than it has ever been yet, a Savings Bank and Building Society.*" It renamed itself the National Freehold Land and Building Society (abbreviated to the National for our purposes here) in 1874.

1874 also saw the founding of The Abbey Road Building Society (abbreviated to Abbey), which was to remain a small London based building society throughout the 1800s.

Both building societies benefited from Victorian England's house building boom and both societies' results were also to reflect the slow down in building that gradually took place in the early years of the 1900s. The First World War put a virtual stop to house building in England, depriving both societies of the main source of their revenue. The 1920s however saw a return to widespread house building and consequently an improvement in building society revenues stimulated by the 1923 House Building Act, encouraging some 1.3 million houses to built in the space of 7 years. The National increased its assets during the 1920s by some tenfold, raising its place in the UK building society league table from eleventh position to sixth. Abbey meanwhile had leaped ahead increasing its assets thirtyfold, moving from sixteenth place to second place, and in 1925 had opened its first offices outside of London in Blackpool, Reading, Southend and Watford. The 1930s world economic crisis largely passed the building societies by, with building society accounts and house purchases perceived as a safe investment by the public whilst the stock prices crashed. It was during this time that Abbey opened its stylish new headquarters building on Baker Street in 1932 (still its headquarters today).

The Second World War had put a virtual stop to house building in the UK and many of the houses that had been built in Britain's urban areas were destroyed or damaged during the war period necessitating a major reconstruction programme in its aftermath. In order to generate the economies of scale that were necessary to tackle the Government's challenge (to build four million houses in ten years), National and Abbey proposed to merge and together they formed the new Abbey National Building Society in 1944.

The 1950s saw a return to relative normality for Abbey National, although the arrival of interest rate volatility in the second half of this century has been a new phenomenon for the UK economy and the Abbey National Building Society. Despite this, by 1970 home ownership in the UK had risen to 50% of the population.

The 1960s saw the introduction of the computer into Abbey National's operations and during the 1960s and 70s its commercial strategy concentrated on 'customer needs' through improving products and services, including the expansion of its branch network. Overcoming the economic slump in the early 1970s Abbey National continued to grow and was in a position to capitalise upon the increase in demand for homes and speculation in housing that occurred in Thatcher's Britain of the 1980s. This period of growth put Abbey National in direct competition with the UK's high street banks and so in 1989 its members were asked to vote on being the first ever building society to convert itself into a public limited company. Abbey National plc was born.

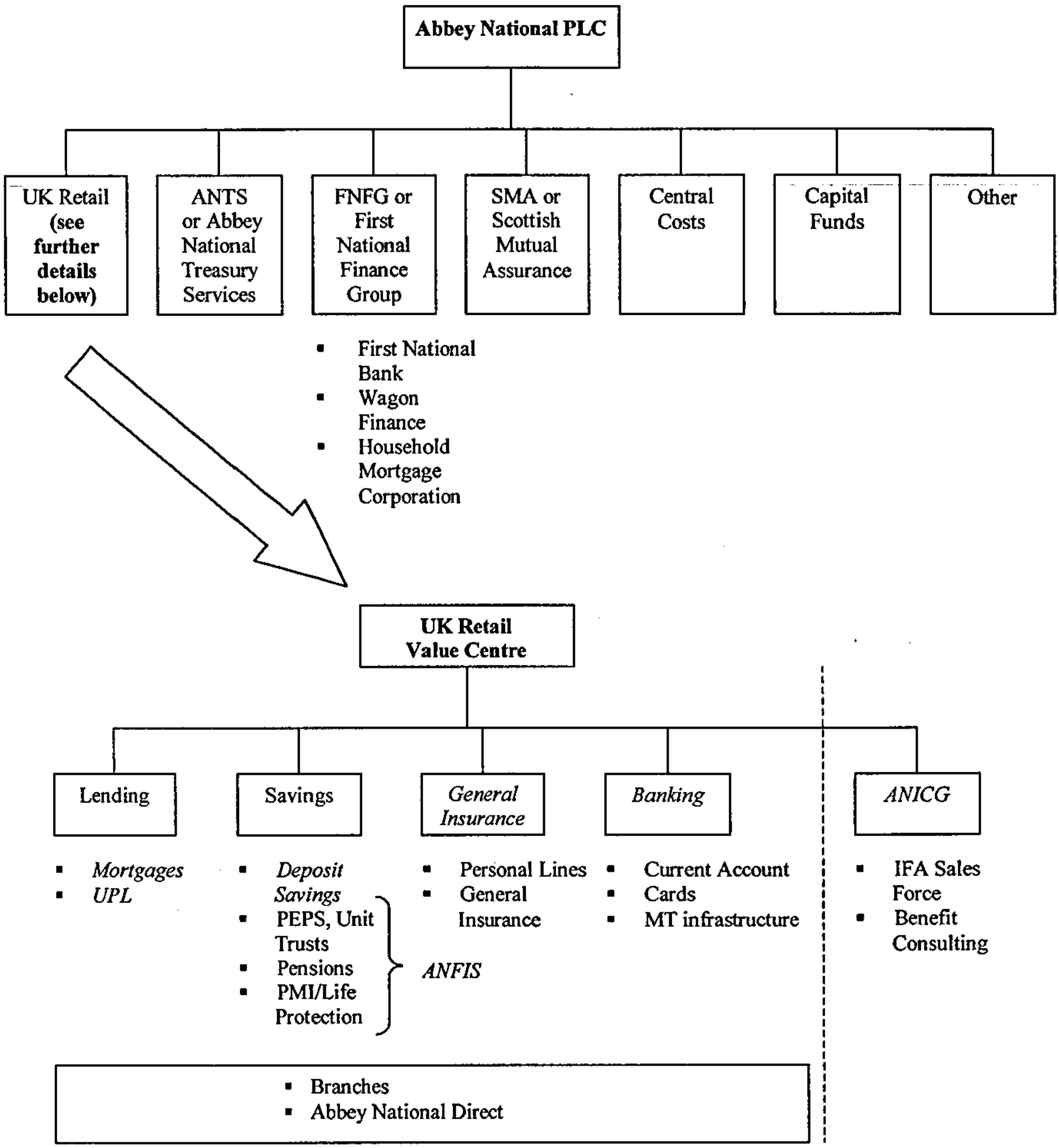
Control

> *"The way that the UK retail value centre works is that it is effectively split into a number of areas which are largely product related really* [see UK Retail in Figure 15]... *In pure planning terms those are the bits that go to make up the UK retail value centre... We can call them planning units, because what you have got supporting this, across these five, are basically your distribution businesses, branches and Abbey National Direct."*

In reporting terms, the UK retail value centre is separate to Abbey National Independent Consultant Group (ANICG). ANICG, the independent financial advisors sales force and benefit consulting business, was described in the following way:

> *"This is entirely separate distribution channel and in reporting terms, this reports in to Charles Toner, Deputy Chief Executive, and all this lot* [lending, savings, general insurance and banking] *report into Andrew Pople* [Managing Director of UK Retail]."

Figure 15: Abbey National Organisational Structures



Source: Illustrations provided by Corporate Planning, Summer 1997
Note: The 7 product area planning units are shown in *italic* script

Abbreviations: UPL = unsecured lending; PEPS = personal equity plans; PMI = private medical insurance; ANFIS = Abbey National Financial Insurance Services; MT = money transfer; ANICG = Abbey National Independent Consulting Group; IFA = independent financial advisors

Strategy

> *"...in terms of a three year planning process, there is an overall UK retail value centre plan..."*

This retail banking plan is then broken down to cover all the planning units (these are shown in italic script in the UK Retail Value Centre diagram in Figure 15), with seven product area plans being the result:

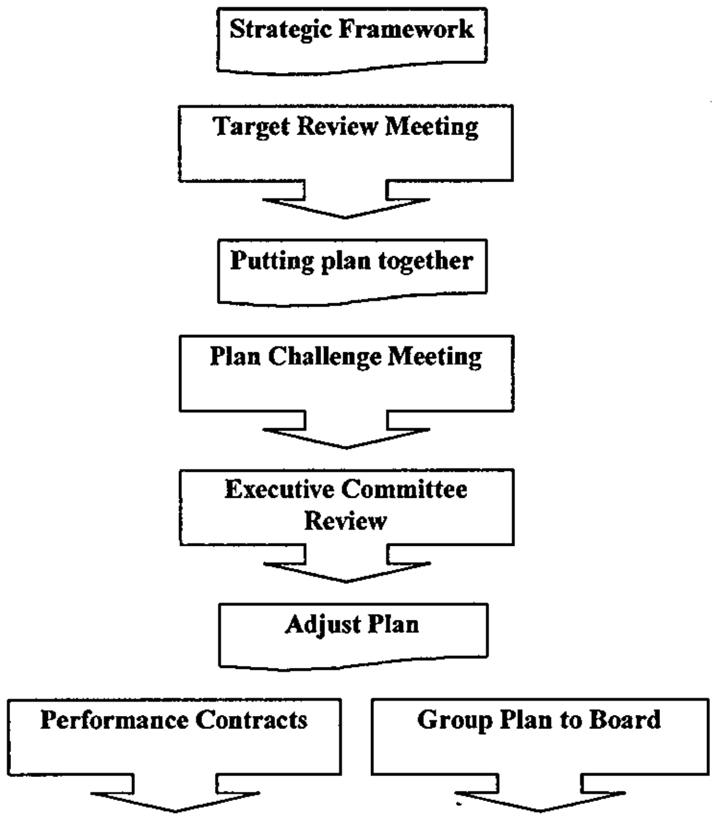
> *"...there is a plan for general insurance and then a plan for banking... effectively 7 product area plans, sitting underneath an overall plan for UK Retail because clearly there has got to be an overarching strategy for what we are trying to do in customer marketing terms, which we are trying to do with an overall distribution strategy, what are we trying to do in terms of an overall IT strategy, etc., and it is clearly the case that you could have plans for all of these businesses that would be perfectly sensible enough in themselves, but when it actually comes to delivering them all - you know there are clashes like can the distribution channels sell not only physically but can they sell all of these products in terms of the priorities they are bound to have on different things -will it be possible to do all of that?"*

Each of these planning units produces an individual product plan, which is then submitted to a central Corporate Strategy & Planning department to synthesise it into one single UK retail plan, which in turn is reviewed and then submitted to the Group Executive. The co-ordinating body of all these various plans is Corporate Planning, whose:

> *"responsibilities include managing the planning process across the group amongst other things. And members of the Corporate Planning team will work with some of these value centres so there will be one person from the team working with the ANTS team* [Abbey National Treasury Services] *on developing their plan. One person will be working with First National. Corporate Planning are not doing too much work with Retail at the moment this year, they are a bit more self-contained; and then Corporate Planning are responsible for managing the review process."*

The three year planning process is described in Figure 16 below.

Figure 16: Overview of the three year planning process



Source: Corporate Planning, Summer 1997

The typical content of these plans was said to include financial, strategic and operational issues, as well as outcomes, outlining one or two alternatives to that of the preferred strategy, and giving an external focus as well as that of a Group/value centre focus. The need to develop shareholder value was also reported to be a key outcome.

A Group strategic plan or "*strategic framework document*" is the result of this process. The process changes each year, but the general approach was reported as being the same:

> *"Essentially when we changed our process around, one of the feelings about the process was that there wasn't enough direction from the corporate centre*

to the business units at the start of the process. So basically we do what we call the strategic framework document, which goes to one of the four quarterly strategy conferences that our Executive Directors have. It's usually in March or early April and they will comment on it, Corporate Planning will edit it and update it and then will send it to the Board. Now what that is trying to do if you like is capture the overall Group strategic agenda at a particular point in time, so that everyone is clear about what are the big issues at the moment... We don't do it to a sort of set template or anything I mean it looked quite different this year compared to the previous years, partly because we don't want it to become a sort of formulaic stale sort of document - but one of the things that strategic framework will cover is to try and set out what some of the value creation targets will be for the Group over a three year period and also what the short term targets need to be as well. Those also become an input into what we call target review meeting."

"All of this process is really describing mainly the value centre; so UK Retail will translate the targets into how they wish them to filter down as targets or a framework for each of their areas... -that's their responsibility."

One respondent noted that in order to check on the value centres' targets a review meeting is held for each one:

"Basically we will have a target review meeting for these four areas - we will have four of them [i.e. UK Retail, ANTS, FNFC, SMA]. *"*

The agenda of these review meetings was described by a member of the Corporate Planning Department:

"It's really got three parts to it, the first one is a review of the progress of the existing plan, so there is a full circle into this. Corporate Planning will do a briefing note for that meeting which will be circulated to not only the people who are on the panel but also the people from value centres coming to the meeting setting. The briefing sets out our assessment of how we are meeting the climate at the moment and it discusses essentially whether the strategy and plan is on track -so that's the first item of the agenda.

Second item on the agenda is then agreeing effectively the financial targets or parameters for the plan with a view that the centre is always going to be setting quite stretching targets for value centres. When we introduced value based management we very much majored on three year value creation targets and I think as a result we ended up with some tendency towards 'hockey stick' type plans, that delivered the value creation objectives, but don't always necessarily deliver what we are looking for in terms of year 1. So this year there were targets expressed in terms of profitability for 1998 and also 3 year value creation targets.

And then the third element of the agenda is very much agreeing, trying to get some consensus around, what are the key strategic issues that need to be addressed in this year's plan [and the full three years of the plan]. *So that when UK Retail for example kick off their planning process with all the people that run these businesses, they can effectively be reporting about the views of the meeting that we have agreed."*

The people at these review meetings are chosen by the leadership of the value centres and face questioning from senior Group managers:

"...they will select the people that they want on their own teams to come with them. In the UK retail meeting this year there were probably four people from UK Retail: the person that's basically responsible for co-ordinating the plan process, the Head of UK retail, and the Customer Marketing Director. Those were the three people that came to that meeting.

The Challenge Panel is: Peter Birch, Chief Executive, Ian Harley, Finance Director[1], Charles Villiers, he's Managing Director Corporate Development and Andrew Barton the Corporate Planning Manager. Those are effectively the four panel members and then one of the Corporate Planning team basically acts as a secretary to that group."

[1] Ian Harley succeeded Peter Birch as Chief Executive on 1st March 1998

Corporate Planning has considerable input in shaping the strategic thinking process of the value centres:

> *"...there is other documentation that we provide, a set of economic assumptions that go out to all of our value centres. We produce quite a detailed template of what we would like to see in a plan. The way we have done it this year is that we have effectively suggested that there are certain schedules that if you like are mandatory for the plans and we then give them quite a lot of guidance as to all those planning techniques that they might use.*
>
> *There are clearly some financial schedules that need to be completed, but there are also what you might call strategic diagrams that would be pretty useful. Also because the Executive Summary of any plan is so important we give them quite a lot of guidance as to the way we would like to see that laid out, I think on the basis that if you give people a good template they have got something to get their teeth into -but they can clearly choose to deviate from it and I'm sure they will do."*

Corporate Planning has considered that the value centres might use scenario planning, and occasional ad-hoc exercises were reported, for example the "*Distribution Scenario 2002*" exercise carried out in 1992/3, but its use does not appear to be usual:

> *"Group Risk do an annual 'scenarios' exercise, but I would describe this as more akin to a stress testing exercise."*
>
> *"...the Economists have provided* [the value centres] *with some sort of economic scenarios... we don't provide the sort of formal scenario analysis à la Shell or anything like that in the planning process. We are certainly quite insistent that they need to do some strong sensitivity testing of the financial outcomes of the plans, not least so that they can see what are the critical value drivers of the plans. But I think we would see any use that we make of scenario planning in the organisation as effectively a one off strategic exercises outside the formal three year planning process.*

At the end of this planning process comes the value centre's plan challenge meeting as a final check on the validity of their plan:

> *"...these plans will be completed pretty much by the end of August and then there is a set of plan challenge meetings set up for mid September -same panel as with the target review meetings and probably in most cases a slightly wider group of people coming from the value centre: so in UK Retail we would envisage there being probably a five hour meeting and I would expect that each of the people that head up these product areas would attend that meeting, along obviously with the Managing Director and the Planning Co-ordinator. Now we will discuss the plans and if there are some things that people really disagree with and they may want to begin some work making some changes at that point in time, but at that stage the plan is neither approved or disapproved, it's really sort of a debate around the strategy and the numbers. What is almost going on in parallel to this is that Corporate planning are working with Group Finance to consolidate all the financial implications of these plans together."*
>
> *These meetings will all take place within 10 days of one another, and Corporate Planning will again provide the panel and the attendees of the value centres with a briefing, so if you like the exam questions are set out, there is not attempt to sort of play clever with them!*
>
> *...in parallel to this, Finance are away effectively consolidating all the numbers and if you like the Executive Committee will review the overall Group financial picture... and will then send out some challenges to the value centres so they can then adjust their plans accordingly. Now by this time, these guys are now into the budgeting process anyway, so this would come back at the end of October together with the budget and there may then still be some further iteration and review but we will get the plan to the Board in November and then the Board see the budget in December -essentially the numbers will be the same, it is just that we don't want a joint/plan budget discussion, otherwise it will become a budget discussion! Once this has been done what Corporate Planning then do is to translate the plan into a form of contract between the Chief Executive and the Directors, whereby essentially*

the Chief Executive is essentially saying you have the capital go away and deliver this plan and these are the financials that I am expecting you to deliver and here are some of the key initiatives that this plan is going to be critically dependent upon -these would be listed out and some non-financial indicators would be as well."

These contracts and their signatories were explained further as being between the Chief Executive and the heads of the businesses:

"...Retail, they have been given some split responsibility, effectively this year that will be a contract between the CEO and the Managing Director of Retail and the Deputy Chief Executive [responsible for the wealth management side of UK Retail]. *The Treasury contract will be with the Chief Executive of Treasury; First National will be with its Chief Executive; Scottish Mutual it will be with its Managing Director. Retail in particular used to be a problem because there was such a shared responsibility in the business –effectively it was a contract with three people, which is by no means perfect. Now the way that things worked last year was that we had what we call this C1 monitoring process which is a monthly monitoring system and the C1 of the following year will get drawn up in January of that year and essentially they should drop straight out the performance contract, but our view was that actually it has ended up becoming a reformatting exercise and it's really not necessary, so what we will be doing this year is effectively making the performance contract look more like a set of C1's, so that we don't have to repeat the exercise.*

C1's are reported every month for functional areas and there is someone else in Corporate Development who is basically responsible for managing that process and those C1's will be reviewed by the Executive Committee every month."

The name "C1" is arrived at from taking the letter 'C' of the word 'contract' and taking the number '1' to denote the contract is with the first line or top of the value centre hierarchy, i.e. the Managing Director. These C1's are subsequently cascaded down, with the next contract with the next level of management being called 'C2' contracts:

> *"Yes, all the C1's in the UK Retail will be largely the Managing Director of Retail's, the C2's will effectively become a set of C2's for* [the person] *who runs the lending business and effectively it cascades down...* [The Managing Director's] *C1's for UK Retail will have clear C1's that relate to lending, saving, generally insurance, banking, etc., and with the C2's it's just a natural cascade."*

These contracts include financial, operational and strategic objectives and milestones. They are reported upon monthly, in effect becoming one of Abbey National's main forms of monitoring and control of strategy:

> *"The main sources of monitoring and control I guess are firstly the C1 process, secondly obviously the monthly reporting of financials which is done by value centre, thirdly these target review meetings and fourthly which we have never yet used but we can do is basically to call an ad hoc meeting to say this strategy is off track we really need to review."*

An employee reward payment system was said to be directly linked into the results of these contracts: with a performance review held quarterly for this purpose.

One respondent also reported that there was a strategic conference:

> *"The way I like to think of it is that we have got an annual planning process, but we have got a continuous strategy process. So basically we have strategy conferences in - they roughly come in January, March, May, September-October and the Chair of those conferences is Charles Villiers, the Managing Director Corporate Development, and really there will normally be 10 to 12 items on the agenda... largely major value centre issues and sort of Group issues, M & A opportunities, etc. Now I think what we are trying to get to is a process whereby -we are creating a process whereby we don't wish Planning and Strategy to be seen as a sort of calendar event, suddenly we do our strategy for 3 months of the year then we forget about it. One of the things*

that we will be looking for as part of the documentation of the plan is what are the outstanding strategic issues, what are the sort of projects that are in place... what are the milestones that are dealt with? Now our view, and we have gradually been edging towards this, is that anything that's major that's outstanding ought to be coming back to one of these strategy conferences, so I don't know maybe there is some big distribution issue in UK Retail and we said we haven't cracked this yet but we have got a project underway, we expect to have the milestones, so at the March conference next year we are going to have a paper on that. That's basically what we are looking to do. Now clearly there will be other stuff coming if you like externally out of this. The fact that four building societies announced plans to convert to PLCs within 3 months of one another was a reasonably significant event which is possibly worthy of a paper or M & A opportunities of a major nature may come up which would be fed into these meetings."

The people attending these strategy meetings were described in the following way:

"This is the Executive. Not the Non-Execs, but the Executive Directors of the company."

One respondent noted that these conferences served as an extra forum of debate:

"...the whole point of this is that issues that are not going to be picked up as part of people's individual plans should be addressed."

"[The Managing Director Corporate Development] *will... put the agenda up for discussion with his Executive colleagues and they will say - suggest things that they think should be discussed.* [The Managing Director Corporate Development] *will also use the strategy conference agenda to often just kick start a debate about something. So we had a paper for example that went to this year's January strategy conference about alliances and joint ventures which is much more of a sort of discursive type of paper to get a debate going -so often some sort of softer issue would come to those meetings."*

The strategic planning process was also reported to be open to review and amendment:

> *"We are in our third cycle of our three year planning under value management so to speak and we have made changes, small changes each year. The first year we didn't have this Executive Committee Review stage and it essentially led to a lot of confusion about has my plan been approved or not? We also didn't have such strong linkage into the budget process then -we had all of these wonderful plans and we also happened to be acquiring N & P at the same time, which put a different complexion on quite a few people's plans, so we kind of got to the end of the planning process and there was still this -we would talk so much about 'planning with consequences' and yet we got to the end of the planning process and to be quite honest, there probably wasn't 'planning with consequences' because most people were saying that life's going to completely change as a result of N & P. So, we went through quite a thorough review process ourselves with all of those that had been involved in planning process, trying to sort of pick out the things that had gone well and hadn't gone well and this was one of the changes that we made: this Executive Committee Review and in the second run, ie. in last year's three year plan, we introduced this concept of the performance contracts as well to really sort of push home the message -yes your plan is near signed off, clear contract integration into the C1's. The tweaks this year have been much more minor, it's been more around the targeting of the beginning of the process to try and get more of a short-term target as well as long term one, so we don't get to the situation where the Chief Executive says well I love everybody's plans, nice value creation, but next year's profit and return on capital is lower than we are looking for! So we are now trying to be a bit more explicit about that at the beginning of the process."*

An informal update was also said to take place outside of the formal reporting schedule in order to check on how businesses and functions were developing. This informal review, based upon "*trust, expertise and personal credibility*", was said to prepare the ground for the formal reviews –allowing weaknesses to be explained away and successes to be highlighted. One respondent stressed, perhaps cynically, that

Abbey National was after all a "learning organisation", particularly at times of performance review.

People

> *"One of our favourite phrases is 'planning with consequences'* [see Figure 17 below]. *We are trying to get away from the situation whereby the plan was something that people did to keep the Group centre happy and then stuck it on the bookshelf and forgot about it. One of the ways that you make the plan real is to focus on how it is going to be delivered and you know often there will be new initiatives, so you will want milestones for those and you clearly want enough financial and non-financial parameters- I think it can be such that people certainly at that first level below the Head of the value centres and arguably at the next level as well, such that they can say: a) what is my part in delivering this plan; and b) how am I doing against it? That's the objective of where we want to be: we want people in the organisation to understand how the lending plan fits into part of the overall UK Retail plan and for the guy who is running all the mortgage centres that he understands what his key initiatives in running that part of the operation are within the overall lending strategy for example. I think it has been sort of a gradual process"*

A multi-faceted culture, albeit one that was not always clearly defined, was reported to exist within Abbey National as a whole:

> *"I would say each of these businesses have got quite distinct cultures. If you go to somewhere like First National, the First National team have largely worked together for probably 15-20 years, the average age of that sort of top team will be higher than in UK Retail and certainly length of service with that business is much, much higher. I mean the full UK Retail team, including the people who are managing the distribution strategy, the Abbey National Direct business, etc., is really quite diverse and they haven't been as a team for very long. Scottish Mutual I think is a culture which has changed, but obviously historically has a sort of strong typical mutual life assurance type culture."*

Figure 17: Excerpts from a Corporate Planning Department presentation

Main thrusts behind Abbey National's planning process

Corporate centre provides a framework and constructive challenge

"Planning with consequences"
- Corporate centre as investor
- Value centres obtain resources and commit to deliver

Value centres identify and recommend the highest value creating strategy
- Focus on value creation
- Understand value drivers
- Consider alternatives

Characteristics of value managed Companies

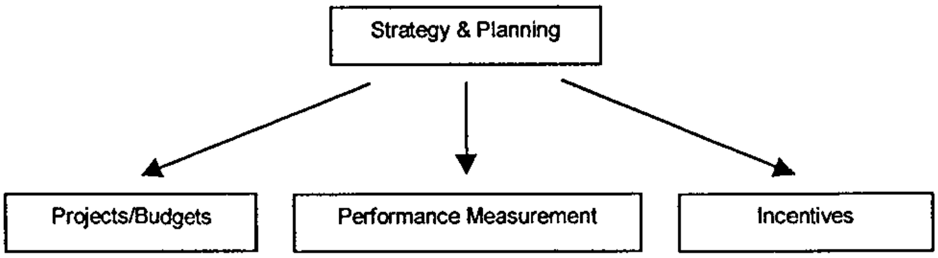
Maximising shareholder value creation is *the* governing objective – basis of *all* major decisions

Management *understand* how value is created

Decision makers act on this understanding
- Look for real alternatives
- Select the value maximising options
- Reinforcing performance measures
- Aligned incentives

Value based management – Process overview

Organisation and Accountability



Source: Corporate Planning, Summer 1997

An Abbey National HQ culture was however seen to be dominating the organisation as a whole:

> *"I suppose that Head Office culture and the Retail culture probably to some extent went together. I mean 10 years ago it was still a Building Society and effectively it was clearly a unitary business and I think there is still something of a tension in the fact that the UK retail business is still very large and we do not have clearly defined Group head office functions as opposed to head office support services."*

One respondent noted that because Abbey National retail bank used to be a building society, it had a very strong customer focus, based upon the need for "*good service*". This was said to have the effect of making the culture competitive and led to a "*do it, don't question it*" philosophy. A "*top down, bureaucratic, command and control*" culture was perceived as existing by one respondent, who went on to note that "*your own ideas are unacceptable*" in a retail culture and that only "*6 people out 20,000 were making any decisions.*"

When asked whether the culture was one of 'review and monitoring' one respondent replied:

> *"My judgement would be that they would feel that they're reviewed quite a bit. I think there might be still a certain element of play in the game when it comes to CI's. I think things have changed, certainly 6 years ago, there was quite a strong sort of 'good news' culture in the organisation, so problems would not necessarily come to the surface as quickly as they might have done and certainly we have had examples in the past where there were problems that people knew about which were not getting clearly shown up in the old CI process, but I think it has become a much more, increasingly, rigorous process but that's still not to say that one or two issues can't be hidden somewhat."*

The CEO and his influence on the strategic management process was described in the following way:

> *"...our Chief Executive is a very key influence on the way that this process works. When he retires next April and when we have a new Chief Executive, we will probably have the same boxes on the chart, but the way they will actually work will be somewhat different because there will be a different personality with their own sort of particular view of strategy in place. So I think he is very influential, but he is also someone who delegates quite a lot. He was more than happy for Corporate Planning to work all of this up and he was certainly more than sympathetic to the notion of shareholder value, but he isn't someone who sort of gets really interested in the detail..."*

One respondent noted that the strategic management system favoured "*getting things done, but not doing the right thing*". With the planning process encouraging managers to provide lots of new exciting initiatives and new things to do, rather than developing the underlying business strategy. This 'think new' philosophy or "*good news culture*" was stressed as being a fundamental weakness of the system, whereby senior management were perceived as being excited by new ideas whilst forgetting that it is the getting the fundamentals right that drives the business forward. Indeed, the respondent went on to note that there was a lack of clear strategy and practical understanding of what strategic management itself meant. The need for more continuous improvement was stressed.

Fundamental problems were seen to exist in that short term new initiatives could be easily monitored to see if they were implemented as per timetable, as could short term financial progress, however the very nature of strategy means that end-of-strategy review is more limited. The long-term picture was seen to be even more blurred because the world evolves, changing the parameters in which a fixed organisational structure needs to operate.

One additional complication as perceived by a respondent was that banks, as asset-based organisations, lack short-term pressure to perform: the very nature of banking is to instil confidence and thus generate stability. This has the effect of maintaining customers and capital, regardless of short-term performance fluctuations. This in turn was said to effect the need for rigour in the short-term planning, implementation and control process.

A note on strategic control

One respondent was asked as to whether he felt that Abbey National was probably one of the more rigorous banks in terms of reporting and monitoring, controlling and evaluating strategic management. That person's response was as follows:

> *"Well I hope so, I don't think I would be that arrogant and say we definitely are! I would certainly say that our objective is to be and certainly from a personal point of view and I am sure that my boss would say the same thing: we are aiming to have one of the most constructive strategy processes amongst the banks, we do believe that an effective process actually is valuable in its own right, but a lot depends on what happens in the 'putting the plan together box' as much as anything. I mean you can have a great control process but if you haven't got good quality thinking in here -that's really where it all happens."*

Summary of the Characteristics of Strategic Control Components in Abbey National

Components of Strategic Control	*Real life practice in:* *Abbey National*
Premise Control	3 year plan Annual "*strategic framework document*" and on-going papers
Implementation Control	"*Value creation targets*" are outlined, monitored and challenged at the annual "*target review meeting*" "*Performance contracts*" are signed between the CEO and business heads, business heads and their subordinates, and are reported upon monthly Informal updates, based upon "*trust, expertise and personal credibility*", are used to check on progress
Strategic Surveillance	4 strategy conferences are held each year attended by the Executive
Special Alert Control	No evidence of this was discovered
Operational Control	Monthly reporting data is fed into the monitoring and control of strategy
Environmental Scanning	Information is supplied to the strategy conferences upon request
Scenario Planning	Economic scenarios are used for sensitivity testing, but there is little of a strategic nature

Summary of Findings within Abbey National

Control

- Structure
  - Abbey National Group's structure follows that of Mintzberg's (1995 pp. 350-371) 'entrepreneurial' organisation (in the sense that there is significant supervision and involvement in the businesses from the top), yet one operating within a diversified business context. The corporate centre appears to comprise only a few top managers making the decisions, supported by a small professional support staff.
- Systems
  - A 3 year planning mechanism is used for each product area, as well as for the combined Group strategic framework document, with some limited scenario planning: outlining financial, operational and strategic details. Targets to be met by the businesses are filtered down from this by the centre. These targets are in turn translated into a set of performance contracts between management layers. A review of these targets is made quarterly by the Board.
  - Whilst monthly financial reporting forms much of the basis of implementation control, and is perceived as being the key aspect for control by many managers, informal control is strong. Informal controls, based upon "*trust, expertise and personal credibility*", depending upon the viewpoint could be seen to contribute to Abbey National's organisational learning.
- Style
  - Control is reviewed and adapted on a periodic basis within Abbey National: with "*tweaks*" taking place at the top as well as at the bottom.

People

- Staff, skills and style
  - Strategic planners appear to aim for "*planning with consequences*", yet worry that managers will interpret this as an invitation to discuss finance. Considerable effort, almost prescriptive in its nature, appears to be made by

Corporate Management to ensure however that a balanced view of strategy is formed and maintained.

- Business unit cultures seem quite independent and varied (on a general British theme), but a Building Society or at least Retail Bank culture of "*command and control*" appears to dominate at the centre.

Strategy

- Shared values (super-ordinate goals)
  - The underlying ethos at Abbey National was said to be that of shareholder value generation.
  - Annual target review meeting are used, amongst other things, to develop consensus around key strategic issues, which are in turn agreed at the annual plan challenge meetings and reviewed at the Executives' quarterly strategy conferences.
- Strategy
  - Abbey National is said to have "*an annual planning process, but... a continuous strategy process.*"
  - The strategic framework document captures the overall Group strategic agenda for the year, with a 3 year perspective.
  - Corporate Planning provides business units with "*certain schedules*" and "*guidance*" for the formulation of product plans.
  - "*Our Chief Executive is a very key influence on the way that this process works.*"
  - In attempting to position Abbey National in terms of the strategic archetypes in the literature review of Chapter 2, one respondent reported that it is adaptive (Mintzberg 1973), sales maximising (Utterback & Abernathy 1975), an analyser (Miles & Snow 1978) and pursues a differentiation[2] strategy (Porter 1980).

[2] There is evidence that Abbey National also pursues a 'focus' strategy, where for example: "*Abbey National's 'Because Life's Complicated Enough...' advertising campaign, featuring comedian Alan Davies, reinforces the Company's customer-focused approach.*" Source: Abbey National PLC Directors Report & Accounts 1997

The BNP Story

Introduction

This story describes the strategic control system of the Banque Nationale de Paris or BNP's domestic market banking activities. It does not draw on the somewhat different approach to strategic management and strategic control of BNP's international banking division.

Description of the bank

BNP comprises two core businesses: domestic banking activities throughout France and international banking and finance. It has a worldwide presence in 79 countries, with some 700 foreign offices. Its total assets amount to FF2,034 billion and capital reserves are FF63.9 billion. In 1997 its net income totalled almost FF6 billion, six times the figure of 1993, the year of its privatisation, and a 54.6% increase on 1996. In terms of security it has a: Aa3 Moody, A+ Standard & Poor and AA- IBCA rating. Some 2.5% of shareholder equity is held by staff. The number of employees totals 53,000 (39,000 in France and 14,000 abroad).

Pretax income for the domestic banking division amounted to FF2 billion. It has some 5.3 million retail customers, served by some 2,000 branches (and a similar number of 24 hour automated teller machines) and a telephone bank operation. It is also prides itself on being France's 1st business bank (with 1in 3 SMEs being a customer).

In the words of one respondent:

> *"BNP is a fairly traditional bank, an extremely international and dynamic bank, but is fairly classical in many ways. It has an extremely good team spirit, so a very good atmosphere. It is a self-starter more than anything else, and probably a fairly gentle employer. So people are I think confident about working in BNP: maybe BNP could be a bit more demanding, because the environment is changing and becoming more and more demanding. I think the culture of the bank is shifting gradually to follow the outside world trend,*

which is more demanding and a bit more ruthless than the BNP way. But apart from that BNP is a dynamic and gentle culture."

"The first characteristic is that strategic thinking is carried out in quite a collegiate way, because if you are in a particular area or taking the bank as a whole there is a Comité de Direction Générale, which re-groups the 20 people in charge of vision, policy, etc., and who regularly bring up for discussion particular ideas for the update or revision of a particular vision. Now, clearly for banks like us with extremely widespread activities, it does not mean that we review the strategy every six months, but let's say, in the beginning there was a noticeable element which was the privatisation of the BNP. On this occasion, the principal managers [cadres] *of the bank, the 20 or 25 most important managers met in order to establish the strengths and weaknesses of the BNP and to define a strategy which above all uses these strengths and creates easier discussion of the privatisation of the BNP. So this mechanism was then introduced, an important mechanism where the strengths and weakness analysis of the BNP in the international banking market were established, where objectives were defined and where a development plan was put together for management. Even 4 years later, we are still on the strategic discussion of '93, which established pretty much the strategy of the bank following privatisation."*

A history of BNP

The BNP is the result of a merger between two banks: the Comptoir National d'Escompte de Paris (CNEP) and the Banque Nationale pour le Commerce et l'Industrie (BNCI), both of which have origins dating back to 1848.

Following the revolution in that year, the provisional government of the Second Republic set up national discount bank branches in every major French city. The aim of these local banks was to stimulate the local economy, providing a source of much needed credit from local and central government funds. They became fully private institutions under the Second Empire, gaining independence by imperial decree from their central and local government stockholders in 1853.

The Paris discount bank decided at this point to remove the word National from its name and set out on an expansive drive. Thanks to the signing of a Free Trade Treaty with Britain in 1860, competition with France's historic arch rival was, as stated in the company reports from that time, "*on an equal basis*", helping it to become the first French bank to open up branches in London, Shanghai, Calcutta, Yokohama and Sydney with the aim of "*taking French credit to the point of production*". In 1889 however, the "*French bank*" as it had by become known, went insolvent due to an unsuccessful speculation in copper. Fortunately for the bank, the Finance Minister of the day came to the rescue deciding that the state would underwrite its debts, describing it as "*as precious tool*" which had "*given notable service in the interests of trade and the state.*" This move heralded the return of the old name of Comptoir National d'Escompte de Paris and through building up a well located network of branches throughout France and developing its international merchant banking activities, a more consistent management style enabled it to develop and maintain its position as France's third largest deposit bank until the 1950's.

The Comptoir d'Escompte de Mulhouse meanwhile, was to find itself embroiled in the events of the Franco-Prussian war. Mulhouse, located in Alsace, was to become part of a German Reichland along with its neighbouring Lorraine region in 1871. During the period until the First World War, the bank was able to benefit from Alsace's position in the 'economic crossroads' of two countries allowing it to build up France's fourth biggest branch network. In 1913 the bank unified its French branch network under the name Banque Nationale de Crédit. However, the worldwide depression of the 1930's soon hit the bank, and due to its over large exposure in property development, forced its collapse in 1932. Once again however, luck was on the side of the bankers and the Government stepped in to save the day. A newly named bank was the result and following a widespread internal restructuring program the Banque Nationale pour le Commerce et l'Industrie (BNCI) was back on a sound commercial footing. By the 1960's the BNCI was in a position to replace the CNEP as France's third largest bank.

In 1945, both the CNEP and the BNCI were nationalised, with de Gaulle noting that it was necessary to "*Harness banking resources in the drive for national reconstruction.*" In 1966, the Finance Minister of the day decided to go further and to "*reopen the file, and carry out a concentration of the nationalised banks*" creating in the merger of the BNCI and the CNEP *"a financial strike force, aimed in particular at exporting."* The Banque Nationale de Paris was born. Some thirty years later however, the virtue of nationalised institutions was rethought and in 1993, BNP was privatised.

Table 7: BNP's place within its local, European and world markets

Year	Ranking (in terms of Tier 1 capital $m)			Assets	Pre-tax profit	Return on Assets	Cost/Income Ratio
	France	Europe	World	$m	$m	%	%
1997	2 (11,521)	11	23	339,819	1,372	0.40	69.5
1996	3 (11,612)	9	21	355,366	976	0.27	72.5
1995	3 (11,453)	10	19	325,250	632	0.19	-
1994	4 (10,425)	10	22	271,635	581	0.21	-
1993	3 (9,739)	7	24	250,443	263	0.11	-
1992	3 (10,221)	8	14	284,769	680	0.24	-
1991	4 (10,231)	8	15	275,876	862	0.31	-
1990	3 (9,368)	7	14	289,747	603	0.21	-
1989	3 (6,177)	7	18	231,463	918	0.40	-
1988	2 (5,567)	8	20	196,955	876	-	-

Source: The Banker, July & September 1987-98

Control

The 'big picture' structure of BNP was described in the following way:

> *"the bank has generally two operational areas, the rest are functional support areas, we have a division which we call Banking Activities in France and we have a division called International Banking and Finance. Under the Banking Activities in France we have the French network and the banking and non-banking French subsidiaries – mortgages and house loans* [crédit bail], *other loan requirements* [crédit à la consommation]- *and under International Banking and Finance, it's all the international network (we are present in 85 countries) and it's all the financial activities -market activities, capital markets, equity activities, foreign exchange markets and it's the commercial bank."*

Strategy

> *"The BNP designed its strategy and in fact confirmed its strategy quite naturally when there was a change of Chairman about four years ago... at the moment when the company was going to be privatised. So we had to communicate a clear strategy to our new shareholders. The strategy was designed at the level of the management committee, head office, but it was discussed or elaborated throughout the bank."*

The main thrust of BNP's strategy is clearly articulated and the strategic management system used to pursue that strategy is relatively simple:

> *"The two strategic priorities we defined at the time of privatisation are retail banking in France and wholesale banking on a global scale. We will pursue our international growth in those two areas while seizing opportunities to make acquisitions that promise to accelerate our growth and improve our profitability."*
>
> Source: A quote form BNP's Chairman and Chief Executive Officer, Annual Report 1997

> *"we must develop profitably –that's our objective. Our strategy is the methods we use in order to get there! Our objective is our ROE ratio and behind that we put in place the means to achieve it –that's our strategy."*

In terms of the retail banking strategic management process, one respondent from BNP's French Banking Activities (ABF) division noted that:

> *"In fact, there is no strategic management system specific to ABF: we do the same strategic management as the rest of the BNP. There is nothing very original in that we are responsible for analysing the market, competition, the global needs of households and companies. We are responsible for putting this into logic and to identify a certain number of actions and orientations for the BNP."*

> *"The principal process is one of profitable development* [développement dans la rentabilité]*: so all of our choices are made with this objective in mind."*

"...it was a goal that was decided by the leadership of the bank, that's to say the CEO [Président], *and it has been maintained. We have been a private bank since 1993: that's to say we have shareholders and these shareholders want a return on their investment and everything leads on from there! ... in France compared to perhaps England or Germany, there are fewer private quoted banks, there is Société Générale, BNP, CCF and Group Paribas, but compared to the English and German markets it is a lot more recent a phenomenon. The level of strategy revolves around that and the need for profitability development –a required level of profitability growth: using the Cooke ratio*[1] *and its famous cycle: profitability leads to an increase in capital, leads to the possibility of growth, etc."*

"It was a strategy that was put into place at the time of privatisation, which was reaffirmed last year at the time of the publication of our results, along with of course a certain number of reaffirmed orientations. At that time we also sold or gave up a certain number of activities that we considered as falling outside of our strategy, for example, the sale of the Belgian bank Michael Baker or the sale of BNP Mortgages in England. We rid ourselves of these activities that did not correspond to our principal strategic orientations."

"That's the big picture –after that you ask me if there's a method? It is not very easy to say that there's a method. As a quoted private bank we have to say something about our strategy..."

"The process is one that you will find in practically all strategy and strategic management schools: today all the strategic thinking that we do starts with a market analysis [réflexion sur le marché] *and a competitor analysis. This is systematic regardless of whether it's a department or subsidiary. By market*

[1] Peter Cooke was Chair of the Basle Committee of Banking Supervisors that first met in 1974. This Committee was responsible for various agreements and concordats. The 1975 Basle Concordat (revised in 1983 and in 1992) formally established the "*supervisory responsibilities between host and home banking authorities in respect of their supervision of international and banking groups*" (Hall 1997). The 1988 Basle Accord required banks from participating countries to conform to a risk assets ratio of 8% (Heffernan pp. 252-9). Otherwise known as the Basle Capital Adequacy Agreement it established an accord amongst participant banks to define capital for regulatory purposes in terms of Tier 1 and Tier 2 components.

analysis we mean is there any demand and above all what is our competitive position –are we leader, co-leader, what are our strengths and weaknesses? Systematically when looking at these, we look at our profitability at all times, because there could be a department or a subsidiary that is profitable or not profitable and we need to know why –is it a problem because of its competitive position or is it because of costs? So you have the market, the competitive position and the profitability of the activities: a classic approach!"

Competitive positioning is used to establish BNP's current position, but it also is used to attempt to establish their position in tomorrow's future:

"We start with: how did we get to where we are today, is it an improvement or a degradation -and if so how can we improve this situation- and how can we position ourselves in the market in relation to our competitors in the next 3 to 5 years?"

One respondent noted that a vision of the future is captured in the following way:

"We use a maximum number of studies that have been carried out on the market. So if you take the personal market [marché du particulier] *we have an Economic Observation Centre* [centre d'observatoire économique]... *you have a centre for the observation of competition and there is also another centre for the observation of competition and products, with a view on the markets themselves."*

This was clarified further by additional commentary:

"Every month we produce a document called the "competition monitor" [observatoire de la concurrence]. *It includes all of our competitors –there are the eight principal competitors and there is an approach giving the profitability and the levels of activity. It's with graphics: it analyses, summarises, shows tendencies and where we are today. So at least every quarter the leadership knows where we are, on top of the budgetary scorecard* [tableau de bord budgetaire] *there is the positionning of competition* [positionnement concurrentiel]... *Along side the competition monitor –*

complementary to it- there is also a qualitative commentary with a limited distribution which adds a certain amount of opinion [les réflexions]."

A clear methodological distinction is made by staff at BNP between the budget and any strategic management system:

> *"You must not confuse the wider strategy with the budget. The budget of course relates to strategy, but we don't have a large table which says in this year or that –today we have so many external constraints: the euro, the moves to year 2000, etc., we have to move to include all of them! We do not have a timetable, but on the other hand we do have some thoughts on the next 3 or 4 years albeit on orientations."*

Likewise any monitoring of strategy is done on a much more ad-hoc and informal way than budgetary control. Commentators confirmed that questions are asked about:

> *"how are we doing in relation to the choices we made. In the same way, however, I would not want to compare that to a management scorecard* [tableau de bord de gestion] *-it's more flexible. A budgetary management scorecard is very clear cut: there are calculated figures. That said, we do look at where we are with regard to where we hoped to be, but we are not at the level of saying we made 105 instead of 110 in a particular area, it's more like are we in the right area, is it going along the lines we thought, has the situation this year improved, etc?"*

The budgetary planning process was described in the following way:

> *"The budget process is carried out between July and October and all the business lines and all the profit centres of the bank are asked to provide a budget forecast for '98, which is discussed in October-November, approved or not, which is then authorised by the Board* [Conseil d'administration] *and becomes the budget for '98. Normally the budget for '98, the objectives of '98, should be in line with the 3 year action plan."*

The strategic management process, reportedly, is designed to be as purposefully flexible as possible:

> *"...it's not informal in that there is a written report which is presented to the leadership, etc., but like all organisations, it is not like a budget. The budget is one thing, but it has to fit into the overall strategic orientation. The strategic orientation determines our perspectives, the evolution of ROE, and the strategic orientation leads us to say: if we are going to improve our profitability, that means we have to explore and ask ourselves some questions which impact upon this objective. So, for example, if we say we have to improve our operating conditions* [conditions d'exploitation], *then we say in order to improve it we must play on our strongest areas...-but it will not translate itself as in the budget, by saying that 1998 prospective general costs are X. So you see it is not exactly what you learn in certain* [business] *schools, where there is planning and the budget is to be found situated within the planning process, in fact with it being the first year of the plan. That's what you learn! The whole point of the plan here is to go beyond the budgetary notion and so be a lot more strategic, opening up horizons, seeing strong tendencies. It's not at all what you learn at* [business] *school."*

Strategic decisions are seen to be driven by a fundamental conundrum:

> *"The principle is whether our choices fit into the strategic orientation we have chosen. The problem for the bank is that in being private we have a ROE problem, a problem of PNBA for its shareholders, and of course we have as a bank the problem of the relationship with agencies which look at our financial status* [solidité]. *So we come back to the Cooke ratio or alternatively the ROA -le rendement sur les actifs pondérés. All these ratios are linked: if we want to develop we mustn't be held back by the Cooke ratio and in order not to be held back by the Cooke ratio we need to improve our capital* [fonds propres]. *So we have to improve our profitability and in order to improve our capital we need to use, amongst other things, our shareholders capital, but of course shareholders won't increase their capital unless they get a good return! So we are in there..."*

The BNP also has a small, specialised strategy team supporting the Board:

> "*involved in strategy and development -development is mainly important acquisitions- for the whole of the Group and we are a small team. So, we are a dozen or so here. Therefore, a dozen people for the whole of the BNP means we can only get involved in the essential subjects... The strategy team attempts to study individual strategies in more depth in order to understand the fundamentals and what is important for each subject... there are no absolute rules either for the subject nor for the way we operate, it is rather a function of the preoccupations of the moment... What is our principal function? It is to try to clarify the general direction in a way which is not necessarily orthodox in order to develop all of the many opportunities that arise. That means we invest time on subjects that can bring something...*"

A member of the strategy team's leadership noted further:

> "*I take part in the General Management Committee Meetings* [Comité de Direction Générale], *so I know, therefore, the subjects which have a certain importance, etc., so we have the time to think about which thing could be more important than another, so we have the possibility to allocate resources for things which appear important and for areas where we are able to bring something, and reciprocally, because the others see that we can provide something and that we do not have a particular allegiance, we have for them a certain utility and facility for certain work.*"

In talking about the team's role in preparing BNP for the future it was stated that:

> "*it's a bit of a reciprocal iterative process -which is quite difficult, and which I think can not be decreed... in strategic management all the investment projects are looked at... it's a process of standardised planning which is linked to the annual budgeting process, etc. I think this type of working can exist, but I'm not sure as to whether it is the most profitable or efficient, because in so doing you turn strategic management into a type of routine, into which you can fall quite comfortably, and finally one forgets that one is there to bring some new*

ideas and that one has certain prejudices, you become institutionalised. I think that institutionalised strategic management is not the most efficient."

"*My job is not to go and see people to check if they have executed what was asked of them, and at the end of the day, if they decide not to implement something en route but do something else, that is their responsibility and they can do so without even telling me. And I would say, so much the better, what counts is that everybody assumes their responsibility. One of my responsibilities is to give as best a clarification as possible, so that one can see that where we are going is good. Their responsibility is to make the business run.*"

An example of a specific strategic project was asked explored with one respondent. This strategic project, called "vision 2000", shows a clear and rigorous approach to BNP's strategic management:

"*we have a working premise to follow a certain strategic path, we have defined a certain number of action plans, operational action plans for each responsible individual for implementation and also we have progress reports for the Board, which meets every week, which says -will say, as this study has only just been done, in the fourth quarter of the year- where are we in its execution, what are the objectives to be reached, what has not been attained, etc. Also, it is something that has been presented to the whole of the management* [convention de cadres] *of the bank two months ago, so it is something which allows for not only a good impression to be given but also a concrete route plan for each General Management Committee member.*"

This said, however, it was admitted that this was a *"special project"* and as such it appears from evidence given by commentators that it is an exception to the rule.

"*There is a obligatory format, which is the budgetary process where every year the CEO* [Président Directeur Général] *will see one by one all the managers of the operational functions and will look with them at all their objectives, what they have achieved or have not achieved, why this worked and that did not -there is this review that is made, every year at every level of* *the bank. Otherwise, for the more fundamental subjects, we know them, we know what is happening in a particular sector, which area it is necessary to get involved in or depart from..., for these sectors where a strategic analysis has been made and where strategy is implemented, in general, after one year or one and a half years there is a review* [point d'étape] *is carried out, by the Director concerned to see what changes have arisen. I would say that this is part of the normal activities of the General Management Committee."*

People

It was reported that the management at BNP is mainly French:

> *"I would say it is true for the top management and also for those responsible for the international network on site, for example, the head of the New York, Singapore and Tokyo offices are French. There are some foreign managers in the financial sector, in the markets in certain sites. But in general it is quite French."*

The employees of the bank have spent most of their working life in the bank:

> *"In general, there are few people in the bank who have worked outside of banking. Banking in France is not very fluid, so the people on the General Management Committee are people who have spent their career in the bank... Today the people who are at the top of the bank did not necessarily enter the bank at 20, but perhaps at 30 or 35 and who have in general worked here for 10-15 years."*

And it was reported that their educational background was variable:

> *"It's variable. There are those who entered the bank at a very early age and there are those who have come from the best* [engineering and business] *schools in France. A bit of everything. On this point, it is quite balanced."*

With regard to international placements and exposure of staff it was reported that the overseas offices were the main sources of information, filtering information back about other countries practices:

> *"We have this from our sites in New York, Tokyo or elsewhere, thanks to which we have get some insight from outside. At the General Management Committee level, we do not have a member who has had any major outside experience. We have one or two who have good international knowledge, but none of whom have really lived overseas. Once again one of our major weaknesses is an insufficient international exposure of our management."*

One respondent was asked about the mobility of the Directors of BNP and whether they were 'BNP people' or whether there was history of transfer of Directors as reported to exist in many large French organisations, there response was:

> *"There is a strong proportion within the General Management Committee who have been in the BNP for a long time. There is an influence despite everything of the French system of administration, which is very elitist based upon educational background, so there are people who are very well educated, who move about at the top of companies. But generally, in comparison with other French activities and other banks, the BNP is quite stable..."*

When one respondent was asked to explain how he saw the future, they reported:

> *"banking used to be a generalist trade, a job, so you could do many different jobs in the bank. I think there is a big trend today, and probably influenced by Anglo-Saxon companies, American especially, in that the trend is to specialisation. So there you have more individuality, you have less faithfulness to the company. An international fiscal specialist might work with BA, BNP and then with ICI -what is interesting for this person, is that he or she wants to be at the edge of international tax and the fact that it is done through BNP or ICI is secondary. I think the big shift, in a bank like BNP at least, is to go from a generalist culture, which explains why people were knowing and understanding each other extremely well, to a culture which is*

more and more a culture of specialists who never merge but who work together for a time. This is a further deep change, but does not yet effect the culture of the bank, but this trend will keep going for a few years."

When asked to describe BNP's culture one respondent commented that:

"culture is a result of its history: the BNP is 30 years old now, before it was the BNCI and the CNEP which joined in '66. The other impact on culture was its privatisation in '93: that's to say that the profitability culture is new for its staff and will take time to instil itself..."

Another respondent noted BNP's dynamism:

"...there is a BNP culture, which is very development -the BNP feels like it is growing, expanding... People feel at ease in the development, that comes probably from BNP's history during the '70s: the BNP is the result of the fusion of two banks, two big banks, they were the 3rd and 4th banks in France which joined to become the biggest, and a fusion of two banks that were very different, and a rare success, which has given people an attitude of progression. People feel at ease in the conquest, there is a conquest culture which is quite strong. We use this by the way, in our definition of strategy, the strategy of the BNP is a development strategy, because it is also compatible with the culture of the company."

Commentary on strategic control

Strategic control in the BNP is not a rigorous formal process, but very much an informal one:

"I would say the only thing we try to standardise systematically, if we can talk of systemisation, is that we talk about what others are doing. It is the only thing we try to do in a systematic way. All the rest has no systematic character."

Indeed, one commentator noted:

> *"The only meetings that are for talking specifically about strategy take place with the General Management Committee which take place once a week and these questions are included along with other operational questions."*

That said, when one commentator at BNP –one working in the international division- was asked whether they thought it important to control a strategy, the response was clear:

> *"Oh yes, I think a strategy is like any plan you make, if you don't put yourself into a timetable and a controllable environment it is worthless. So it is of use that everybody has bright ideas, but in fact the ideas are not really what makes the difference between people, it is the way they translate it into actual facts. The best way to improve the probability of translating bright ideas into actions is to know that at the end they will be controlled and that you will be evaluated on what you are doing."*

Another –also an international bank employee- reported:

> *"There is certainly a requirement of transparency or readability* [rendre lisible] *in the strategy of the bank, because we have shareholders. So there is a strong pressure, so that at least the strategy is visible and if it is visible then clearly it is then judged by its results. Clearly we don't make a strategy just for that, we need to monitor* [veille], *to externalise more completely, to formalise, what's required by the Board, the shareholders and the environment. So particularly for banks that know how to do everything, rather than the specialised niche banks, for the large international banks that know how to do everything, but who do some things less well, because they can't do everything perfectly, there is quite a permanent effort to focus and target, to avoid too much diffusion, whilst keeping a hand in everywhere... The adjustment of strategic direction to reality is continuous and so is the control, the execution of something, where we are. Given the multiplicity of things and the fact that sometimes things have to be cut, moved altered, you have to be very pragmatic, but at the same time we can't be everywhere, we have to*

concentrate and make things readable, which is not always easy, not only for the management, but because the world is becoming too complex –that's why there is the "Direction de stratégie", "Direction de Développement International", etc., in order to make things easier to read- and then this writing must also be readable by the shareholders, because even if we always have good results, there is always the perspective of what we are going to become in two or three years. So it's because of this very large diversity in an international bank and because the General Management has to be able to see clearly and pass on this vision to its shareholders –it's because of these two factors.

In preparing for future sudden changes one respondent reported that:

"we try to establish ourselves in the case of probable scenarios, in general we try to estimate the impact of a range of scenarios: what happens if the interest rates are different to what is expected, if demand is a little different to what is imagined, if the introduction of the euro in 1999 has an effect on the profitability of the market... all of this we try to imagine and see what are the possibilities of the bank if a certain configuration results. Also, if we find ourselves in a deteriorating situation, there is no prepared process in order to review the business plan -that's left to the responsibility of the operational manager. That's to say, the role of Group Strategy is very clear [annonce], *we try to give the largest possible vision given the analysis we do, and we try to agree the range of likely outcomes, these outcomes* [axes] *are subject to alteration* [abrogation] *by the bank, with the only judge or umpire being the result that is arrived at by the individual responsible for the operation. If the bank makes an investment, for example, and the conditions go awry, then there is a moral duty to say that the conditions have changed and this is what I propose as an alternative plan, we are going to go down this path, this is what we will do, etc. The alarm procedure exists and merits his responsibility. It is not the responsibility of the Strategy Director."*

Another respondent noted:

> *"Crisis scenarios* [scénarios de rupture] *are not easily put into place and that's one of the reasons why we try to construct a strong profit* [rendement] *base in order to protect ourselves from crisis scenarios."*

When asked how the BNP checks to see if the strategic objectives are still valid, the response was a practical and financial one:

> *"The ROE is the net result over capital -and you know that banks today are structured by business* [métier] *and you are aware of all the developments in analysing capital per activity with notions of economic risk, which leads you to the Cooke ratio... so after all that, you will be able to see if your investment generates the level of profitability that you hoped for -as soon as you can clearly see the level of profitability per activity which we decompose into the national network, the international network as well as other market segments..."*

Summary of the Characteristics of Strategic Control Components in BNP

Components of Strategic Control	*Real life practice in:* *BNP*
Premise Control	Profitable development is the fundamental mantra at BNP: "*all choices are made with this objective in mind*"
Implementation Control	Each Director reviews their own area's strategic progress every 18 months Operational heads are responsible for their business plans and their successful accomplishment Dialogue is the only thing done in a systematic way
Strategic Surveillance	Observation Centres are the focus for market competition and product surveillance, with the publication of a monthly "*competition monitor*" The headquarters strategy unit attempts to highlight the best strategic direction to be followed
Special Alert Control	Crises are prepared for by BNP's commitment to a strong profit base
Operational Control	Annual budgetary review is carried out by the CEO for all operational functions A budgetary scorecard is produced monthly
Environmental Scanning	Observation Centres monitor the economy, markets and product changes
Scenario Planning	BNP uses "*a range of scenarios*" to estimate the impact of changing events on strategy (i.e. a form of sensitivity analysis)

Summary of Findings within BNP

Control

- Structure
  - Mintzberg's (1995 pp. 350-371) classic 'entrepreneurial' organisation with its simple structure, led from the top is a good fit for the BNP Group. The simple divisional split between domestic and international market operations however, hides a multitude of potentially different business unit structures.
- Systems
  - The only "*obligatory format*" followed for planning purposes within BNP as a whole is said to be the "*budgetary process*". Formal strategic planning is treated with a near contempt, whereby efforts are made to prevent any "*institutionalised*" thinking, leaving strategic decision making/thinking to the Group Board and the 12 members of the strategy team.
  - A "*competition monitor*" is maintained on market competition and their products in a common-sense "*systematic*" way.
  - BNP verges on being a financial control organisation: "*the budget for '98, the objectives of '98, should be in line with the 3 year action plan.*"
- Style
  - Strategic management appears to be used reluctantly, almost as a sop to the financial markets: "*as a quoted company we have to say something about our strategy...*"

People

- Staff, skills, style
  - BNP is a "*fairly gentle employer.*" It is "*quite French.*"
  - The Board develops the vision and policy for the organisation and cascades it down through the bank.
  - Privatisation only took place in 1993: the impact of which is still being absorbed by staff.
  - A "*development*" culture can be perceived to exist; albeit that BNP's culture, according to Schuster's strategic attitudes (1996 pg. 7), would be more of an 'imitator' than an 'inventor'.

Strategy

- Shared values (super-ordinate goals)
  - BNP pursues a fundamental strategy of "*profitable development*".
- Strategy
  - A relaxed "*we know what is happening*" approach is taken to strategic management.
  - Financial management is followed closely, where a strong link is seen to exist between finance and strategy through the emphasis on the word *profitable* in BNP's mission of profitable development.
  - In attempting to position BNP's domestic banking activities in terms of the strategic archetypes in the literature review of Chapter 2, it appears that it is entrepreneurial (Mintzberg 1973), cost minimising (Utterback & Abernathy 1975), a prospector (Miles & Snow 1978) and pursues a strategy of differentiation (Porter 1980).

The Crédit Agricole Story

Introduction

> *"Crédit Agricole is a mutual and co-operative organisation, which has existed for 100 years and which is the de facto first French banking group."*

> *"We are not a capitalist bank, as others."*

Description of the bank

Crédit Agricole is a co-operative group with an unusual three tier structure (see Figure 18 on page 132). The first structure is the "*Casisses Locales*" or Local Banks. Some 5.5 million stockholders (mostly farmers) are represented by some 37,000 Directors who in turn officiate over some 2,775 Local Banks throughout France. These Local Banks are not banks in the normal sense: they do not have branches open to the public, but instead facilitate "*the organisation of capital*" -holding the capital of the Regional Banks or "*Caisses Régionales*" and electing their Directors. The real banking organisation in the normal sense of the word is the 56 Regional Banks covering the whole of France comprising some 8,200 branches. Together the Regional Banks own 90% of the Caisse Nationale de Crédit Agricole, which is a privatised corporation (since 1988) that in general terms acts as headquarters to the Group. The number of employees totals almost 85,000, of which 70,000 are employed by the Regional Banks. Through its network of Regional Banks, Crédit Agricole serves some 15 million customers with 10,000 'Points Verts' (check deposit and cashing facilities), 9.5 million payment/credit cards and a range of remote banking services (telephone, Minitel, fax, Internet and television). A final structure exists, called the Fédération Nationale du Crédit Agricole, which represents the Group in discussions with Parliament, trade associations and other institutions.

Crédit Agricole Indosuez operates through a network of some 150 branches and subsidiaries in 60 countries, grouping together Crédit Agricole's corporate banking and international businesses. Some 65% of its 10,600 employees work outside of France, where it generated 70% of its net operating income.

Group Crédit Agricole's total assets amount to FF2,541 billion, net income equals FF9.86 billion and capital reserves are FF127 billion. In terms of security it has a: Aa1 Moody, AA Standard & Poor and AA+ IBCA rating.

Table 13: Crédit Agricole's place within its local, European and world markets

Year	Ranking (in terms of Tier 1 capital $m)			Assets	Pre-tax profit	Return on Assets	Cost/Income Ratio
	France	Europe	World	$m	$m	%	%
1997	1 (22,280)	2	3	419,980	2,928	0.70	64.50
1996	1 (22,235)	2	3	477,336	2,540	0.53	64.30
1995	1 (20,386)	2	2	386,388	2,511	0.65	-
1994	1 (17,288)	1	8	328,152	1,830	0.56	-
1993	1 (14,718)	1	8	282,911	1,522	0.54	-
1992	1 (15,606)	1	7	299,204	1,611	0.54	-
1991	1 (14,663)	1	5	307,203	1,599	0.52	-
1990	1 (13,186)	2	6	302,983	1,381	0.46	-
1989	1 (11,802)	1	4	241,992	1,266	0.52	-
1988	1 (8,740)	3	5	214,382	852	-	-

Source: The Banker, July & September 1987-98

A history of Crédit Agricole

In 1894, the Agriculture Minister of the day introduced a law, which created a new mutual structure of agricultural credit companies throughout France: the "*Caisses Locales*" were born. Funds were made available from the Bank of France and distributed via a number of Regional Banks [Caisses Régionales], created by Parliament in 1899. These Regional Banks were also responsible for monitoring the agricultural credit companies, ensuring that only short-term personal loans were authorised as per the legislation of the day.

In 1906, long-term loans were authorised to farm co-operatives, and soon after in 1910 long-term personal loans for agricultural use were permitted. In 1919, Crédit Agricole was allowed to make loans to the non-agricultural sector, albeit to a strictly limited degree.

During the 1920s and 30s Crédit Agricole played an important role in supporting the development of the French rural community. In 1923, in order to slow down the general rural exodus that was occurring, the Government of the day authorised Crédit Agricole to finance a number of public infrastructure projects, in particularly the introduction of electricity throughout rural France. The depression years of the 1930s saw Crédit Agricole also play a major role in supporting wheat prices.

In 1945, the Fédération Nationale du Crédit Agricole was founded to represent the Regional Banks in their dealings with the authorities and other external bodies.

Throughout the post-war period Crédit Agricole was to play a significant role in the education of the agricultural community, helping them in the preparation of financial plans for their businesses and generally informing them how to manage their cash and savings.

In 1959 Crédit Agricole was authorised to provide mortgages in rural areas. As a result it quickly became the number one mortgage lender in France and today it still issues one in four mortgages.

1967 saw the Caisse Nationale de Crédit Agricole start to manage and invest customer deposits itself, prior to this it had been obliged to transfer savings deposits to the French Treasury. This transformation established the Caisse Nationale de Crédit Agricole as the Group's central banking arm, with it receiving deposits and making advances to the Regional Banks.

In 1971, Crédit Agricole was authorised to grant loans in new sectors and to new categories of borrower. This process continued in 1979, 1982 and 1985. During the late 1980s Crédit Agricole diversified into insurance and today is France's second largest life assurance company. It was not until 1991 however, that the Government removed all socio-professional and geographic restrictions on lending, allowing Crédit Agricole to become a fully-fledged universal bank.

The Caisse Nationale de Crédit Agricole finally became a private company in 1988, 90% of its equity is held by the Regional Banks and 10% by present and former Group employees. Soon after, the Group Crédit Agricole produced its mission statement: "*together, we will excel in our business, to win in Europe*".

In 1996, Crédit Agricole finalised the purchase of Banque Indosuez, with the aim of making it the centre of its international wholesale operations.

Control

> *"There is on one hand the whole regional network* [Caisses Régionales], *there are about 60, and they are currently undergoing a fusion process.—Each of these Regional Banks covers a given territory, one, two or even three counties* [départements[1]]. *These are banks in their own right and qualify as independent banks. We will see later the extent of their autonomy and dependence. That's the first level, and these Regional Banks have their own members* [sociétaires], *which are the "Caisses Locales." And the Caisses Locales themselves are owned by further members.*
>
> *Secondly, there is the "Caisse Nationale de Crédit Agricole" (CNCA), which is where you are today, which has a role, on the one hand, to act as headoffice of the network* [chef de réseau] *in terms of French Banking Law. The CNCA is in charge of the control of the Regional Banks and is in charge of solvency and liquidity of the Regional Banks. We also have a role of marketing development. Thirdly we have a role in this development to look after subsidiaries, for example we created a life insurance subsidiary, a general insurance subsidiary, a group products subsidiary* [produits collectifs]. *Fourthly, we serve a little bit as central treasury, it's the word which describes best the internal financial relations between the different Caisses Régionales which I mentioned and the central Caisse Nationale. We are also in charge of the international development of the Crédit Agricole, where for example we recently purchased the Banque Indosuez.*
>
> *The third entity is the "Fédération Nationale de Crédit Agricole" (FNCA). The FNCA has an essentially political role, on the one hand it is a meeting place between the Caisses Régionales... and on the other the FNCA is in charge of the relations with Government and external bodies. It is also this organisation that creates the social policy of the Caisses Régionales -the*

[1] France has 96 administrative counties or "départements".

working agreements, which manages the relationship between employees and the Caisses Régionales."

The Caisses Locales and Caisses Régionales can be better described in conjunction with their history.

— *"At the start, 100 years ago, people who organised themselves into co-operative groups did this on the basis that they knew each other, so the grouping structure is a local structure, in the area, which covers several parishes* [communes], *several square kilometres. That's the structure of the Caisses Locales, and inside each Caisse Locale there is a co-operative structure made up of individuals, members, generally farmers* [agriculteurs], *who provide the capital of the Caisse Locale. Inside a county or a given territorial region, there are a certain number of Caisses Locales –in the Caisse Isle de France there are 42 Caisse Locales-these Caisse Locales provide their capital to a structure called the Caisse Régionale. So the members at the bottom are not members of the Caisse Régionale, but are members of the Caisse Locale. The Caisse Locale has a very small role today, it has the task of checking the grant of a loan to its members in its district. The Crédit Agricole structure has evolved a lot, however, because we have many users of Crédit Agricole who are not members. We have a small number of members and a large number of customers -and loans to customers don't go through the Caisse Locale structure. So the Caisse Locale is purely an organ for the organisation of capital. What you also need to know is that the Caisse Locale can have a commercial activity: a profit and loss and a balance sheet. Some people say that this system was also constructed in order to minimise any power struggles, because it is a two step electoral process: in order to get on the Board of the Caisse Régionale, you must first be elected to the Caisse Locale and then to the Caisse Régionale, so there are two electoral steps...*

The members of the Caisse Locale will create a Board [Conseil d'Administration] *for the Caisse Locale. Next the Caisse Locale will provide capital to the Caisse Régionale and will nominate the Board of the Caisse Régionale. In order to be a member of the Board of the Caisse Régionale, you have to be elected once here* [at the Board of the Caisse Locale] *and again* *here* [Board of the Caisse Régionale]. *This means that the Board of the Caisse Régionale is very stable, with few changes. That said, all of this is superficial, because as I said to you the Board does not have huge power, the real power is within the Caisse Régionale and in the management team of the Caisse Régionale.*"

The Féderation Nationale and the Caisse Nationale fit into this structure in the following way:

> "*The Caisses Régionales are autonomous. They belong to... the Fédération* [which] *is in fact the lobby of the Caisses Régionales –it is a type of professional union. Next, there is a second organism, a lot more difficult to understand, which is the Caisse Nationale. It's difficult to understand because the Caisse Nationale is the central organ of the Caisses Régionales: it monitors and controls the Caisses Régionales and says this is what you should do, what you are allowed to do, what you are not allowed to do... it's a tutor's role and this tutor's role is established by banking law. In financial terms, this central organ has been bought by the Caisses Régionales* [90% and 10% by the employees of the Group Crédit Agricole]."

Hence the term united and decentralised.

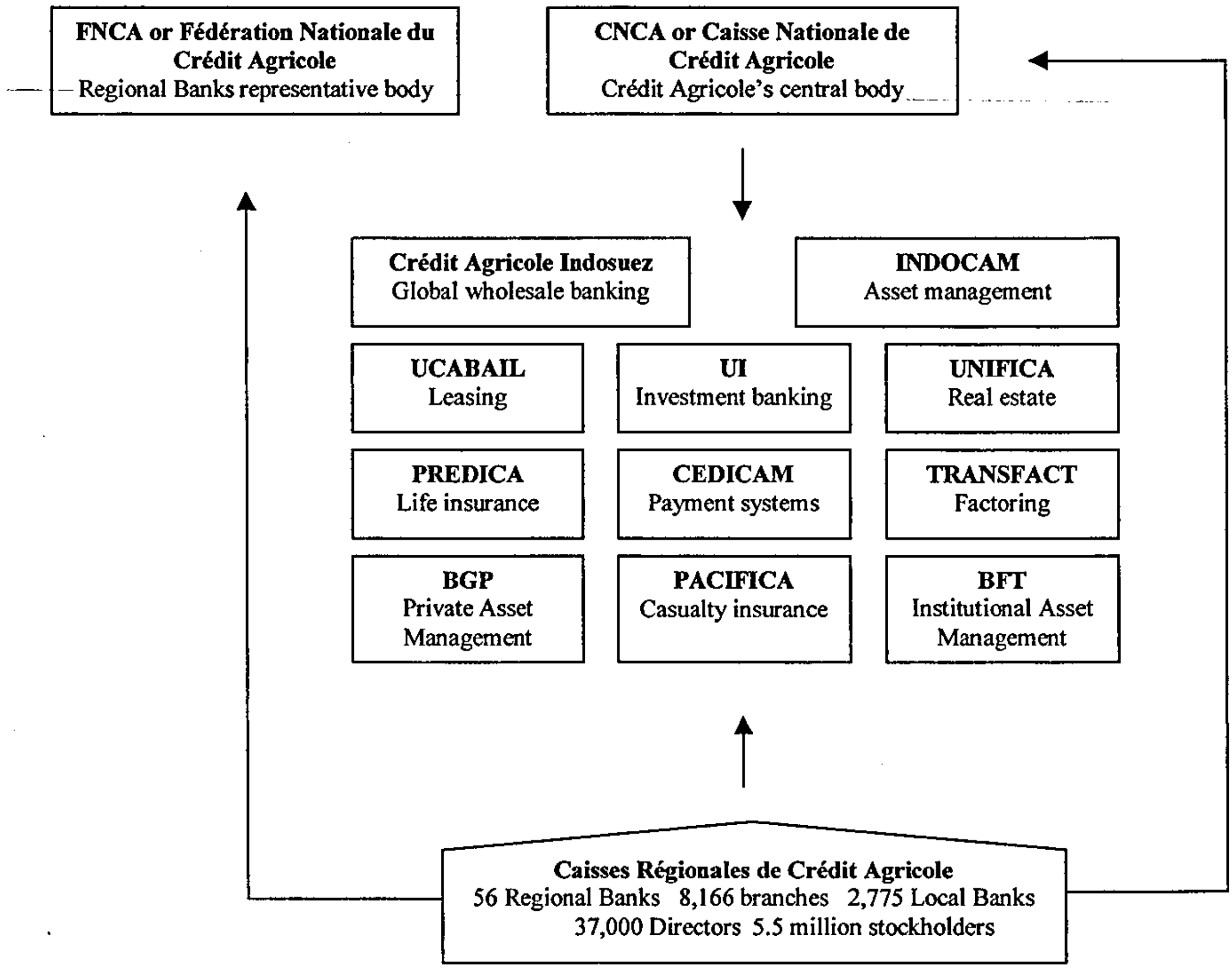
> "*We are used to describing the Crédit Agricole as united and decentralised. Decentralised -you can understand straight away as to why: the regions are full banks in their own right and have their own personality. United -because we have put into place, first of all, internal financial networks* [circuits], *secondly we have subsidiaries which are developed in the common interest of members.*"

And then there are working groups for particular projects, bringing together members of the Caisse Nationale and the Caisses Régionales.

> "*these are working groups which are made up of individuals from the Caisse Nationale, Caisses Régionales and the Fédération. And once again there are*

members of the working group that will be permanent members of the institution to which they belong, as well as elected representatives."

Figure 18: Crédit Agricole Structure



Source: Information from Crédit Agricole Annual Report 1997

Discourse is paramount within the organisation.

"*It's important to remember that it is the dialectic, which differentiates it from other banks.*"

This is also true for the ultimate decision making process.

"*It's a mixture of CEO* [Président] *and Directors* [Directeurs Généraux]. *There is an elaboration of a consensus. In this elaboration of consensus there are these working groups. The strength of the Crédit Agricole is that it is a bank by consensus -that's clear. On top of this you have the formal structure: the Board of Directors, etc. That's the formalisation of a decision -it's the final stage. In general there is a long period of maturation and elaboration.*"

Strategy

As one Regional Director put it, strategy is a process of continuous momentum (slow change), with large strategic changes not being sought:

"*...we have a strategic thrust* [axe stratégique], *a clear direction, we are a private bank* [banque de détail] *for a large private individual clientele. We know how to develop our business and we have a thinking process, but we do not have a process that questions our business. We are a private bank, we accept our qualities and our characteristics of a private bank, and we do not trouble ourselves about this, that's to say, we are not going to profoundly modify our way of being or our structure. The Crédit Agricole belongs to its users, provincial farmers, as well as farmers in the sub-urban areas, and on the whole we have the feeling of belonging to our users. We can not change the way we do things.*"

"*...In our history, we have always served clients that have trusted us. There is a relationship between those people who joined the co-operative, the co-operative that brought them banking services, and we have a certain number of responsibilities to them as a result. We still do not today envisage breaking away from this way of thinking, that's to say, the thinking or the changes that are going on in the Building Societies in England, which were similar to us originally, which are moving clearly towards capitalism, this way of thinking is not yet ours, it might become this one day, but for the moment we are not there. So what I want to say, is that this historical characteristic weighs heavily on our strategic choices.*"

A basic understanding of what the bank is, underlines the strategic thinking and management process.

> *"As we are a private bank, therefore we have the necessary banking services for private individuals: the management of accounts, consumer credit, mortgages -three large activities. We provide this under a proximity concept, with a fairly large branch network, because this is our way of contacting our clients. Around this, it is evident that we monitor technological changes or changes in behaviour, for example, we are interested in direct banking in order to see what the impact of direct banking will be -to eventually adapt our customer service, but not to change fundamentally our customer service."*

Safeguarding the Regional Bank's current position whilst developing for the future are the drivers behind strategic momentum.

> *"One of first preoccupations of the Board is that when we leave we try to make sure that there is more money than there was when we arrived. So we have a large worry about survival, the first element, and a second worry about development, because that is the culture of Crédit Agricole. The Crédit Agricole is a bank that is always trying to develop, which has always been in search of new markets and new activities, and it is in this sort of activity that it does well and wants to pursue. Firstly, survival, that's to say: prudent choices, and secondly, development, that's to say commercial capacity and the desire to be offensive."*

Strategy and ideas in general terms are generated throughout the organisation.

> *"When you have such a number of individuals it is clear that ideas can sprout from everywhere. You can have some propositions that come from central bodies -Caisse Nationale, you can have propositions coming from one Caisse Régionale..."*

> *"It can come from the national level, from the Caisse Nationale, but, like all national propositions of the Crédit Agricole, it involves a debate inside each Caisse Régionale and a different policy in one Caisse Régionale to another.*

The Crédit Agricole does not move forward as one, there are those that go quickly, there are those that go slowly, it depends on the subject, it depends on the market characteristics, it depends on the sensibilities of the management team."

Vision is generated through an almost alchemistic process of dialogue.

"*It's not one person. It's the collective whole. It's a process of collective elaboration. That does not mean that there are not individuals that are personally asked to work on propositions. Here you have the Directeurs Généraux who are Présidents, who are responsible for their own Caisse Régionale. At the same time you have subject or functional working groups at the central level: you have the Association des Présidents, the Association des Cadres Dirigeants, which work as groups. Otherwise, you have the working groups brought together on particular subjects: one will work on assurance, one on personnel relations* [rélations sociales], *on productivity. So it's by subject or function: so you have syndicates that bring together members of the Caisse Régionales, such as a Marketing syndicate, which brings together the individuals who are in charge of Marketing in their organisation...*

So to speak like a Consultant, you could talk of a matrix structure... You have people who are specialised in assurance or collective management or new distribution channels or the Internet or Le Minitel, etc., it's these people who will produce the reports and afterwards it will be submitted to a critique... Then it will be included in a project..."

Each Caisse Régionale is responsible for its own strategy, so differences can exist from one region to another, but as we have seen already elements of best practice permeate throughout the Crédit Agricole as a whole, and therefore, in broad terms and for the purpose of this document, one region's approach can be assumed to be similar to that of another's. The following outlines how strategy is managed in the largest of the Caisse Régionale, in the Caisse Régionale Isle de France (Paris).

"*In the Crédit Agricole each Caisse Régionale is an autonomous entity, responsible for its own decisions, taking into account its own members* [sociétaires] *and its own investors* [porteurs de capital]. *So we take a decision that we believe is good for the Caisse Régionale, which is coherent with the whole of the Group Crédit Agricole, but not totally identical to what the others do.*"

How it goes about this decision making and implementation of decisions is likewise similar but not necessarily identical.

> "*Our strategic choices, as I said, are guided by survival and growth. So we have strategic choices that are* [based upon]*: profit and loss accounts, accounting balance and expenditure on new activities. We have three types of choice which are going to be used. We do not have a very structured process, that's to say we do not have a development plan, we do not have a five year plan, or things like that. We have an annual process and only an annual process.*
>
> *Each year we will produce a budget, which will be related to the choice of activities, the commercial plan, the distribution of financial resources to each choice of activity or each choice within the commercial plan... The thinking and the strategic choices are going to be choices about opportunity. Regarding the relative choices about the survival of the company, they are permanent choices, they are always the same. The choices will be about the profitability of activities, the pursuit of productivity –these are the permanent thrusts. Regarding new activities, they are choices about opportunity, which are based upon the means of making things available and the range of possible actions we can have.*
>
> *...We have a gap between the 31st December, where we balance our accounts, create our accounts, and where we can see clearly what has happened during the whole year by about 15th February. That is the traditional accounting process, which allows us to establish a retrospective vision of the past year (N-1). Then we have a budgetary process, which begins in July of the preceding year (N-1), which allows us to develop for the 31st December a budgetary approach and activities for the following year (N+1). Of course there is an interaction between accounting figures and the development of the*

budgetary process, but we are in this gap, there is something that we establish a-posteriori and there is something we envisage a-priori, which is the budgetary process and the process of establishing activities. It is through this budgetary approach that we establish the development, the activities and the different strategic choices.

...it is in this budgetary working drawing, that we will allow for the decision to be made to develop life assurance or accident assurance; and the day we make the decision, along side the budgetary approach, we will sketch the development of these activities over the next three years... All of these strategic decisions, are made over several years and every effort is made to try to include them both in the annual plans, for the first year of their operation, and in the subsequent years' plans."

The realisation that strategic leap is missing from the spectrum of Crédit Agricole's strategic capabilities is, however, not missed, but rather a process of strategic momentum or gradual change is preferred.

"*We have a hole, it's a medium to long term gap. If I explain to you that our strategic direction is a function of the observation of our activity, that means we can not make any major changes, we will not make a revolution at Crédit Agricole. So if it's necessary to make large strategic choices in the medium to long term, it's not likely that that we will do it. The large strategic choices in the medium to long term, in fact are not really taken in Crédit Agricole, because I come back to what I said in the beginning, we do not question ourselves fundamentally about our business. We carry out our job, we try to be responsible carrying it out in the best way, to be among the most competitive, the most productive of the French banks –up to now we have succeeded! So we haven't any metaphysical questions, you see what I am saying, we don't ask any metaphysical questions about the future, because for the moment we are where we are and we are performing well where we are. It is true, however, that if the working conditions changed a lot, if all of a sudden the customers no longer went into the branches, at that moment we would really have a real problem... as I said our objective is "survival"* [pérennité]. *It is the survival of capital, it's also the survival of man. If you* *prefer, we have three areas in the Caisse de Crédit Agricole, let's take the case of Isle de France: we have FF6 billion capital, we have 3 thousand employees and we have 800,000 customers. Our objective is to lose none of the 6 billion capital, to lose none of our employees and to lose none of our 800,000 customers, and, if possible, to increase the three components. Up till now we have succeeded, but for the past year or two with difficulty. That's to say, we make money, but in a quantity slightly inferior to that of three years ago; the maintenance of salaried employees is difficult, but we haven't lost one single job, three years ago we had 3,000 employees, today we still have 3,000 employees; and, with our clients, we gain one to one and a half percent additional customers each year. It is, however, no-longer the rhythm that we knew and, in fact, we ask ourselves frequently the question: what are we doing to counter telephone banking? We have had an answer, because today we say we are going to do telephone banking, we do it, but we will do it based from our branches. So we have decided not to develop any telephone platform, but in liberating some time from our commercial staff, we are asking our commercial staff to work more and more on the phone... It's true, however, that we do not have a clear and reasoned objective for the next five or ten years: the only objective we have is my objective, to keep my capital, keep my staff and to keep my customers! That's the objective: it's an objective of conservation of acquired strength. The second element is that the Crédit Agricole has always conserved its strengths whilst having the capacity to develop. In the Isle de France we believe that we have a strong capacity to develop, because we have only 5% of the market so we can still increase our market share. When I said we had no choice in the next 5 to 10 years, yes we do, because between now and 10 years time we will not have saturated our growth capacity within the Isle de France market. So you can see to what an extent our thinking is linked to the zone where we operate and our environmental characteristics in this zone.*"

People

"*...the culture is extremely strong. It's extremely strong, very powerful and very present. Secondly, it is evident that there is also competition: it's clear that the Caisse Régionales think that the Caisse Nationale is a bit "Parisian"*

-that always exists in any organisation. The problem is not that, the problem is to organise confrontation, in a friendly way, between the different divisions: to organise the exchange of information, of ideas, of projects and at the end to arrive at some action plan. The mechanism that I have described to you shows that it works and that in general it produces projects that hold the road.

Secondly, inside and between each of the Caisse Régionales there is a certain competition. Not only in territorial terms, where each has its own territory, but because each Caisse Régionale would like to be classed higher than the others on so and so a ratio... That could be market share, the diffusion of a certain product, profitability, financial ratios, commercial ratios, liquidity ratios. Each Caisse Régionale knows his position with regard to the others, they know, for example, that this Caisse has this penetration in the youth market, etc."

This said when it comes to moving ahead with operational imperatives and with the tasks of the working groups, rivalries are put to one side in favour of the common interest.

"*There are 60 or so Caisses Régionales and depending on the subject, the competencies, the affinities, this or that individual will be brought in on this or that working group. It works pretty well usually, that's to say of course we can't have all the Caisses participating, but even though there are only 3,4,5, or 6 Caisses Régionales, the others will feel involved in the work that will be done. It is more a way of working practice, we are not very formalised, we don't say that representatives have to be elected, etc., we leave it to competency. We have a very good example of this in the introduction of the Euro, which of course concerns the Crédit Agricole, and around the introduction of the Euro we must have created 30 or so working groups, with the Caisse Isle de France being present in no more than 5 or 6 of these groups. We participate in certain areas of the thinking therefore, and we receive all the various reports of all the working groups, and those where we didn't participate we read and absorb them as if we had been involved, because we trust our colleagues within other Caisses Régionales who did participate.*"

The Crédit Agricole culture is strongly imbedded in the organisation, built upon its history and customs.

> *"The Crédit Agricole bank globally is 100 years old, including the Isle de France –we are not quite 100, but we were created in 1902, so we will soon be 100. The Crédit Agricole was originally conceived for people who were excluded from the banking system, people with whom the capitalist banks of the period would not lend money to and would not provide any services. So it was conceived for excluded individuals, conceived on the collective capital of the excluded individuals –that's to say, in the Crédit Agricole we have two strong cultural elements, first of all, the people who come to us, perhaps they can not go anywhere else: so we are not a rich man's bank, but rather of the middle range. The second element is that in Crédit Agricole all the resources have preceded the three Crédits* [i.e. the CNCA, FNCA and Caisses Régionales organisational structures], *because when the Crédit Agricole was created it didn't have any capital, people had to bring their available resources, so that these available resources could be loaned out. You are aware of the bankers' saying that "debts make the assets of a bank", in the Crédit Agricole this is not true, it is the assets that make the debts. In a structural way, all the Caisses of the Crédit Agricole are surplus in assets, they have more assets than debts. So we have these two strong elements in our culture, the first being that we do not choose our customers, we do not select our clientele, we do not select our market, we a universal bank, some say catch all, catch everybody; and then the second strong element of the culture, is that we are a structurally balanced bank, and even an overly balanced in resources. So we have always a lot of resources and a little less debts: this plays an important role in the management of our company. I am going to add a third element which is a strong cultural element, all the managers* [cadres], *all the executives* [dirigeants] *in the Crédit Agricole come from Crédit Agricole. All the Directors of the Caisse are people who have been employees of the Crédit Agricole, selected through various selection processes with various training programmes, so there is a large homogenity within the management team and very strong sense of belonging to Crédit Agricole. This is a factor with all staff, not just managers, but as all staff, including the*

lowest level, know that they can follow this path inside in Crédit Agricole, there is a very strong feeling of belonging, a very strong company patriotism. People inside the Crédit Agricole are ready to make an effort that they perhaps wouldn't make elsewhere."

A committee culture pervades the management system of Crédit Agricole: with working groups, Directors Committees and Board of Directors meetings at the Caisse Nationale and Caisse Régionales levels.

"*At the Fédération level, there is what is now called a Directors Committee, for a long time it was called the Central Committee, which sounded rather like the Communist Party, which regroups the Présidents and the Directeurs Généraux of the Caisses Régionales. Just as within the Caisse Nationale there is a Board which regroups the Présidents and the Directeurs Généraux of the Caisses Régionales –the shareholding Caisses* [cf. the Fédération where the Caisses have no shareholdings]. *There are a certain number of people who are in both.*

The Conseil d'Administration of the Caisse Nationale is elected by the shareholders of the Caisse Nationale, i.e. the Caisses Régionales. In the Fédération there is a Directors Committee which is elected by the members of the Fédération, i.e. the Caisses Régionales. So you see the Caisses Régionales vote on both sides, as a result of being shareholders here [Caisse Nationale] *and members of the union here* [i.e. Fédération Nationale du Crédit Agricole]. *So you can have people who are on both bodies: but people do not necessarily have the same vision when they are in each one. In the Caisse Nationale they have a centralist vision and in the Fédération they have a decentralised vision. So sometimes they live with two hats on! Between the two there is what is called a Co-ordination Committee, where all the subjects that effect Crédit Agricole can be discussed. In saying all of this, I'm sure that you are going to say that there are committees everywhere! I haven't always been in the Crédit Agricole and so it is the question I asked myself: we spend an incredible amount of time in debating, discussing and obtaining a consensus. When I say an incredible amount of time, to give you an idea, each month the three or four main bosses of the Caisses Régionales, the Directeur*

Général and the Directeurs Généraux Adjoints, spend 3 or 4 days at the Fédération, i.e. approx. one fifth of their time is at the Fédération in discussion."

This committee culture has its perceived strengths and weaknesses.

"Where is the strength, because that is an enormous loss of energy? The strength of the Crédit Agricole is that it rests on 60 autonomous, decentralised and responsible banks. That's to say we have 60 decision making centres, totally independent and totally responsible for their territory. That's the force of decentralisation. The inconvenience, is that 60 centres can disappear off in every sense. So to fight this inconvenience, we spend a certain amount of time in trying to find what brings us together and not that which pulls us apart. Hence the one fifth of their time."

Employees, including management, are generally French nationals, with the slight exception of Crédit Agricole Indosuez which is more international in its makeup.

Competitions or *"concours"* are used as selection criteria in order for staff to become Deputy Directors [sous Directeurs], Assistant Directors [Directeurs Généraux Adjoints] and gain access into the senior management elite. As a result top management thinking is similar.

"...within the management teams of tl:e 65 Casisses de Crédit Agricole there are about 500 managers and we all have been through the same process. We never talk about a manager here like they do elsewhere in saying he did ENA [Ecole Nationale d'Administration], *he went to the Polytechnique, never do we talk about their University past –and amongst the 10 or 12 managers of the Caisse Isle de France I don't know the University past of the others and they don't know mine, it's not important for us- but on the other hand we know that we all went through the Crédit Agricole selection process, so somewhere that makes us all very homogenous. So when I said decisions are taken collegially, even when we don't participate, we feel like we did, because there are people who reason like us. This has strengths but it also has risks: ultimately if we*

are not intelligent, we are all un-intelligent and we will remain un-intelligent!"

Educational background is generally high with entrants to Crédit Agricole coming from various educational streams.

"*There are some MBAs, others have come from engineering schools, agricultural schools and business schools.*"

Pride and loyalty in Crédit Agricole is high for the majority of employees.

"*People generally try to develop their careers internally.*"

"*There is a strong culture of in house training. And there is an internal selection process for managers.*"

Remuneration includes a bonus system.

"*There is a variable part, which is linked to the results of the individual. On the other hand, Crédit Agricole is known for paying less well than other banks, quite simply because there is the reassuring strength of the Group for employees. So historically, Crédit Agricole has not paid more than other banks. But on the other hand, it offers a prestigious name and the loyalty and solidity which you can't find elsewhere, as well as the opportunity for considerable development.*"

Commentary on strategic control

Controls on strategy in all parts of Crédit Agricole are made both through dialogue, classical accounting/inspection and the use of scorecards.

"*The Caisses Régionales have their own scorecard, us* [i.e. the CNCA] *too, so there are different elements and consolidations.*"

"*We have a planning department and management control... otherwise there is the internal audit department* [l'Inspection Générale]."

"*...the internal audit department is in charge of checking compliance with legislation and the internal rules... Management control is more classic, ratios, etc.*"

Dialogue is however not always balanced, with sometimes the Caisse Nationale taking its legal interest in controlling the Caisses Régionales a step too far for the liking of the Caisses Régionales:

"*...they are responsible for passing on all the rules of professional banking... there are imperative parts and there are recommended parts, but they go into all the detail of the rules. The Crédit Agricole has in addition created its' own internal rules, which follow on from the text of a law... or from internal habits which we mustn't breach.*"

"*At the strategic level, it is an area where its role is a bit controversial. The Caisse Nationale is tempted to provide strategic direction, i.e. we could do this, this is good, this is not good, etc. The Caisses Régionales continuously say: no, we are free to do or not do as we wish, we are independent –the strategy does not belong to you, it belongs to each Caisse Régionale, you can think about it, you can provide direction and ideas, but it is up to each Caisse Régionale to decide. That's why we do not have a unique strategy for the Group, we have staged, differently timed strategies. On the other hand, there is between the Caisses Régionales and the Caisse Nationales a sharing of competencies –we could use a European word and say subsidiarity- everything that the Caisses Régionales can't do is up to the Caisse Nationale to do. The Caisses Régionales can not pursue international activities, we have our territorial activities and do not know how to organise ourselves outside of them, so international activity is the responsibility of the Caisse Nationale. That's why it bought Indosuez and why she has an international network – nobody contests this. If the Caisse Nationale, however, wants to organise a network of branches in France: that would provoke a strong debate with the Caisses Régionales, because there can't be too many on the same territory.*"

But it is not just the Caisse Nationale which has a role in the control of the Group Crédit Agricole, with members of the Caisses Régionales often ensuring that power games thrive. The Fédération is not just a place of debate, it is a place where the Caisses Régionales develop a balance of power to face the Caisse Nationale.

> "*...they* [the Caisse Nationale] *control and they* [the Fédération] *they know things by spontaneous report...*
>
> *...for example the Caisse Nationale sometimes asks for forecasts –what is your forecast for 1998's net product, costs, profits. The Caisse Nationale will demand this information –you must send the central structure these forecasts now! We then send or don't send them this information, depending upon our relationship with them, even when it is imperative, we sometimes don't reply. The Fédération in order to play its role, because it is a kind of counter balance, will also need some figures, so we will spontaneously give it the figures. Here they demand* [Caisse Nationale] *and here we make them available spontaneously* [Fédération]. *We keep this power struggle alive: the Crédit Agricole is continuously pursuing compromise and balance.*"

Risks are minimised however.

> "*I would like to underline one important point here, that's the concept of risk control. You can see clearly that with this organisation we can minimise risk. Why? Because, statistically it would be quite astonishing that all of the Caisse Régionale take the same risks at the same time... If one or two Caisses Régionales made some errors of investment, commitment, etc., the other Caisses would not do the same. So it limits things, it has the effect of a barrier. On the other side, if one Caisse Régionale has a good idea, then there it catches on pretty quickly... So the fire is limited...*"

Some use is made of scenario planning.

> "*Inside Crédit Agricole we prepare and elaborate scenarios and plans for: the year 2000, the year 2005, different types of banking, Marketing, etc. So*

we have a certain number of areas within the Crédit Agricole where we think. It's within the Caisse Nationale, within the Fédération Nationale de Crédit Agricole, we have places for reflection, but these places for reflection are only places for reflection –up to now in the decision making process we have always come back to our usual decision making process, that's to say the strategic thrusts [axes] *in the short or possibly medium term, which we define in the way I indicated, to which we add to as required. We haven't found it necessary to equip ourselves with what one could call a strategic code, we haven't found it necessary to equip ourselves with a medium term plan, and we haven't found it necessary to equip ourselves with any predictive capability. None of this exists, because we have internal obligations and we live with our internal objectives: capital, staff and customers; and these internal obligations guide us in our day to day operations, as well as in our short to medium term actions.*"

Re-evaluation and monitoring of strategy is carried out.

"*When we launch a new activity, such as revolving credit, we establish, as we say in French, a "business plan"* [English words used], *which normally is for three years, in order to tell us that in one year's time we will have so many customers, etc., and with a certain number of indicators about profitability and risk. Periodically, and normally more frequently than annually, when we are at the start of an activity I would say about every three months, we look at the progress report in relation to the business plan that was established, and eventually we correct things if we notice gaps in comparison with what was expected; the provision can be of poor quality, that happens quite often, or the resources that we provided or the support that we gave to those responsible for the sale of the product may not have been sufficient, and in these cases we will make the necessary corrections.*"

"*We have a monitoring process for all our activities, there are no activities without any reporting, the reporting even is subject to monitoring, as the Conseil de Direction is a group that meets every two weeks, and every two weeks we look at a certain number of indicators of activity, scorecard indicators in order to look at them activity by activity, what is the progress,*

> *where we are with regards to expectations, where we are in relation with the evolution of the market. Based on these two forms of permanent analysis and based upon this permanent monitoring, we establish our questions about the necessary realignments or adjustments. That's to say, every two weeks there are a set number of subjects that are presented and if we notice any derailment in relation to the established direction, then the Conseil de Direction will say we have a derailment, which we have to understand the reasons for, and two weeks to a month later, we will present a correction project, first of all of analysis in order to know what happened, and then of correction in order to get back on track and change the direction back. It's very interactive.*"

Qualitative as well as quantitative indicators are used.

> "*They are for the large part quantitative. We can have qualitative indicators, the qualitative indicators are more difficult to manipulate because they require more interpretation, but we can have customer satisfaction, customer waiting time indicators, taken from customer panel studies, we can also have differentiated indicators from one branch to another...*"

The distinction between what is strategic and what is tactical is purposely not made.

> "*We mix very closely day to day activity management with strategic management.*"

Summary of the Characteristics of Strategic Control Components in Crédit Agricole

Components of Strategic Control	*Real life practice in:* *Crédit Agricole*
Premise Control	3 year "*budgetary working drawing*" A 'dialectic' culture exists and numerous committees pervade all areas of activity and control within the Group
Implementation Control	Scorecards are used Management controls are reviewed every 2 weeks by the Regional Banks' management team New strategies are reviewed every quarter by management teams Control Department checks compliance of internal and external regulations throughout the Group Monthly meeting of all Regional Banks with the National Bank in committee
Strategic Surveillance	"*Ideas can sprout from everywhere*"
Special Alert Control	Aware of fundamental lack of inertia in strategic choices
Operational Control	Traditional operational controls (with heavy focus on financial control)
Environmental Scanning	Dialogue and committee meetings are relied upon to disseminate report findings
Scenario Planning	Evidence of some limited use of scenarios was found, however they are generally not used for strategic planning purposes

Summary of Findings within Crédit Agricole

Control

- Structure
  - Mintzberg (1995 pp. 350-371) talks of a political organisation, a missionary organisation and a diversified organisation inter alia: the Group Crédit Agricole is a concoction of all these three! Diversified, because at times it is indeed a set of independent identities, with, in particular, each Caisse Régionale acting in the interests of its customers and its local markets. Missionary, because there is an underlying ideology of survival and development within the context of keeping at the very least the existing levels of customers, capital and employees: it is this mission that allows for the co-ordination of the diversified and politicised structure. Political, because there are no dominant parts or parties within the Group, instead there are powerful coalitions and interest groups brought together within the CNCA, the FNCA and the aptly named Co-ordination Committee. The concept of subsidiarity reigns.
  - Structure follows strategy: differences can exist from one part of the organisation to another.
- Systems
  - A scorecard system is used, both at the Caisse Régionale and Caisse Nationale level. Indicators appear to be monitored every two weeks.
  - Annual and 3 year business plans are used for planning purposes, which are reviewed quarterly in case adjustments are required.
  - The Group Crédit Agricole clearly also uses the full range of financial (accounting and audit), marketing, personnel and IT/operations' systems as would any large business organisation.
  - Supplementing these management systems are ad-hoc working groups, that comprise members from throughout the Group, selected on the basis of competence and balanced representation across the Group. These working groups report on particular projects that affect or could affect the Group as a whole.

  - Discourse is paramount: *"it is the dialectic that differentiates it from other banks."*
- Style
  - Crédit Agricole is a mutualist co-operative: it does not necessarily follow the path of capitalism.
  - The overall style is one of a diversified hierarchy: with employees of the Caisses Régionales working their way up the internal structures of their particular Caisse in question. Likewise employees of the Caisse Nationale seek advancement within its confines. Only at the higher levels of the organisations are inter-group activities taking place, either through the projects of working groups or the discussions of the Fédération. Exceptionally some inter-group mobility does occur between the regions and the centre, although this transfer of personnel is very limited.
  - Competition is used within the organisational structures to "*organise confrontation, in friendly way*" and produce results "*that hold the road*".

People

- Staff, skills and style
  - Crédit Agricole appears aware that its weakness is that is a fundamentally conservative organisation, a patriarchy, and is slow to change. It is also proud that this is its strength.
  - Commitment from the employees appears to have been gained: with evidence of personnel willing 'to give that little bit extra' when required. Reciprocally, management, certainly at the Caisse Régionale level, appear to have a strong commitment to maintaining employee numbers where possible and if need be to the detriment of their bottom line.
  - Outlets for discussion (and perhaps strategic conversation) pervade the organisation. Management comprises a French intellectual elite.
  - A "*friendly*" competitive rivalry is engendered throughout the Group.
  - Its local, agricultural origins are still fundamental in its culture today: this commonality of purpose is the basis of internal co-operation and trust.

Strategy

- Shared values (super-ordinate goals)
  - Ensuring "*survival and growth*" is key.
  - Schuster's (1996 pg. 7) 'collective player' strategic attitude is dominant.
- Strategy
  - Strategy is based upon a dialectic. Vision is generated through an almost alchemistic process of dialogue.
  - Strategic choices and the resultant development are made through a budgetary approach.
  - In attempting to position Crédit Agricole in terms of the strategic archetypes in the literature review of Chapter 2, it appears that it is adaptive (Mintzberg 1973), an analyser (Miles & Snow 1978) and pursues a focus strategy (Porter 1980). There is no clear fit however in terms of Utterback & Abernathy (1975).

The Deutsche Bank Story

Introduction

At the time of writing various organisational changes are taking place within Deutsche Bank Group. In particular, its retail arm is undergoing restructuring in order to maintain and build upon its dominance in the domestic market. This restructuring will split the retail business away from Deutsche's private banking business. The research findings below, however, will deal with the former organisational structure and with the practices that were reported at that time. This story it must be remembered, like all the others in this thesis, provides a snapshot of strategic control practices at a particular moment in time. That time however, may well have past, but the lessons to be learnt from it have not.

Brief description of the bank

Deutsche Bank is a universal bank, comprising retail and private, corporate and institutional, investment banking and staff divisions. It has a worldwide presence in over 50 countries, with its most notable overseas brand name being Deutsche Morgan Grenfell investment banking. Its total assets amount to DM1043 billion, net income equals DM1 billion and capital reserves are DM32 billion. In terms of security it has a: Aa1 Moody, AAA Standard & Poor and AA+ IBCA rating. The number of shareholders totals 382,000 (with share capital distribution of 64% institutions, 39% foreign and 2% staff). The number of employees total 76,000 (49,000 in Germany).

The Retail and Private Clients Division employs some 27,100 staff and contributes 36% of the profit (41% of the results) of the three client focused Group Divisions. It has 1,450 branches and 250 investment centres in Germany (serving some 6.8 million customers), as well as a nation wide branch network in Italy and Spain (80 foreign locations in total). Distribution of banking services is via the traditional branch network, some 5,400 automated teller machines, Bank 24 (its telephone bank), the Internet and an increasing range of card products (e.g. Visa).

Table 14: Deutsche Bank's place within its domestic, European and world markets

Year	Ranking (in terms of Tier 1 capital $m)			Assets	Pre-tax profit	Return on Assets	Cost/Income Ratio
	Germany	Europe	World	$m	$m	%	%
1997	1 (17,371)	3	6	581,979	1,140	0.20	68.51
1996	1 (18,517)	3	6	569,906	3,145	0.55	71.70
1995	1 (18,937)	4	6	503,429	2,487	0.49	-
1994	1 (13,089)	4	13	368,261	2,049	0.56	-
1993	1 (11,723)	4	14	322,445	2,664	0.83	-
1992	1 (11,303)	4	11	303,840	2,315	0.76	-
1991	1 (11,258)	4	10	296,226	2,280	0.77	-
1990	1 (10,413)	5	11	267,702	1,631	0.61	-
1989	1 (8,462)	4	9	202,263	2,081	1.03	-
1988	1 (6,460)	5	13	170,808	1,816	NA	-

Source: The Banker, July & September 1987-98

A history of Deutsche Bank

Deutsche Bank was born on March 10, 1870 when it was awarded its banking licence by the Prussian Government. In its statutes it was noted that:

> *"The purpose of the company is the provision of banking transactions of all types, in particular the promotion and facilitation of trade relations between Germany, the other European countries and overseas markets."*

By 1873, it had spread from its base in Berlin to set up five branches: in Bremen, Yokohama, Shanghai, Hamburg and London. It also had started to accept cash deposits, an unusual activity for German banks of the day!

During the 1880's and 1890's it was actively involved in the development of the German electrical engineering industry and the iron and steel industry, using this business as base for financing its foreign activities, such as the Baghdad railway project. It also developed a number of joint ventures with some of Germany's regional banks, thereby gaining access to all major industrial regions. Slowly it expanded its number of branches, opening in Frankfurt am Main in 1886, Munich in 1892 and

Dresden and Leipzig in 1901. Continuing its careful domestic expansion and prudent foreign investment, Deutsche Bank was one of the more successful German banks, if not world banks, on the eve of World War One.

The impact of World War One was strongly felt by Deutsche Bank: it lost nearly all its foreign based assets and domestically had to cope with rapid inflation and many commercial bankruptcies. Two commercial high points during the inter-war period figured however, with its involvement in the creation of the film company Ufa and the merger of Daimler and Benz. It was also during this period in 1929, when Deutsche Bank merged with Disconto-Gesellschaft (operating under a joint banner until 1937). This merger with its strongest competitor reduced operating costs and aimed to consolidate its position in the German banking market; a market which was increasingly undergoing concentration. More significantly however it enabled Deutsche bank to survive the world depression of the 1930s.

During the Nazi era, Deutsche Bank, like all German banks of the time, were caught in the position of having to defend itself against interference of the State in its operations and collaboration. In many cases, it played the "*supportive role*" called for by the Nazi party.

In 1947 and 1948, Deutsche Bank was broken up into ten banks, with those in the Soviet zone of occupied Germany being nationalised and those in the other Allied zones operating under their old trading names, prior to earlier consolidation. Banking under the Deutsche Bank name was forbidden. After the formation of the Federal Republic however, Deutsche Bank was permitted to reform in two stages in 1952 and 1957.

The 1960's saw a concentration of Deutsche Bank's activities around retail banking, however the international business slowly grew in importance when Germany changed from being a debtor country to a creditor country.

By 1970, its international business had become more significant, with Deutsche Bank beginning to take a more global shape opening branches abroad and carrying out more internationally focused operations. This international perspective was perhaps most notably epitomised by its recent acquisition of the investment bank Morgan Grenfell in 1995.

Control

It was noted that structure is inter-twinned with planning and strategic management. The Deutsche Bank regional structure prior to 1990, where each Board (Vorstand) Member was given a geographic area of responsibility throughout the world, was said to have had the effect of making strategic management of a lesser importance than under today's divisional structure. This divisional structure (1990 onward) shifted responsibilities away from the Board to the divisional centre. Deutsche Bank Group headquarters became "*the place where strategies are brought together*" in order to "*co-ordinate and trigger*".

> "*Deutsche Bank Group has four major divisions: the investment bank, which is called Deutsche Morgan Grenfell, the commercial bank, retail banking, which is also called private banking, and then the support services which actually support all three of those.*"

The Group Executive Committee comprises the Group Board Members (Managing Directors) and the Divisional Board Members (see organisational structure in Figure 19 below). It meets four times per year.

In terms of control over strategy clear unambiguous responses are given from the top:

> "*...normally they can say yes or no but they can't say Yes but! So normally it* [the strategic plan] *gives them a package and this is the package. Either you buy it or you let it go... something like a Yes or No decision. Very, very seldom do they come and say, you have to find out this first, and let's do that, it's a question of preparation...*"

On the one hand it was stressed that:

Figure 19: Structure of Deutsche Bank AG

Ten Managing Directors (MDs) comprise the:

Board of Managing Directors

Two MDs are responsible for:	One MD is responsible for:	Two MDs are responsible for:	One MD is responsible for:	One MD is responsible for:	Five MDs are responsible for:	Two MDs are responsible for:
Retail and Private Clients	**Corporate Banking and Real Estate**	**Global Corporates and Institutions**	**Asset Management**	**Transaction Services**	**Staff Divisions**	**Overseas Regions**
Divisional Board Members are responsible for:	Divisional Board Members are responsible for:	Divisional Board Members are responsible for:	Divisional Board Members are responsible for:	Divisional Board Members are responsible for:	Heads of Staff Divisions are responsible for:	Regional Chief Executive Officers are responsible for:
Branch Sales and Customer Service	SMEs and Sales Finance	Global Markets	Mutual Fund Management	Transaction Services	Controlling	Asia/Pacific
Private Banking	MNCs and Public Sector Entities	Equities	Institutional Fund Management	IT/O Global Corporates and Institutions	Credit Risk Management	North and South America
New Distribution Channels	Commercial Real Estate	Corporate Advisory			Group Investments	
Marketing/ Product Management		Emerging Markets Proprietary Trading			Legal	
Special Assignments		Relationship Management			Market Risk Management	
		Financial Institutions			Personnel	
					Senior Management Development	
					Strategic Planning	
					Treasury	

Source: Deutsche Bank AG Annual Report for 1997

Note 1: Only those staff divisions that participate in the Group Executive Committee are shown. Additional staff divisions are: Auditing, Communications, Compliance, Economics and Taxes.

Note 2: Responsibility for non-overseas regions is shared amongst the Board of Managing Directors.

Those responsible for the above positions comprise the:

Group Executive Committee

"...we all share a corporate identity, I guess the Deutsche Bank is very, very strong: you should always remind yourself we are talking about something which is 126 years old."

On the other, it was noted that the divisional structure and divisional rivalry has a direct impact on the management of the Group, where, for example, the financial implications of a division having a weaker Board Member representative to fight its corner in Group Board meetings was noted:

"If there's a Board member who is not that strong, you are going to face some problems with fund raising and ideas..."

In addition the impact of the new resource based strategy system was also felt in the Board in terms of contribution that the individual Divisions made to Group resources:

"Shareholder value research shows that returns on equity can amount to an awful lot of money in retail banking, without too much equity [i.e. capital] *being involved. So, your position, of course, becomes more and more important and at the end of the day when we bring back an important share of the money* [i.e. more than other Group Divisions] *we have something like a strategic bargaining* [position]."

Strategy

"Strategic management in Deutsche Bank is a five year plan that rolls over annually. The new model is based upon the Harvard Resource Base Review Model, which is about exploiting strategic assets."

Group Strategy (referred to internally also as AFK):

"normally prescribe some forms: this time it was resource based analysis and resource based strategic planning -Professor Collis[1]*, from Harvard, he designed this process... we try to bring the strategic planning process of the*

[1] For an introduction to the resource based view of strategy see: Collis and Montgmery (1995)

entire business unit in one folder, in one form so everything is quite similar to one another."

"They normally develop an overall framework or guideline as to how to structure the presentation of the strategic plan and in some cases they would suggest the development of the strategic plan, but clearly in terms of presentation it is advantageous to have all four divisions presenting something to the Vorstand where there is some similarity between them. Again, this will allow for the similarities to be looked at between those groups and so on. They also provide some people to help, if we wish, in the process, so there is very good co-ordination. But again, they have properly understood that they should not be doing the strategic plan for the... [division], they think they should be assisting and providing guidance and guidelines, but not actually producing it... They recognise that there would not be the buy in or the quality of product if they tried to do it themselves."

The first time the "*Harvard-Deutsche Bank framework*" was followed by the banks' divisions was in October 1995:

"This was a two months process, which set out to identify resources for the next 5 years. It looked at: competitors, from Sainsbury's to Microsoft to other banking competitors; it covered tangibles and intangibles; and it studied capabilities, weaknesses and possibilities."

This strategic process follows on immediately after the yearly operational and financial reviews, which take place during September through December. These reviews involve nearly all staff and were contrasted to the narrower involvement of only Board and Staff Members for the strategic review. Indeed, at the divisional level the numbers of those involved in the strategic review are quite constrained:

"*it's something like a task force, which is our Senior Vice-Presidents* [i.e. the Bereichvorständer or Divisional Board Members]... *and they have got some people involved doing the paper work and all this number crunching...*"

"... so what we had was a basic team with basic ideas and we simply walked around and said, can you tell me this and can you tell me that and do you have these figures and do you think that's right? So it's not that you have people coming from Italy and Spain, our major markets, flying over to Germany to discuss for some three or four hours, but we have something like questionnaires we give them, and then we have some discussions, but more or less we used modern media and not so much time consuming visiting and walking around."

The strategic review was also said to be:

"a more qualitative process, with more words and with few quantitative guidelines. Only a few key ratios are used: 25% return on equity before tax (currently 17%); 0.75% return on assets before tax; 60-65% Commercial and 70-75% Investment Bank cost income ratio; 60% tier 1 and 70% tier 1&2 Capital Adequacy Ratios."

"Of course we have got some figures which are on equity and so on, which we have to achieve, but the quality of the divisions is what counts."

A certain pragmatism to the limits of the strategic review and the strategic planning process is born in mind:

"I guess the process allowed us to bring into words our strategy. It's not that you run around and say well let's wait for the strategy department to come and then define our strategic aims and targets, and then OK we try to fulfil them. I guess you have something like an ongoing process: you take a look at retail banking especially in Germany and you will find something which is evolving incredibly fast actually, so if you would wait for certain points in time to start to do strategic planning you would be totally lost. So what we are doing actually is describing options and telling people why we are not following these options and why we are doing this, and why we are not doing

that. So I guess strategic planning today is more or less something like the point in time where you state where you actually stand, because... you already walk while you are planning where you go."

This pragmatism is shown again in Deutsche Bank's attitude to facing environmental change:

> "*...we have got too many outlets; they are very expensive. Germany is over banked in our core market, and so I guess something already went wrong and we are trying to fix it and we are in a pretty good way to fix it. So what we are talking about is a restructuring project and this restructuring process is written down in our strategy, so if something goes wrong all that is going to happen will stay like it is and then we are not going to achieve the changes we want.*"

The strategic review culminates in a short 5 or 6 page "Strategic Planning Framework" document, for each of the divisions, covering "*the market position and competitive environment, and the resource endowment*" of each of the division's strategic business units (see Appendix 8 for a detailed example). The divisions are responsible for completing the framework document, which is issued, with back up support available for its completion, by the corporate strategic planning department:

> "*we have a framework to fulfil at least, but all the content comes from our division, nobody knows better than us.*"

The level of Group Strategy input clearly varies, but was said to be "*considerable*" by one corporate strategic planner. Once completed, the framework document is submitted by the division heads to the corporate strategic planning department, who summarise and synthesise the various divisions reports into one single Group Strategic Planning Framework Document. This is then presented to the Vorstand (Group Board) prior to the two day annual strategy meeting.

At the Group annual strategy meeting, each division is allocated half a day to present and discuss their strategy. The general format, was reported to be a "*30 minute presentation by the division, followed by a 3 hour discussion.*"

When asked about how ideas are assimilated and assessed about the future, one respondent noted:

> "*Management thoughts and ideas come up to the Group Strategy Department or down from the Board. Group Strategy does the analysis and also does its own mega-trend analysis, for example: through environmental analysis; through the use of the Research Department's regional development and macro development reports, and the Divisions' country analysis reports.*"

Another respondent noted:

> "*I guess it's not this or that that's going to happen, I guess it's more a question of time: when is it going to happen? We know some things are going to happen. We've got markets we can follow: if you take a look at the Asian market you see Electronic Banking you cannot imagine; on the other side of America where everybody thought Direct Banking and Internet Banking is going to be the future, it's not that big a success; so I guess it's not a question of what is going to happen, what is very difficult to see is when it's going to happen, and are we going to be something like leaders, are we going to be followers or are we going to be too late, and of course we don't want to be too late.*"

Scenario planning was said to be used in order to "*look at the options for the future*", however no explicit examples were obtained.

The relationship between Group Strategy and the Retail Bank appears constructive:

> "*Well I guess its something like a very symbiotic approach. One can't do his work without the other...The head office in retail banking is very lean -we are talking something like 150-180 people here, centralised, guarding 20,000*

people -you won't find this ratio anywhere else in the Deutsche Bank. I guess we are pretty much dependent on them and normally we would work together pretty well."

Methods are provided by Group Strategy and the Retail Bank provides the ideas and facts:

"*Well of course it happens, somebody has to decide this framework is going to be valid for the entire Deutsche Bank Group, and it is not us in Retail Banking to do that, it is them of course. So from time to time imposing some issues and OK it has to be this and that, but they are not going to tell us you are going to buy ABN Amro, etc.*"

When asked whether any large differences existed between Deutsche Bank and other banks, the following response was received:

"*Well I guess the biggest difference is that Deutsche Bank is not really a fan of incremental change, that means one day if we decide we go into this direction, we go there - come what may -whatever you like is happening we are going to go there, until one day: when we have the common sense to say "we will stop there". So once we make up our minds I think it is very hard to stop us, so this is something very specific about Deutsche Bank, I presume.*"

People

"*Banking in Germany had no strategic thinking culture until 1973 and the end of Bretton Woods*[2]*. Also that year coincided with competition becoming tougher. Prior to this growth had been high and there was no international competition. 1973 was also the year of the oil crisis, making the economy in Germany shrink and forcing the banks to rethink. Banks introduced a cost calculation system where before only income was considered.*

[2] Presumably referring to 1976, when a major revision of the Bretton Woods Agreement was signed and gold was removed from the articles of the International Monetary Fund.

1965 saw the first real arrival of competition. 1970's was the period of the planning process, with extrapolated financial planning and the dominance of the Accounts Department. In 1982, Accounts became the Accounting and Planning Department. 1992 saw the Accounting and Planning Department become Controlling. 1995 saw the first international competition arrive and the need for strategic management."

When asked more specifically about people within Deutsche Bank, the German tradition of in-housed development was noted, although it was pointed out that the situation is changing with more people being recruited from outside, including from non-banking sources. Within the Retail Bank head office, in particular, the people were described in the following way:

"*What you have to have is some banking experience either you had it from the beginning or you get it here, and we have on all levels people coming down from apprenticeships, starting through Deutsche Bank education system. We do have direct entrants from universities and we do have entries from consultants like McKinsey. We do of course, very seldom, have entries from other banks and we do have entries, for example in the Marketing division from retail competitors, not retail banks, so somebody from Proctor and Gamble, somebody coming from Aldi –there is a very wide variety of possibilities to enter Deutsche Bank.*"

"*...What has been very difficult for us was the very hierarchical way of doing things, but that changes pretty much, I mean you are talking to somebody who is 30 years old and having a lot of fun in his job and seeing a lot of things some 10 years ago I wouldn't have even thought about, so this is changing, so Deutsche Bank is offering very interesting job opportunities today.*"

There was said to be a limited, "*but not huge*", business school background amongst staff.

"*The culture is image driven and not cost driven.*"

Each country was noted as being different, and with the head offices of the various divisions being located in different countries it was pointed out that the culture and people would be somewhat different for each division. Germany is the home of Deutsche Bank's Retail and Corporate Banking operations where image was stressed as being fundamental, with Deutsche Bank being perceived as "*the biggest bank, the number one bank and the prestige bank.*" The mentality of the bank was said to be changing (for the good) "*to think profit*", but the "*process takes time*". Retirement ages have changed to facilitate this task, and to allow for easier adaptation to fit the environment, to between 60 and 62. It was pointed out that "*the German labour market is highly regulated*" and so losing staff is highly expensive. 75% of the workforce is also unionised. The culture was also noted as being: "*not generally competitive, trust based and not too cut throat.*" This said, changes have been made in workforce numbers with large numbers of "*older Germans being given early retirement.*"

> "*Some 20 years ago or something like this, you signed a contract with Deutsche Bank and you were quite sure that when you are going to retire having worked for Deutsche Bank. Today, let's talk about retail banking, that's what I know, I guess it's more that you enter Deutsche Bank to achieve some personal goals. But as I said to you we are multinational, we are going international, we are having a certain mass to manoeuvre, so all the time you have got very interesting jobs and I presume it is more or less a question of what you get from your job as to how long you stay today.*"

25% of the workforce was said to be on a "*fixed and variable*" remuneration scheme, with the variable proportion being based upon contributions to shareholders.

Nationality within the Deutsche Bank Group was said to be predominantly German, but the perspective was seen as non-German:

> "*It's Deutsche Bank and from the English point of view, you might say, OK they are Germans, we are not, I guess Deutsche Bank is something very*

special... something like outstanding –the biggest, the richest. We are very well educated, international, we are a multinational company no doubt about that -even retail banking is going to be more and more international- so what you find is something like 'German Bank' as one of the most international banks in Germany, which is quite strange."

Within the Vorstand (Group Board), formerly with 12 members, now 10 and possibly 7 in the future, there are 1 Swiss and 1 English national. Amongst the Divisional Heads there are 11 non Germans out of 24. Within Group Strategy there is 1 Italian out 44 Germans.

When asked to explain in further detail about how international the Retail Bank is, Italy was used as an example:

"*...Italy our biggest market* [outside of Germany], *there we do have private banking and retail banking* [businesses]... *in the year 2000 and whatsoever, you will go in there and say OK this is Deutsche Bank. I presume our vision is the European bank approach, it has to be, the Euro is coming up and all you can do is either say OK I am staying national or you go international. Well, a bank of our size has no choice and we do have the will to go international...*"

The international system which is used is perceived as a Deutsche Bank system rather than a German banking system:

"The Board of Directors in Italy is Italian. Of course we have German controllers in all this, we do have an exchange, but I guess it is something like, there is no imposition of the German bank."

One final insight into the culture of inter-divisional relations was provided:

"Everybody says 'well I know better'. This is something very specific about retail banking and this is making strategic planning and moving into certain directions quite difficult, you always find somebody saying shouldn't we do this and that and from his point of view, he is always quite sure that he is

right, because retail banking from a point of view of an outsider doesn't give you the impression of being very, very difficult."

Commentary on strategic control

> "*The Corporate Strategy Department monitors implementation: SBUs are highlighted and regions are focused on.*"

This monitoring is done on a monthly basis. It was noted that there was "*nothing yet on a qualitative monitoring system*" because "*the system is still new and the Vorstand members are new.*" This said: "*the annual meeting will be the main review of qualitative objectives, to check on time frames and performance.*"

It was envisaged also that six monthly reporting meetings with division heads were to be implemented (currently however they remain annual). The divisions set their own targets, including supplementary or personalised divisional targets, which are not required by the Vorstand's strategy framework document. Where one respondent noted that:

> "*Monitoring is on trust and allows for an individual approach.*"

The Board – Divisional Board relationship was described as follows:

> "*...Dr Pauluhn... and the other three, they are head of our business division and they are responsible for this business unit, so actually what they do is something like telling the head office we are going to do this and that and we will ask you for approval. That I guess is a pretty fair way to describe it, so it's not like a dictation, you have to do this and you have to go around like this. It's like a question, something like: why do we have a direct bank and why don't we have that and why are we not going to the UK and things like that, or, trust me, we always have the right answer...*"

The Board looks at typically nine "*critical projects*" each year:

> "*Each of these are monitored specifically and co-ordinated by the Group Strategy Department in committees. The projects can be regional, divisional or a mix, for example, larger clients are managed globally.*"

Interestingly it was stressed that the "*client relationship*" was managed separately, in addition to the nine critical projects because "*it is so important.*"

The strategy system used by Deutsche Bank was said to be "*tested continuously*", with "*checks on the in-house operationalisation*" being made and with information and requests going back to Harvard. The Divisional and Group Board Meetings were perceived as the primary fora for strategic control review. It was pointed out that: "*the old system for strategic management used more figures to the point where the Divisions became obsessed by figures and didn't think about strategy.*" The new system has been established to rectify that and appears to have done so whilst leaving healthy pragmatism alive:

> "*The question is not do you like controlling strategy, the question is, does it have to be formalised...on one hand we need to sit down and say: where are we and where do we want to go, on the other... formulisation of that kind is very time consuming and in the end normally we won't find anything we didn't know before. So all you are doing is writing down what you already know and putting it into some form of structure...*"

There was also a perceived overlap between operational and strategic reporting, where the former blurs into the later. When a divisional level strategic planner in the Retail Bank was asked about strategic monitoring and reports, they pointed out that Divisional Board Members meet every two weeks, whose members in turn also meet with the Group Board Members every month. These meetings and those with Group Strategy were perceived as meetings with "*partners*", partners who needed to be "*involved and informed*" with strategic developments.

Summary of the Characteristics of Strategic Control Components in Deutsche Bank

Components of Strategic Control	***Real life practice in: Deutsche Bank***
Premise Control	5 year rolling plan: "*a directional map*" 2 day annual strategy meeting by Group Board
Implementation Control	Corporate Strategy monitors implementation each month (quantitative analysis only) The Group Board looks at nine "*critical projects*" annually, then co-ordinated by Corporate Strategy The Divisional Boards discuss every 2 weeks and discuss with the Group Board every month The annual strategy review checks on qualitative objectives (time frames and performance) and ensures that financial ratios are met Divisional Planning and Strategy Departments monitor on on-going basis formally, e.g. milestones, and informally, e.g. periodic conversations
Strategic Surveillance	Corporate Strategy uses reports from the Research Department and the divisions, regions, critical project teams
Special Alert Control	None: said to be aware of problems: "*it's a dynamic environment, where the planning and management have to be extremely dynamic as well*"
Operational Control	Overseen by Control Department Quantitative analysis dominates Divisional targets are set for the year
Environmental Scanning	Divisional, regional, critical project and Research Department reports
Scenario Planning	Corporate Strategy formulates and analyses ideas or is directed to do so by the Group Board Mega trend analysis

Summary of Findings within Deutsche Bank

Control

- Structure
  - Deutsche Bank is Mintzberg's (1995 pp. 350-371) 'diversified' organisation in the sense that each Division has significant freedom of operation as long as certain standards of performance are met[3].
  - The centre is the place where strategies are brought together in order to "*co-ordinate and trigger*".
- Systems
  - Group Strategy co-ordinates the 'Harvard resource based framework' of strategic planning, whilst leaving the divisions to formulate strategy.
  - The strategy cycle begins immediately after the annual operational and financial reviews. These later reviews involve all staff, compared to the strategic review which involves the Board members (divisional and group level) and central staffers only. Mostly qualitative criteria are reviewed, along with a few key quantitative ratios.
  - Monitoring of strategy implementation is carried out by Group Strategy on a monthly basis, using quantitative criteria only.
  - A "*symbiotic*" relationship is said to exist between Group Strategy and the Retail Bank HQ, due to its lean nature, where one can't do its work without the other.
- Style
  - A partnership between the centre and the divisions was emphasised by respondents: with both showing an appreciation of each other's role.
  - Some degree of strategic control awareness appears to be present within management at all levels.
  - Deutsche Bank is a not "*a fan of incremental change*", but rather a 'strategic leap' organisation.

[3] Note: 1998 has seen the implementation of a new divisional structure, with the addition of a "*Corporate Centre*" which "*will mainly have supradivisional functions, supporting the Board of Managing Directors in its management work and ensuring uniform development based on key figures, targets and common principles.*" Source: Deutsche Bank AG Annual Report for 1997.

People

- Staff, skills and style
  - *"we all share a corporate identity... you should always remind yourself we are talking about something which is 126 years old."*
  - There appears to be a positive awareness that the strategic framework plays a valuable role, yet is only a summary of the wider reality, which can only be fully described through discussion.
  - Deutsche Bank staff appears prepared to change with the times: having a wide range of experiences and an international perspective.
  - People adhere to a Deutsche Bank system, as opposed to a German banking system.

Strategy

- Shared values (super-ordinate goals)
  - *"the biggest bank, the number one bank and the prestige bank"*
- Strategy
  - *"Strategic management in Deutsche Bank is a five year plan that rolls over annually. The new model is based upon the Harvard Resource Base Review Model, which is about exploiting strategic assets."*
  - There is an appreciation of the need to keep up with changes, however, a realisation that *"it's not a question of what is going to happen, what is difficult to see is when it's going to happen"*.
  - A strategic planning executive at Deutsche Retail Bank was asked to describe its strategy in terms of the strategic archetypes in the literature review of Chapter 2. The response was as follows: entrepreneurial (Mintzberg 1973), sales maximising (Utterback & Abernathy 1975), an analyser (Miles & Snow 1978) and pursuing a cost leadership strategy (Porter 1980). An emphasis on brand loyalty and *"selling the image"* was also highlighted which fits with the prestige factor of Deutsche Bank's shared values. A hybrid Porter archetype would therefore be a better reflection of the strategic approach followed, one that offered standardised products (cost leadership), yet emphasised the personalised Deutsche Bank approach (differentiation).

The Dresdner Bank Story

Introduction

The Dresdner Bank Group would appear to have no formal strategic management systems or frameworks. Certainly, the "*few wise men*" at the corporate level do not appear to produce any guidelines of best practice and leave strategic management to those at the business unit and divisional level to devise. Strategic management, one supposes, must therefore be informal given that individual business strategies are formulated. Indeed, evidence has been seen by the writer that shows strategies to have been devised in a relatively comprehensive and rigorous way, albeit that they tend to be 'one-off' and 'ad-hoc' in nature.

Control, one supposes, is also informally organised or when formally approached is carried out on a traditional financial reporting basis. At no point were any qualitative issues shown to have been considered, leaving the writer only to assume that likewise some measure of these are taken into account informally.

Each division would appear to be different, with some being more formal than others and with the degree of strategic rigour varying according to the individual makeup and expertise of the business unit manager.

Brief description of the bank

Dresdner Bank is 125 years old, it is a universal bank comprising private, corporate, investment and institutional banking businesses. It has a worldwide presence in over 70 countries covering each continent, with its most notable overseas brand name being its Dresdner Kleinwort Benson investment banking (acquired in 1995). Its total assets equate to DM677 billion, net income equals DM1.7 billion and capital reserves are DM18 billion. In terms of security it has a: Aa1 Moody, AA Standard & Poor and AA+ IBCA rating. Shareholders number approximately 200,000 (2% of shares are held by staff). The number of employees totals 46,000 (7,300 abroad). Some 1,500 branches are operated by Dresdner Bank Group companies (90 outside of Germany) serving some 6 million customers. 1,200 are identifiable as high street 'Private Customer Business' branches, including 700 locations offering financial advisory services. Distribution of banking services is also via automated teller machines and credit card products. New Internet and telephone banking services are planned for 1998. Analysis of Dresdner Bank's income in 1996 and 1997 by geographical market shows that some 80% is generated in Germany, with approximately 10% coming from the rest of Europe and the remainder split between North America and Asia.

The private customer business of Dresdner Bank AG was described in the following way:

> *"Customer orientation and customer commitment are our guidelines in serving 6 million individual customers throughout the Group, with customer satisfaction being our top priority. Professional quality management techniques are being applied to enhance our product range including customer and employee surveys and test purchases. Dresdner Bank's ombudsman helps us to maintain a high level of quality. On this basis, we are convinced that Dresdner Bank is well prepared for the inherent challenges in today's market: more demanding customer requirements and increasing competition. Our objective is to be the advisory bank in Germany and indeed, we have made significant progress towards achieving that objective."*
>
> Source: Dresdner Bank AG Annual Report 1997

An intriguing observation, particularly given the strategic alliance between Dresdner Bank and the BNP, was made by one respondent about the strengths of German banks vis à vis their European competitors:

> *"The French situation is worse than it looks! They were only privatised in the 1980's –they were kept like a Post Office- and now they have the impossible task of catching up with everybody else. France, however, dreams (unrealistically) of being able to catch up!*
>
> *The German situation is also difficult, we have the historic task of supporting the East German economy, which has a huge impact and is a heavy burden on the West."*

The strategic alliance between Dresdner Bank and BNP removed the need for either party to invest in the development of a network in the other's domestic market; instead access to one another's services was opened to both banks' clients. The two banks also co-operate in a number of areas, including capital market operations, loan syndications and staff exchanges.

A history of Dresdner Bank

Dresdner Bank was founded in Dresden, Germany in 1872 with some 30 employees. Despite some difficult prevailing economic conditions, such as the Vienna stock market collapse in 1873, Dresdner Bank managed to keep its finances in the black during its initial years. In 1881 it opened a branch in Berlin and soon after in 1884 its management relocated to the Berlin office (although leaving Dresden as its registered office until 1950). 1892 saw Dresdner Bank open an office in Hamburg, followed by a branch in Bremen in 1895 (as a result of the take over of Bremer Bank, founded in 1856). Also in 1895 its first foreign office was opened in London, soon followed by offices in France and the USA.

The First World War and its aftermath of inflation and economic crisis hit Germany and the Dresdner Bank hard: every third person within Germany of employable age became unemployed and Dresdner Bank faced its share of queues of customers waiting to withdraw their deposits (as a result of hyper-inflation the balance sheet at the end of the 1923 financial year totalled an amazing DM204 trillion). Economic crisis was followed swiftly by political crisis, the arrival of the Nazi regime and the Second World War.

At the end of World War Two and the division of Germany, Dresdner Bank had 160 branches (compared to 322 prior to the war) and faced a more difficult situation than many other German banks, as it had also lost 60% of its former business volume in the annexed East Germany and 80% of the Bank's buildings in West Germany were destroyed. In 1947, the Dresdner Bank was broken up into regional banks, with separate operations in each of the 11 German Federal states. In 1952, these eleven banks were merged into three and finally were permitted to reform under the Dresdner Bank name once again in 1957. Its head office being re-located to Frankfurt am Main (where it still is today).

The late 50's and 60's saw Dresdner Bank rapidly expand its branch network and join in the 'economic miracle' of the German recovery (it was the first German bank to introduce electronic data processing). In 1967, Dresdner Bank was the first German bank to establish a foreign subsidiary (in Luxembourg) and in 1972 Dresdner Bank opened its first two overseas branches in New York and Singapore, followed by additional branches in Moscow, London and Tokyo in 1973.

Following the fall of the Berlin Wall, Dresdner Bank was finally able to re-open its offices in Dresden in January 1990. In recent years it has continued to develop domestically throughout the re-unified Germany as well as internationally through the expansion of its foreign business activities (it was the first European bank to set-up a fully operational branch in re-opened Beijing in 1996).

Table 15: Dresdner Bank's place within its local, European and world markets

Year	Ranking (in terms of Tier 1 capital $m)			Assets	Pre-tax profit	Return on Assets	Cost/Income Ratio
	Germany	Europe	World	$m	$m	%	%
1997	2 (10,456)	13	28	372,594	1,830	0.49	69.95
1996	2 (9,325)	15	29	355,605	1,777	0.50	NA
1995	2 (9,203)	15	31	332,909	1,396	0.42	-
1994	2 (8,856)	15	35	253,818	1,102	0.43	-
1993	2 (7,077)	15	37	220,562	1,061	0.48	-
1992	2 (6,254)	20	40	204,178	1,001	0.49	-
1991	2 (6,473)	17	32	194,488	867	0.45	-
1990	2 (6,424)	13	25	189,500	1,022	0.54	-
1989	2 (5,405)	NA	26	147,001	796	0.54	-
1988	2 (4,284)	NA	34	129,733	621	-	-

Source: The Banker, July & September 1987-98

Control

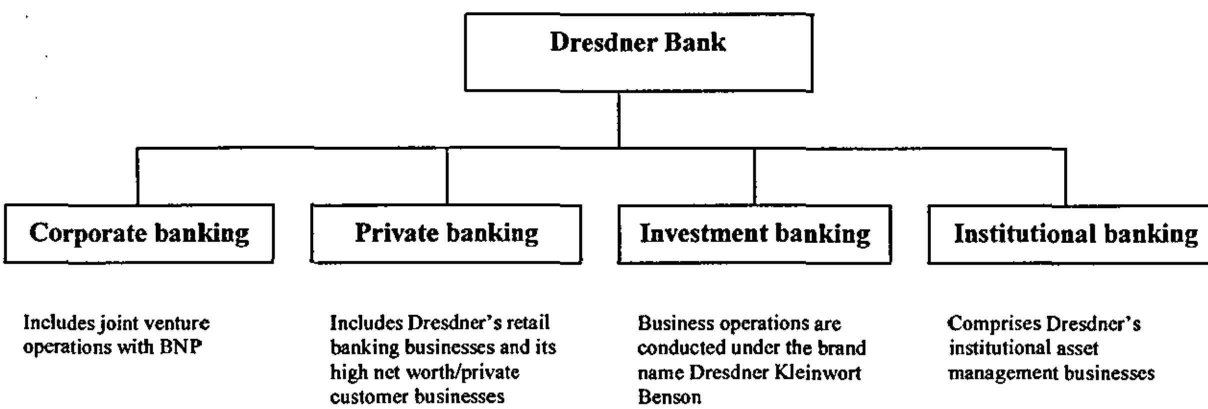
Dresdner Bank has some 1200 branches for retail customers, currently organised into 16 regions (with potential plans to reduce this number to 10 regions).

No official organisational structure was able to be obtained from respondents during the period of research, however, an outline sketch of Dresdner Bank Group structure is broadly as shown in Figure 20 below.

The businesses themselves were said to make and control their own strategy, with the centre acting as an advisor.

> *"Dresdner Bank has shifted control of certain operations to overseas centres, for example, Equity is in London and Asset Management is in San Francisco... These centres have complete control of their operation."*

Figure 20: Dresdner Bank Organisational Structure



The organisational structure is designed to fit its markets:

> *"The New Market Approach is a new structure. The bank was created back in 1872 and all German banks were very small regional banks. We therefore had to be negotiators (brokers) and lenders of capital. Similarly, over time more and more conflicts of interest arose as we also became significant shareholders. Hence, we became a 'Universal' bank.*
>
> *In the 1980's McKinsey came into the bank, and all banks in Germany, to break up this idea of Universal Banking. The new approach, however, is to accept the Universal approach, but to segment the markets clearly (today's new Consultant is Boston Consultants). What's interesting, however, is that US banks are becoming more German* [more Universal] *in structure."*

The reporting process is both oral and written, and although the emphasis is on appropriate talking, there are, however, monthly financial and operational reports made: "*first a report and then a discussion.*" This operational and financial reporting was seen as the basis for Dresdner Bank's control system.

> "*meetings are organised by the headquarters, and we speak to them about what they have done in the last period and what they will do in the following period, we speak about the aims and new products, etc.*"

Lines of responsibility at the retail bank business unit level are blurred:

> "*On the highest level it is the man responsible for the private banking in the Vorstand and at the other level, there are some people in the headquarters in Frankfurt and others in the regions.*"

> "*...we make plans and so on, but the people in our regions have responsibility for the profits they make in their region. So there is nobody in the headquarters, in Services or Personal Banking, saying you must do this or that, but rather I think it is a discussion process.*"

> "*...we have meetings with these people in the regions, responsible for personal customers or for retail banking customers, and in every region there is a person responsible for their personal customers and a person responsible for retail banking customers.*"

> "*...they meet with the person who is responsible for private banking as a whole* [every quarter] *and other times they meet with our navigating unit here in the headquarters* [every trimester]. *They make appointments in turn to discuss their aims.*"

All control(s) was said to be based purely upon operational or financial reporting lines.

Strategy

Structure follows strategy:

> "*The strategy was set three years ago and from that time all the Dresdner Bank branches are working with these two groups of customers or a better way to say it would be three groups of customers...* [i.e. retail banking, private banking and high net worth customer banking]. *In former times these three groups of clients were combined and given advice in every branch, now we have made profit centres for each of these customer groups...*"

There is an annual process of "*goal definition*":

> "*we make a plan for how we want to go next year and what we want to do in private banking as a whole, and we make aims for the groups (profit centres).*"

The strategic management system was reported to be defined and operated by the individual business units.

Ideas about the future are obtained from the personal views of Department heads and staff, from literature, market data and Dresdner Bank customers. These views are then used for 'scenario planning' purposes, to allow for worst case, best case and desired case scenarios to be looked at.

Three times a year the seven Department heads of the Private Bank division meet to discuss direction, otherwise:

> "*two way communications were key to back up the classic monthly financial and operational reports.*"

Dresdner Bank's key factor of success was "*advising*" or its advisory capacity/capability. This term originates from the Dredsner Bank Group corporate objective:

> *"Our objective is to be the advisory bank in Germany and indeed, we have made significant progress towards achieving that objective."*
>
> *Source: Dresdner Bank AG Annual Report 1997*

Operations were defined as day to day tasks and "*strategic*" tasks were seen as "*longer term*". Little understanding from any respondent was shown as to the need for control or monitoring or reviewing other than in the general day to day management duties.

Dresdner Bank does not have any central strategic management department input, with in fact no such unit in existence other than "*a few wise men who deal with acquisitions*". It was reported by one respondent that: "*all the divisions are doing their own thing and that they do not always know what the others are doing!*"

People

When asked to talk about Dresdner Bank culture, one respondent reported that it was one where staff were "*free to think*" and yet were conscious of being "*cost effective*".

The lack of rigid structure and central strategic management input was defended by more than one respondent. A strong sense of self-determination was seen to be important at both the personal and bank level. One respondent noted that:

> "*the bank should do its own thing and that those who know should make the decisions and that no input from others –and certainly no decision making-should be made.*"

It was said that Dresdner Bank "*tries to have a flat structure.*" Interestingly, in cultural management terms, when the interviewer made first contact with Dresdner Bank the existing organisational structure was not known and had certainly not been made into a chart. One was said to be "*currently being worked on*" and "*not yet finalised*", leaving some staff having to improvise producing their own "*unapproved*" versions for internal purposes. It was said that:

> "*even producing a chart could be seen as controversial because certain jobs might disappear or change as a result.*"

The majority of Dresdner Bank employees are German, due to the bank's predominantly domestic focus.

Personnel are trained through "*in-house training programmes and apprenticeships*", the main focus of which are banking examinations. Entrants to the bank were often said to have studied Business Administration.

Staff were reported to stay working in Dresdner Bank for longer periods than they would perhaps in other countries, although it was pointed out that this situation is slowly changing over time.

Summary of the Characteristics of Strategic Control Components in Dresdner Bank

Components of Strategic Control	*Real life practice in:* ***Dresdner Bank***
Premise Control	None, other than an annual process of "*goal definition*"
Implementation Control	The heads of the business units are responsible for making and controlling their own strategy, they are 'advised' from the centre through "*two way communications*" and dialogue The independence and self-determination of each business unit is proudly defended
Strategic Surveillance	No formal system exists, but information is obtained by managers from literature, market data and talking to customers on an ad-hoc basis
Special Alert Control	No evidence of this was found
Operational Control	Operational and financial reporting is the basis of Dresdner Bank's control system Financial "*controlling*" is done at a Group level
Environmental Scanning	Nothing was reported, although one would expect some form of environmental information reports to be maintained by a business organisation of this size.
Scenario Planning	Little use appears to be made of scenarios, other than 'worst, best and desired case' projections

Summary of Findings within Dresdner Bank

Control

- Structure
  - Dresdner Bank is the epitome of Mintzberg's (1995 pp. 350-371) diversified organisation: with each banking sector having its own systems.
- Systems
  - Formal strategic management did not appear to be the Retail Bank's strong point: with no evidence of a formal system or framework being found.
  - Divisional independence is strongly guarded: "*all the divisions are doing their own thing... they do not always know what the others are doing.*"
  - Planning appears to be limited to a 12 month horizon: "*we make a plan for how we want to go next year...*"
  - Operational and financial reporting makes up the entire control system.
- Style
  - "*So, there is nobody in the Headquarters, Services or Personal Banking, saying you must do this or that, but rather I think it is a discussion process.*"

People

- Staff, skills and style
  - Self-determination in decision making was seen as important amongst all interviewees.
  - Quality management techniques appear to have found their way into the retail business.
  - The combination of independence and quality is leading staff to take a "*professional*" approach.
  - Of all the banks investigated, Dresdner Bank respondents were the most reticent in describing their strategic control practices or views on such a system.

Strategy

- Shared values (super-ordinate goals)
  - *"reliability and being prudent yet bold"* (Dresdner Bank Annual Report 1996).
  - Dresdner Bank appears to fit Schuster's (1996 pg. 7) conservative banker's strategic attitude well.
- Strategy
  - The Retail Bank's objective is to be the number 1 financial advisor to retail customers in Germany.
  - Operations were defined as day to day tasks and "*strategic*" tasks were seen as "*longer term*".
  - In attempting to distil some form of strategic position for Dresdner Bank, in terms of the strategic archetypes in the literature review of Chapter 2, it could be said that it is: adaptive (Mintzberg 1973), performance maximising (Utterback & Abernathy 1975), an analyser (Miles & Snow 1978) and pursues a differentiation strategy (Porter 1980).

The Lloyds TSB Story

Introduction

Lloyds TSB is a relatively new organisation, the product of the merger of Lloyds Bank and TSB (formerly known as the Trustees Savings Bank) in 1995. Organic growth has continued in this organisation with further recent acquisitions. These changes are still having repercussions on existing organisational structures and systems, and indeed on employees. The information reported here refers to Lloyds TSB Group as was at the end of 1997.

Description of the bank

Lloyds TSB is a financial services group comprising retail banking, mortgage, insurance, wholesale market and international banking businesses. Lloyds TSB Group total assets amount to £158 billion, net income equals £2.3 billion and capital resources equate to some £6 billion. The number of ordinary shareholders totals some 1 million (50,000 staff). The number of employees totals 82,500 (some 52,000 in Retail Banking). Interestingly one respondent noted that the age of *"the bulk of the people are 45-50."* The Lloyds TSB Group's core market is in the UK, they are also active overseas, principally in Latin America, Europe, New Zealand and Offshore Banking centres.

Retail Financial Services contributes the largest share of total Group profit (65%), with its Retail Banking businesses generating almost 25%. The number of customers amount to some 15 million. The Retail Banking arm is comprised of Lloyds Bank, TSB and Cheltenham & Gloucester and has nearly 2,900 high street branches and 500 business centres. Distribution of banking services is via the traditional branch network, via some 4,300 automated teller machines, via 'PhoneBank' its telephone banking operation, the Internet, television and through a wide range of card products (e.g. MasterCard and Visa). Its 371 Estate Agency branches, stockbroking activities and Hill Samuel Asset Management products are also managed under its retail banking umbrella. In terms of security Lloyds Bank was listed as having a: Aa1 Moody and AA IBCA rating; and TSB as having a Aa1 Moody rating.

"The constant challenge of any business is to secure and sustain competitive advantage. In a highly competitive environment, the last thing we want to do is to spread our resources too thinly and with unnecessary risk over too many activities. We continue to believe that tomorrow's most successful banks will be built on focus, not diversity. This requires us to concentrate on the things we do well and then strive to do them better than anybody else.

Our aim is to be a leader in our chosen markets and, over recent years, the acquisition of Lloyds Abbey Life and Cheltenham & Gloucester and the merger between Lloyds Bank and TSB have greatly enhanced our leadership positions... Where we are not a leader, or where we cannot aspire reasonably to leadership, our course will be to divest and capture the value for shareholders. We would rather be a leader in a few markets than a minor participant in many...

In pursuit of our aim of maximising shareholder value, we use a system of value based management as a framework for making business decisions; and we choose economic profit as a measurement of performance because it captures both growth in investment and return. Broadly defined, it represents the difference between the earnings on the equity invested in a business and the cost of the equity. Everything we do starts with an evaluation of economic profit, because it helps us to think long term. We make a multi-year assessment, not a single year assessment... Our aim is to be the best and most successful company in the financial services industry..."

Source: Lloyds TSB Group PLC Annual Review 1997

Table 16: Lloyds TSB's place within its local, European and world markets

Year	Ranking (in terms of Tier 1 capital $m)			Assets	Pre-tax profit	Return on Assets	Cost/Income Ratio
	UK	Europe	World	$m	$m	%	%
1997	5 (10,408)	14	29	261,462	5,229	2.00	50.4
1996	4 (8,937)	16	31	250,241	4,254	1.70	56.0
1995	4 (7,171)	20	42	229,495	2,945	1.28	-

Source: The Banker, July & September 1996-98

A history of Lloyds TSB Group

Lloyds TSB Group dates its origins back to 1765 with the establishment of Taylors & Lloyds in Birmingham, England. The two families involved in the partnership (the former Unitarians and the latter Quakers) continued trading in their one office for some 100 years. The association of the Taylors ended in 1852 and in 1865 the partnership was transformed into a joint-stock bank: Lloyds Banking Company Limited. Expansion immediately followed, through the opening of new branches and a series of mergers with smaller banks throughout the Midlands region. In 1884 the London bank of Messrs. Barnetts, Hoares & Lloyd (this Lloyd was from the same family) was also acquired.

The trading name was changed to Lloyds Bank Limited during the 1890s and some twenty years later its head office was moved to London. During the early 1900's acquisitions and mergers continued throughout England, the most notable being the merger of Wilts & Dorset Bank in 1914 and Capital & Counties Bank in 1918. Following the First World War expansion moved further ahead with the take over of Cox & Co in 1923. These domestic developments established Lloyds Bank firmly amongst the 'Big Five' UK clearing banks in the forthcoming years.

Overseas business activities were also developed: in 1911, the Paris based Armstrong & Co was acquired and renamed Lloyds Bank France (later to become Lloyds Bank Foreign and then Lloyds Bank Europe). 1918 saw Lloyds Bank purchase London & River Plate Bank, which it merged with London & Brazilian Bank to create Bank of London & South America (BOLSA).

After a failed attempt to purchase Martins Bank in the late 1960s, Lloyds Bank reviewed its strategy and decided to reinforce its operations in the UK and to go on the offensive abroad. In 1971, it purchased the controlling interest in BOLSA and merged it with Lloyds Bank Europe to form Lloyds & BOLSA International Bank, renamed three years later Lloyds Bank International. Investments were also made in California and New Zealand providing Lloyds Bank with a significant international presence. At home meanwhile information technology was introduced to facilitate banking operations (Lloyds Bank was the first major bank to link all of its branches to one central computer).

The 1980's saw Lloyds Bank add the German private banking business of Schröder, Münchmeyer, Hengst & Co to its international portfolio. Toward the end of the eighties it also decided to restructure: adding an international aspect to all its business activities through the merging of Lloyds Bank International into Lloyds Bank; it created Lloyds Merchant Bank; and it regrouped five businesses (life assurance, unit trusts, insurance broking, estate agency and finance house services) with Abbey Life to create Lloyds Abbey Life. In 1990 its UK retailing bank operation relocated its headquarters away from London to Bristol.

More recently, two major mergers occurred: Cheltenham & Gloucester Building Society joined Lloyds Bank Group in August 1995 and in December 1995 the TSB Group also merged creating a new powerful UK banking operation under the name Lloyds TSB Group.

A look at TSB history shows that it has somewhat different origins rooted in the poverty and the savings bank history of the 19th Century. Many small independent savings banks were formed across the British Isles during the 1800s, which encouraged the poor not to rely on charity but to help themselves by saving small regular amounts of money that could be used in times of need. In 1887, these savings banks formed a Trustees Savings Bank Association to:

> *"provide the means of affording the help of advice and co-operation in matters of a general character in which savings banks or their depositors may be interested"*.

This co-operation amongst independent savings banks slowly grew in importance and in 1920 the Trustees Savings Bank Association became a registered company. Benefiting from the general increase in UK banking volume, as all members of UK society became gradually accustomed to saving, a National Savings Movement was formed in 1928. This movement was encouraged by the Government of the day to open branches across the country and was given equal access to the sale of Government stocks, war savings certificates and defence bonds as other banks. By the time of the 1960s, savings banks were increasingly similar to clearing banks offering current accounts with chequebooks to depositors, along with life insurance policies and unit trusts. In the 1970's a Central Trustee Savings Bank was set up and given membership of the London Bankers' Clearing House. This central body re-organised the 73 independent local saving bank operations into 20 (later 16) regional institutions. It was not until 1983 however, that the 16 saving banks gave up their independence to form TSB England and Wales, TSB Scotland, TSB Northern Ireland and TSB Channel Islands. Soon after in 1986, the TSB was authorised to float its shares on the Stock Exchange and became a public limited company under the name TSB Group. This enabled it to acquire Hill Samuel Bank and Target Life, develop an estate agency business and create UK's first telephone banking system.

Control

The overall Group structure was described as follows:

> *"Well it's slightly odd, but this is day to day current activity in terms of the branches* [referring to Figure 21 and the first column under the heading Group Director Central Services], *but what is planned for the future in the branches is managed by a separate area called Distribution and so they would actually manage branch amalgamations, new distribution channels, direct or phone or whatever. You have also got in here Phone Bank which is the TSB Phone Bank and what was Lloyds Line... So there are quite a few people in that, I couldn't tell you how many off hand, say maybe 3,000 something like that. You've got IT which clearly is a very substantial area -and merging the two systems is a key strategic issue. You've got central operations, which is all the purchasing, cheque clearing, all the factory type stuff. You've got head office support (marketing, finance, HR), but the bulk of the numbers clearly are in the two branch networks."*

Legal frameworks, it appears, are not used in defining a working model of organisational structure (see Figure 21 below for an illustration of organisational structure):

> *"some of these are... subsidiary companies, PLCs: C&G is one, UDT is another, Bowmaker is another, Abbey Life is another, but essentially they are all a part of the Group that is delivering services to UK retail clients. So if you like the legal organisation structure isn't allowed to get in the way of the market focus."*

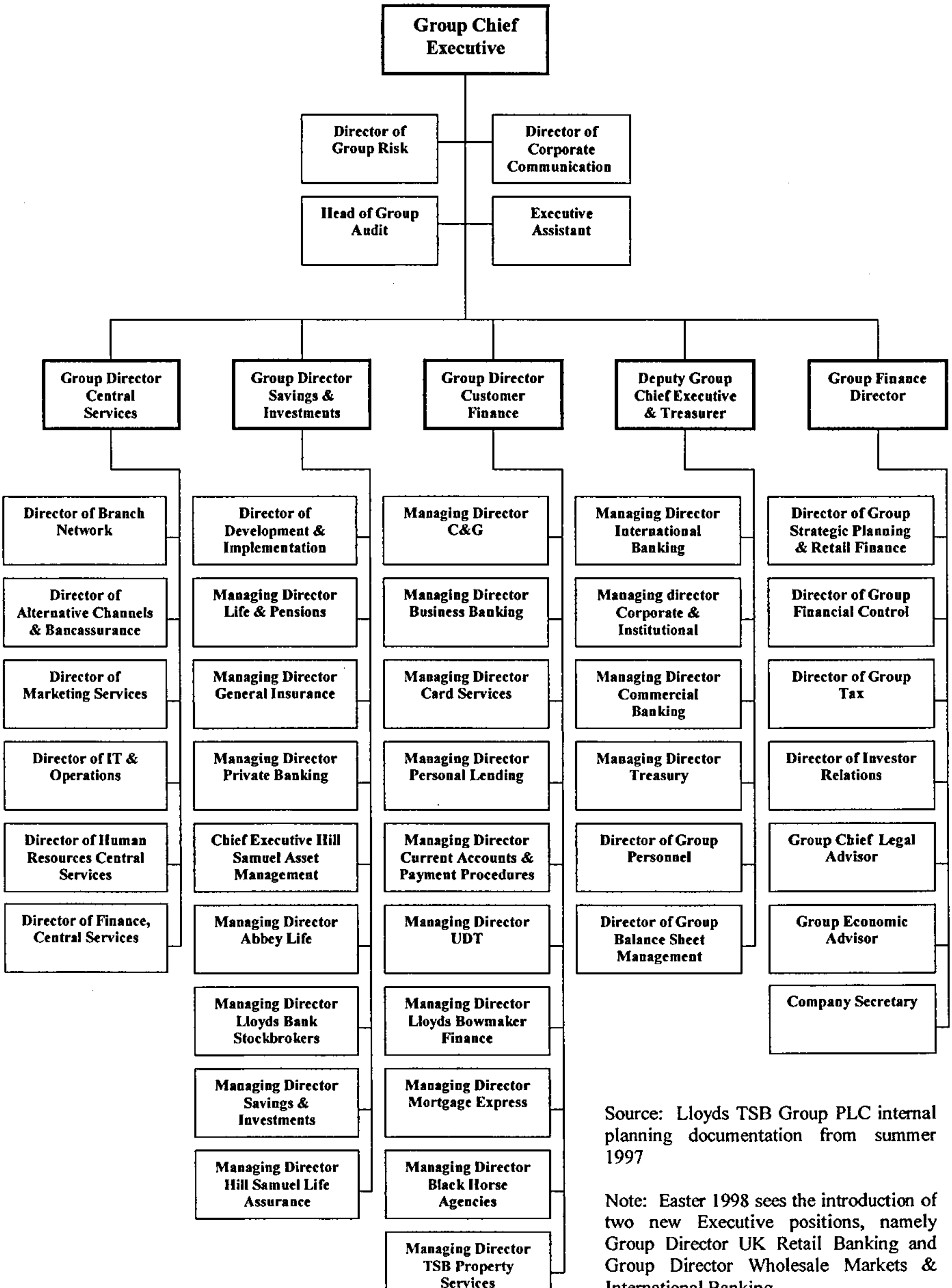
The rationale behind this organisational structure was reported as follows:

> *"I think the reason why we have this particular structure, there's two reasons: (1) it is very, very similar to the structure that Peter Ellwood* [Group CEO] *managed under at TSB and it's a structure he is comfortable with, and (2) it is manageable from his perspective in that he's only really dealing on an Executive Committee with these Executive Directors, each of these are on the Board of the bank, of the Group. So you have got six main Board Directors that essentially run the business* [the titles of these six Directors can be found in the bold lined boxes of Figure 21].

> *"And there is a logical split... between the assets side of the business, which has a number of particular challenges, a number of unique requirements, the liability side of the business where the market economics are much more attractive, and then, if you like, the distribution, now you can use certain techniques in distribution to control the flow of business from these two side, so you maximise value overall. So, although each of these develops its own strategies, there is a very high degree of integration amongst the strategies..."*

The retail financial services business within Lloyds TSB Group is not managed as a separate identity, as it had been in Lloyds Bank prior to the merger with TSB, with it being generally recognised as "*too large an animal to manage as one.*"

Figure 21: Lloyds TSB Group Organisational Chart



Source: Lloyds TSB Group PLC internal planning documentation from summer 1997

Note: Easter 1998 sees the introduction of two new Executive positions, namely Group Director UK Retail Banking and Group Director Wholesale Markets & International Banking

Strategy

The objective of generating maximum shareholder value was underlined by one respondent as driving Lloyds TSB Group's strategic thinking and strategic management system:

> *"...the objective of the organisation is to maximise shareholder value. It's very simple, it's very clear cut. We have defined that further as we want to double value for our shareholders over 2 years. So in very crude terms what that means is if the value of the company today is £25 billion, I think it's slightly more than that, then in three years time it will be £50 billion or whatever the equivalent is subject to any dilution by issuing any new shares, acquisitions whatever. So we set ourselves very aggressive targets in terms of what we want to achieve and those targets are based upon what we have achieved in the past: the last 15 years Lloyds and Lloyds TSB has grown at a compound rate which has been at the equivalent of doubling value every three years. We know that there are perhaps half a dozen companies in the world that have done this, so that's the basis of the objective.*
>
> *So the first thing we do is to set ourselves an objective that we can measure and that we think is stretching but obtainable -and it really is stretching for Lloyds TSB Group. Then we have a process for businesses to develop strategies which will achieve that objective, now obviously the strategies vary business by business -we have that sort of level of strategic planning, then on top of that we have Group Strategic Planning where we look at issues that are not necessarily business related directly, because they are things like Group funding, so on and so forth, or alternatively perhaps an opportunity presents itself or seems to make sense to us to do something that's very major, that crosses business boundaries. I mean, the Lloyds TSB acquisition, the Lloyds TSB merger rather, was an example of a strategy that probably no business on its own would have thought up, but which made sense for a number of businesses of the Group collectively, and arose because (a) Lloyds following their abortive attempt on Midland were looking around for an organisation that they could buy and or merge with, that would begin, if you like, the rationalisation of the UK financial services.* [b] *TSB had coincidentally gone*

through a process of strategy review which had led them to conclude that they needed to get larger, but given that their own acquisition attempts had been less than wholly successful they were looking for a major partner. So that sort of Group strategy process also goes on and the department here is looking at major Group strategies."

Shareholder value is the 'ultimate' strategy driver within Lloyds TSB:

"...if that's shareholder value and that's customer service, they are in tune all the way up the graph until a certain point and then you start having to do things like opening on Sundays or having an extra 50 staff in at lunchtime where customer service improves but shareholder value deteriorates because its not cost effective. That's the standard Marakon graph. You might ask where banks are on this cycle and then I think it would be fair to argue that they are somewhere probably down there. We are not actually planning to do many things that destroy shareholder value, particularly if you take a long term view of shareholder value or longer term, where satisfied loyal customers buy more and more products over their life span."

Once shareholder value generation criteria are satisfied, the time frame was said to be 'flexible':

"...the time horizon for strategy isn't set, what is set is the need to have a well defined and articulated strategy [i.e. strategic goal] *aimed at doubling value or aimed at maximising value. So in the future we will be getting strategies from these businesses at different times, completely different times and that is in part the function of the time horizon for their current strategy. Because it is crazy to say to everybody that you want a three year strategy -that's ridiculous. So we say what makes sense for your business, taking all factors into account and what you are intending to do."*

Each business unit is responsible for their own strategy development:

"...the important thing to bear in mind is that we are Group Strategy here, they are responsible, they are accountable for delivering the strategies, not

just purely implementing... So the businesses themselves have there own strategic planners who are working on developing value maximising strategies. One of the groups we have in Group Strategy is like an internal Consultancy, it's called the Strategic Support Group, and in instances where businesses feel that do not have the skill set or the capabilities to do strategy development work at the standards we require -we have pretty robust and well defined standards- then we will then provide them with support to help them develop the value maximising strategy. The way it tends to operate is that there is about half a dozen full time people working in that team, but what they do is they co-opt people from the businesses themselves, so typically you would have half a dozen people working on strategy development with a business, of which one, either full time or part time, would be from this central support function."

Ultimately, however, it is the subsidiary Managing Directors and the Group Directors who are responsible for strategy:

"The person accountable for strategy, both for developing and implementing it, are these people here [referring to the Managing Directors] *and ultimately the people responsible for delivering the integrated strategy of their line are these people here* [the Group Directors]. *And there is absolute accountability, so given that, if these people have any sense at all, they are not going to allow a strategy to be developed for them. But our strategy development process is sufficiently robust that one person can't do it -it's very, very demanding."*

This *"robust"* nature of the strategy development process was also said to be demanding, because a set number of criteria must be satisfied:

"...there is a set process which they are obliged to go through, and essentially it involves what we call a position assessment, where they have to review and articulate their own particular market economics and position themselves as either advantaged or disadvantaged against competition, which means you have to know a lot about what the competition is doing, you have to know an awful lot about their market economics and you have to be able to make some pretty objective judgements about where you stand. I mean, for example, the

definition of an attractive market for us, is clear, it's one where the average player can generate economic profit. Economic profit being profit in excess of the cost of equity in that market. The definition of advantage or disadvantage competitively is also simple, it's do we make a higher return than the average player. So you can actually be advantaged in unattractive market and not cover the cost of your capital, you can be disadvantaged in an attractive market and generate significant economic profit. So the basis of the strategy is to understand what you are going to be doing over the next whatever time horizon and is to either change the market economics, so you can become more attractive, which is very difficult to do, or alter your competitive position, so that you become advantaged. It forces people to develop, what we call key issues, key strategic issues, which are the things that they have to get right in order to develop the strategy. Generally those things would be a combination, because we have certain constraints that operate on them, to do with, for example, if I want to invest £10 million in a new system, how do I free up that capital. Obviously there is the issue of actually having access to the capital in the first place, which is not a problem for a Group this size, but then the point is if it's £10 million a year and I am going to depreciate it over say 5 years, so it's costing me £2 million, how do I reduce other costs by £2 million to pay for that? So, there are some very, very hard choices and trade offs that are being made."

These choices are being clearly pointed out:

"They are extremely explicit, yes. There is no way somebody could have some sort of secret trade off here, it's extremely explicit, it's articulated in terms of what the value of the options are, how each option is valued, and the key milestones are put in place. There's absolutely no way we would sign a strategy off, along the lines: 'we are going to do better.' It would have to be: 'we are going to do better, and better is defined in these terms, and we are going to do better because we are going to do X, Y, Z and they are going to have effects A, B, C, and those three added together come to the better.' It is very, very explicit."

The overall management style remains however, results focused. It is a style that the CEO likes:

> *"...the Peter Ellwood style... and I would imagine that the focus will once again be very much a one year focus. In the context of long-term things, some things like* [1] *developing Phone Bank is not something which gives you immediate returns clearly and quite a few strategic things that TSB did, like* [2] *moving people from very low interest accounts (where there were historically large numbers of people in these accounts paying 1 or 2%) into modern higher interest accounts, which obviously had a short term impact on profitability. The City hated it initially and then two years later praised us for our great sense, because of course we were losing customers, when they found out they were only getting 1 or 2%, and having converted them into better accounts you were then actually selling them more things -and as strategy it worked. It was quite a high risk because there was quite a dependence on those balances on those accounts, so I wouldn't want to give the impression that the view was always to take the short term view, but it's fair to say that the overriding thinking is hit the budget or it's exceed the budget, but as a minimum, hit it. There has been a budget gap so far this year... the figures that were agreed at the start of the year did not match with the requirement that the Group Executive had set, so there was a gap, so there is a control mechanism there in that everybody puts together their budget and it equals X, however the Group Executive wanted it to be smaller than X and work continues to bridge that gap. So it isn't just allowed, the requirement is still to bridge that gap, although there was not an agreement at the time as how to that could be breached, but then you are looking again at head counts and the like to try and do that - which is interesting when you are making £2,500 million profit."*

The Lloyds TSB strategic management process was produced in conjunction with an external consultancy:

> *"It is a process we have developed internally along with a company called Marakon. Strategy Consultants. It's interesting actually, I mean originally when we started down this route and Lloyds has been at it now for 2 or 3*

years, it was very much a Marakon process. As people have got more and more experienced at using this process then it has been modified to suit the needs of individual businesses and the Group as a whole, but without compromising the integrity of the process."

"...the consultancy (called Marakon) was working in the retail area on something like ten strategic themes: the key things that the bank had to get right in order to achieve its governing objective for maximising shareholder value, and the work they were doing sort of spanned the remainder of the year, they were working with Strategic Planning and working with the businesses, and into the first part of this year."

Brian Pitman, the then Chief Executive, led the development of the new strategic management process:

"...what he said was this: we have been able to double value every three years for a number of reasons. The principal reason that it had happened is because Lloyds had made some very intelligent decisions, whether by design or accident is open to debate, but they made a number of very intelligent decisions about which markets they would operate in and they avoided some of the major gaffs that other banks made, they also withdrew from a lot overseas areas where they were not generating high levels of economic profit, they withdrew most noticeably from investment banking, and that enabled them to focus on the high growth, high margin, retail financial services market in the UK and it just so happened, and you can put it down to a number of factors, maybe luck was a good part of it, that their focus in these markets coincided with a period when these markets were growing well, and not only growing in terms of volume, but were offering very, very significant profit. So the organisation, if you like, did the right thing. Pitman came to the view, that although we could continue to acquire businesses (and we are quite good at acquiring businesses) and generate value that way, at a sub-Group level, there was a very definite need to improve the strategic performance of the businesses, because essentially major portfolio decisions, like withdrawing from certain markets and emphasising certain markets was taken at a Group level, but there is a limit to which you can do that: once you are in all the

right markets, what do you do then? Well, what you have to do then is, if you like, drive the process down, so that the individual businesses themselves are developing value maximising strategies. He also felt that we needed a process of superior strategy design and I guess he looked at a number of people, but he knew the American people very well and he talked to them about it and together they designed it. And it has now become imbedded in the organisation: it is the way we manage.

In terms of Lloyds... it has, I would say, been around 3, perhaps longer, years, in one form or another. It's only really recently been integrated across the Group, but in terms of technique it is not new at all. I mean the sort of concept that you need to generate economic profit and maximise economic profit on a business by business basis, and the only way you can do that is by changing your competitor position or by changing your market, that is not new, that has been around for forty years. I think what has changed recently and what's available for the Group and other companies that have taken it up, Coca Cola for example, is the fact that technology has enabled people to handle lots of data and to store data and have access to it easily, [Information Technology] *is facilitating a radical change in strategic management and we are making use of it. But we do believe that if we work at this steadily we will achieve some form of competitive advantage, and at least will develop better strategies."*

Milestones for monitoring performance are used within the system:

"It depends on what is a realistic milestone. Typically, if somebody came along and said they had a 5 years strategy and there are no milestones until the end, we would say no, that does not work. But if somebody came along and said, 5 years strategy, financial results would start to flow at beginning of year 3 out till year 5, but for the first 2 years we going to be building a new processing system, so in terms of the financial results all you will see is expenditure, that is not terribly exciting, that's not terribly helpful, so what we would do, we would set milestones in, to do with phases of the project and link them with expenditure, so it reflects budget, we would set up review meetings every six months or so. And the Managing Directors themselves, would have

much more freedom for a new meeting, I mean a major project in Savings and Investments to build a new factory, they will probably be on top of it, certainly once every couple of weeks, and they would report up to the Chief Executive on it once every six months, but in the mean time he will be receiving in the management accounts, not only the financial manifestations of the strategy, but also the milestones of, I do not know, if we are going to lay a 1000 bricks this month to build this factory, every month he would see how many they had done. We are not in the business of managing purely on financials."

These milestones form one of the criteria for agreement in the authorisation of the strategy:

"Because the strategy is in the nature of a contract... This guy is saying to him: I will deliver you this. So for it to be signed off, not only does it have to have the right bottom line number, it has to have certain characteristics, which include milestones, and would include brief details of the other options considered which have been rejected."

There are also a series of strategy review meetings held. The members of staff present being those responsible for the strategy at the subsidiary level and those responsible for its authorisation at the Group level, with the assistance of those overseeing consolidation of the strategic management system:

"...there is a review process with, if you like, key meetings already in the diary for all the strategies coming up... what tends to happen is that they are not unilateral. At the Group Executive Committee, which is all of these guys, it will get discussed, with Strategic Planning's input, as well as the input of the Group Director and the input of the Managing Director."

The strategic management system at Lloyds TSB can be seen however, to be rather pragmatic, with the realisation that strategy once formulated is not set in stone:

"There is a process here, within the Strategic Planning department, that will monitor each strategy against milestones, and we report to the centre -it's always reporting by exception, if they don't hear from us everything is okay.

There is one major, major exception to this, and this is we don't necessarily believe that if somebody has adopted a 5 year strategy they should stick to it slavishly for 5 years. If the world changes in a manner, I mean, virtually all strategies get modified during their life, unless they are very short, but if, sometimes, modification is extreme, the world may change, and although say a business may have a 5 year strategy in place, we expect them to monitor their strategies every year, almost continuously -continuously, that's theory, it doesn't happen, but people look at their strategies all the time, they are constantly receiving additional inputs for them to be able to say it is still what we should do, it is still on track or to say, wow, this has really changed how things are operating, we really need to think about doing things differently, it's time for another strategic review. So if you like a strategic review can be triggered by the exploration of the current strategy and the need to do something different, or by the fact the world has changed and a current strategy is no-longer valid."

A respondent from Corporate Planning noted that it was thanks to the system that deviations were allowed and seen in a positive light:

"It's a combination, sometimes it will come up from the business, because they themselves perceive things are changing quite radically. They are able to understand these things, in a sense it's quite arrogant, but they are able to understand these things, because the process they have gone through in the first place has equipped them to understand the key drivers of value in their business, and therefore they are able very rapidly to put within this framework of key value drivers the impact of external or internal events -either market driven or from things happening internally... Then we at the centre might also take the view that things are happening, and we may see that operating in their market or operating in another market that will have knock on effects and we will actually alert them to the fact that we think there is an issue, we think that something is worth revisiting."

The basis of review and its results were described in the following way:

"...we ask a number of questions: what has this done to the competitive position within the market economics, have the value drivers changed, is this now a different market to what it was originally, if so how are we positioned in this new market compared to the old one, do we have the tools to compete and be effective here, if so then carry on, whatever, if not let's get them, is the strategy we are currently following - is it helpful to the new direction, as it may still be perfectly valid, or do we need to do something different? And then all the arguments come in about sunk costs, etc. So it is a fairly robust process, it does 2 things: number 1, it contains the tension between the desire for some kind of central review and control. You've got responsibility for the business, and very much for implementation, because we at the centre do not know how to run their businesses, they know much better than us how to run their businesses, they have day to day experience. At the same time it is forced on to them, this is the second thing, previously I guess you would say that they knew an awful lot about how to run their business but very little about what the competition was doing and they were sort of reacting to it, whereas now it has forced them to develop a sort of database and model of competitive behaviour, which is also a sort of reality check that does force them to consider not just how they will respond to changes in the market place, but also how the competition will respond."

Group Corporate Planning was said to have three main functions:

"Okay, there are three strands to Group Strategic Planning. One line of business relates to this business Consultancy, working with businesses to develop value maximising strategies... -helping them formulate, helping them set milestones, helping understand what the deliverables look like, the value of those deliverables, helping them understand the key value drivers and how they are going to change over time... it's very detailed, it's very interesting, it's extremely time consuming, it's very labour intensive. So that's one side. The second strand is to do with monitoring side, which will review and monitor the plan and as I said, reports by exception. They're also involved in, if you like, Group competitor analysis -they pool together a lot of the competitor analysis that is taking place across the Group, and then if you like provide a Group perspective on it. Because sometimes you... might discover that one of our

principal competitors in one area is not regarded as a really serious competitor in another area, and that can be for one or two reasons: it can either be that they are a [potential] *competitor in the other area, but that they are just not interested in being one or that they are in the market, but are just not very good at it and it is not something they have given an awful lot of attention to, so on and so forth. What tends to happen in those circumstances, is that in one business they will be regarded as seriously important, in the other they will maybe not even appear on the radar, but what we try to do at Group is to have an understanding of capabilities. Chances are if Hong Kong Bank are good in one area, if it puts its mind to it, it can be good in another. So we would alert the business that didn't consider them as competitors, the fact that if push came to shove they could be, and we would explain why and get them to take it into their thinking."*

"If you like, we try to raise the broader focus, because the chances are that the businesses themselves have thought about some of the specific business related issues. There is an issue, at the moment, about: should we buy a retailer, or how should we link with retailers, and there are at least three different views through the Group: the technology view, there's a distribution view and then a sort of shareholder value view. We are trying to synthesise those views into an overall view."

"So they have a mandate across the Group to instruct for those sorts of things... They would start off here probably at Group Executive and say, as part of the process this is what we would like and they would probably get it approved here, the Director leading this area sits there, so he's signed up to it there and then he communicates that to his people."

"...we are charged here with amongst other things with looking at some major strategic questions: like UK acquisitions policies, international strategy, divestment, competitive position, we put all of this together and we report to the Board. Well, we don't actually report to the Board, we report to something we call the Board in Committee, which is even more sinister, because it is where the Directors feel they can ask us, very leading questions,

and it's a three hour meeting specifically given over to one of these strategic issues."

The Board in Committee meetings, made up of the Group's Non-Executive Directors and chaired by Lloyds TSB's Deputy Chairman, were said to be held once a quarter, they were further described in the following way:

"*...the Board in Committee is a forum in which Directors are able to consider strategic matters. It's a very free-form session, it's a discussion, it isn't a formal proposal. If we are actually going to buy something we have to go to the Board and get approval to buy it, that's very formal and there is rigorous process. 'Board in Committee, here is what we think about international strategy, what do you think?' It's great because they feel much more relaxed about, it isn't minuted, we get a very rich debate going.*"

Group Corporate Planning attend these meetings in order to:

"*...talk about things: the presentations we make tend to be pretty short, because it is a way of stimulating debate, but we also have a lot of material in the background, so if certain questions get asked we can show them..."*

In addition to these meetings, there is an annual Chief Executive's Conference attended by the Executive, the Chief Executive and the top 50 people within the Group. Further detail on the Conference was reported as follows:

"...[The Conference] *takes place in May, where the key strategic issues are discussed, and we decide what the top 10 issues are for the following year. And they may be the same as the top 10 of the year before or they maybe different -like this year, international strategy will be on that agenda.*

...what it's doing is it's agreeing that the [key strategic issues] *people have thought up are the right ones... What will tend to happen is that once the top ten issues are agreed, or once the top whatever the number is, generally around ten, but once they are agreed, there will be a reality check at the table: to say, given that these are now the challenges we face, the things we really*

want to get right for say the next 3, 4, 5 years, because they are going to support the individual strategies, are we configured correctly to deliver this? What actions do we need to change the configuration? ...What does it say about our skills mix now, compared to what we need? All those sort of issues."

"So there was a Group Conference in May for the top 50 Executives in the Group and then within the bit that I work in which is Central Services, which is the whole of the branch network and its the support functions for IT, marketing, finance and human resources, there is a Conference in June. And that Conference is around communicating the strategy which will be the outputs from the work done by Marakon and the constant stream of things that is being created through the standard mechanism of papers going to Executive Committee and sometimes to Board. So strategy relating to the new brand for example, I can't talk clearly in detail about that at this stage, but you know that it's being worked on..."

People

A learning environment appears to exist within Lloyds TSB in terms of strategic management:

"...it would be wrong for me to pretend that if you visited any of these business areas, and you said show me your strategic plan, show me how you developed it, the way you will all have used these techniques to the maximum and to the best way possible, that just won't happen and it would be crazy for me to suggest that t would! Some of the strategies that we get from Group businesses are variable in quality, particularly so in the smaller businesses, but everybody is moving along the learning curve, and some of the businesses are extremely good... Strategies to us are not statements of intent, they are statements upon which actions are based. We are going to do this, here are the milestones, this is what we intend to do."

Evidence of this learning environment was further highlighted by the value placed upon the Lloyds TSB strategic management system:

> *"The more we do under strategy development, the better we get at doing it and there is no question that the standard of some of the things we have come up with recently is far superior to some of the things we came up with a year ago, because people have moved through the process and have got a lot more familiar with it. We regard it as one of a half dozen really core things, either processes or projects within the Group, that we guard very jealously."*

Some caution is required when thinking of a 'learning environment', as one respondent noted the organisation, perhaps like all organisations of that size, tends to collect the latest management thinking into its panoply of 'recipe books':

> *"One of the things that is true of the organisation is that you are fine having conversations, it would be interesting to compare with another sector, in that whatever the latest fad is... we have it. So we've got total quality, we've got the balance scorecard and we've got project management methodologies. If you look at all the things that have happened since the 1950's there are probably remnants of them throughout the organisation."*

One respondent made the following distinction between culture types at TSB and Lloyds:

> *"TSB is incredibly results oriented: set targets, achieve targets, set milestones, hit them -if you don't let's really work out why and learn from it. In a sense, you could argue that there is some sort of stigma to not hitting the target, there is a stigma to not hitting the target and not knowing why, but if you miss something and you learn from it and it won't happen again, then fine. So there is quite a healthy process within the organisation. Lloyds actually was quite asleep in a lot of its processes -targets were a basis for debate- where as in TSB they were not."*

This TSB style, "*the can do, let's do sort of approach*", was said by one respondent as having infiltrated into the whole Group:

> *"It's extremely healthy, it's a reflection of Peter Ellwood's own style and it's incredibly refreshing, it really, really is. It's almost a natural selection process, you get people who operate in this world, who are well suited to the world..."*

One respondent reported that there was an effective mix of cultures following the merger of Lloyds and TSB banks:

> *"...there are a number of different cultures and a fair mix. The appointments process last year within Central Services saw a fairly even mix of appointees in both Lloyds and TSB inter-managerial positions, so there is a fair mix of the two cultures. Some of the research that we've done suggests that the cultures of the two networks are closer to each other than the cultures, of say, Lloyds network and the Lloyds Head Office. TSB network and the Lloyds network are closer than the Lloyds network and the Lloyds Head Office."*

Cultural differences, strengths and weaknesses were seen by one respondent to be the reason why the TSB mindset has dominated over that of Lloyds in top management circles:

> *"I mean Lloyds couldn't make the changes easily on its own that it needed to make in order to keep going forward, but it has had this injection of a different approach represented by the TSB. And the TSB changed radically, from being a Savings Bank to where it had got to at the time of the merger, with quite a clear vision of where it wanted to go. Lloyds came to the merger in the belief that the UK financial services market needed to be rationalised, therefore there would be some duplicated capacity that would be taken out in the merger, represented by synergies and cost savings, TSB came to the merger with a completely different agenda. Well, I say completely different, part of the agenda was the fact that there would be physical overlay, there would be functions that you could lose, but another part of the equation, was that we could apply the TSB operating model to the bigger bank, which would make a phenomenal difference in terms of cost base, would make a fantastic difference in terms of the revenue generation -and so it has proved. And the reason for why TSB has been sort of dominant, apart from the fact that clearly they were*

looking for a successor to Pitman, and it just happened that Ellwood was the right man, was that TSB came to the merger with a very, very profound understanding of why it needed to be bigger and what it could do with the capacity that would be created by the merger, whereas Lloyds came to the merger with the feeling we will just take capacity out..."

As can be seen, the common thread between both cultures appears to have been the search for shareholder value maximisation, the route to attaining it, however, has been somewhat different:

"I don't think the objective has changed -the question of how you achieve the objective is more open now than it has been for a number of years. Lloyds tended to be: we will make the major strategic decisions about which markets to be in and then essentially we will be fine, because the Economics will take care of itself. Peter Ellwood is slightly different, his view is that an attractive market today can be an unattractive market tomorrow -so what you have to be very aware and conscious of are the changes -how things might change, particularly how customers requirements change. And you have to modify your offering at all times to reflect where your customers are going to be and not where they have been. So, Peter talks a lot about satisfying customer needs. Now he is not doing that out of some kind of altruistic role, he's doing it because by satisfying customer needs you maximise shareholder value. Whereas in Lloyds, the research might have demonstrated the market was moving in a certain way, they might have waited until it was clearly moving in that way and said we won't have first mover advantage here, but we won't take the risk that go with it: I mean Lloyds doesn't have a telephone bank yet, if you think about that, it is incredible, well they've got the TSB telephone bank now, which is fine, but they didn't have until the merger. Whereas the TSB approach, tended to say, I think the market is going that way, let's go there: it's quite a brave way of doing things. They are both aiming at the same thing, maximising shareholder value, but the way of doing it is slightly different, and TSB is much more product driven, let's do it, let's set tight deadlines, let's go and really make it work. And that culture is starting to take over."

Shareholder value, as described by some of Marakon's leading Consultants in their book 'The Value Imperative', has been influential within Lloyds TSB staff. Dilemmas in its implementation, however, can be seen to exist:

> *"... 'The Value Imperative' is seen as a significant book and would have been read by the top management cadre excluding the chapter with all the numbers in -Chapter 4, something like that, it's really a horrific chapter somewhere in the middle! The words 'shareholder value' are known throughout the Lloyds community right down to the cleaner probably. What that means in practice is really understood or known, it's probably like cost reduction or translated into those sorts of things but there is a fair old debate, not least because customers were the key thing in TSB, so you have got a dilemma in how you satisfy shareholders and customers and maintain staff morale, motivation and commitment. It is binding the three stakeholders together."*

The backgrounds and qualifications of staff appears also to be quite different between Lloyds and TSB:

> *"One of the things TSB acknowledged sometime ago, and I think that this is extremely significant in an organisational sense, they said look: 'jobs for life' in banking don't exist anymore, so there is going to be a high degree of uncertainty, we want our people to be able to operate effectively in an uncertain world, how do we do it? There are number of things they can do, the most fundamental thing to do is that they said: we will encourage our people to get externally recognised qualifications, so that they have market value. There are two reasons for that: (1) we will give them a message about, we will invest in them -in fact there are three reasons- (2) while they are actually working for us, we will have a better qualified workforce and (3) they will deal with uncertainty better because they will know they are marketable. The head office of TSB Bank used to be a Victoria House Birmingham and there were 1000 staff there: half of them were support staff and pretty junior, but quite a lot of those would be taking some form of external qualification, of the other half, I would say 80% were either qualified Accountants of one description or another or MBA's. There is quite a high sprinkling around TSB of Business School Graduates... So qualifications are very different, and it is*

very noticeable in discussion with the Lloyds people, the extent to which they are institutionalised: they have an institutional way of doing things, which one has to say over time has been quite effective, but has it been as effective as it could be? -probably not. Whereas at TSB it tends to be staffed by people with a different approach."

Combined, however, Lloyds TSB Group appears to be developing some form of shared culture, with its own new strengths and weaknesses:

"It's typical in the sense that it's hierarchical to a greater or lesser degree, but more hierarchical than Virgin. For example it's essentially male even now, although 65% of the work force are women, they are mainly in the branch network, often part-time, but the bank is run by men, there are very few, even fewer women than there were in TSB and TSB wasn't too bad on having senior women, but very, very few in the new organisation. It's essentially male, white, in the main although its quite good on racial equality and the like, but the culture is essentially male, essentially white, essentially Anglo Saxon and really quite similar but also with some differences as well, some nuances around in TSB. Lloyds people will characterise TSB people as being a bit slap happy, and just get on and do it and then think about it afterwards and that was characterised last year 'as ready fire aim'. TSB would see Lloyds as a lot of planning, a lot of thinking and reflection and then maybe doing something, that was 'plan, plan, plan maybe do'. It's a different style in that in TSB there was a small community of top management who would discuss and debate things and then once it was agreed it would be done. In Lloyds there was Brian Pitman who was authoritarian and in charge and there were quite a few dictates and that led to decisions being questioned afterwards, after they had been made and then implemented. That is quite alien to the TSB approach where you debate it before and once it is made whether you agreed with or didn't agree with it, you had signed up to it at the end, if you didn't you would leave, and so the culture was much more about proactivity, doing, and it being very clear that it had been agreed so there was no doubt that is was going to be done. One of the problems now that you never quite know when something has been agreed because of the debate that takes place after a decision and so you are not quite sure whether you have

got a mandate to do it or not, and sometimes it comes round again and sometimes even again, when you thought it had all been agreed."

One unusual aside mentioned when exploring the nationality of Lloyds TSB Bank staff, was the influence of wives:

"There is an interesting element on the Lloyds side... Lloyds Bank International was particularly strong in Latin America and it and a number of the other Lloyds operations were closed because they weren't hitting the shareholder value targets, like in Portugal and places like that in the late 80's. Lloyds Bank International is important because one of the features of the way that Lloyds operated was that it would bring in new blood into senior management and some of the new blood of the early 90's was from Lloyds Bank International: ...ex-pats actually coming back from Latin America. Then you saw C & G and some new blood... and then the merger with TSB so new blood from that. So there is almost like a deliberate attempt to bring in new ideas by acquiring or by bringing people in from more distant parts of the empire. Some of the senior managers then came from Lloyds Bank International, whilst they themselves are British, quite a number of their wives interestingly are Latin American, so there might be an influence, I wouldn't rate that as hugely significant but its just something you notice, but essentially they are Brits."

Finally, an awareness of 'human issues' in Lloyds TSB can be seen to exist in a statement in the 1997 Annual Review:

"Our staff, our customers, our suppliers and our shareholders live and work in local communities throughout the UK. That makes us an integral part of those communities."

Summary of the Characteristics of Strategic Control Components in Lloyds TSB

Components of Strategic Control	*Real life practice in:* ***Lloyds TSB***
Premise Control	"*Aggressive*" or "*stretching but obtainable*" shareholder value targets underline the strategic management system Revisits are made to the framework document used to identify and monitor key value drivers
Implementation Control	Milestones are reported upon by Group Corporate Planning to the Board –"*if they don't hear from us everything is okay.*" Time-tabled strategy review meetings are held within the Group Executive Committee Close liaison is maintained between Group Corporate Planning and business units
Strategic Surveillance	Group Corporate Planning synthesises divergent business views which may be tabled for discussion at the Board in Committee
Special Alert Control	Under "*extreme*" conditions a "*strategic review can be triggered*" by the business or by Corporate Planning
Operational Control	Operational reporting is used as an information source for strategic planning purposes
Environmental Scanning	Each business unit is obliged to prepare a position assessment by Group Corporate Planning
Scenario Planning	No evidence of this was reported

Summary of Findings within Lloyds TSB

Control

- Structure
  - Lloyds TSB Group's organisational structure moves more toward Mintzberg's (1995 pp. 350-371) professional format than many other banks, where the expertise of each business unit's staff is nurtured, but is ultimately integrated through a divisional structure. At this point in time however, Lloyds Bank and TSB still have distinct organisational structures from one another (albeit that this is planned to change).
- Systems
  - Stretching, measurable and "*explicit*" targets are agreed between the centre and the businesses following a "*set process*" of strategy development.
  - The strategic management process, which continues to evolve, was developed with Consultants, Marakon.
  - The Managing Directors are responsible for formulating value maximising strategies and delivering the results as per schedule.
  - Management accounting systems are used to monitor progress, as are qualitative and quantitative milestones en-route to strategy implementation.
  - Periodic strategy review meetings are also held, when changes to strategy are perceived as perhaps being necessary.
  - Group Strategy have three roles: to act a business support consultants, to monitor and report on business plan progress, and to synthesise Group competitor analysis.
- Style
  - The CEO appears to have moulded the organisation into one he feels comfortable with, in terms of manageability and direction.

People

- Staff, skills and style
  - Latest management thinking "*fads*" find their way into Lloyds TSB.
  - Two distinct cultures merged in 1995: the "*ready, fire, aim*" culture of TSB and the "*plan, plan, maybe do*" culture of Lloyds.

Strategy

- Shared values (super-ordinate goals)
  - Lloyds TSB's over-riding aim is to maximise shareholder value.
- Strategy
  - The Group Board in Committee meets to discuss major strategic questions of the moment, supported by Group Strategy.
  - The Chief Executive's Conference highlights and discusses the top 10 strategic issues or challenges for the year. Subsequent divisional conferences communicate the strategy more widely.
  - In attempting to position Lloyds TSB in terms of the strategic archetypes in the literature review of Chapter 2, a split personality can be identified: on the one hand it is entrepreneurial (Mintzberg 1973), particularly within TSB, and on the other, it is an analyser (Miles & Snow 1978), particularly within Lloyds. As a Group it can be seen in terms of the performance maximising archetype (Utterback & Abernathy 1975). No clear fit can be distinguished however, in terms of Porter (1980).

The Royal Bank of Scotland Story

Introduction

The Royal Bank of Scotland dates back to 1727. It had serious financial difficulties in the early 1990's, but since then it has managed to turn the situation around and now has as an enviable reputation of being one of the more innovative financial services organisations in the UK, thanks to ventures such as Direct Line and its more recent joint venture with Tesco.

Description of the bank

> *"Our principal objective is to deliver a stable and growing earnings stream to our shareholders. We believe that the most direct route to creating lasting value for our shareholders is through creating enduring customer value. Our customers gain through the professionalism and dedication of our staff."*
>
> **Source: The Royal Bank of Scotland Group PLC Annual Review & Summary Financial Statement 1997**

The Royal Bank of Scotland Group comprises three businesses: the UK Bank, Direct Line Group and Citizens. The UK Bank offers retail and corporate/institutional banking. Direct Line offers direct financial services in UK over the telephone, such as insurance, personal loans, mortgages, and savings. Citizens operates in New England, USA, with some 300 bank branches. The Royal Bank of Scotland Group's total assets amount to £72.6 billion, net income equals £0.457 billion and capital resources are some £5 billion. In terms of security it has a: Aa3 Moody, AA- Standard & Poor and AA IBCA rating. The number of ordinary shareholders totals some 50,000 (with a share capital distribution of 87% to institutions and 13% to individuals). The number of employees totals 30,900 (some 19,000 in the UK Bank).

The UK Retail Banking Division contributes the largest share of total Group profit. It has 660 high street branches. Distribution of banking services is via the traditional branch network, access via all of the UK's 22,000 automated teller machines (1,100 of its own), the Internet and through a wide range of card products (e.g. MasterCard and Visa). Various retail banking joint ventures have also been established with the

Tesco, Scottish Widows and Virgin Direct. Birmingham Midshires Building Society is also to be acquired.

A history of The Royal Bank of Scotland

The Royal Bank of Scotland received its Royal Charter in 1727, opening for business in Edinburgh, with the authority to "*exercise the rights and powers of banking*". Innovative zeal started from the outset with The Royal Bank of Scotland introducing an early form of the commercial overdraft in 1728, followed soon after by the payment of interest on deposits.

Its first branch was not opened until 1783 (in Glasgow), slowly followed by the opening of other branches throughout Scotland during the nineteenth century. 1874 saw the opening of a branch in London.

From the 1920's onwards The Royal Bank of Scotland bought its way into the English and Welsh banking market place. In 1924 it purchased Drummonds Bank (established 1717) and soon after in 1930 the Williams Deacon's Bank (established 1771), with its branch network in the north-west of England. Prior to the outbreak of the Second World War it also purchased the private bank Glyn, Mills & Co (established 1753), which brought a number of merchant banking services under The Royal Bank of Scotland umbrella along with the old established Child & Co dating back to the 1580s. Glyn, Mills & Co and Williams Deacon's Bank traded as separate banking operations and were commonly known together with The Royal Bank of Scotland as The Three Banks Group.

Throughout the 1950s and 60s further new branches were opened in Scotland and London, along with a representative office in New York. Banking innovations were also continued, with for example a saving stamp scheme being marketed and branch book-keeping being automated.

In 1969, The Royal Bank of Scotland merged with National Commercial Bank of Scotland, which provided it with a joint 40% share of Scotland's banking business. The following year the Group's London clearing banks (Glyn, Mills & Co, Williams

Deacon's Bank and The National Bank) were combined under the name Williams & Glyn's Bank.

The 1970s were good years for The Royal Bank of Scotland, with it benefiting in particular from the economic boon to parts of Scotland that followed the discovery of North Sea oil and gas. It also capitalised upon the increased interest in house ownership, being the first UK clearing bank to offer house purchase loans.

In 1985, The Royal Bank of Scotland Group produced a new corporate strategy to operate all its banking activities under the same corporate name of The Royal Bank of Scotland plc, thus signalling the death of the Williams & Glyn's Bank name. A telephone based car insurance subsidiary was also established in the same year, soon to be known as Direct Line Insurance.

1988 saw The Royal Bank of Scotland's first move into foreign retail banking businesses, with the purchase of Citizens Financial Group of Providence based in Rhode Island, USA.

The 1990s have seen the Group sell its merchant banking operations and focus on its retail banking businesses.

Table 12: The Royal Bank of Scotland Group's place within its local, European and world markets

Year	Ranking (in terms of Tier 1 capital $m)			Assets	Pre-tax profit	Return on Assets	Cost/Income Ratio
	UK	Europe	World	$m	$m	%	%
1997	7 (5,012)	36	76	117,117	1,239	1.06	52.47
1996	6 (3,967)	42	91	95,479	1,086	1.14	50.00
1995	6 (3,305)	46	106	80,651	951	1.18	-
1994	6 (2,934)	45	111	71,596	840	1.17	-
1993	6 (2,707)	42	104	54,833	401	0.73	-
1992	6 (3,138)	39	85	61,504	37	0.06	-
1991	7 (2,833)	47	91	56,397	88	0.16	-
1990	7 (2,694)	43	83	56,381	491	0.87	-
1989	7 (2,258)	NA	86	45,772	381	0.83	-
1988	7 (2,152)	NA	86	36,508	21	-	-

Source: The Banker, July & September 1987-98

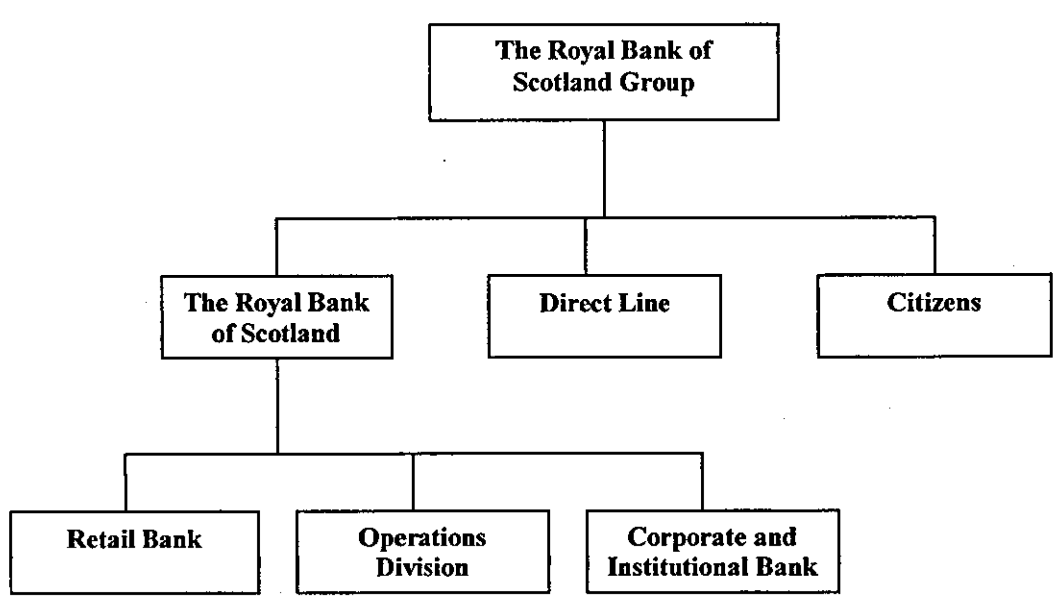
Control

An overview of the Group structure was given by respondent as follows:

> *"The Royal Bank of Scotland Group is a group of largely autonomous entities, there is: Direct Line, Citizens and Royal Bank of Scotland* [referred to in places as RBS]. *There is also a cross shareholding with Banco Santander –we* [The Royal Bank of Scotland Group] *own 4.9% of them and they own 9.9% of us- an entity called Tesco Joint Venture and another entity called RBS Advanta -a joint venture with Advanta (the US credit card), that's a 51% holding."*

> *"...after much re-organisation and a major change programme managed by McKinsey called project Colombus, we now also have a Retail Bank and a Corporate and Institutional Bank, based in London. There's a Managing Director of each and there's also a thing called Operations Division, which is a profit centre..."*

Figure 22: Overview of The Royal Bank of Scotland Organisational Structure



Typical financial and management reports and controls are used in the day to day running of the Group. One respondent noted that in fact too many non-useful monthly reports are provided:

> "*All sorts of things, by product, by branch, by chief manager, variance reports, plethora's of reports -most of which, even to me and I'm responsible for products and the branches and so on, are not that useful. I do not care if I open them or not, because I know what's going on and what we are going through.*"

> "*I would think that the auditors would be distressed if we did not have them, plus now and again you do want to refer to them. But I do not find them hugely useful, which is one reason why* [a colleague] *is doing this piece of work on accounting, reporting, MIS and the budgets -that's to say we have 400 accountants in this business, we should have things that managers find useful - at the moment we do not have enough.*"

Underneath the CEO is a Strategy Department:

> "*Well, off to the side -like a supporting office. The guy who heads it up is...an Actuary... There are three people under him... These people tend to look at acquisitions and disposals, they do not look at what I call the core strategy of the business. They look at the "bells and whistles"... but they won't be looking at the guts of this* [RBS Retail]."

It is left to the MD of RBS Retail to pursue his own strategy and strategic management process.

Strategy

> "*On the strategy side, there's the Board of Directors obviously, who review in rather a formal way once a year the strategy of the Group -fairly typical for a PLC where there's not a lot of real engagement with the data or the concept.* [The CEO] *is quite interested, as sort of a student of strategy he reads the Goold and Campbell books, he's quite into the John Kay stuff on architecture and so on -he's a bit of an intellectual. He swoops in, in an ad-hoc, way to make sure he likes what is going on. Strategy for Direct Line is set within Direct Line and is not discussed here* [Citizen] *or here* [RBS], *similarly here*

or here [referring to RBS retail and corporate divisions]. *So those three basically make up their own story, financial projections and are bilaterally reviewed and critiqued by the Chief Executive and the Group Finance Director.*

Now, down here there is a more formal thing going on, called the strategy development cycle, and this has existed for some time. This is purely in the RBS PLC side [not in Citizen or Direct Line] *which is headquartered here in Edinburgh at 36 St. Andrews Square. This is a fairly formal thing, which has existed for about 8 years, and the process is that every February each of the 3 MDs puts together a three year strategy. You are supposed to follow a format, the format changes each year, but it is basically: what am I doing, why am I doing it, what are the options -like supposing I did not do it or I did something different- loosely what sort of financial outcomes (not projections) and risks and other issues...*

[The strategy development cycle] *can be fairly elaborate: yesterday was our day, for example, this year it was 9.30 to 5.45 and seven of the Directors working for... the MD had to present quite a lot of stuff and it was expected to be fact based, reasonably thought through, if possible somewhat conceptual as well, tying together small picture and big picture on where the industry is going and what am I doing in getting more NPV for every personal loan I sell through a branch or branch 'sell-point'. Now this is then followed up quite informally after the big day of steer through by* [the Group Managing Director], [the Group Finance Director] *and* [the Group Strategy Director] *with the 3 MDs, who might say basically 'I'm really concerned about what was shown there' or say 'it's fine'...*"

This annual strategy development process is linked to the annual budgeting process, although the awareness of the link amongst management would appear to be somewhat blurred:

"*The next event is the annual budget, which goes on typically in September of each year, which is, of course, supposed to reflect...* [the strategy developed] *and so on -in the past. I think it is typical for any company I know in the* *world, these would be fairly disjointed, but that's because people do not know they are supposed to be related, and it's hard for you to imagine this, but in reality you've got all these senior people in the company who think: 'oh, it's budget next week' I'll start to write slides about the budget, they do not realise that this* [the strategy developed] *is the route of their financial dynamics.*"

The annual budget is prepared by the same individuals that develop strategy:

"*...the same guys: the other attendees here, and the people who do more of a deep drill on it, would be more the finance and accounting staff. At this event* [annual budget cycle meeting] *you'll get the Group Finance Director, the Deputy Group Finance Director, the Controller -who is like the chief accountant-, several other accountants (we have 400 hundred accountants) and the Group Strategy guy -who has a staff of three (all of whom are there - they do not say a lot, but they are observing).*"

Strategy is both formal as well as informal, as seen in the example given below:

"*Back in the dark days and I suppose the darkest days here were about 1992, where we made something like £500,000 profit, the notion was, and the story was told to the analysts, that... we could go out on a limb and say this is how we are going to grow the bottom line of the Group: £200 million a year, now last year we did £690 million, and the analysts for next year are hovering around £700 million, so I guess we are not saying publicly we are not doing £800 next year, but I think hints have been given that by 2000 it could be big* [£1 billion]. *So this helped stocks come from £1 to £6.*"

"*...whenever the Finance Director spoke with these people* [strategy development cycle meeting members], *and followed by 3+9* [the name used to refer to the 1st quarter meeting], *6+6* [2nd quarter meeting], *etc. basically he was saying are you going to make your part of the £200, £400 or £800 million? So it actually became quite real -it came part of the evaluation of what we would do. Programmes would be cut or accelerated depending upon how they would effect costs or revenues or margins.*"

When there was the need for sudden change, the Royal Bank of Scotland brought in outside Consultants to advise them on how to proceed:

> *"They called McKinsey, BCG, Booz Allan, and said we are going to have the biggest change programme you have ever seen to turn this retail bank upside down. And they did, all the core processes were reengineered, changes of staff, HR, we introduced a totally new branch technology to all the outlets, we have a sales force that is dedicated to selling products... so it is unrecognisable. Not inexpensive, but probably worth doing. So if there is future for conventional branch based retail banking, we are in reasonable shape to keep it spot on. That was the response: a financial response to go and find a shareholder* [Banco Santander] *and there was an operational response to get the change programme started.*"

Strategic management is carried out by a select few of the senior management and kept at arms reach from operational staff:

> "*...because strategy is a dangerous word for them to get too excited about... Strategy is sort of set here* [strategy development cycle meeting], *although only a couple of* [the MD RBS Retail's] *Directors have a particular interest in it... These* [referring to those individuals below in the organisational structure] *are just doing the basics every day, which in my opinion is the right way to keep this whole gang focused.*
>
> *In the old days, before this structure, we had a traditional retail bank regional structure, so we had all of this* [below the 7 Directors of RBS Retail] *building into regional baronies. They all had their own little strategies and they were all making decisions about closing branches, refurbishing, mortgage outlets - the stuff which is not material to the business of selling products and providing good service. So all of that has been striped out. Being humans these people* [below the 7 Directors] *are fascinated by those things and they will continually come to me and my colleagues to say I've got a great idea for a new product, I've got a better poster, I want to close some of my branches and I want to open ATMs instead. My view is that I listen, but I am not hugely interested because I know that I have got better data and have access to sales*

staff of my own and I just want them to do every day business. It sounds over patronising, but that's the way to make money in retail banking: it's a nuts and bolts slog in this kind of business, you want every little thing to be right, you do not want the guys running the sales force, because there are 12,000 people down here, to be messing around on distribution strategy on one day and advertising the next: it is not their job."

"*The way that works is that we have* [the MD RBS Retail] *and seven Directors, one of whom is...Director of Sales effectively and he has got 8 Regional Retail Directors, 36 Chief Managers and then all the branches, there's 660. Basically they have sales goals, which are quarterly targets and branches that sell products, have performance points which reflect net present values, and the notion is: let's just have these people selling...*"

"*So strategy is fairly tightly circumscribed here, it is actually three RBS Retail Directors who tend to do it.*"

The difference between tactics and strategy is not clear or worried about:

"*That would be considered a semantic nuance, I would say. I do not think people would worry too much about what is tactics and what is strategy. Of course* [the CEO] *sees strategy as lots of practical ducking and diving and pragmatism, very little grand architecture, he is suspicious of that idea -even though he reads John Kay's books.*"

People

The culture is not one of control:

"*I would say the culture and ethos is not one of control. It's of hiring good people, expecting them to figure out the right thing to do and periodically checking in, to check that they are not giving you nasty surprises.* [The CEO] *himself was a venture capitalist and an academic, and he believes basically in pragmatic, people-based management: hire good guys and they will figure out what to do, just make sure through periodic financial oversight that the results* *are good and that you can cajole them into even better results. So it is not an AT&T kind of Group at all. There is of course a whole lot of monthly reports, but I think that is there for the comfort of the auditors and the internal audit group, as much as because the Chief Executive believes that it affects how people work.*"

Apparently the culture is informal and non-hierarchical:

"*We are surprisingly un-hierarchical. One of the things project Columbus did was to eliminate many layers of managers, so that within the retail bank, for example, on the sales line side -people who work in branches- we really only have four roles and quite a lot of sophisticated thought went into role definition. One of the problems with retail banks is that its jobs are quite badly defined, they are hierarchical in the sense that as you move up you accumulate more responsibility, and if you end up having 10 or 15 responsibilities, of course, you are no good at any of them, so you have a little army of helpers who phone the helpers of people lower down the bank -it's amazing how few people you need to run a retail bank once you get it right. So we swept away, hundreds upon hundreds of people from the retail bank over the last 4 years: mostly people who were happy to take early retirement. So it is not that hierarchical, in the centre similarly it is -I mean people get paid different amounts -down the corridor, I sit at one big table with 5 other people and anybody who is working on things I am involved with just come to talk to me, so the style is extremely informal.*"

"*The reward system was totally revamped, along with the way we recruit and retain people, you see in order to slim down, all the jobs were redefined and 3,000 people had to re-apply for jobs: that was the mechanism for finding out the people we did not want to retain. Along with that went a new series of pay scales and arrangements for bonus, annual performance bonus, options and everything else. So everything is relatively simple and fairly rational, particularly as everything has to be agreed with BIFU, the Banking Union, so it is not the easiest world to make it simple and easy, because there is a lot of imbedded custom and practice in our bank. I think what the HR people have* *managed to do is think reasonably creatively at how to sweep away decades of encrustation and have something straightforward.*"

The new reward system is designed to be an impetus for success and a sanction for failure:

> "*Yes, you do actually feel the pain. If for example, you only perform at the satisfactory level, which is a 3, you do not get a bonus and the way the matrix works you do not get much of a pay increment either. If I do not make my numbers, there is a thing called the Senior Executive Pay Scheme which shows how much I have to hit them by or exceed them by to get different percentages of reward. I could end up with no bonus, I could end up being fired -although that tends not to happen that much, although Directors have been fired in the last year.*"

> "*Interestingly, in three years, no reportee has survived that length of time* [i.e. all Directors have been reporting to the MD RBS Retail for less than 3 years]."

The employees tend to be mostly British nationals:

> "*Yes, I am not aware of any senior non-British people here. There are a few British people, secondments from the Royal Bank working at Citizens, and we actually have exchanges here* [Banco Santander], *they* [Direct Line] *actually hire who they want themselves. Santander usually hav͏e a few people working in here* [within the retail bank] *and we actually have a formal exchange sending a few people to work there.*"

> "*It is a real mixture, and it's a real mixture because* [the CEO] *in the last year has brought in a number of people he used to work with, who are essentially Scots who used to work in America... Because of project Columbus, and the impact of McKinsey, we've got in the retail bank, say in the top 100 people or so, maybe 50 who have come up from the age of 16 as retail bankers and another bunch of people, like me, who are either Scottish or English, went to business school or not, have done other jobs and joined the Royal Bank at perhaps between the ages of 35 and 40. So it's quite a hydrogenous bunch*

now. Of the Directors, the [Retail Bank] *seven, there are 3 Royal Bank lifers and 3 Directors who are relatively new.*

The makeup of the staff was described as follows:

"*We are a bit of a mixture now, probably not a bad mixture: we've got classic lifers who started in branches at 16 and have made their way up, others who have come in through perhaps the Banks Graduate Recruitment Programme in the 1970's &1980's and there are also folks who have worked in other companies, who have particular skills that were hired by the bank and have been through several different jobs -no longer doing what they were hired to do. So it's quite a nice hydrogenous mix. In retail banking services right now, of the senior 20 people, I would say, probably, 6-7 have been here 3 years or less.*"

"*...most people who work in this retail bank did not go to University at all. In Retail Bank Services graduates are certainly in the minority.*"

The majority of staff pursue banking examinations as their main form of professional training:

"*...we still do banking exams...Despite questions of whether they are still relevant.*"

Management personality is seen as key in many strategic decision making areas:

"*I think a lot of it was because of personalities. In fact I think a lot of things in this Group is driven by personality.*"

"*I do not think that this is a company that does a lot of deliberating. The only question is how are we going to do it -put people on and their job is to make it happen. Then periodically we might review it, but the acquisition of Citizens and subsequent growth, the early funding of Direct Line...they were just done deals, done quickly.*"

"[The CEO] *has people who he thinks they know what they are talking about and he trusts their instinct, and if necessary their use of data -but basically good ideas will bubble up from good people. If they have a hunch for a good thing, it will be a good thing, and they certainly will not have a strategic plan lying about. Interestingly, having had McKinsey here for about 4 years has totally queered the pitch for any form of formal strategy style of that kind. It just got to be too much... People got fed up with it. It's debilitating for managers to have Consultants around the whole time -like they can't do anything without checking with the Consultants.*"

"*I think it is a bit of a shame because there is a level at which it would work well... At a fairly high level... in identifying key drivers, what sort of makes the business go... Establishing a business plan -perhaps that is too formal a word- more like saying these are the levers of funds, this is how we are planning it...*

When we had McKinsey's around, we set up this wonderful process through which all projects had to be approved and projects were made to jump through hoops and they did not fit, and an enormous amount of time was spent trying to force these projects through these things they would never fit. But it was the methodology."

Commentary on strategic control

The strategy development cycle is a three year rolling process. However, it appears that the annual review process -to look back at the progress that has been made since the previous year- is not carried out:

"*...in fact, the criticism you would make of our approach...is that it tends not to be sufficiently backward looking in that people can come and say I've got brilliant new slides, look at this new idea, look at that initiative, and people tend not to say, but wait a minute you told me two years ago, you were going to do this and that, and it has not materialised. So it is stuff like that, that does not happen.*"

"*I think at root that the theology is people find it hard to articulate a basic* *story and then stick to it. And why is that? That's a reflection of a very fundamental observation about strategy that very few people can say: look, here is my vision of the world and here are the three elements, building blocks, call them what you will, of how we will compete going forward, that are right, and they will be my touch stone and frame of reference, that I will come back to for as long as I am in this job. People do not think like that, people think about three month projects and one year projects and so on, but they do not have an enduring framework in their minds that they keep going back to. So this document* [strategy development report], *a year from yesterday will look totally different from last, and there is almost a virtue of that, to say that this is new, sexy and exciting rather than here we are on year three of what we said we would set out to do, look at the progress -it is more like: look how different we could be in the future!"*

Strategic implementation control is poor:

"*...for example, there was an objective set out in about 1992 to be 'the best retail banking group by 1997'. So it was a rallying call as much as anything, but that was held to be an objective that everyone could understand and work towards. Now that we are in 1997, the question is, are we that or not? The answer is given to be, well we think so -but it was deliberately never made tangible, so that it did not have real benchmarks, like cost-income ratio, customer satisfaction, growth of assets.*"

Financial targets and controls do exist, however:

"There is a very seriously taken ROE expectation, which is communicated to analysts outside and internally -we have a Group hurdle rate of 21% and it's expected that the retail bank makes significantly more than that, as you can see from the results coming out from other banks. You can be making 30% ROE in a bank today -it is not impossible to do. There is an ROE thing -these tend to be enduring -the other one is, maybe the profit outlook, maybe the Group will do £1 billion by the year 2000 -for us that is not inconceivable."

The existence of milestones is unclear, with one respondent noting:

"*Milestones tend to be keyed off this* [annual budget cycle] *actually. Coming out of here, there's a '3+9'* [i.e. a 1st quarter meeting] *3 months into it, then we do a '6+6'* [2nd quarter meeting], *then a '9+3'* [3rd quarter meeting], *which is homing in on how are we doing for the P&L for this year, if you are particularly astray, you might even do a '4+8' -it is not unknown. So the P&L is tracked that way.*"

The above respondent later realised, after consultation with other staff, that milestones no-longer existed:

"*Yes... there used to be milestones, so you could not forget it, nowadays it's slacker, so that plan will be somewhat shelved until maybe the 6+6, when* [the Group Financial Director] *might say, let's just think about strategy...*

Another respondent, unaware that they no-longer existed, noted with regret:

"*They did when I designed the process! It used to be that they formed the basis of the monthly meetings between* [the CEO] *and the MD... There was an Access Database with them all on... That's a shame, then if they have gone.*"

There is an acceptance that strategic implementation control is not essential:

"*The central flaw with this, and again it is the same for any company I am aware of, is that people will think 'oh the budget is not coming in as planned, we better cut costs or sell a whole lot more stuff' -people do not take a particularly measured view of it by saying 'what happened?' or 'why did it happen?' and I think that that is partly because it's a bank -banks are very complex, organic things, where everything effects everything else, and it is very difficult for anyone to say, I know unambiguously why personal loans came off target last month and I know what levers to pull to get them back on. Now if you are in a manufacturing company, you can trace back the root cause of your problem a bit more readily than in a bank. So it is opaque and despite the fact that we have some very smart people in the bank, it remains* *opaque, and the era of transparent 'lever based' or fact based diagnosis as to why we are off track and how to get back on, that's not there.*"

Similarly an awareness as to why strategies are chosen or not chosen is not known amongst management, meaning that premise control must be absent:

> "*...it tends not to be that sort of style, it's actually more pragmatic, more reactive... it is more that kind of thing, rather than 'how do we see the basis of competition evolving in car insurance?' -that question would not be asked, it might be talked about in camera by these people* [MDs of Direct Line, Citizen, RBS] *and* [the CEO] *and* [Group Finance Director], *but it is not played out in public particularly, and in our case, in retail banks, it's a bit vague.*"

Strategic implementation control is more informal than formal:

> "*...it's informal, like the Strategy Director, and CEO will meet with the MD RBS Retail to say how did you think it went yesterday, that was impressive, that was really totally useless, you've got a problem here with the way you are unbalancing your P&L. So it is the immediate reaction... immediately starting to hone in -so its pungent, rather than formal feedback.*"

> "*the Group approach has become more informal. It always used to be that the CEO would have exercised some form of control, whereas he has definitely moved away from that now.*"

> "*I think it was more mechanistic when the bank had to be turned around. When did we not make any money? 1991. As we have stepped up the reported profits, possibly people have got a little slacker. Although we still have a good size apparatus, as I said, we have 400 accountants: but at the big picture level, it does sound that we have moved off the milestones.*"

> "*There is a fair bit of chat: there is no question that* [the Group Finance Director] *is on the phone to people a lot, but yes, it is at the level of a serious chat, it is not formalised in anyway.*"

"*Yes, also, we haven't got things like activity based costing in place, so the monitoring systems are not as good as they could be for homing in on the tree diagrams, where you are actually identifying what the key drivers are and homing in on them when they start to go awry, but also how we are performing in the process and where in the process more attention needs to be given and where the strategy needs to be reviewed.*"

Informality is appreciated or accepted with certain modifications:

"*Personally I am not unhappy with it, proof of the pudding is that results are not bad... I think the area where it could be improved would be the use of the* [annual] *budget as a thing to educate more managers on how the economics work: how your actions drives this financial outcome... We seem to have a lot of people who trudge through spreadsheets, to come up with things that do not support decisions.*"

"*...and they are fairly inflexible, like if an assumption changes they are away for another 2 months working on their spreadsheet. It's kind of daft!*"

"*I do not think it is that bad, but it's a million miles from what your course would say it should be... You see compared to a chemical firm or a car company... even the conceptualisation of some of these things in the bank is difficult. For example, what does it mean to do a budget in a bank? It's not obvious to everybody -are they just talking about how much money I'm going to spend this year, are they talking about ratios, like spend-in, revenue-out or what? It was apparent to me having gone to the Annual Budget meeting in September -there was a complete lack of framework in the room, people really did not know what the meeting was about. In fact, there is a saying I heard... 'the only time I can decide whether this is a strategy meeting or a budget meeting is when the Vice President of Strategy is in the room!' Now, we are not that bad, not enough people though understand the purpose of the budget in this cycle...*"

The lack of consultation in previous years' strategic plans and lack of update in existing strategic plans was admitted by the respondents:

"Yes, it's a new sheet. There is not any referral back to what we said we would do, it's always blazingly new stuff! It's a three year document, but it has a one year shelf life!"

"To be honest again, I think it is a case of personality -for strategy nobody is actually accountable. Strategy tends to be what people want to hear, or they put forward what people want to hear... But because it's never referred back to, people put forward something that is not too stretching in year 1, a bit more stretching in year 2, and by year 3 we're the best bank in Britain!

Summary of the Characteristics of Strategic Control Components in The Royal Bank of Scotland

Components of Strategic Control	*Real life practice in: The Royal Bank of Scotland*
Premise Control	No formal premise control exists, although a 3 year strategy is outlined as a result of the annual "*strategy development cycle*" A pragmatic and some what sceptical approach to strategic management is admitted to: it is personality driven
Implementation Control	Strategy tends to be reviewed once a year by the Board The CEO and Group Finance Director critique business strategy in an informal ad-hoc way Implementation can be deliberately fudged
Strategic Surveillance	A small group of individuals at divisional level are involved in strategic management issues
Special Alert Control	No evidence of this was found other than financial 'risk control' measures as defined in the Annual Report
Operational Control	A plethora of reports are produced, some of which are used The annual budget "*is supposed to reflect*" the strategy developed
Environmental Scanning	No evidence of a formal system was found, presumably however, ad-hoc informal environmental scanning does occur
Scenario Planning	No use of scenario planning is made

Summary of Findings within The Royal Bank of Scotland

Control

- Structure
  - Mintzberg's (1995 pp. 350-371) diversified structure forms the basis upon which the largely autonomous Group divisions operate.
  - "*We are surprisingly un-hierarchical*" –a result of the improvements made since the trough of performance in 1992.
- Systems
  - A plethora of financial management reports and controls are produced each month, in order to satisfy the auditors: "*most of which... are not that useful.*"
  - A small supporting Group Strategy office exists to look at acquisitions and disposals.
  - A performance related pay scheme is set in place to encourage compliance with short term targets.
- Style
  - The strategic management system is becoming less formal, with, for example, milestones no-longer being used, because "*people find it hard to articulate a basic story and then stick to it.*" There is evidence of "*a fair bit of chat*" to compensate.

People

- Staff, skills and style
  - "*I would say the culture and ethos is not one of control.*" The CEO is seen as a pragmatist: "*-hire good guys and they will figure out what to do, just make sure through periodic financial oversight that the results are good and that you can cajole them into even better results.*"
  - The majority of employees are British, pursuing banking exams, although senior management appears to have a broad range of professional experience.
  - As a counter reaction to 4 years of Consultancy 'inspection', the Group appears to be rejecting formal systems and no longer deliberating decisions to any great extent.

Strategy

- Shared values (super-ordinate goals)
  - *"Our principal objective is to deliver a stable and growing earnings stream to our shareholders."*
  - An 'inventor' approach (Schuster 1996 p. 7) fits the Group's strategic attitude.
- Strategy
  - The Board reviews Group strategy once a year, but it is left to the divisions to pursue their own strategy development and strategic management process.
  - In the RBS division, the three Managing Directors oversee an annual strategy development cycle, with a forward looking three year horizon. It is a top down process involving a handful of staff. The subsequent annual budget is supposed to reflect the strategy developed.
  - A lack of continuity in the annual strategy development cycles was admitted due to a lack of accountability and understanding within management.
  - A key executive within the Retail Bank was asked to position RBS in terms of the strategic archetypes in the literature review of Chapter 2. This respondent noted that RBS was entrepreneurial (Mintzberg 1973), sales maximising (Utterback & Abernathy 1975), a prospector (Miles & Snow 1978) and pursued a strategy of differentiation (Porter 1980).

Chapter 6: Conclusions

6.0 Introduction

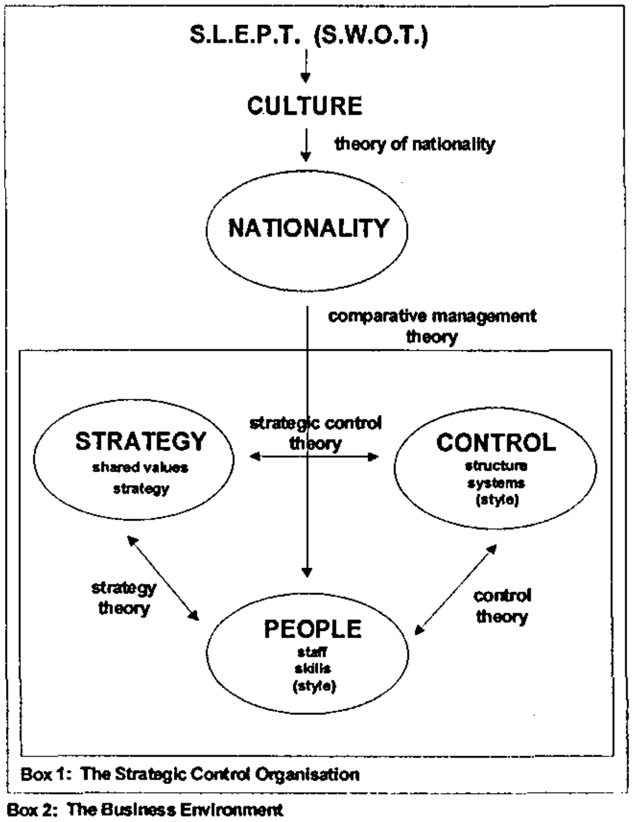
The conclusions will be partitioned into two main sections. The first section will identify those conclusions drawn directly from the research findings of Chapter 5 and the broader issues discovered whilst investigating the retail banking environment. The later section will assemble the wider context observations as concluding remarks on the subject of strategic control and as a discussion of 'best' practice.

Finally, a note is made of the limitations of this research and the identification of areas for further investigation.

6.1 Section 1: Analysis of the Findings and Conclusions

The first conclusion to be drawn from the research concerns the validity of the generic research model. This model is described in Chapter 3 and is reproduced below in Figure 23.

Figure 23: Generic Research Model



This model has been a valuable construct in assuring a comprehensive approach to the study of strategic control practices in European retail banks. It has enabled the focus of attention to remain on the key elements of strategic management and strategic control. In conducting the research interviews it was particularly valuable as an aide-mémoire, in effect assuring the division of the interview into four parts: namely questions dealing with strategy, control, people and environmental concerns. Some difficulty, however, has remained in that the broad nature of the model requires careful management in its application, so that significant data can be collected from all areas of investigation. Careful consideration, for example, needed to be given by the interviewer in the allocation of interview time to the various parts of the model.

In looking at the investigation of nationality as the chosen aspect of the business environment for investigation, it is clear from the findings that nationality is not a key 'determinant factor' in the practice of strategic control. Prior to the commencement of any primary research, it was expected that national differences in strategic control practice would be identifiable, with for example, German retail banks being more technocratic in their approach to strategic control compared to their more bureaucratic French counterparts. Whilst evidence of these general national stereotypes have been shown to exist in the broader organisational context (see Chapter 3 pages 57-65), the findings of Chapter 5 indicate that the impact of nationality does not appear to be a major influence to strategic control practices. This does not mean that nationality does not have any influence, but is rather a statement about the degree of influence. The findings show, for example, that Dresdner Bank and Deutsche Bank, the two German banks studied, are less similar in their strategic control practices than Deutsche Bank and Lloyds TSB. So the short answer to the research question: *do British, French and German retail banks employ distinct strategic control methods that differ significantly from one another?* is 'not to any marked degree', because national differences in strategic control practice amongst the retail banks are overshadowed by the individual differences distinguishing one bank from another regardless of nationality.

In analysing this finding, one is compelled to re-think the impact of all the environmental factors (i.e. social, legal, economic, political and technological or S.L.E.P.T. factors) upon the practice of strategic control. Given that comparative management writers have shown that national differences exist, then why is it that these differences are not significant in the determination of strategic control practice? This question needs further investigation, however a tentative answer would appear to lie in the fact that strategy is a generic management concept. Strategy writing in general terms has been developed from a common United States based capitalistic perspective. Strategic archetypes, such as those identified by Porter (1990), Miles & Snow (1978) and Mintzberg (1973), amongst others, are generic theoretical constructs based upon the fundamental pursuit of profit generation for a company's shareholders. Given this fact, 'how' an organisation pursues its capitalistic goal is of more significance than the nationality of the people within the organisation. Furthermore, in looking at how an organisation pursues its capitalistic goals, if all the other environmental influences are the same or similar (i.e. common social values, legal framework, economic conditions, politics and technology), which could be argued to be the case within British, French and German retail banks, then none of them will be a determinant factor upon strategic control practice. This means that the determinant factors can only be identified from looking within the strategic control organisation itself.

In answering the research question: *how is strategy controlled by British, French and German retail banks?* certain patterns can be seen to exist.

The findings of Chapter 5 show that in terms of *people* (one of the three elements of the strategic control organisation shown above), all of the retail banks have a long and 'proud' history. Retail banks are after all a 'pillar' of confidence within their local community, having existed for many years, 100's of years in the case of The Royal Bank of Scotland, serving the financial needs of their customers. Interviewees from all countries have reflected this 'stature'. It appears also that employees are mostly nationals with a tradition of in-house career development, albeit showing signs that this is gently evolving over time with increased international exposure and greater levels of staff turnover.

Similarly, patterns can also be seen in terms of *strategy*, with retail banks preparing their strategy to face similar strategic threats, for example, the arrival of the Euro, the increase in employee mobility and the ever present need to reduce overheads and to keep pace with the changing needs of customers. It appears that European retail banking products and services may be becoming more alike, with changes in one country soon to arrive in another, for example telephone banking is now common to retail banks across Europe. The advent of the Euro must surely make the arrival of these changes swifter. Indeed, Kay's (1995) "*distinctive capabilities*" are the same for all retail banks, in that the maintenance of reputation and capital (strategic) assets are key to success, with the need to innovate and maintain existing architecture a more distant second priority. The pursuit and maintenance of shareholder value generation levels is also (perhaps unsurprisingly for a bank) a common strategy.

Control patterns also exist in that operational control, in particular short-term financial control, generally dominates all other forms within the retail banks. The need for control over the short term is perceived as necessary and indeed valuable, whilst some of the banks had varying degrees of difficulty in perceiving the need for strategic control. Patterns in organisational structure can also be distinguished, with most banks having an 'entrepreneurial' or 'diversified' structure or some mix of the two (Mintzberg 1995 pp. 350-371).

In looking more closely at the strategic control organisation, an analysis of Table 18 helps in the identification of further strategic control patterns. A discussion of each of these observed patterns of strategic control now follows, allowing for answers to be formulated to the remaining three research questions.

Premise control

> The strategy plan is based on premises, arrived at as a result of the strategy formulation process, and as such contains the 'standard' upon which premise control is based. The rationale for this is that any attempt by the organisation to outline and plan for the future over a stated period, requires that certain underlying assumptions are identified, which become as a consequence 'revisitable' at some point in the future. This does not necessarily mean that premise control 'is' exercised, but it does mean that premise control 'can' be exercised. Any review, because of its nature, i.e. because the fundamental assumptions within the strategy plans are being reassessed, tends to involve senior management, often involving members of the Group Board.

Clearly premise control will be easier to carry out if premises are explicitly and unambiguously identified at the strategy formulation phase. The research findings describe a general lack of understanding or acceptance in the value of premise control –some managers don't understand the importance of identifying planning premises as the foundation for their strategic planning or they don't want to. In the either case, the entire validity of the organisation's strategic management is as a result put into question. Little evidence of premise control was found, instead Table 18 identifies a number of planning methods which 'should' be based upon some explicit underlying assumptions and which 'should' be revisited on a periodic basis.

Implementation control

This is the most obvious aspect of strategic control and all banks were found to exercise some form of strategic implementation control.

Milestones or short-term strategic targets are a feature in many of the banks and form the basis of strategic implementation control. Otherwise more informal strategic control is mostly used, with evidence that frequent strategic conversations are employed as a means of monitoring strategy implementation. Implementation control systems vary from bank to bank, with each bank using different timetables and methods. Paradoxically it is in the implementation stage that controls are the most numerous, but at the same time 'strategic' implementation control is the weakest. It appears that short-term financial control dominates over strategic control at this stage unless the strategy is 'protected' by senior management's commitment to it.

Unsurprisingly, implementation control makes use of the many and varied operational controls within the organisation. The art of implementation control being the distillation and interpretation of the main strategic messages from the operational detail.

Table 18: Summary of the Characteristics of Strategic Control Components in European Retail Banks

Components of Strategic Control	*Abbey National*	*BNP*	*Credit Agricole*	*Deutsche Bank*	*Dresdner Bank*	*Lloyds TSB*	*The Royal Bank of Scotland*
Premise Control	3 year plan Annual "*strategic framework document*" and on-going papers	Profitable development is the fundamental mantra at BNP: "*all choices are made with this objective in mind*"	3 year "*budgetary working drawing*" A 'dialectic' culture exists and numerous committees pervade all areas of activity within the Group	5 year rolling plan: "*a directional map*" 2 day annual strategy meeting by Group Board	None, other than an annual process of "*goal definition*"	"*Aggressive*" or "*stretching but obtainable*" shareholder value targets underline the strategic management system Revisits are made to the framework document used to identify key value drivers	No formal premise control exists, although a 3 year strategy is outlined as a result of the annual "*strategy development cycle*" A pragmatic and some what sceptical approach to strategic management is admitted to: it is personality driven
Implementation Control	"*Value creation targets*" are outlined, monitored and challenged at the annual "*target review meeting*" "*Performance contracts*" are signed between the CEO and business heads, business heads and their subordinates, and are reported upon monthly Informal updates, based upon "*trust, expertise and personal credibility*", are used to check on progress	Each Director reviews their own area's strategic progress every 18 months Operational heads are responsible for their business plans' and their successful accomplishment Dialogue is the only thing done in a systematic way	Scorecards are used Management controls are reviewed every 2 weeks by the Regional Banks' management team New strategies are reviewed every quarter by management teams Control Department checks compliance of internal and external regulations throughout the Group Monthly meeting of all Regional Banks with the National Bank in committee	Corporate Strategy monitors implementation each month (quantitative analysis only) The Group Board looks at nine "*critical projects*" annually, then co-ordinated by Corporate Strategy The Divisional Boards discuss every 2 weeks and discuss with the Group Board every month The annual strategy review checks on qualitative objectives (time frames and performance) and ensures that financial ratios are met Divisional Planning and Strategy Departments monitor on on-going basis formally, e.g. milestones, and informally, e.g. periodic conversations	The heads of the business units are responsible for making and controlling their own strategy, they are 'advised' from the centre through "*two way communications*" and dialogue The independence and self-determination of each business unit is proudly defended	Milestones are reported upon by Group Corporate Planning to the Board –"*if they don't hear from us everything is okay*" Time-tabled strategy review meetings are held within the Group Executive Committee Close liaison is maintained between Group Corporate Planning and business units	Strategy tends to be reviewed once a year by the Board The CEO and Group Finance Director critique business strategy in an informal ad-hoc way Implementation can be deliberately fudged

Continued over leaf

Components of Strategic Control	*Abbey National*	*BNP*	*Credit Agricole*	*Deutsche Bank*	*Dresdner Bank*	*Lloyds TSB*	*The Royal Bank of Scotland*
Strategic Surveillance	4 strategy conferences are held each year attended by the Executive	Observation Centres are the focus for market competition and product surveillance, with the publication of a monthly "*competition monitor*" The headquarters strategy unit attempts to highlight the best strategic direction to be followed	"*Ideas can sprout from everywhere*"	Corporate Strategy uses reports from the Research Department and the divisions, regions, critical project teams	No formal system exists, but information is obtained by managers from literature, market data and talking to customers on an ad-hoc basis	Group Corporate Planning synthesises divergent business views which may be tabled for discussion at the Board in Committee	A small group of individuals at divisional level are involved in strategic management issues
Special Alert Control	No evidence of this was discovered	None, other than crises are prepared for by BNP's commitment to a strong profit base	Aware of fundamental lack of inertia in strategic choices	None: said to be aware of problems: "*it's a dynamic environment, where the planning and management have to be extremely dynamic as well*"	No evidence of this was found	Under "*extreme*" conditions a "*strategic review can be triggered*" by the business or by Corporate Planning	No evidence of this was found other than financial 'risk control' measures as defined in the Annual Report
Operational Control	Monthly reporting data is fed into the monitoring and control of strategy	Annual budgetary review is carried out by the CEO for all operational functions A budgetary scorecard is produced monthly	Traditional operational controls (with heavy focus on financial control)	Overseen by Control Department Quantitative analysis dominates Divisional targets are set for the year	Operational and financial reporting is the basis of Dresdner Bank's control system Financial "*controlling*" is done at a Group level	Operational reporting is used as an information source for strategic planning purposes	A plethora of reports are produced, some of which are used The annual budget "*is supposed to reflect*" the strategy developed
Environmental Scanning	Information is supplied to the strategy conferences upon request	Observation Centres monitor the economy, markets and product changes	Dialogue and committee meetings are relied upon to disseminate report findings	Divisional, regional, critical project and Research Department reports	Nothing was reported, although one would expect some form of environmental information reports to be maintained by a business organisation of this size	Each business unit is obliged to prepare a position assessment by Group Corporate Planning	No evidence of a formal system was found, presumably however, ad-hoc informal environmental scanning does occur
Scenario Planning	Economic scenarios are used for sensitivity testing, but there is little of a strategic nature	BNP uses "*a range of scenarios*" to estimate the impact of changing events on strategy (i.e. a form of sensitivity analysis)	Evidence of some limited use of scenarios was found, however they are generally not used for strategic planning purposes	Corporate Strategy formulates and analyses ideas or is directed to do so by the Group Board Mega trend analysis	Little use appears to be made of scenarios, other than 'worst, best and desired case' projections	No evidence of this was reported	No use of scenario planning is made

Strategic surveillance

Strategic surveillance is the early detection of internal and external changes affecting strategic activities and makes use of information from non-directed environmental scanning activities and that of directed environmental research activities. The findings demonstrate that 'strategic planners' at the Group centre usually assimilate strategic surveillance information, whilst environmental scanning is typically carried out by the individual business units or by 'research groups', as they perceive as necessary. None of the banks make use of IT systems for the wider dissemination of information (as yet), but some have extensive documentation centres and libraries. In organisations making use of a 'balanced scorecard' (some limited form of which is in use, for example, in Lloyds TSB and BNP), it is here that the 'orange lights' should be monitored, with appropriate actions being taken to avoid them turning to 'red lights' instead turning them back to a safe 'green' ones.

Special alert control

No evidence of any formal special alert control has been found in any of the retail banks: the banks presumably hope to weather any crises by having sizeable reserves which give them time to manoeuvre or avoid crises by effectively 'controlling' their environment. Reaction to the question of "how does the retail bank try to prepare for sudden unexpected changes?" was usually one of surprise and incomprehension. On further exploration of this question area, it appeared that the retail banks have never (or virtually never) had to deal with any major unexpected changes, with change always coming about over a manageable period. In times of particular difficulty, for example during a crisis of the economy, common action with other banks, Central Bank and Government support all provide 'safety valves' for the banks. Because of these observations, one can not help but note that confidence in the status quo reigns supreme amongst the retail bank respondents.

Operational control

Operational controls are clearly used in all of the banks, they are after all sizeable organisations, indeed, leading organisations in their respective countries, and have all the operational controls that would be expected in organisations of their size and calibre. Financial controls are, unsurprisingly again, the cornerstone of all the banks operational control systems. Qualitative controls are used, however, albeit less extensively.

Environmental scanning

Numerous 'environmental information' reports are produced throughout the many organisational units within the bank, i.e. its departments, functions, business units, special project teams, etc. External information sources are also monitored and information is acquired from a wide range of external sources.

Scenario planning

Banks do apparently use scenarios for planning purposes, however they are used to a far lesser extent and to a lesser degree of rigour as in some other organisations, such as in the much publicised Shell. In reality, sensitivity testing is being carried out in the banks under the guise of scenario planning. The fact that if scenarios are to be used effectively a significant amount of review should take place (in the form of discussions and reports) appears to have escaped from the minds of 'strategic thinkers' within all the banks or at least no evidence of this was found.

It is also important to point out that no bank was found to have a system called a 'strategic control system'. Indeed, in some cases respondents found the whole concept of strategic control somewhat alien. This was not unexpected however[1] and the research framework was created in order to discover evidence of systems in use in the retail banks that were in fact strategic control systems albeit unknown as such by the respondents.

The findings make it clear that no one system of strategic control is in use amongst the retail banks, and instead various forms exist. Furthermore, the findings show that levels of rigour in strategic control practice (its comprehensive nature and effectiveness) appear to vary from bank to bank. It appears that many retail banks have 'incomplete' strategic control systems, as is described below. BNP, for example, has a form of premise control, some implementation control and one of the more comprehensive strategic surveillance systems identified. Evidence indicates, according to the respondents, that where gaps in the formal strategic control system are found, they are apparently supplemented by the use of informal strategic control systems, such as conversations, meetings and ad-hoc working groups. The best example of this is seen in the omnipresent dialogue of Crédit Agricole. A summary of the characteristics of strategic control components is provided in a tabular format at the end of each of the retail bank stories in Chapter 5, which are brought together for ease of comparison in Table 18. A commentary to which is found below under points 'i', allowing for the advantages and disadvantages of the strategic control practices to be developed under points 'ii'.

Abbey National

i. Abbey National has a fairly prescriptive system of formal strategic control, based around its strategic framework document (produced each year with a three year perspective), and an influential informal strategic control system. The annual review meeting and plan challenge meeting that follows the production of the strategic

[1] Indications of the discrepancy between real life practice and the theoretical recommended practice had been found following initial background area interviews at the start of this study (see Chapter 4 for further details) and opinions on this 'paradox' had been sought in subsequent discussions with strategic control commentators.

framework document provides the basis for premise control, implementation control and the annual financial (operational) targets. Strategic surveillance information and environmental scanning information is also fed into these meetings in an ad-hoc way depending upon the direction and agenda of the review. Likewise, the results from the Group Risk Department's scenario exercise are input as required "akin to stress testing". Once the plan has been agreed a whole range of operational (including human) targets are cascaded down throughout the Group businesses.

ii. The formal strategic management system at Abbey National has clear advantages in terms of strategic control as a result of its unambiguous and rigorous structure. Thanks to this structure, a relatively comprehensive and effective system of strategic control is identified compared to some of the other banks within the sample. Strategic control gaps do exist, however, with for example no evidence of special alert control being found and a weak usage of scenario planning being identified. There is evidence also that the informal system of strategic management is substantial and in the hands of a small senior management clique, generating feelings of a "top down, bureaucratic, command and control culture" amongst some. The 'think new' philosophy also highlights a weakness for accepting short-term targets to the detriment of longer term strategy.

BNP

i. BNP's strategic management and strategic control systems are underpinned by its mantra of 'profitable development'. This clear objective, and the subsequent key ratios that are expected by the Board, is in effect a form of premise control –a mindset that has been readily grasped by employees perhaps because of BNP's only recent privatisation in 1993. In order to go beyond the narrow view of budgetary control systems, BNP uses strategic surveillance and environmental scanning reports "opening up horizons, seeing strong tendencies".

ii. This system of strategic control is pragmatic and minimalistic. Thanks to an easily grasped and remembered corporate objective, an awareness of strategic direction is permanently present in the day to day activities for all BNP employees. As such no explicit strategic management system exists, instead information from operational activities is tapped to provide some dual strategic value. Likewise no formal system of strategic control truly exists, but instead an ad-hoc informal one is conjured-up. Whilst these aspects can be perceived as a strength because of their 'light' nature, they are also a weaknesses in that strategic management and strategic control are left to the vagaries of the moment. In so doing, this shows a worrying lack of understanding as to the strategic direction of BNP (or at least the articulation of which is lacking). Beyond wanting to be profitable and to grow, does it know where it wants to go or indeed, what it 'does' as an organisation?

Crédit Agricole

i. Crédit Agricole has a strong sense of origin and purpose; unlike the other profit driven banks in the sample, Crédit Agricole is a mutual and co-operative bank. Discourse is fundamental to the organisation and much of the strategic control within it is based upon this informal dialogue. The formal system of strategic control revolves around annual operational controls and a plethora of 'normal' business information reports (with a three year perspective).

ii. If a mark were to be given to Crédit Agricole's formal system of strategic control, it would be weak to adequate. What makes it work, however, is its informal system of strategic control. The strength of Crédit Agricole's strategic management and strategic control practices lies in its internal communications and dialogue. These make it a thinking and learning organisation. Whilst this 'mutualist and co-operative brain' is Crédit Agricole's strength it is also clearly its weakness, building inertia into the organisation which must deal with a rapidly changing commercial environment.

Deutsche Bank

i. Deustche Bank has the most comprehensive system of strategic control amongst the banks within the research sample. A structured strategic plan, the framework of which is provided by Group Strategy, forms the foundation of the strategic control system: forcing premises to be identified, the specification of short term targets for implementation and the utilisation of strategic surveillance and environmental scanning information. Divisional progress is checked formally with an annual review by the Board, but responsibility for results remains firmly in the hands of the divisional management teams.

ii. The strength of the Deutsche Bank strategic control system is in its clear and relatively comprehensive structure. Its requirements are explicit and unambiguous and as a result there is an awareness of the need to accomplish the strategic objectives. The weakness in the system is that those items and tools not required in the completion of the strategic plan are marginalised (and potentially ignored), for example scenario planning and special alert control or qualitative ('woolly' and difficult to describe) issues. Greater use of informal strategic control could also be made, with for example not just the Group Board discussing "critical projects" but with wider participation.

Dresdner Bank

i. Dresdner Bank was found to have no specified Group strategic management system, instead individual businesses pursue their own course. In the case of the retail bank this means that operational and financial reporting forms the basis of strategic control. Informal strategic control's "two way communications" were said to fill any strategic control information gaps, however, no evidence of how this was carried out was made available.

ii. The current system of strategic management in Dresdner Bank appears to forgo any value derived by the businesses from the centre. The centre was said to advise the businesses; however, no formal evidence of this was found or indeed, of what this advice might be. Conversely, the Board appears not to require any form of long term strategic information from its retail bank (beyond informal sources), apparently satisfied with short term financial and operational data. In short strategic control appears to be ignored within Dresdner Bank, leaving one to assume that unlike all the other retail banks in the sample, it is firmly placed within the 'financial control' stereotype as defined by Goold and Campbell (1990b).

Lloyds TSB

i. Lloyds TSB has a comprehensive system of strategic control built upon the concept of maximising shareholder value. This concept (and the subsequent ratios and thresholds that are required to be met as a result) is integrated into the strategic management and strategic control systems, with implementation control being a key aspect. Responsibility for strategic management and strategy delivery remains with the businesses, although support in strategy formulation is available from the Group Strategic Planning Department. Group Strategic Planning also acts as the monitoring body of business performance, reporting anomalies to the Group Board and preparing documentation for a periodic formal review process. It also acts as a centre of synthesis, accumulating strategic surveillance and environmental scanning reports and tabling these for discussion in conjunction with the Group Board.

ii. The strength of this system of strategic management is that it identifies responsibilities. It allows for business-led strategy formulation (by those people in touch with the markets), but imposes a rigorous strategic framework upon it (designed by strategy experts) which tests its viability. It allocates the management of the strategic control system to Group Strategic Planning who monitor strategy implementation whilst maintaining a surveillance of the continuously changing business environment. It leaves the authorisation of strategic decisions (and where necessary the sanctioning of personnel for unrealised strategies) in the hands of the Group Board. In so doing it allows for a flexible mix of formal and informal strategic control. The down side of this system of strategic management and strategic control is that they risk becoming routine, with emergent strategies potentially being overlooked and the value of some strategic control components being diminished (for example, scenario planning or special alert control).

The Royal Bank of Scotland

i. The Royal Bank of Scotland retail bank has its annual strategy development cycle (with a three year perspective) as the basis of its strategic management and budgetary systems. Strategic control revolves around this cycle too –making use of operational milestones, review meetings and environmental reports for strategic control purposes. The culture is not one of control, however, being more about "hiring good people, expecting them to figure out the right thing to do and periodically checking in, to check that they are not giving you nasty surprises."

ii. The strategic control system relies on the fact that only a few senior managers are involved in The Royal Bank of Scotland's strategic management. As such they are able to maintain some form of grasp on strategy through the limited formal strategic controls that exist, supplemented by frequent informal communications. The lack of strategic thinking, strategic planning and strategic management in general however, means that strategic control is weak, replaced instead with a reliance upon short term operational (financial) controls.

The above analysis begins to answer the following research question: what are the advantages and disadvantages of these strategic control methods? In answering this question fully, however, one needs to compare actual practice to theoretical 'best' practice, in so doing answering at the same time the final research question: how does current strategic control practice amongst the retail bank sample compare to commentators' theoretical models of strategic control?

In looking at the above strategic control components it is clear that their utilisation and their quality of utilisation is affected by certain environmental influences peculiar to retail banking. Most notably, the findings show that premise control, special alert control and scenario planning utilisation is generally weak within the sample. In attempting to analyse this observation, one tentative rationale for this is that the relative stability of the retail banking sector in the past, protected retail banks from much of the impact of environmental changes and so reduced their need to utilise strategic control components fully. In exploring this further and drawing upon the same sources as used in Chapter 1 (Anderton 1995, Palmer and Lucas in McGoldrick and Greenland 1994, Howcroft and Lavis 1986), it is logical to note that: if deregulation is occurring today then in the past the retail bank industry was regulated and protected by legislation; similarly if globalisation is happening today then in the past markets were more parochial; and likewise continuing the argument, if technology is more open to change today then it was more stable yesterday and if management tasks are more complex today then in the past they were more 'simple'. If one accepts this then, it is possible to argue that strategic planning assumptions or premises were less likely to change and so control over those premises was less necessary. Similarly, if fewer surprises occurred to that foreseen when plans were made, then the need for crisis management or any form of special alert control was reduced. Likewise, the need to use scenario planning was greatly reduced if the future was perceived as relatively stable and well determined. It can be argued therefore that retail banking stability in the past has contributed to the current state of strategic control practice today.

In looking at the strategic control literature as identified in Section 3 of Chapter 2, the above analysis of retail bank practice shows that the Schreyögg and Steinman model (1987) is satisfied to a limited degree and that the utilisation of the full range of strategic control components as described in Table 2 and used in Table 18 is satisfied to an even lesser degree. The findings confirm that the Schreyögg and Steinman model is a fundamental description of strategic control, in that it can be interpreted to include special alert control, operational control, environmental scanning and scenario planning even though they are not all explicitly specified in its content. As a theoretical construct therefore, it is a powerful generic model, whereby all the retail banks investigated would to a limited degree satisfy its criteria. On closer investigation, however, it is clear that strategic control practice as discussed above is not the same amongst all the retail banks. A glance at Table 18 shows clearly that gaps in the utilisation of strategic control components exist, and on closer examination that those components that are used have a variable quality of utilisation amongst the retail banks. More precisely, whilst the findings from most of the retail bank sample have shown that premise control, implementation control, strategic surveillance, operational controls and environmental scanning are an integral part of their strategic control systems, they have also shown that special alert control and scenario planning components have not been understood to be as important or as necessary, as shown by their absence in most of the sample's strategic control systems. Strategy literature writers however, such as Preble and Van der Heijden, would argue for their inclusion.

The use of the generic research model has highlighted the fact that many strategic control components (as identified in the literature review in Section 3 of Chapter 2) already exist in basic form in European retail banks. It can be argued furthermore, that an effective strategic control system needs to draw upon all of these basic components, adding missing components or improving the quality of existing components and integrating them into a comprehensive structure. Instead, it is all too easy for practitioners to believe from reading the literature that a strategic control system is a new, complex and expensive system to introduce. This research has shown, however, that the building blocks of a strategic control system already exist in the retail banks, but may require some modification and supplementary components in order to become a 'best' practice system.

In answering the above research questions therefore, the answer demands a balanced response. Strategic control practices amongst the sample of retail banks do satisfy some of the strategic control writers' models of strategic control, but this does not mean that they satisfy all aspects of the strategic control writers' models or that they can not improve their strategic control practices. If blame for the state of strategic control practice amongst the retail banks was to be apportioned, blame should be partly placed on the shoulders of strategic control commentators for not clearly specifying an easily implemented strategic control system which concerned organisations could use in order to give them a comprehensive and effective system of strategic control. A word of warning to retail bankers is also needed however, in that the retail banking environment has changed and strategic control systems need to keep apace with the impact of this change. In the past, the retail banking sector has been relatively stable, a stability protected by, amongst other things, regulation and access to capital. In today's increasingly deregulated market however, competition is more intense and non-banking sources of capital are now available to competitors (as in the case of the UK's new supermarket banks for example). As a result, maintaining a strategic view and taking strategic decisions is increasingly important to banks rather than a purely short term view and short term decision making. If strategic decisions are indeed to be made, then this thesis argues that a comprehensive and effective form of control over strategy is needed. No longer can it be appropriate for retail banks to rely on short term operational control and inadequate strategic control in their decision making: a more rigorous system of strategic control is now required.

6.2 Section 2: Implications of the Findings on Strategic Control Practice

This section provides a summary of the implications of the findings for retail banks (and potentially other organisations) and puts forward a set of strategic control tools as instruments for attaining a rigorous and appropriate system of strategic control. In so doing, this section brings together the observations made during the investigation as a set of concluding remarks on the subject of strategic control.

A rigorous system of strategic control conjures up images of a rigid, bureaucratic planning organisation, which sounds far from being adaptable to change. This is not what strategic control is about however, and it clearly needs to be avoided. As discussed in this section, a rigorous strategic control system needs to allow for the fact that: (1) as information requirements change, so should the strategic control system to provide that new information; (2) the degree of rigidity of the strategic control system needs to be balanced in order to keep apace of changing environmental realities; and finally (3) it needs to be born in mind that although the purpose of strategic control is to equip decision-makers with early warning information with a view to preparing for the future, the future will always remain unknown. A comprehensive and effective strategic control system (i.e. one that is rigorous) needs to ensure that these three 'fundamentals' are integrated into its design.

A logical conclusion from the observation that as information requirements change, so should the strategic control system to provide that new information, is that effective strategic control practice requires a certain level of understanding within management about strategy and the willingness amongst all bank employees to learn and improve. In order to be able to make the best strategic decisions the people making those decisions need to be equipped with sufficient information, which in turn requires that a range of information gathering activities have been carried out. Strategic control provides the necessary system for identifying that information. Caution is needed however, in order to ensure that the strategic control information is appropriate to the needs of the organisation. This means that a strategic control system can not be left rigid, but instead needs to evolve to meet the changing information requirements of the organisation. The 'controllers' need to remember, therefore, to control the strategic control system in order to ensure that the dynamic of organisational learning continues and that valued strategic information is the result.

In order to acquire this 'learning information', it is clear that information gathering opportunities, both internal and external to the organisation, need to be maximised. Once collected, the information also needs to be distributed widely within the organisation and in particular made available to those who may need it. This is easier said than done! The introduction of computerised information systems, however, does facilitate this task. Information technology needs to be used to integrate day to day operational information into its longer-term strategic context.

The degree of formality in the strategic control exercised over a strategy should[2] indicate the level of importance the organisation places upon the strategy. This leads us to ask the question about which is better: a formal or informal strategic control system? The answer must be a practical one: if the strategy is perceived as being of fundamental importance for the organisation, it will require a comprehensive system of strategic control, which if it is to be completely effective will need also to be formalised into a structured system. The rationale behind this statement is that an informal system of strategic control is highly time consuming if it is to be comprehensive and effective. The research findings show that Crédit Agricole has the most rigorous system of informal strategic control amongst the sample of retail banks and one respondent noted that its senior management (some 200 people) spend "one fifth of their time" in meetings (4 complete days every month) "trying to find what brings us together and not that which pulls us apart". Clearly not only is this type of informal system time consuming, but also it requires a culture that fits with it. The reality of the commercial situation however is that most retail banks will be unlikely to be in a position to introduce a fully comprehensive and effective informal system of strategic control.

The above discussion would tend to suggest that an organisation with a weak strategic control system is likely to have a poor understanding of the concept of strategy itself or at least does not place a high regard on the importance of attaining the strategy. In other words, if a strategy is of critical importance to the organisation, then it will allocate the maximum resources possible to ensure that the strategy is accomplished and, in which case, in terms of strategic control, the management of the organisation will maintain the keenest of interests in the strategy and will want to be informed of any developments as and when they occur. This does not mean that informal strategic control will not be used, but it does mean that it will be organised into a formal strategic control system, whereby opportunities for informal strategic control reports and discussions are an integral part of a more formal system. Informal strategic

[2] The conditional tense, "should", is used, because a definitive statement would assume that all management were aware of the importance of strategic control and understood what it was, which unfortunately is not the case.

control's major value is indeed its flexible nature, allowing organisations flexibility to manage the impact of a changing environment.

In thinking about the degree of formality or informality in strategic control and the need for organisations to learn, the compromise made could be likened to parenting (Goold, Campbell and Alexander 1998). Parental control over offspring is an inexact science, with differences between parental practices existing, likewise is the practice of strategic control. The aim of more formal, rigid control practices that parents impose upon their children when young is to ensure their safety and discipline, until such time they are equipped with their own personal understanding of right and wrong and are able to make their own 'best' decisions. Similarly the management of an organisation will need to exercise strict strategic control on organisational activities until a strategic control ethos has been generated throughout the organisation, whereby strategic information is routinely circulated in order to maximise organisational learning.

Much of the underlying philosophy of strategic control is an attitude or understanding to check, monitor and evaluate. The problems faced in gaining this attitude, can be likened to the similar mind-shift that was required to move away from the backward looking, legalistic form of accountancy systems, to the introduction of forward looking, financial management systems. This mind-shift takes time to introduce, but those organisations that do not have this attitude need to make efforts to acquire it and those that do have this attitude need to fine tune it and make it more rigorous. Indeed, if management thought '-and the control system?' at every stage of strategic management, it would facilitate the management of strategic thinking, learning and implementation and would provide clarity and direction to their strategic management system and strategy. At British Telecom[3], for example, one respondent called this mental state of the organisation, the point when management become "active reflectors".

[3] A research interview on the subject of strategic control was carried out with a key strategy manager at British Telecom during the course of this investigation, further details however have not been included in this thesis as it is not a retail bank and is not therefore directly relevant. Prior to this investigation, related research interviews were also carried out on the subject of strategic control with a number of leading European petrochemical companies and these too have not been included for the purpose of this thesis for the same reason.

The 'ownership' of strategic control can be shown to need top management, Board level and CEO level commitment, whilst at the same time relying upon devolved decision making. On the one hand, senior management need to maintain strategic control over business operations as well as providing businesses with 'valuable' senior management input in their pursuit of strategy, and on the other business management needs to be free to develop their own strategic control system specific to the strategic management of their business.

The research findings have shown that strategic control is still at an early stage of development in European retail banking. It shows further that those business organisations buying in consulting expertise, mostly from the USA (i.e. Deutsche Bank and Lloyds TSB), appear from the findings to be the 'best' equipped amongst the research sample to deal with the increasingly rapid changing environment.

A 'best practice' strategic control system will allow for opportunities for early warning to be raised, and thereby allow for prompt strategic decisions to be made. Strategic control, it must be noted, is not simply a return to the strategic planning methodology of the 1970's and early 1980's. It is not merely a method for planning, but rather it creates a framework for the evaluation of strategy, reminding management not just to remember the feedback loops of the control system, but also to feedforward information and to be proactive in the monitoring and surveillance of strategy. Strategic control thus allows for strategic progress as put forward by Mintzberg (1996 pp. 13-21), whereby on the one hand, an early warning of strategic progress moving away from that intended is given (e.g. highlighting the likelihood of deliberate strategy becoming unrealised strategy), and on the other, providing an early warning of the appearance of new emergent strategy, so that this new strategy can introduced as soon as possible into the organisations strategic management system.

In the literature review of Chapter 2, it is argued that the more rigorous the strategic control system employed (in terms of its comprehensive nature and effectiveness), the more focused the organisation will be upon the complete strategy process –from formulation to strategy implementation. It is clear also, from the above discussion, that the more rigorous the system of strategic control, the earlier the warning of any derailment or likely derailment or new direction of strategy away from that foreseen.

A direct consequence of this early warning is that a more rigorous system of strategic control requires an organisation that is open to learning and willing to adapt to change. There is no point after all, in an organisation introducing a system of strategic control to provide early warning of the need to introduce change, if the organisation is not willing to change.

The recommendations for a 'best practice' strategic control system have been developed from the above discussions, around two twin requirements, namely the need for organisations to develop a rigorous strategic control system which also has built in adaptability to allow for environmental change and organisationally specific preferences. The use of a range of strategic control 'tools' is therefore proposed; the details of each tool are described below.

Premises

Key underlying assumptions or premises should be identified for all businesses within an organisation. These assumptions should form the bedrock of the organisation's strategic management system and as such should be the same for all businesses. A knowledge of the key assumptions provides clarity of strategic direction and facilitates strategic decision making.

Scenarios

Different potential scenarios should be used to test strategies prior to their implementation. Furthermore, once a strategy has begun to be implemented their continued testing against scenarios should be maintained, in order to check that the strategy is still 'best' in the light of up-dated scenario parameters. The use of scenarios allows for a valuable periodic review of strategy and above all encourages learning. Senior management should participate in and encourage businesses to carry out scenario planning, ensuring that reports of findings are circulated where appropriate throughout the organisation.

Critical projects' discussions

The utilisation of critical projects' discussions should be encouraged. These discussions might take the form of a strategy conference, as in the case of Lloyds TSB for example. The aim should be to encourage an awareness of critical strategic issues, to generate strategic thinking and to distribute information on strategic decisions. Senior management should participate in these discussions and should encourage the widest appropriate participation from employees.

Environmental information reports

The environment, both the operating environment and the remote environment, should be scanned regularly in order to identify change. This information gathering activity should be wide ranging, focusing on changes rather than their current relevance to business operations. Senior management should ensure reports of these environmental changes are circulated widely.

Balanced scorecards

The use of a balanced scorecard will ensure that a balanced perspective of operational control is maintained (contributing to balanced strategic control perspective), providing financial, customer, internal business, innovation and learning perspectives (as discussed in Chapter 2). The aim of which "*is like the dials in an airplane cockpit: it gives managers complex information at a glance*" (Kaplan and Norton 1992). Senior management should ensure that all businesses produce and use a balanced scorecard for strategic management purposes and report upon it.

Milestones

The introduction of milestones for all businesses will ensure short-term implementation control, allowing for 'stop-go' judgements to be made upon strategic progress. Senior management should require that appropriate milestones are used and are reported upon, but should leave the responsibility of the selection of the appropriate milestone in the hands of the business units' management.

Risk management

Awareness should be maintained of the risks an organisation faces and some form of preparation should be carried out to deal with that risk occurring. It is senior management's responsibility to ensure that its businesses prepare for all risks, particularly strategic ones (thereby assuring special alert control).

Fundamental to the above list of tools is a strategic management framework, upon which these tools are hung in order to provide a complete and effective strategic control system. This framework whilst enabling the development of strategy and opportunities for leaning, needs to also ensure a rigorous control over strategy, allowing for both informal as well as formal strategic control. The advantages of a formal system of strategic control, such as the removal of ambiguity and the use of a timetable, need to be weighed against its disadvantages, for example increased bureaucracy and rigidity. The formal-informal equation will need to be organisationally specific, allowing for a strategic framework that is appropriate to the management of the strategic control organisation elements as identified in Figure 23, namely strategy, control and people.

6.3 Limitations and Avenues for Further Research

This research has been ambitious in its scope, attempting to capture a picture of strategic control practice within a sample of European retail banks and compare this practice to theoretical best practice in order to provide some useful recommendations for practitioners. In so doing various difficulties were faced and various choices were made. As a such the research will contain a number of inherent limitations.

Finally, further research is needed to determine the impact of introducing a more rigorous system of strategic control within European retail banks. Analysis of the 'before, during and after' introduction of a rigorous strategic control system would provide many valuable learning opportunities for retail banks and other organisations embarked upon improving their strategic control practices.

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Appendix 1: Interview Questions

In order to investigate the PhD research questions and satisfy the research objectives, the following 'accessible' interview questions have been produced. These interview questions were designed to provide findings that would allow for examples of actual strategic control practice in leading European banking organisations to be ascertained.

Along side each interview question in Table 19 below is the theoretical basis or practical rationale upon which each question is founded. This theoretical basis refers the reader to the key source for each question, as outlined in further detail within the literature review provided in the main body of the thesis.

Not all of the questions outlined below were always asked of the respondents interviewed. The reason for this is predominantly one of time, whereby the interviewee quite simply over ran on the quantity of information provided on some questions, leaving no time for a response to be given on others. Occasionally, however, as in the case of one interview at Dresdner Bank for example, some of the questions were not relevant due to the responses provided to earlier questions. This said, through having at least two respondents from each banking organisation providing the research data, any gaps that remained following from one interview were generally filled from another. The use of at least two respondents also allowed for opportunities to confirm or reject (validate or falsify) the data provided in earlier interviews. Finally, the use of the telephone or letter 'follow-up' with respondents provided further precision from the previously collected interview data.

It must be noted also, that the wording of the interview questions was not strictly adhered to during the interviews. The questions below represent a guide or proforma of questions that was covered within each banking organisation investigated. The reason for this, was the need for flexibility, whereby each interview was pursued in a format and structure that was the most appropriate to the situation. One clear example of this, was an interview carried out with Crédit Agricole, where a direct translation of each question was not used because of the need to make allowances for methods of

French expression. This said, equivalent or similar questions were asked in order to provide answers to the PhD research questions in line with the theoretical basis for each question as shown below.

Table 19: Interview Questions

Interview question	Theoretical basis/practical rationale for the interview question
Could you please briefly describe the bank's strategic management system?	An introductory coverall question that allows for subsequent probing.
Does your bank monitor its strategy?	A further introductory coverall to provide a preliminary check on the rigour and use of strategic control.
Does your bank review formulated strategy to see if it's still valid? If so, how regularly?	To check on awareness of unrealized and deliberate strategy, premise control and implementation (stop/go) control.
Are the underlying assumptions established during strategy formulation checked?	General coverall to capture all Schreyögg and Preble controls, as well as the existence of intended strategy.
Is strategy implementation reviewed? If so, how regularly?	To check on implementation control and deliberate/realized/unrealized strategy.
How and when is feedback of strategic progress given? Are milestones used?	To check on the implementation reporting process, operational controls (financial and departmental reports), deliberate strategy and the use of milestones.
Is the control system itself reviewed? If so, how regularly?	To check on strategic control system rigour.
How are the views of the future captured and used? Is scenario planning used?	To understand the nature of the company's strategic surveillance/environmental scanning system and on how they decide upon intended strategy (if they indeed do).
How does your bank make provision for sudden change?	To verify the existence of a special alert control system.
How do other domestic banks control of strategy differ to yours? And foreign banks?	To explore and confirm comparative management theory and culture theory.

Interview question	Theoretical basis/practical rationale for the interview question
What do you think are the influences on strategic control internal and external to the organisation?	To verify the respondents view upon own model.
Does nationality have an impact on strategic control?	To confirm comparative management theory, culture theory and own model.
Are all influences of the same importance? Which are the most important?	To verify the respondents views on the model and on areas not covered by it.
What do you think of this model? Which aspects are right, which are wrong?	To explore and perfect the model.
Do retail banks exist as such these days or are banks becoming more universal or is retail financial services a better term?	To check on banking theory and practices.
How do you see the future of European 'retail' banking?	To compare reported sources accounts of banking future with practitioners perspectives.
How does your bank distinguish between what is strategic and what is technical?	To compare the respondents interpretation/understanding of strategic theory with actual practice.
What do you think are the benefits of keeping control over strategy? What are the disadvantages/drawbacks?	To understand the respondents view of strategic control, financial and operational control.
What makes a strategy worth controlling?	To discover the respondents views on the worth of strategic control.
Could you describe the people for me in the bank -what is their nationality/background?	To assess the type of people within the bank.
Could you describe the culture of the bank –formal/informal, top down/bottom up?	To assess the type of culture within the bank.

Appendix 2: Excerpts of an Interview with a UK Academic

Introduction

This interview took place in the summer of 1995. The interviewee is David Asch, Dean of the Open University Business School, who, of particular interest to this thesis, published the following paper on strategic control:

> "Strategic Control: A problem Looking for a Solution" in *Long Range Planning* 1992, Vol. 25, No. 2, pp. 105-110

Commentary

To start the ball rolling I was going to ask you whether you in your experience have come across companies having difficulties distinguishing between strategic and tactical?

I don't think actually most companies make a distinction to be quite honest... One of the things I refer to in that article is that - and I don't see the evidence myself since writing it that it has changed - most companies have fairly extensive financial reporting on monthly, weekly, annual, whatever the basis is, that tends to be fairly comprehensive, if you take for example, companies like GEC, the notion of a three page report that captures everything you need to know, is primarily - not solely because the front pages are a commentary - but it primarily financially driven. Now what that tells us it seems to be that if it's financially driven ergo it's historically [driven], because that's where the numbers have come from, these are the sales from last month or whatever the view it is now. So that is if you like standard control information that Boards of Directors, Senior Managers, Managers all the way down the line receive. It seems to me that what isn't so widely disseminated is whatever work organisations do in a much looser way, such as, for example measuring market share. Now marketing departments often measure the market share of product and so on and so forth, but it does seem to me that that's not so widely disseminated as the financial information, and a number of possible reasons for that are: one would be that of course most of the time, 99% of the time, market share data is very unreliable. A company I did a lot of research in, Rank Xerox, for example, who are actually 'whizzos' at measuring market share, so they can quote it to you how they compare against key competitors like Cannon, Kodak, Toshiba and so on, all the major competitors, but you actually look at how that data is prepared, it's sample data, fairly small samples, and there are a number of ways of doing it, you can measure it for example on how many let us say medium sized photocopiers were installed in the last month? Those are new photocopiers, nobody counts the used or reconditioned ones, so: a) it cuts out a big chunk of the market, or possibly a big chunk of the market, nobody actually knows, but everybody knows that reconditioned machines are in that particular market. The second thing is if Rank Xerox discover as they would on say a mid range machines that they are number two to Cannon, perhaps ahead of Toshiba or some of the others who are away down, they then do another little sum which measures the number of photocopiers that are made in a month, again its sample data, in using that measure Xerox comes out at number 1, well what a surprise! I think the key point is that that data is subject to significance variation, its much less certain, as certainty goes than say historic financial information.

With that in mind, do you see that information or do they see that information as more of a tactical instrument or a strategic instrument?

I think its quite blurred you see, because companies like Xerox that I know quite well in the UK and internationally tend to measure that as a matter of course, now I don't think they necessarily see it as tactical or strategic, they see it as information and they establish targets then, that are argued as strategic targets that say we want to be number 1 or best in class or whatever in this range of products and services, so I don't think they ever explicitly state the difference, implicitly I think they are both, because what they then do is they track there performance over time, but we have to recognise is that, that sort of data is very uncertain and if the company doesn't like the message, and of course I am talking from say a UK perspective here in terms of say Rank Xerox, right, when they might need to tell Headquarters in the States that they are actually doing better than they are, so there are also political things that come into those as well.

I was wondering if you could describe what you think is the most common method of strategic planning actually made use of?

Strategic Planning, well that interesting, I mean in companies like the GEC Group, Rank Xerox, there is a bank that I know, a small bank... Planning seems to be not as necessarily we would teach it, you know, whether you follow the Argenti or Andrews approach, those two, so you do a proper assessment of this that and the other, objectives, looking at your strengths and weaknesses, etc. There are a whole series of models like that, that say this is how one should plan and so on. None of them actually seem to do that in my experience, what they tend to do it seems to me, I'm just trying to think if there are any exceptions in those countries that I mentioned I don't think there are substantial exceptions actually. What they tend to do is to take where they are today, which is as good a start as any because a company can't change its history, and say what do we expect we will do next year in the light of assumptions that we are going to make about how the markets are going to develop wherever it is they are going to go? Now they then role forward on the basis of those assumptions what they think the sales revenues and hence costs, profits etc. are going to be, and they role forward things like what they anticipate market share to be and so on. What it seems to me, is it's very interesting that they are not so good as they say. I can think of a PC company currently that's launching a new product, a new PC, I thought as a non-expert as quite deliberate: they say we are going to do this, we are going to spend this much on advertising and promotion and we've got the distribution channels worked out, etc. What they haven't done though is to say or to think through what are competitors going to do? So this company competes with outfits like say Compacq, IBM, Hewlett Packard and so on and so forth, but this new product, it's a home based PC, would actually also lead to competition with the manufacturers of say TV's and stereo systems. So they needed to in addition think through (which they hadn't) what would Compacq do when they see us launch this new product, what would people like Sony or JVC or whatever do? So in a planning context that is really quite restricted I would say. I don't think its quite as bad as firefighting, but I think what is quite surprising in 1995 is that it's still so crude! I would have expected I think, because these are all pretty large companies, I would have expected perhaps a larger element of sophistication and perhaps more of a demonstration of understanding the subtleties in the market place. I will give you two examples if you like, in the case of the PC Compacq world, what's quite clear from all the data that they have, that we've looked at, is that the PC world is changing from the professional as they call it, i.e. office based PC to a homebased PC market. What they are saying is office PCs are now a replacement market largely, most companies that are going to have them have already got them, and they are just talking about upgrades, replacements and so on. The big untapped market, and if you think back to TV ads in the Autumn coming up to the run up of Christmas of last year we had TV ads for Intel, IBM and Apple and so on. Now what they are all saying is the consumer market is the big one to go for, what they haven't yet cracked, it seems to me in the UK anyway, what the implications of that are for distribution networks and so on, nor have they cracked yet issues around customer perceptions of PCs. I mean in terms of customers being non professional buyers, as an industry that gives them opportunities in the sense of the home buyer is nowhere near as sophisticated as the corporate buyer man, but nevertheless they are probably much more price sensitive in some ways. So there are a whole heap of issues and about competitor responses in particular - that I know haven't yet really been thought through. The other example I would give would be I think in terms of the reprographic marketplace which has shifted, I mean that's been a replacement marketplace for some time. But the major players at the top end of reprographics, like Rank Xerox, like Kodak and so on, I don't think have yet fully thought through - well partly - what they are doing, and what the positioning of themselves in their products should be...

With that in mind do companies monitor their strategies to see what they are doing, and whether they are achieving the results they want?

I think they monitor them but only in the sense that their conventional reports talk about financial performance against budgets, for example. So the assumption then is that the project reflects the strategy, which of course it may or may not. The difficulties seems to me for companies is to understand why or why not they might be on target. The assumption then is if they are on target, i.e. they are hitting the budget or perhaps exceeding the budget lets say in sales revenues, there on course, now the fact is of course that they may be on course for completely different strategic reasons than those reasons that they originally thought about: they may have said well customers really like this particular feature of the product or service that we are offer, but in fact they like something else much better, if you don't pick that up it might have interesting implications for future product or service development.

Now if we go through the strategy process. They formulate a strategy these companies presumably, they want to be number 1 in a particular sector, but do they review that this strategy's still valid depending on perhaps what their competitors are doing or what other criteria is going on?

It depends. If it's successful, let us say they are hitting the revenues hard and I'm using that as short hand for hitting everything else as well, of course that may not always be the case. Let us assume they are successful, the odds are that they won't be asking the questions, if they are successful they don't need to! If they are not hitting it, if there is a revenue shortfall, because perhaps the products are not being as successful as they might me, then they start to look as why this might be the case.

So it's a negative action?

Then again it maybe too late, a lot here depends on the nature of the industry, if you are in, let's choose two extremes, if you are in the PC industry for example and you are flogging a PC for about £1,000, it's a very small item, you might not these days have sufficient advance warning that your product for whatever reason is not so acceptable compared to competitors. So general knowledge is fairly wide across that particular group, but nevertheless you may not pick it up in the same way as perhaps say in the top end of reprographics, the Xerox's, the Kodak's and the Canon's of this world, they would know what the forward orders are because they are selling bits of kit for £150,000-£200,000, so selling them is quite different. So in other words Xerox could have a view about the acceptability of its products, perhaps more in advance than say a PC manufacturer might have, and that's largely to do with a sort of different selling and distribution processes.

There is another over or underpinning dimension which I think is actually neglected to some extent, and that's the political context in which these decisions and reviews take place, in as much as, if, and I can think of a case in a company where a new product was coming up and an assessment had been done on volumes, prices, revenues and profits that these products were going to generate, now I was at a Board Meeting when the Marketing Manager who as it were was the product champion for this particular product, made a presentation, said these are what we expect, and someone asked the question: "I don't really believe these volumes!" They were predicting volumes of 500,000 units with a fairly small retail price of 50p, so you know half a million sounds a lot, but in that context it's not a lot. The question was asked we don't really believe these volumes, because they say you've got 600, 500 and 400,000 units estimated, you know sort of good, average and poor, or whatever it was. Now the Marketing Managers response to this was these are the absolute minimum's that they could expect, and anyway there were cut-off points for TV advertising and so on, so if they didn't hit those volumes they could pull the advertising out. Now what actually happened to the product - again it's interesting because what they hadn't anticipated was that in that particular industry, there was a gravy sauce or a soup mix or something, a fairly simple product actually, but there was a new one, a new product, was that competitors could actually replicate that product in about a month, because they would pick one off the shelf, analyse what they have done with it, and then do the same things themselves, different packaging, price and so on. The other interesting things in the case that went to the Board, they'd say they had done some Market Research which said what's the propensity to buy at 20p, 50p or whatever the price was I can't remember, and they said OK the propensity to buy is a certain percentage at say 40p, but the actual launch price for the customer discounted for retail was set above that -so in a way that undercut, if anybody had bothered to look, the assumptions that were made about volumes. Now in the event the product bombed, so if they said they were going to sell half a million units, that actually sold about 200,000 -it was still a profitable project/product, but nevertheless it was nowhere as near as successful as had been anticipated. Now this was quietly forgotten, and the Marketing Manger is now Chief Executive of the company, now it seems to me to be an interesting legal tale for what its worth in the terms of that it was not in the Marketing

Manager's or the then Chief Executive's interest, because the Marketing Manger was his protégé, as it were, to explore in too much detail, nor to have a detailed inquest as to what had happened! So in many organisations I really believe now, that we can look at the rational process, say have we done the research, have we done this, have we done that, are the costs right and so on, but it seems to me now that the reality is we can do all that, but if someone has the ear of the Chief Exec., or whoever it is that is making the decisions, those sort of political issues that are really crucial.

There is not a sort of a rigorous planning system at all?

It might be rigorous at one level.

It can be bent and got around?

Exactly, got around yes. It can be subverted.

How about once a strategy is on course, I suppose it's your gravy packet again, they're still not chasing it up depending on these political factors?

Yes. This is of course actually where organisations are fascinating in a sense, that you look at the successes and whoever is responsible for the success would of course trumpet it on the basis on getting promotion to the Board or getting a bonus or whatever it is. Whereas if it is not a success indeed if it's a failure, you might say: Ah! this is because, you know competitors have introduced you know a better product, quicker and cheaper than we could or whatever the reasons for that are, and so the whole issue then is about shifting responsibility for that, and of course you do that, or managers seem to do that, actually on quite different reference points, so if it a success its because we're really good and if it's a failure its because we are still good but the competitors did something else or the customers are stupid or something, they don't understand the benefits that we offer! Talking to another PC company for example, they were saying, our computers, our PCs are ten times better than Compacq's, and you say: who cares? What's the point? If the market is happy with a Compacq PC, you know at £1,000 or whatever it is, why would they want to buy your's which might have more bells and whistles on it or whatever for £1,200, because you haven't told them that yours is ten times better than theirs for a start, you just assuming that they know, so there are big issues around here in perceptions in organisations as well as the politics of it.

Do you think that there is this sort of monitoring and if there is any monitoring is it done on a regular basis, or on a sort of normal company planning timetables, or?

I think it varies enormously, if we think first of a fairly standard product line that a company has then it tends to be regular because it is built into the system for example, and probably no one has as it were the political stake in what is going on.

So they would be using the sort of typical tactical reporting?

Yes, typical standard, weekly, monthly whatever. Now on the other hand if we've got and I think it was Ansoff who suggested that the strategic projects ought to have a different method of looking at them, I think some companies do that, if they have a really major project, that's viewed quite differently, the reporting lines, and the reporting methods, and the issues that are reported on, are quite different and that's because it might actually have really important consequences for the future of the organisation, and those consequences might be not just to do with the success of that particular product, but the fact that if that product is successful it can have a cascade, a halo effect, on all other products, but they don't change just because we have said, this is a really good thing here, and we're really an excellent organisation to have done that, that can have knock on effects to everything else that we do. The best example of that in the UK at the moment is as I understand is the Volvo 850 T5 whatever it's called which is not going to sell in any great numbers, they might sell a couple of hundred cars, but this is the super fast estate, faster than a Ferrari in 4th gear - you read the ad it's quite interesting! They'll sell maybe 200 so that's nothing in terms of UK market, but the halo effect on that, on sales and other parts of the Volvo range, and in shifting customer perceptions on what Volvo now means, have, as I understand it, been quite significant. So if you were managing Volvo in other words you'd been watching that like a hawk, because that would be shifting customer perceptions to enable you to sell more cars.

How closely is watching like a hawk would you say? Would they do it every month or?

Oh, probably, if not - I mean what some companies do, I don't know if Volvo does, what some companies do, is they would monitor that - for example they know when they have a campaign to say the press or TV or whatever it is for a product like a car, so they would be doing things like a gallop type poll of the general population so you know here in Milton Keynes they might have a couple of people out in the streets saying, did you see the latest ad for Volvo or much more subtlety what's your opinion of Volvo cars, and then what they might do, ultimately they will track that to see, because you might say after the advertising campaign, let us say recognition of Volvo or whoever it is, is say, 9 out of 10 people have heard of them, and then you would unscramble what that actually means. So that might be a week after, you might do it again a month after to see how knowledge of the product or the company decays over time, so what some companies do, not all of them, but some of them do, say here is the promotional point, say the 1st August and track then how understanding builds and decays over time, because that then would enable them to say well, when we had this high recognition did we have sufficient bits in the warehouse to meet us or whatever?

If we go to the end point of the strategy process once things have been accomplished and they are all sitting in place, do they monitor that to see if the strategy was successful, looking back?

No. There is a little known ditti - a little poem that I reflect on in strategy which is: "Two ships set sail in the self same breezes blow, but it is the set of the sail and not the gale that bids them where they go." That's the first verse, so they've been buffeted all the time and a voyage/a journey is actually quite a good analogy in some sense for strategy, in other words we might say today in '95, this is where we want to be in '97, so you go from point "a" roughly [to point "b"] and companies sort of have those sort of fairly simple statements of intent, now what do they do when they have done that? And of course, the difficult part is say in the case of Canon, we can all as an organisation coalesce behind a fairly simple objective: "beat Xerox because they were number 1 and when we have done that we'll be number 1", and then of course it gets really hard because we have to sustain that position, and when you are number 1 there is only really one place to go which is to number 2, unless you can retain [the position]. So in sense I don't think they stop and look back and say we have achieved that, but I think they do stop or pause rather on individual projects, products or services or whatever and they say this was what was really successful, do we understand why that was the case, are we able to repeat this? But I don't think in an organisational sense, we have a look at the organisation and say: "hay, that's really good", because in that sense it is just like a way station on a much longer journey.

What about the small control system, do they actually look back and say well why don't we have a better control system and sort of review the actual control system we have had?

That's very interesting. I suspect they do, but I don't know, I think it tends to manifest itself more in terms of this is the information we need to know, but for some reason we can't get it, we don't have it or something, so in that sense there is a review, because of one of the things again that happens is they often will set up new projects, new products, whatever it might be and they are just as it were bolted into the existing control system that may or may not be appropriate, so that information can become distorted. Well, not distorted but it doesn't necessarily tell us what we need to know, whether or not we are being successful and so whether problems are there.

If there was a better control system in place or a control system in place at all these stages would that improve the awareness of what's going on in the company?

Well, I think, if we take that to mean that the control system allows for the dissemination of information arising from it, then yes, but if it is just a system that - let me give you another example from a completely different context, if you think of say, what passengers require in an aircraft, so they require it to depart on time and so on, they also require it to be clean, lavatories clean, reasonable services, on board services and so on. Now what comes back to a point I made earlier, that we know about the financial performance of a flight because we can measure the number of passengers on board the plane, what we don't necessarily know is customers perceptions of the quality of that flight, now often what happens or some of the airlines I have been talking to, often what happens is they do measure what customers think of on board services, but that never gets fed back to those that can make a difference, like say, the cleaners, so the cleaners may believe they are doing a very good job, but if the passengers are saying but, there was insufficient soap in the lavatories or they weren't cleaning up or whatever the complaint is, if the cleaners don't know about it they can't change it. So in some senses its not just about collecting the information, which we often do reasonably well even the more difficult and less certain external information, we don't necessarily disseminate it to the right people to change things.

Who do you think keeps this information?

Well in an instance like that, it would very often be the Marketing Department because they are if you like responsible for say measuring customer satisfaction or whatever it's called, so they would get that, and then its up the them to disseminate that information to in the case of the Airline say the cleaners. I can think of a case with Rank Xerox when they were looking at a customer satisfaction survey run by the Marketing Dept.

and it just took them quite a while to realise that on one of the machines the problem was with a paper tray, it didn't fit properly, and this was causing customers a problem, now that information should have been fed back by fax the next day to the factory, to the designers or whoever, so that they could understand that the tray doesn't fit properly and presumably bring out some slightly revised version so that it wasn't a source of dissatisfaction any more. In that particular instance information did eventually go back but it took them about a month as opposed to next day, and you just ask the question then, it's not really good enough, in the sense that this could be a very serious issue and it might be quite an easy fix for the designers or the engineers or whatever to deal with.

Do you think information is fed more readily up the scale as opposed to down the scale?

Well yes, I would of course warn about information gatekeepers and so on, that's part of the role of middle management isn't it, it's to filter the information that travels up and that's why in a sense it comes back to politics within the organisation? If it makes me look good, I'll forward it up, if doesn't look so good I may say no or I might just feed it into the financial year end, by then it's too late to doing anything about it, and then we start with the new budget the next year. So I don't think one can escape the political context, the other point about information about coming down, well that can obviously if it's the Chief Executive can also be quite powerful. Often, because of course you receive much more aggregated information at the Board level, drawing definitive conclusions from that can make it quite risky, because there may not be a full understanding at the top of the organisation, as to what's caused X & Y with people lower down... often it may be slightly over simplified and maybe misleading.

[interviewee is shown a balanced scorecard for discussion purposes]

Do you think those areas, those perspectives, cover all the possible areas which might be controlled?

The comment I would make: let's deal with them in turn: in the financial perspective, and this is where I suspect it's more difficult for the UK and American companies, is actually this focus now on shareholder value, because if you talk to senior people in quoted UK organisations and indeed American organisations, they are very much driven by the need to satisfy the next quarter or six months reporting requirement on the stock exchange.

It has to be an improvement?

It has to be an improvement, and they have to at least hit the target that they have effectively negotiated with the analysts, bankers and so on.

And you think that's different to other countries?

Oh, very much different, they don't have to worry about that sort of stuff to the same extent in Germany, France, Japan and that has very interesting consequences in terms of what it is you measure, because if you are concerned about the future of your company, and this is where the Director's personal interests come into it of course, then you need to ensure that presumably the share price stays up, and so on and so forth. This means, or can mean, it doesn't have to be, but it can mean, that the perspective you take has to be a much shorter term because you can't commit resources for the long-term because of the impact that will have on the share price and profitability and so on, and I think therefore there is some truth in the notion that was banded about over the last 10-20 years, that the Japanese in that sense are much more interested in, for instance, building market share and so on, the long-term growth, rather than necessarily focusing solely on profitability.

...There is a very interesting article about a month or so ago in one of the Sunday papers, which looked at the history of GEC and compared it to Siemens, the German company, and it took them to where they started from, to where they are today. Although GEC is more profitable, Siemens' turnover has grown in leaps and bounds. The argument would then be that that mass of Siemens' turnover could, and of course it's not a certainty, but could give it of course significant more market power than GEC, and you have to ask the question as to the reasons that Siemens' has been able to do that and GEC hasn't, and what the other pressures on them are, so that's my worry in a sense about the way that we are reporting. You talk to German managers for example and they are amazed that the financial focus in the UK. So that's the only comment I would make on the financial perspective.

On the internal business, costs, and allocated and apportioned costs are always a problem in organisations, you talk to any manger and say well I've got a budget of £100,000 or whatever, but by the way, a very large percentage of that is just charged into the department by Head Office or the Centre or something. Cycle times are crucial. Quality, only if its related to customers. R & D - I would personally relate R & D to cycle time, and core competencies and capabilities. I mean again, actually measuring those is quite difficult if you think about - I mean some of the latest thinking - from Hammal & Prahalad and Grant and so on about this area of core confidences and capabilities is I think quite interesting in terms of the lack of ability to get any where near measuring things, because a lot of it is built on a series of complex interactions within the organisation that can give you an advantage that you competitors can't see. I think it is impossible to measure. Innovative and learning perspective, again I mean it would be nice, the key - again it comes back to a future perspective it seems to me, we can measure the number of innovations that we have had, and we can perhaps understand the processes by which those innovations have occurred, but does that mean necessarily that that's going to happen in the future, and that's a difficult one? And it's the same with launching new products and so on. Then the customer perspective, there is the cycle time and quality issues. All of those I guess should be in there, I would tend to think that, and again it depends on one - you see if it were a UK company you would have to start with the financial perspective, that would have to be number 1. If you were a Japanese company or a German company you might [have to start with the technical aspects]

You see... if you read things like the Honda Case by Pascall, the Sony Case, etc. Okay, they are not complete stories, of course they're not, but one of the reasons it seems to me that have been able to do that is firstly because they are able to take the longer term view and not worry about the next three or six months report to the stock exchange, I think that's quite important in terms of establishing the nature, the type, the culture of the organisation, so there is that point. The second point is I think they see from what one reads, and I think that you have to acknowledge that may not always be the whole truth, but they do seem to be able to learn from their mistakes. Cars are a classic, motorbikes are a classic: if you think back about what Toyota's were like 20 odd years ago, they were crap! Now you have got a Lexus which is as good as a Mercedes or a BMW. It's interesting to see how they moved from producing crap cars in organisational terms a fairly short time ago 20-30 years about, to producing a really class automobile today, and they have done that by learning, they have done it by innovating in production processes. Toyota for example is reputably the lowest cost car produced. Ford couldn't do a Lexus, Ford had to buy Jaguar, so I mean there are interesting ways about how one approaches it, and that's about an organisations ability to learn, and possibly ones ability to learn is coloured by the reward systems that exist for management. The classic case again in this area is a GE case from the States "The winner who lost". We talked about a manager who is appointed to a GE subsidiary in America, appointed as Chief Executive of a subsidiary, and there the subsidiary was in trouble, he had two courses of action, one he could completely redesign, re-engineer the product, that would take a couple of years, they would loose a lot of money, the second one was to do like a "sticking plaster" job which might take a year but in longer term the company wouldn't be such a good show. He opted for the first course of action the rout of brand re-appraisal, the product and so on, the company lost money in year 1 and year 2, and he was sacked. The successor comes in at the beginning of year 3 and is quite outstanding! Now, who is actually responsible for those profits, it is of course the poor guy who put through the changes that were necessary to ensure that the product met the market requirements, but he was out of a job and his successor was reaping the rewards, that happens in organisations, and for me you see the lesson of that is not just about the short-sighted nature, but the fact is the organisation now has lost that ability to learn.

Sudden changes which effect the environment or the company, how do you control those or monitor or cope with those?

Firstly I think they're industry specific. If you think of major changes that have happened in industry, they're fairly rare: telephone selling of insurance and banking is a good one. These things don't happen very often, but it changed the nature of competition in those industries significantly, and I think Norwich Union were on record as saying, they didn't think that telephone insurance would work because customers wanted to talk to a bloke or an adviser face to face! What First Direct and Direct Line have proved is that's a fallacy for some customers, not for every customer, but the large raft of customers. Now Norwich knew about that, so in sense they weren't stupid, people running companies like Norwich Union and other insurance companies are not fools, but it comes back to really questioning what it is the customer is looking for, for your product or service, and then when you know what that is how are you best going to deliver it for distribution? Now is seems to me that the Norwich Union presumably had the right sort of products in terms of policies that customers would want, but had made assumptions, and because those assumptions had been built up over time this was not an overnight thing, that customers actually wanted to come into an office and sign. I would guess, but it is only a guess on my part, that if they had actually bothered to analyse how people interface with them a lot of it would have been on the phone. But that message didn't really sink in, so when they heard about Direct Line they didn't really believe it would work, but this is if course as we know a resounding success and Norwich along with other insurance companies are having to have now a telephone service. This comes back to Directors, Managers, ability to perceive these changes as and when they are happening and that can be very, very difficult, because we have in this company a traditional way of doing things, and by the way we have been very successful in last 5, 10 how every many years we have been successful. We've got to be right, haven't we? And who does this bloke think he is selling insurance down the phone or whatever it is? So I think there is an issue around managers ability to perceive those sort of things, even if we have the information. And of course that leads into the other point is that often that information is quite uncertain. So you wouldn't place straight reliability on it.

If you know for a fact, for example your aeroplane has crashed or whatever it is, and you are an aeroplane company, you are British Airways or whatever, and you have a crisis, do you have a crisis management team, or should you have one?

The task force type approach? I don't think there is any sense in having one standing by, because you don't know what the crisis is going to be, but I think if you do recognise that there is a problem -and you see the airline crash is a good example, let us assume that a British Airways 737, any 737, crashes which raises question marks about presumably the safety of that particular plane. Now if you are BA, I think your response could be quite different if you are a smaller regional airline: Virgin let us say. Virgin might have a dozen planes, if one of those Virgin planes or another you know 767 or whatever they use, crashes, then for Virgin this is a major issue and how they deal with that and how they deal with the plane makers to cope with the possible questions about reliability -by the way why don't you blame the pilot- is different to how British Airways would respond, because British Airways is so big and would be able to say to Boeing: you have just got to fix this! So their relationship is quite different. Now I think you would have some sort of - you might call it a crisis or a project team or whatever to look at it - so for example in the case of the Norwich Union, if I were running the Norwich Union and I saw the success of Direct Line Banking, I would set up a project team to establish something to counter that as quickly as possible. That is probably how you would do things, if it were to take you outside the normal run of events. You see the difficulty we have is what we didn't know when Direct Line started -it's easy in hindsight to say this is how customers behave isn't it, but at the time these sort of discontinuities that happen outside are actually very difficult to spot, yet alone even when we have spotted it, it's our ability to internalise that and come up with a response to it. So in a rationale world the information might be there, but it comes down to managers' ability to then respond to that.

What makes a strategy worth controlling?

Well I think the company has to adopt a pro-active stance, it's no good just been buffeted, some of that can happen, I mean using the insurance example so that Norwich Union and the other insurance's might well feel quite buffeted by things like Direct Line. In the banking industry the deregulation of the Building Societies in 1988 is something that effected them all, so to some extent they're buffeted, and you might say therefore that any strategy they might have had before it, was pretty worthless if they hadn't predicted that sort of thing happening. But as I say those events are actually pretty unusual, so it seems to me that if our strategy is to be or to become, whatever it is, the number 1 player by doing a whole series of things, then we ought to be at best monitoring how well we are achieving against those targets, those objectives that we set ourselves. Now the question is: what do we do to actually make that happen? And if we find that we had non acceptable stuff or very acceptable or whatever it is, we need to then unscramble that through that process to say OK, if we want to be number 1 in PCs, then we have got to go down this route rather than that route. We can't make those decisions until we have gathered enough information or sufficient information to enable us to make a reasonably important judgement, and the difficulty seems to me, when it comes down to it, is... the [organisation's] ability to pull information together that will enable us to then formulate some sort of response...

Doesn't it come down to some sort of key competitive advantage criteria, because you already know those presumably?

Presumably you do, but they may change, it comes back to the fact that we have been successful for the last 10 years or whatever it is, 20 years, 50 years or something by doing that. Is that necessarily what customers are looking for in the future? I mean the determinants of strategy arguably would be to support your sources of advantage and that would be a very logical, rationale thing to do, but the question is, are those the sources of advantage that are going to sustain you for the next 5 to 10 years or whatever the relevant time scale is. That's where you can have real issues around people's ability to understand.

Presumably as well they will be controlling those financially sensitive strategies?

Well, one of the things you would look at would be the key variables so in somewhere like in the Airline industry that would be like load factors, you would monitor on a flight by flight basis by routes - what's the load factor here and what is the yield, the mix of passengers on the plane.

And do you think that's a strategic element?

Oh, absolutely, because that would determine things like pricing policies, management policies and so on and so forth! If your load factor has gone down, and because it's so important, because once a plane takes off with an empty seat it's not like not selling your tin of beans today you might sell it tomorrow, the seat has gone forever, so for them that's crucial and the yield you get on the overall flight is crucial.

Appendix 3: Excerpts of an Interview with a Leading Strategic Thinker

Introduction

The aim of this interview was to gain a viewpoint on strategic control practices from an independent strategic thinker.

Commentary

Do you think there is a pre-disposition that people have towards certain needs for control?

Again it varies from business as to the actual philosophy that they have, why I say philosophy, is that at the end of the day in terms of banks, the key thing is risk. Banks are about managing risks and depending on the organisation, the operation there is different attitudes towards the risk and nobody wants a loss as it were, but if your managing a credit card operation or portfolio you would expect there would be a portfolio loss, so you are managing it in a totally way from if you're lending to XYZ multinational.

But that would be the same criteria for any bank anywhere in the world, wouldn't it... to manage risks, that's what banks do and that's culture-less in a way?

Yes, but they are different - no it isn't because the evolution of thinking about it, there has been quite a large development or change in the way people think about risks.

Explain to me the cultural implications of risk management?

Well, in very simple terms, if you went back to the 1960's, then you were looking at single balance sheet management, the people just managed their balance sheet - so I'm the Branch Manager, in one country, you get the books, you get the branch, here is your balance sheet, here's you assets, your liabilities, you manage it, you understand it. One of the changes of occurred in the 70's was the split between asset and liability management, so from a strategy/culture standpoint, you manage the two parts of the business totally separately, so you said: 'Ah! here's Treasury now' and it's no-longer just a utility, they are there, they are managing the liability side of the balance sheet, and 'here is the Corporate Bank', and they are no-longer just a sort of an origination force, they are actually managing the corporate asset side of balance sheet.

Surely this happens across the world, again?

What I am saying is yes that happened in a sort of delayed effect across the world, so certain parts of the world caught up in the 80's probably, but in the same way you are getting new thinking and a new approach coming in every area of risk, which changes the overall strategy of the bank towards risk, and the business that it will do, and the control process procedures that it needs to put in place to address that.

What are the drivers behind that?

Sorry, to give you an example of the present: the area that's growing, is the whole area of credit derivatives, which I touched on earlier on, where people can try and change the nature of their balance sheet, but that means the strategy towards doing certain businesses, the ability to control that risk -so when the development of the futures market came in and the arrival of the swap market transformed the way people thought about the business and managed it.

What are the of drivers then on the individual, obviously they have got various new methods, new products coming up which will require different management of risk, but more fundamental to that there's got to be various drivers which allow those new products/new developments to come along, would then one of the key drivers be legislation allowing for that to happen, or customer need for those sort of products?

I think that... the emphasis in terms of strategy and control is in drawing the boundaries rather than being explicit. The individual businesses basically decide on what they are doing within those boundaries or going to do within those boundaries, rather than having an overall deliberate plan. So this comes back to the shareholder value aspect, if you went along and talked to the sort of top level in the banks, they may have an idea of what businesses they should be in, but the one thing that most people have brained into them now is the return criteria they are looking for, so return on "economic capital" is X. Now in terms of the businesses we are in, our portfolio, where do our portfolio businesses fit within that framework? The control process is very much on the macro level at drawing these parameters of the business, whereas going back in time, in terms of what you were eluding to originally, we actually determined our strategy, and throughout the organisation there was the plan. The plan calls for us to do 1,2,3,4,5. We do 1,2,3,4,5. Where there is now more - this is the shape we want to be - now its up to the people in the box to figure out how we do it, and to put in control mechanisms where they're in control of what's going on.

The people in the 'box' are in control of what's going on?

Yes. Now the type of thing you'll see coming in there, is more emphasis on self assessment, because the best people who control the risk are the people who do it, rather than people who are coming in to look over their shoulder, or by having very detailed procedural manuals.

You're saying that the controls these days tend to be more of a self-discipline or a self imposed structure of control lower down the organisation than one which is imposed upon them from on high, which is the old fashioned planning mechanism?

It is really that once the strategy is determined (within the framework of these parameters, which are set in terms of their customers, capital etc.), within each business there is a - generally speaking - a fairly documented process that actually looks at what they are trying to do from a business and delivery standpoint. So it's saying this is the business we want to do, it's the credit card business or it's lending to the shoe industry or something. There is a proposal that is put down or a programme is put in place, which says what we are going to do in terms of credit cards, this is our view of the credit card businesses, we are going to achieve this -and so it's like a plan.

The plans that the planning functions did historically were far more - look at the environment and come up with the objectives or bottoms up budgeting... Today my sense is that there is more emphasis on implementation in terms of how we are going to do it, and the related control process along the way - we are going into this business, we are going into the credit derivative business, this is the objectives, this what we are earning, what are the systems implications, what are the accounting implications, what are the legal implications, or the regulatory implications, and the control processes associated with those?

That whole discussion is going on in the actual business unit for example, who is thinking about it, it's not happening at the top at the Board of Directors level?

No.

What do they do at the top - this Board of Directors sitting in their 'ivory towers'?

Well not sitting in the ivory tower of the Board of Directors: it's difficult for me to judge! No, the role of the Board of Directors is that it is in turn a control mechanism, so they are basically responsible for looking at the direction of the organisations, they have a fiduciary responsibility for the things that are on track from that standpoint... If you look who's on the Board of Directors they should be bringing outside views as to the direction and behaviour of the organisation, hopefully by bringing in knowledge from other industries.

If I can just sort of paraphrase all this, you are saying then it's basically these days [interrupted]

It is a form of strategic control - at a high level.

[continues]a bottom up process these days then, whereas in the past it was top down, can I just paraphrase it in those two simple terms?

No. The top down process is in looking at... a high level, so determining the overall direction of the business to get the return on shareholder capital, to make sure there is an alignment between what all the various stakeholders wants. If you want to move in a particular direction either you change the stakeholders view of the organisation, or you change the organisation. There has to be an alignment between the two...

Is this view that you are putting across what is actually happening in banks today in the high streets, or is it an ideal view of what they should be doing but they are not necessarily doing?

I think that it's in different stages with different players. There is a continuum from... deliberate planning to basically empowered [planning at the business level]...

Do you know what sort of stages different banks are in?

Sorry, I have already made a note about the economic cycle, - the other aspect is regulation or the regulatory environment, because banks have historically been a very controlled environment, they've been in a very planned environment. One of the changes that has occurred is basically de-regulation and increasing competitiveness, that has required a different approach, because you have to be able to respond to what is going on out there. So if someone launches a particular type of account or on the retail side they are offering a special type of mortgage or whatever it might be, you have to be able to respond to it. So organisational flexibility is an issue here.

Where are these banks in the UK at the moment? Do you know where they are in the terms of the system you have talked about, are they all using that, or are they about to use it, or are they using bits of it, but not using other bits, or are they still the old fashioned planned mechanisms, how do you see banks operating in the UK?

It's a bit of both, really there is a sort of spectrum of banks, I think what is happening, what you see is there is more businesses operating within businesses...

So where historically you had the bank, you now have the rise of product management: Mr Current Accounts, runs 15 million current accounts, he is the product manager and determines what happens to current accounts, and there is Mr X who is, etc. Which comes back to my thing of running these things as businesses and looking at all the implications of the product and what you are doing with it. So I think you'll find that as you go round [the banks], the rise of product management and the management of the different aspects of businesses as separate businesses within this overall framework is something which is fairly prevalent. Where people are in terms of budget process or planning cycle processes is going to vary a lot from business to business. I don't know specifically within each bank the differences between them – but if you look at the merchant banking arms and the bank itself, you would expect a totally different approach to strategy and control within those businesses.

Within the actual organised Group organisation as a whole?

Yes. Depending on the business, but in a high level I would expect there to be a core set of parameters laid down, which you will find if you read the annual reports in terms of portfolio returns, etc.

There must have been at some stage a relinquishing of control basically by the top management of the high street banks, so that the various divisions, businesses have the flexibility to run their operations the way they see they ought to be run?

I can't generalise, and I don't know whether it's that simple, because a lot of the new organisations have been set up outside of the organisation, look at Barclays and Barclaycard and then if we looked at First Direct? Lloyds and Abbey Life? I think there probably is a pattern for major banks for setting up operations that are perhaps outside of your main control and then bringing them in, or changing the main stream organisation. Remember that most change occurs from... the uncertainty in growth, so people respond to threats. The threat being generally the external environment.

So the Directors of the banks have accepted that they had to change because the environment had changed?

Yes, or because business pressure is such that they need to change.

We have talked briefly about culture, but we haven't talked too much about the people in British banks, what is their background, is there such a thing as a typical British banking person, are banks made up of 'Brits' or are there a lot of Americans in there or Europeans all mixed up together, what sort of people operate in these banks, and what sort of backgrounds do they have?

I don't know if I could hold myself out as being an authoritative source on that! I think you would find both in terms of the culture and in terms of the changes that came through, that you would find that there has been a strong US influence on the market, I mean on banking. Now that influences through direct recruits... There is a lot of American influence through the recruitment of staff, who have worked for American banks, and there are historically the British banks - British banks are quite international. So I think you'd find there are a lot of the senior people who have had international experience, and that is an important factor in their thinking and culture... somebody who has run Lloyds Bank California or has run HSBC Canada or Barclays Singapore... quite often people when they go abroad get the opportunity to run countries at an early age, running total businesses... [and they bring this experience with them when they return home].

The other trend really I think has been the rise of specialists in most organisations, in technology for example. Historically the Branch Manager from Little Snoddington, or something could go and become head of Personnel, or Head of Technology or whatever, and then you go back to being Branch Manger of somewhere else. I think the old career paths have changed.

Are people still staying in one bank doing their sort of entire career life span as traditionally they probably were: Lloyds men through and through so to speak?

I don't think there is an expectation of that now. There are people who have been through and through.

But it's more mixed

Yes.

The bargain that's struck is not a life time bargain. I think there is quite a lot of material that you can draw out in terms of the way things have changed and the influences of change, how both strategies and the related control mechanisms will merge...

Basically two thirds of companies didn't have or couldn't look beyond two years, they were very short term, basically responding to the environment.

And would you say that's typical, a 1-2 year look?

Well historically it's a reflection of the reaction to the economic environment and changes they are going through in deciding. So if you looked at cost cutting, for example, clearly we have got beyond the re-engineering stuff now and we are now into the revenue prioritised phase. One way to look at it is to just go through the [annual] reports, which you are probably doing, looking at Chairman's statements, the Chief

Executives statements, and analysing them. Clearly the drivers which effect the banks are very susceptible to the environment for a number of reasons.

So do you think they are controlling the strategy as a general principle?

I don't know whether you do control strategy, there is an assumption there which I don't necessarily agree with. I think that there is basically... coming back to the founding purpose of most organisations, there is a sort of strategy imbedded in the organisation which in many organisations still comes through today in one form or another. So if I go back to looking at the flotation of Halifax, they will say well the Halifax, since its foundation in 1850 something or other, when two or three people met together in a pub or something in Halifax, has been doing this. So I think you would find that - its management that's been there that's not badly exactly - but there still is a background culture in most organisations.

If you take the view that maybe strategy is a way of thinking about the future and a set of goals to achieve, in a shorter period rather than the fundamental mission perhaps, but something which is actually achievable within a certain time frame, then in which case then there is a possibility of controls, is there not?

I think - well there are two separate issues: firstly strategy is very much a question of a mixture of past, present and future and the past and present have a very strong role on the future, because the ability to generate future strategy, must really be built upon an organisations capabilities. So coming back to control, rather than control mechanisms, is really the alignment of what one is trying to achieve with the organisation's capabilities. If there isn't an alignment [pause in recording]

We were talking about why you can't control the strategy I believe?

Its not that you can't control it, but that it is very much a question of alignment with the organisational capabilities and basically if you are coming up with something that you want to do that's totally different you have to change the organisation before you can actually implement the strategy, so in other words if you need particular capabilities in terms of human resources or typical skills you need to develop, then you want to be quite sure you have them in place before you start embarking on it...

Okay, so do banks control their strategy?

The short answer is there are control mechanisms. Obviously, you have to have control mechanisms in one form or another, if nothing else they have a minimum scorecard, which is that they produce the numbers every month or every day. It varies a lot between the types of banks you are talking to, what control position, what control mechanisms are in place, because the retail banking side is a very controlled environment whereas the corporate wholesale banking side is controlled from a risks stand point of control, but is not as controlled an environment, because the difference is with the retail side you have basically a fairly standard product or you have a product which you have to standardise because you are selling it to 2 million or 15 million customers, whereas on the wholesale side you are basically tailoring each deal to the customer, that says that on the wholesale side you are less descriptive. If you look at businesses in terms of being product dominated or customer dominated in terms of focus... there is a difference of emphasis between businesses which are basically: – "we're in the mortgage business and we're serving our customers", as opposed to "we have these customers and we will serve them in whatever way they want to be served". To a certain extent you can say that in the consumer banking/wholesale banking split, because the wholesale banking is more customer orientated than the retail banking which is more product orientated.

Coming back to the strategic control clearly there are totally different control mechanisms required if for instance you've said that tomorrow you are a bank, and tomorrow you want to get into the ABC market and trade, well what do you need for that? Well, you will you need to have some ability to analyse the credits, and you need to have a couple of transactors, but I mean having got the strategy it's fairly easy to implement and [likewise] the control mechanisms you need around, are fairly easy to implement. If you are looking at launching a new credit card where you are going to send it to 10 million potential customers, if that's for us, then the control mechanisms it had better be pretty tight.

Do you think there are definite distinctions, in which case, between the wholesale and the retail as you called them, there are definitely different ways of controlling strategy?

It's this rigour really.

[Retail banking] is a very controlled environment, it has to be, because if you think that something like Barclay Card has something like 8 million customers for example, if you decide that you need to do one thing that requires sending out an extra letter, just the postage at 25p time 8 million you know quite an expensive

It's more deliberate strategy as opposed to a emergent strategy.

Is one of the influences on whether something is controlled the complexity of the actual business operations?

Complexity - no, its not really complexity it's - at a high level, one of the problems in terms of your question is that it depends on what level we actually look at strategy because when you are looking at the various banks you are looking at a portfolio of businesses... If we go back to, if we take any of the major banks there is an overall strategy for the bank in terms what they believe, what the past present and future is, etc., but within that there is a whole series of businesses each with different degrees. But going back to what you are looking for in terms of this control versus strategy balance, there are different degrees depending upon the business of controls over the strategy, and in some, there is a very deliberate long term strategy, because there is... the infrastructure to put down, lay down, etc. - and certain high volume product businesses, I mean if you are in cash management or securities or trade services, they are long term businesses - so you just don't go and join CHAPS for the next 6 months! The cost of entry into those businesses [makes these unfeasible].

Lets talk about culture, what sort of culture do British banks have, is there such a thing as a British bank culture, or is it a Barclays culture, a NatWest culture?

I would hesitate to say; this is a very complex situation these days because most organisations tend to be a bit of a "melting pot". I think that one of the observations from your standpoint, is that there are increasingly different people coming into and out of the organisation, people come with different cultural values so it makes it more difficult from a strategic control standpoint. You have to find ways to indoctrinate and control the organisation that's been changing because you are getting these new people coming in. Whereas when you have a fairly static organisation its fairly easy to indoctrinate people and to maintain a balance. Now in terms of the culture there is change within banking. Then there are obviously individual country characteristics and then there are individual bank characteristics.

In that order?

Yes. If you look at a lot of ideas, a lot of thinking, you could look at the concept of shareholder value or something, now there may be some earlier adopters, adapters, like Lloyds Bank, Barclays, essentially there is a lot of change that as happened in the US, that has come over to the UK and then probably moves into Scandinavia, then filters southwards, but the same thing could be said for looking at privatisation or something and, I don't know whether it is true in terms of banking cycles, in terms of actual economies, looking at bad debts maybe, but a lot of the thinking in terms the way people think about business - going back to strategy a lot of the new things in terms of - that we went back to look at these Chief Executives reports and said: what's in the reports today, and what's going to be in the reports tomorrow and you can see this sort of creeping across a doctrine of a sort of new thinking.

Do you think banks are reviewing formulated strategy to see if it still valuable?

Yes. There is a question about the degree of formulation so -going back to the mission statement, missions in general are very general I want to be whatever, and it's in the business definition that there is a constant review going on, with [many questions being asked, such as] which customer, which products, what is viable, what isn't viable, what is appropriate or not?

Are they reviewing the implementation of strategy to say whether it should be stopped, continued?

In terms of liability there is the review of business interests. From time to time there are sort of macro reviews that take place or events that occur, for example something like Lloyds TSB merger, it obviously causes a significant rethink of the business.

What about the actual feedback of strategic progress, is it being reported back, are people ticking boxes off milestone charts?

Yes. The biggest issues in banking at present are: EMU, the Year 2000. Now if you are running the Year 2000 project, you have got to be in control in terms of what's going on. Now what I am saying is most of the larger projects are structured so there is feedback... Again it depends on whether we are talking deliberate projects, short term projects that in terms of the businesses necessitate major changes, major systems changes, etc... There are feedback loops, but the feedback loops will vary.

Are they checking to see whether the feedback they've got is appropriate, or the control systems they have are appropriate?

At the end of the day what distinguishes different organisations is their ability to think, and there ability to actually implement a clear mandate, so your question, I don't think is a question of some are some aren't, it's a question of the degree to which they can. Some organisations basically are innovators: things are formed, they write the control process the procedures and the things that go with it and they do it. Now other organisations are more followers, basically they are getting hold of ideas: they hire consultants who come along and basically tell them what other people are doing -that's being very harsh but all I am saying is that there are different people at different stages here. Going back to the control processes the basic control processes are fairly similar and in the regulated industry remember there is the overall Bank of England supervision which covers the general strategy of banks, controls, etc., so there are various outside pressures as well which impact upon what's being thought out.

Appendix 4: Excerpts of an Interview with a French Academic

Introduction

The interviewee is based at a leading French Business School and has written various influential publications on the subject of strategic control.

Commentary

I think this notion that you probably have a national subsidiary level and then the branch or a sub unit level within each of the subsidiaries probably allows for a more interesting research design and then you can really look at this question of what is localised versus what isn't. In my mind if you want to put this on a slightly more learning orientation if you wish, I think the critical challenge for most of the financial companies in trying to address that question is, how do you create the mechanism, or which process do they use to decide which global rules or which of my own rules I follow or I break and similarly which of the local rules I identify and then I decide to follow or to break, and I think that is the interesting dilemma. In other words if you are going to go back and kind of take, you know "when in Rome do it like the Romans", you basically lose some of the advantages of the integrated multinational operation. At the same time I guess if you try to manage the branches in Southern Portugal in exactly the same way as you do in Britain, or Northern England, its not quite clear that it will work. I think part of what I see in multinational control for that kind of corporation, is to push together a little learning of the applicability of the global rules and the learning of the reality of the local ones as well. When I say rules I am kind of fusing this in the broader sense of the rules of behaviour and not just banking rules, although those rules have their role.

What do think, back at the actual national office -do you think that they are really pursuing strategic controls within their actual domestic markets, let alone other markets?

I am not sure, you need to help me, and I know you raised the question but I'm not sure could answer, it depends on your definition of strategic control.

What did you think of this idea which I put forward, that you have implementation control, premise control, strategic surveillance, and then sort of evaluation at the end and feeding back, so you have a feed forward system and a feed back system coming in, would you agree with that?

That makes sense.

What do you think strategic control is?

What I like right now, but that's probably because I have just read it recently, there is a book by the guy Robert Simons at Harvard called Levers of Control which I think is probably about, so far to me, the best. It's the best treatise there is. So far it's the best description of analysis of strategic control that I have seen.

...now you see it deals with something which is perhaps more fluid than in retail banking ... but still even if you look at retail banking and how you position yourself in a given country, whether you go for multiple positioning, whether you can actually go into mass markets verses private, I mean there are many definitions about what retail banking is all about, you know, where does retail stop and where does corporate start and also if you are in a retail or in corporations then how do you connect that with other services indeed like foreign exchange and other things which are perhaps primary or secondary. So I think there is enough richness there.

Another way to think about it is almost, but it is highly consistent with the Simons approach, is to take the kind of view to widen a bit the notion of strategic control then you go back and look at Bergerman Bower or Bergerman kind framework and you say really you have people in heads of units, you have people who play kind of integrators roles... or you have integration functions and then you have some kind of detecting functions for the working of the corporation. You can think again about... the various types of behaviour versus outcome, versus normative, versus instrumental, both. What are the modes of control and what are the tools and what are the assumptions built into those tools, in terms of how they - what kind of premises or what kind of presumptions they have around the nature of the behaviour, the room for freedom and entrepreneurship locally and also the nature of the dialogue... It's also partly, I think, an issue of saying where do you want them, how do you want the dialogue to take place between the people who are at the induction or whatever, who represent the corporation if you wish and the people who represent the local entrepreneurship and part of the control function is to try to put the dialogue in as useful a way as possible. I think Bob Simon makes the point in various places by saying: there is a piece of the control which is kind of functional, which is saying you need a certain kind of control system for numbers and so on, that's interesting in its own right, but it's not quite so interesting as thinking about what are the pieces that favour dialogue, and I always get for instance, into an argument with different companies when you talk to sub unit managers - and their gut feel reaction for instance is to say: "Well, if I don't get high spending discretion or high investment discretion, then it means that I'm sitting with a bunch of petty controllers..." and sometimes I say wait a minute, you may be right, but lets first try to understand a bit about how you communicate with and so on, and sometimes there are absolutely right, and sometimes they are really kind of victims of mixed messages, and that they are much more controlled than you would believe, on the other side you can look at people and sometimes the way it really works is that people don't really control them...

So I would tend to say when you look at strategic control, the quality of the dialogue is probably more important than the mechanics of the management process and what numbers are correct and so on and so on. Now you are pretty careful with banks, because my sense there is there is a lot of control which really has to do with probably just the behaviour of local [banks]...

What do you think about the idea of the story -as portrayed by Goold and Campbell, where they have three ways of generally controlling businesses: financial planning, strategic planning and strategic control?

It's seductive, but I don't know what to use it for, it may well be that I don't understand it well, I think that the categories are intuitively appealing and you say yes, people want financial control and people want strategic control, and then there is, what ever they call it, strategic intervention -but what do you do with it, it is not totally clear?

Now there might also be a market segmentation issue in banking which I am not sure I understand. What you may want to kind of think through is what is the consistency, or what consistency is there or is there not between the kind of market segments that the bank wants to serve, and the type of mode or, if you want, where to play with Goold and Campbell categories, the kind of mode of control it uses. I don't know well enough, it's hard to say, because if I'm tempted, I was under the impression, for instance I did some work some time back, a little bit of work for essentially an alliance of farmers co-operative banks, and what they were telling me is across Europe at least the behaviours of farmers, is not all that different, so you could probably run a bank targeted at farmers with a fair amount of centralised uniformity- well at least you could achieve some level of uniformity centrally. I do not know if you take high net worth individuals, which is another segment that international banks have targeted, whether those people actually behave very similarly across countries or whether they are - and in some sense are very cosmopolitan- or on the contrary, you could argue are probably part of very highly differentiated local elite and local network, and if you don't understand the way in which those networks operate, you will never become an insider in those countries, you may serve a fringe clientele of a kind of international jet-set types, but I mean they are not -I am thinking aloud here -there is an interesting kind of question there.

Almost going back to the kind of work I was doing 20 years ago, back to the kind of global integration, local responsiveness, segmentation of customers and then trying to think about their forward kind of control... - there would be an interesting question of, therefore, is there a uniform way of managing control or implementing control across various segments of a given country, or do we want to differentiate across those segments, and there may also be a position, for example if I'm Barclays in Portugal I may play to a different kind of customer and we may try get a different kind of customers than the local Portuguese banks would typically go after, but I don't know.

What do think sets the tone for the strategic control, do you think it's the MD or the Chief Executive of the company which sets the tone...

To go back to my example of farmers co-operative banks and so on, I think one of the things that probably made those banks, I mean Crédit Agricole in France, and so on, is that they were kind of built up from regional entities in their home base, so they started with, I think, with a greater amount of delegated or decentralised strategic control than something which starts as a very highly national bank and just opens branches internationally one at a time. So I guess when Crédit Agricole mergers or buys or expands internationally, I would expect it to take the relevant approach, so I would probably say the development path are mostly historical. I would speculate that there is a heritage dimension where you come from does matter and there is also a past tendency... I would say that's probably more important than the CEO's or individuals approach...

(Change of tape)

There may also be some defining moments or defining crisis... I think one parameter might also be to say, are there failures of control or crises of control? [With the people then trying to] re-assert or re-centralise or even shift from one type of behaviour vis à vis strategic control to another. There is also another question or facet... it's also part of whether you are in the learning mode or whether you have the right or the winning recipe? So in other words, what is the balance between actually learning and finding out the applicability of what you believe you know or the applicability of what you know how to do, versus kind of believing that you have it right. And what is the veto which you exercise... it's also a question of what is the mechanism by which you integrate corporate or central values and identity, etc. It's back to the question of what are the uniform variants versus what is it that is delegated, elected, to be differentiated, versus what is it that the dialogue between the centre and the periphery...

To come back to your complication of the fact that a retail bank is within a larger framework: with the investment bank, corporate bank, capital markets all included, what do you think, do they influence strategic control?

Probably. That I don't know.

Well what about in other industries, do you just pick one of the business units within... [interrupted]

If you are an oil company, if look at strategic control within the oil industry: you are not going to run exploration and production in the same way as you run retail. I would argue, if you take my responsiveness integration or my global versus local business, again I would assume that in banking some segments are going to be more local than others. I don't know how they are organised. Part of the problem there is the front office versus back office, kind of problem in banks, the fact that there may be people selling, and the fact that there may be relational problems. You also have the fact that some banks are relation oriented and others are product oriented. That is something to be explored, I just don't know, you are asking the right questions: you would expect products to be cross national and then they have to be modified, taking into account legal and fiscal considerations, etc., at the same time the relational -I don't know, two retail banks are going to have a very different balance between being product oriented or being relationship oriented, they will also have some very different data infrastructure or information structure to support them.

In looking at strategic planning, it would appear that some organisations think about the strategy and writing strategic documents [and] they enjoy the exercise of writing the document but they don't necessarily follow the document?

But that's the problem, because sometimes the value is in the process - you have to be careful, generating a strategic plan may have more value than the plan itself... I would be very careful to try to get into the discussion of what - forget about the tight definition of strategic control for a minute- but what is the nature of the dialogue, between the local sub unit manager and whoever he or she reports to.

You may have the trappings of strategic control and some other people may not have the trappings, but they have some of it?

And do you see dialogue as being the informal control mechanism?

Yes.

Appendix 5: Excerpts of an Interview with a Leading Practitioner

Introduction

The interviewee is a Partner at Global Consulting PLC, as it will be called here for reasons of confidentiality. His particular area of work is serving their large multinational clients in the private sector, specialising in offering business management advance techniques in management accounting in the retail and fast moving consumer goods sector.

The aim of this interview was to gain a flavour of a management consultant's or expert practitioner's viewpoint with regard to strategic control practices.

Commentary

I am looking at how companies control strategy. One of the key issues I'm looking at is when you go into your customers do they distinguish clearly between what is strategic and what is tactical?

Well, let me say first of all that when we speak to our clients they often claim to have clearly developed strategies, but when you actually ask them to show some of them to you they are often not able to produce them, so I suppose a lot of people talk about things that they don't always have. Now obviously a very large corporation will always have a very high level strategy, but in our experience there is not always a good connection between a high level strategy and the way they operate their business. Very often the high level strategy is specified in terms that are not even closely measured at an operational level, for example they might set up a standard of excellence, saying one of our key objectives in the last two years was to grow our market share of 6.8% to 7.3%, but they won't have any recording systems to measure market share or indeed what's happened to the share of competitors. So very often their reporting systems are based around what is affecting the statutory accounting procedures, but their strategy is for quite understandable reasons often based around more qualitative things. In strategy mission statements people write even more difficult to measure things like – we will be the leading firm and what does being the leading firm mean? We will be highly effective and efficient, what does that mean? How can you know that you are, if you don't know what characteristics demonstrate that, even if you are vigilant in your progress towards it?

What sort of process -if there is a process, would you say they use for strategic planning?

Yes it is, in most large corporations they have pretty well developed strategic planning processes and they vary somewhat and some may use consultants for the process or as part of the process.

If you were asked to come in and introduce a strategic planning process, what sort of basis would you use, do you have a particular model that Global Consulting uses?

We can do these things a variety of ways, most corporations will have elements of their way of doing things and elements of where their information is or the organisation is structured in such a way that to a certain extent it seems to dictate the approach needing to be taken. But if I try to answer your question more specifically I would say that the approach that we would generally advocate to large corporations who have a diverse portfolio of businesses is one based on the creation of shareholder value and we do have a well developed product to help people set their strategy around increasing shareholder value, because I think most of the research suggests that in the long run it is this approach that is most likely to develop success.

With shareholder value does that mean that it is predominantly based around financial criteria?

Clearly shareholder value has to be measured to look at that, but I wouldn't like you to think that it was something that was an accountants numbers game, it isn't, its about evaluating the portfolio businesses you have and looking at their propensity to create shareholder value, their ability to realise shareholder value and how you should develop and invest in those businesses, how you should add other businesses to or take them away from that portfolio of businesses, so it is very much at the portfolio management level...

What sort of mechanisms do companies use that you deal with or what sort of mechanisms do you recommend that companies use for monitoring their strategies?

What we would recommend is that they should not see the strategy as a single event. What we would strongly recommend is that they see strategy as a process. It's like a wheel: identify the strategy, identify the strategy measures, review the strategy. Our philosophy would be that strategy is a continuous process. We try to get our clients to be very purposeful, to decide what they want to accomplish and measure what they are actually achieving.

Would you be advocating that they come up with key performance indicators or particular milestones to achieve?

You will find I think that most consultancies, or certainly as far as we are concerned, are very hot on getting our clients to be very purposeful and to be able to see what they planned to do and what they are actually achieving, because if you don't take that line, don't take that approach, then you end with what I think was something like the case in the 1970's where there were some big corporate planning departments set up, which were somewhat divorced form the mainstream business and they produced a great volume of strategic corporate plans which weren't able to be checked.

With that in mind, do companies once they have formulated a strategy, do they review it to see it is still valid?

Well, typically most corporations will review strategy annually.

You reckon it's an annual review?

Yes, it's usually the precursor to the budgetary planning phase. Because from that process they will set out the groundwork for the strategy.

What about the implementation process, they have got their big goal and they've got their mileposts for example, do they review their implementation process towards those mileposts?

Well, as I say this is where I think sometimes things are not followed through as well as they might be. What we would recommend to our clients is that they should do that. Within the corporate plan there are maybe two sets of things. Things which you achieve as part of the mainstream activity of your business, things which are to do with projects -like we will open a new factory, or we will develop our own distribution centre, as against we will increase our margins to 32% or our market share to 8%. Now those are two differences and one is a sort of a finite project and they should formulate a project plan for that and they should have milestones along the way against which they can measure their progress. The other ones are more as I say sort of ongoing methods and those we would expect to identify key points in the reporting system, which cascade down through the business, so that if the objective of the corporation is to increase their profits or reduce their investments, then each of the managers in the business understands his or her part in what they need to do. As I say that is not always the case, sometimes there is a disjunction...

How and when is the feedback of strategic progress given to people, and who would it be given to?

Well typically a major project would have a report back to the Board, through a sub-committee. On the routine measures -we are going to increase margins or we are going to shorten the cycle time, something like that, then that would come through the routine reporting and maybe there is a possibility that sometimes people might lose focus on that, and may only be looked at again perhaps when the next corporate plan process comes around. It rather depends upon how seriously and how motivated the Board is to drive through these plans. Now some of the organisations which achieve the greatest measure of success and transformation are those where the Chief Executive is very personal about these things and so keeps absolutely at the forefront of his agenda all his key criteria, asking why progression or accomplishment is not there. So I think it does to some extent depend upon the money: you can build it into the pointers, but unless somebody is focusing on it, unless somebody is saying 'hey wait a minute you said we were going to increase our market, we are only at one percent, what happened to that target?'

You are painting me a very formal picture here...do you not like an informal process at all, one which is slightly less set in stone?

I think you might be overstating it somewhat, I did say to you earlier that you need feedback and you need to constantly adjust to what your competitors are doing, and what the environment is doing. If after 2 months the bank rate changes or something, the dollar-pound exchange rate changes, then clearly that is going to shift a lot of goal posts so you can't be rigid. That's why the right word is uniform -you have to have some flexible processes and those processes would typically be I think reviewed processes where you would review your progress as you went along, that is what I personally see as good practice to have some regular review and adjust the strategy as we go along in the light of changing circumstances. Providing you don't allow the watering down of objectives, providing you don't sort of emasculate the objectives by continuously saying 'Oh well, something has changed, we will have to change things again' and then nobody knows what they are focusing on. Clearly though if there is some major event or somebody shuts down -take an example, Rumbalows went out of business, immediately after Rumbalows went out of business there was a whole raft of purchases on the High Street of electrical goods which then went out into all the other electrical goods suppliers, so it changed immediately their environment and their potential market share, so they would be fooling themselves if they if they immediately said 'Oh, right we achieved our strategy this year because our market share went up 2%' maybe because somebody went out of the market that was a gift, so they haven't really made any progress, maybe they have lost ground, maybe their competitors have picked up more business in the market place than they did.

With this sort of sudden change how would you recommend companies make provision for that? In a strategic sense, should they have a team on standby to deal with sudden change?

I think the first step is to recognise it, I certainly don't think they should plan, I don't believe in planning for an enormous range of continuous events, because I think that is just a waste of time. I wouldn't play God and have a whole range of plans for what we would do if the dollar rate does this, or what we would do if the interest rates soar, what we do if our competitors do that, etc. Obviously you look at scenarios but I think producing thousands of instances is a waste of time and equally if you every time something changed in the environment, which is a pretty regular thing, dash out and do a complete rehash of all the plans, then again that is a waste of time and I don't think of much great value. What you need I think is -number 1 in the process, you need to identify change, not miss it, because it could be pretty important to you if suddenly someone/one of your competitors changed their situation significantly – a change of ownership, change of funding base, perhaps having the resources to open new factories or drop their prices or whatever it may be – if you miss that, obviously in terms of your competitive response it could impact upon your position in the market place. Whether you actually need to set up some team to do something rather depends upon the circumstance I think. I don't think you have a team on stand-by, again that is rather expensive I think what you do is you respond to the situation and either you use some of your senior management who by definition of people who have time to apply to a variety of things or in some circumstances you might call in externals organisations, so we might get called in, where someone might say there has been some big change, a sudden shift in the market place or consumers and we need some help to evaluate this and decide on what we should do about it.

Does the control system itself, does that get reviewed?

You mean the reporting systems are working OK?

The reporting systems, the reporting indicators... the entire control system that you have introduced to monitor strategy.

We often review those systems when we are called in because normally people will start reviewing those systems only when something's not working very well or something's not going well or something is going wrong.

So you think it is a reactive event?

Well I think it's two parts: one it is reactive, because people are used to saying if its not broken don't fix it –now the new thinking is break it before it gets broken or it might be too late to fix it! But yes, one part is reactive the other part I think is just part of the review process, that as part of the review process when you are looking at your progress against your strategy, you can ask yourself the questions like, are the things you are measuring and looking at giving a good guide and feedback or not or is their a gap...

All these various controls and measures which are introduced, does that in itself improve awareness of the companies strategy?

Communication in corporations is perhaps one of the major issues that we have to deal with. I think most corporations realise -although some are taking it more seriously than others - that communication of strategies and what part every individual in the organisation is to play should not be left to just chance... We have all heard the stories of the Japanese car manufacturers and perhaps they show the way forward...

Let me show you a model of the balanced scorecard -I was wondering if you think this represents all the possible areas within an organisation which you would wanting to be controlled or monitored at some point?

It's fairly comprehensive in the way you have approached it, it perhaps doesn't capture some of the more qualitative things used...

Customer satisfaction?

You've got customer satisfaction.

Well, perhaps its not meant to really, but it doesn't speak much about how your corporation seeks to add value -it's slightly mechanistic in its views, although a lot of things lay behind these issues.

So, you would identify the key competitive advantages or something like that?

Well, a strategy has a certain amount of vision doesn't it?

(Change of tape -starts in the middle of the on-going discussion)

Some of these things are slightly overlapping... but no if someone was saying I want to have a scorecard to look at how my organisation was performing I think you have got a lot of things incorporated here.

You said that part of your role here is to work with multinationals, have you come across different organisations that because of their nationality view strategy and strategic planning differently?

Yes, there is a probably true to say that different countries do approach it differently. I would say the Americans are high on analysis.

Would that be a more financial analysis or analysis across the board?

Analysis across the board, operational analysis - very tend to use vast quantities of data. I think UK based corporations tend to be a little bit more intuitive. These are grand generalisations, but I think Americans tend to be rather analytical... I think that you can't really talk about continental Europe, because you would have to talk about each individual country. But I think the culture and style indicates the way things are done. The French are very didactic and logical. So yes it does vary a bit, it is as much to do with their national culture. I think the management concepts of strategic planning are the same across the world, it's just how they are approached that differs.

Do you go into Germany, as well?

Yes we do.

How do you view them and their thinking?

When I said the Americans were analytical, the Germans make the Americans pale into insignificance in their analytical way of doing things... So whereas if you consult to a UK or American organisation you say 'so and so, it makes common sense' with the Germans they will say 'Why, why do you say that, where is your evidence?'

What about ownership of companies does that effect the strategy, planning process as well?

Yes it does. You could spot the Japanese companies in the UK or the American companies in the UK.

The classic textbook cases? We are more financially led and driven than the Japanese and Germans for example?

Well maybe, but what I was more meaning was that the ultimate holding company will normally colour quite a strong style in the management processes, so if it was part of an American corporation the style of the corporate planning would be quite American based, even though its in the UK. So I think you do get some measure of the mediation of it, but a lot of it is enforced by the templates, the various forms, the approach, the requirements of meetings and the need to report back to corporate headquarters and so on.

What would you say makes a strategy worth controlling? Is it one which is perhaps based on competitive advantage or is it one based on whether it is an investment decision or whether their is political backing behind it or not?

I'm not quite sure I understand the question.

You would go along the line that all the strategies would need to be controlled or would you say there is a particular strategy which need to be controlled more closely?

Well, you are speaking as if there were a whole set of strategies.

You would say there was only one strategy?

Well, it depends on what level you are operating I suppose. I mean there should only be one Group strategy but then maybe strategies of various degrees within the Group, but there should be a -strictly speaking if everything is done properly -there should be a hierarchy of strategy. But there is no point in having a strategy is there if does not provide a worthwhile gain. It would seem to me that a strategy which was hardly worth controlling is hardly worth having.

What I am driving at, is the measure the Board -who are trying to choose various strategies to go for and plumping for the best option of the company for various reasons- what sort of thing are they probably going to choose as the most important thing to look out for?

Obviously if someone is under severe threat, its the survival strategy of some sort. But I mean really you want to create a strategy that is going to generate sufficient value for the business. So people are highly motivated to play their part in fulfilling that strategy and the best form of control is people who are highly motivated to fulfil it rather than having people that are going round like policeman checking up on whether they have, because the policeman may only find that nobody is doing anything about it. What you really want is for people to behave in a certain way as a consequence of the strategy – change their behaviour and direct/focus their efforts towards a strategic ends of the business.

Appendix 6: Excerpts of an Interview with a Management Guru

Introduction

This interview was carried out in March 1998. The interviewee is Micahael Goold, a Founding Director of Ashridge Management Centre. He has written various publications on the subject of strategic control, these include most notably:

> Goold, M., Campbell, A. and Luchs, K. Strategies and Styles Revisited: Strategic Planning and Financial Control *Long Rang Planning* 1993(a), Vol. 26, No. 5, pp. 49-60
>
> Goold, M., Campbell, A. and Luchs, K. Strategies and Styles Revisited: 'Strategic Control' is it Tenable? *Long Range Planning* 1993(b), Vol. 26, No. 6, pp. 54-61
>
> Goold, M. and Quinn, J. J. The Paradox of Strategic Controls *Strategic Management Journal* 1990, Vol. 11, pp. 43-57

Commentary

Back in 1990 you wrote a paper in the Strategic Management Journal where you talked about the paradox of strategic control, do you still think there is a paradox today in industry at large?

I think there is. I think the basic phenomenon to which I was referring to there is still relevant, i.e. companies on the whole do a much less thorough job of monitoring strategy implementation and budgeting. So I think there is still that paradox there.

Do you know why or what drives this paradox, where there is a lack of rigour in what they do?

Well, I think the most difficult aspect, which is what most people who have thought about it have observed, is what it is exactly that you need to monitor and what the nature of the strategic control process is. It needs to be able to pick up the things which are important but which still needs to be a manageable process –which isn't easy thing to do. I think also that it hasn't been built in so much into the management process and so it is something which has gone by default.

So you see there is potentially some form of discrepancy between the management teaching and learning which hasn't necessarily been brought into the systems?

Focus on it has increased over the last ten years since I started working on this and as it were at that time I knew that we were at an early stage. Since then the Balance Scorecard has been started, Schreyögg's work was done, although it was not so influential at a business level, Simons work was done and Eccles too. There has been some attention placed on it and I think that it is something now that it is higher up the management agenda than it used to be. But it is still not easy.

So how do you perceive the developments made by organisations toward creating strategic control systems? Are they moving towards your strategic planning type of philosophy or are they moving towards the financial control type of philosophy?

I think the world has moved on since we did the original management styles work and I think that the viability of the financial control style à la Hanson that we were describing there, there are now not many companies that are adopting that style. What I think that has replaced that is the whole leveraged buy out type phenomenon and high powered incentives that is much the same kind of philosophy, which is trying to create corporate structures where managers have direct incentives. So there is that end of the spectrum, leveraged management buyouts, etc., has been quite active in the last couple of years.

That's linked to the reward systems, the payment packages which are being paid to senior management?

Yes, giving people lots of personal equity and making them get on with it. Those are the more strategic ends of the spectrum. But I think we have still got the same sort of issues which I wrote about in the book on the subject with the formal and less formal approaches to this, but I do think there has been some progress in terms of things like the use of strategic milestones, balanced scorecards and I think people do give more attention to those things now. On the other hand, there is still an argument to be made that you will never be able to capture in a few key variables all the things that really matter in the implementation of the strategy, particularly given the change in the environment you are operating in and given that a much less formal process of interaction is what you will need to pick up the things that emerge as being important as you go along. That remains an important issue.

If I can perhaps pick up on some of the formal issues: do organisations use some form of validity checks to monitor the underlying strategic assumptions they made at the first stages of strategy formulation?

I am not sure if I observed that as being particularly different now as to what it has been ever or for a long period of time. Obviously it is part of any strategic planning exercise to try and think again about the assumptions upon which strategy is based.

So you would say it is not a new event?

Yes.

What sort of methods do you perceive organisations to be using for these validity checks?

Different things for different companies. I am not sure that I am going to be able to give you any tremendously (useful information) –we are getting to the level of anecdote now- it is not something which I am currently researching on or have any good research data on, but I am sure that anybody researching companies will have their own particular anecdotes.

How do you perceive organisations evaluating strategic direction in the light of past events?

Same answer.

In order to detect changes in the environment they will use various methods, but do you perceive any particular preferences in which methods they are using?

I think the two which we have mentioned already which I think have got used wider in the last ten years. That's to say the concept of strategic milestones and trying to convert some time at the back end of the strategic planning process to identifying some strategic milestones. Although I think it has to be said that people do not find it that easy and that it is often a bit of a struggle. Secondly the Balanced Scorecard concept and variants of it, where people try to develop a wider range of performance measures. Possibly benchmarking of course as well, which is related and which is another tool that has become more popular.

A lot of those of course have a balance between qualitative and quantitative; do you see that that balance is critical?

Well yes, I think I covered that earlier in my remark about formal and informal.

Some organisations prepare for times of crisis in terms of strategy and I was wondering how you perceive that as a fundamental part of strategic control or a bolt on extra?

It's depending on the organisation, partly on the size of the organisation and the nature of the operation they are in. If you are a Shell then it probably does make sense to have contingency plans for crises, but if you are a small Midland metal basher then it probably doesn't.

Should there be different strategic controls for different business units in larger organisations?

Certainly.

And you would recommend this?

Yes.

How do you think these potentially different strategic control systems might be brought together so that there is some form of all encompassing strategic control system at the corporate level?

We are talking about the review process really, aren't we? What I thought you were saying was that different businesses would say have different strategic milestones as a reflection of what was important in their particular strategy. At a higher level, the idea of meeting periodically to review the strategy against progress and against the milestones, that I think can be more common across the businesses. It's what you are looking at that needs to be different.

So the system might be the same, but the content of the system is actually going to be different?

Yes.

Do you see the informal to a certain degree taking over from the formal types of strategic control?

You mean becoming more popular over time? No, I think again the reverse.

So there is a drive toward more formal strategic control?

Yes, to the extent that people are trying to lay out a Balanced Scorecard criteria – which is formalising what was recently more informal.

And the types of informal control, how do you see that interacting with formal control?

How do you mean?

Well, if you have a move toward more explicit formal controls, with balanced scorecards, strategic milestones, etc., I am assuming that there would still be some informal control around that and I was wondering if there would be a need for some form of balance between the two? How do you suggest organisations achieve the appropriate balance?

Well , I don't think I have anything to add other than to say that you would need some form of talk around the measures you have got.

Appendix 7: Excerpts of an Interview with a Leading Market Analyst

Introduction

The interviewee is a market analyst for a leading City of London equity trading firm, called here for reasons of confidentiality, Global Traders. His position is Director of Global Traders' European Financial Team, providing advice on the value of banks, amongst other financial companies, to their market traders and investors.

The aim of this interview was to provide a flavour of how market traders and investors attempt to analyse a bank in making their investment decisions. In particular, the interviewer set out to explore whether the stock market demanded short-term financial growth or was interested in longer-term strategic growth.

Commentary

What criteria do you look at when analysing banks?

We start by looking at the stock price today, at that particular minute in time and ask ourselves the question as to whether its price reflects its value. In looking at whether its price reflects its value, I can give a 3-5 year view or can give a 3 minute view of its worth, of the value of the stock. We look at various sources of information to help us in that: stock market information, company news, media news, information circulated and comment of the central banks, competitors reports and we talk to the organisation. We go to its market conferences, we attend the publication of final results and half-year results, and we also generally network with members of the organisations on an ad-hoc basis.

You have to remember that our aim is to make money, we are those 'capitalist pigs' you read about! We aim to make commission on buying and selling stocks and facilitating mergers. That's what our business is about.

What do you look for?

We look at the stock, in other words the shareholder returns. We also look at the state of the company's strategic goals and whether they achieve those goals consistently. This varies from analyst to analyst. Let me give you an example of an example of the breadth of the views: there are two different companies BZW and Crédit Lyonnais Laing. BZW's position is generally long-term and at the other extreme is Crédit Lyonnais Laing, which has more of a short-term viewpoint driven by P/E [price earnings ratio]. The agenda is set by the institutional investors and not by the markets and their analysts. You need to remember that the long-term movements of a stock vary because of the buyers and sellers of the stocks, not necessarily because of the comment.

Do banks 'sacrifice' other goals in order to meet the analyst's criteria?

Some do –although they shouldn't! If they do it's misguided, it is only a short-term fix and the market will eventually find them out and react.

Why do they?

A short-term fix at the end of the day never fools anyone. It might in the short-term solve some problems, but they will come through in the end anyway. It's bad management, driven by management's, senior management's, equity options. There is a view amongst some management that they are only there for a few years and then are going to move on, so they feel they will not be found out if they use some short-term fixes. Hanson was the classic example. We wouldn't welcome their strategy, Global Traders doesn't look at purely the financial aspects, we look at the wider picture: we look for the economic value added.

From your perspective do you notice that management styles are different amongst the banks?

Management quality varies for sure. The analyst's job primarily is to assess the value of the stock price, but culture can be influential in determining that stock price. You can tell the good banks by walking in, it's self-evident even to the untrained. Any analysis of management style at the end of the day is a judgement call, done by feel. You can't really quantify it or rely on it too heavily. I look for a degree of insider ownership, to see whether the management is committed to the objectives of the company.

A look at where the banks advertise can in itself be quite informative: HSBC advertise at Formula 1, because they are international, Lloyds TSB adverts are at cricket matches, because they have a national perspective. What does this tell you about their strategy?

What is a bank?

The concept of "what is a bank?" is a key question at the moment. Global Traders is trying to sell its view to its customers right now. So I'm not going to tell you, because we can make some money out of selling our view at the moment. I will tell you in a few months! I can give you a few hints though: you need to go back to the Bank of England definition of a bank as an "authorised deposit taker" and you need to position it somewhere in between that and what the former head of Barclays said about banking: "it is a confidence trick".

The best banks know what their business is. If you look at Brian Pitman of Lloyds TSB, he realised five years before everybody else that domestic banking was the future and not corporate banking. The other banks have been slow to catch-up. He had this idea, pushed it through, implemented it and sat down to build up a rationale for it afterwards. He was visionary, but he provided for long-term improvement in the share price by focusing on simple things.

From your perspective, how powerful do you think the CEO is?

They can change the culture of an organisation, but ultimately they are responsible to the stockholder. Don't forget that he is their representative. His job is to focus on running the company and to create value for the company and therefore the stockholders. He is employed to have vision and do the job, otherwise he wouldn't be employed. The stockholders though are together the boss!

Do you as an analyst prefer sudden or incremental evolutionary change?

The answer depends upon where you start from. You don't want your investments to be too volatile, ideally you want the stock to perform by a few percentage points above the norm and to do this every year without fail. Evolution is therefore best.

Traders though, I suppose, want explosive changes, because it gives them lots of opportunities to make money, their commission, on the fluctuations.

Do you think your view of what you have told me so far is a typical one or is it just your own personal viewpoint or the viewpoint of Global Traders?

No. Different analysts will have different views. When you speak to other firms you will quickly see this. In particular you will see that they are more or less long-term in their viewpoint than us.

One last question, how do you see the future of banking in Europe?

The European bank market is over banked. Market consolidation will happen, but it's not going to be easy. There are many different cultures, many different laws and regulations and on the whole I think it will take time. When it does happen though, I think it will follow the path of the car industry. In other words, Barclays' name will still be there, but it will be owned by Deutsche Bank, for example.

Appendix 8: Deutsche Bank Group Strategic Planning Framework 1997

Introduction

The strategic framework reproduced below follows that of the proforma sent to the management of Deutsche Bank's divisions by Group Strategy. It was supplied (in 1997) to divisional management as a guide with the purpose of highlighting areas of 'strategic thinking' that require some specific elaboration and analysis, and which together provide a succinct overview of the divisions' and SBUs' strategy that is looked at by the Group Board in their authorisation of each division's strategy.

1. Market Position and Competitive Environment

1.1 Market Position of the Strategic Business Unit

(Identify the current Strategic Business Units of the Group Division and evaluate their competitive position in the relevant regional markets. Consider market share, growth, products/services and profitability.)

1.2 External Influences on the Competitive Position of the SBUs

(Describe the significant market trends which will influence the competitive position of the SBUs within the next few years. Particular reference is to be made to current and future trends in the economic environment, in technology, in the market/competitive structure, in regulation and EMU).

- Macro-Economic Trends

(e.g. compare with brochure "Medium-term view 1997-2001" of Deutsche Bank research)

- Technological Trends

(e.g. distribution channels, production processes, information systems)

- Market and Competitive Trends

(e.g. consumer habits, mergers, market entrants/exitors, non-bank competitors)

- Regulatory Trends

(e.g. national/supranational regulation, taxation)

- EMU

(e.g. chances, risks, costs, earnings)

2. Resource Based Analysis of the Group Division

2.1 Resource Endowment of the SBUs

(Identify the important resources of the individual SBUs of the Group division on a disaggregated level of analysis. Distinction is to be made between tangible and intangible resources, and capabilities. Characterise the resources in terms of the categories indicated in the table. Resources that do not qualify in regard to the five tests may be liabilities for the SBU. They are to be notified accordingly.)

- Tangible resources
- Intangible resources
- Capabilities
- Liabilities

Resources	Demand		Scarcity		Appropriability
	Does the resource create value to the customer? "Utility"	Is the resource competitively superior? "Competitive Superiority"	Is the resource hard to copy? "Inimitability"	Is the resource hard to substitute? "Non-Substitutability"	Can Deutsche Bank capture the value created by the resource?
Resource 1					
Resource 2					
...	...	...	...	...	...

2.2 Valuation of SBU Resources

(Valuate the identified resources relative to those of the key competitors or other benchmark firms. Indicate to what extent the resources are and will be competitively critical for the SBUs. Include also those resources which the SBUs has yet to develop.)

1 = substantially weaker; 5 = substantially stronger

1 = not critical
5 = absolutely critical

	Which are the key resource competitors? (benchmark firms)	How does the resource rate vis à vis the peers?	Is the resource competitively critical for the SBU?	
SBU A	(Name)	(Score)	1997	2001
Resource 1				
Resource 2				
...	...	...	...	...
SBU B				
Resource 1				
...	...	...	...	...

2.3 Confirmation of Strategically Critical Resources

(Name the resources which criticality for prospective competitive advantages of the SBUs. Differentiate between SBU-specific resources and those with relevance on Group Division level. Substantiate your choice.)

3. Resource Based Strategic Objectives and Measures

3.1 Qualitative Objectives

3.1.1 Group Division Objectives

(Identify and qualify a maximum of five strategic objectives for the Group Division and the implications for the resource endowment associated with the objectives. Define and describe your future Core-SBU-Portfolio with reference to the regional scope. Reconsider your future Core-SBU-Portfolio on the premise of a cost-cutting target of 10% within 2 years (base year 1996) on Group Division level. Give reasons for your modifications.)

- Strategic Group Division objectives

- Implications for the resource endowment

- Strategic Core-SBU-Portfolio

Core-SBU	Regional Scope	Specification of Core-SBU
Core-SBU 1	...	...
Core-SBU 2	...	...
...	...	...

- Potential modifications of the strategic Core-BA-Portfolio respecting a 10% cost-cutting target

3.1.2 SBU Objectives

(Identify and describe a maximum of three distinctive strategic objectives for your Core and Non-Core SBUs)

- Objectives for Core SBUs

- Objectives for Non-Core SBUs

3.2 Strategic Measures

(Specify the measures you want to indicate or already have indicated in order to reconcile the resource endowment of the Group Division with the strategic objectives. Potential acquisitions, co-operations, divestments, spin-offs, structural and procedural measures are to be disclosed. Qualify these measures particularly with respect to the following categories: continuous investment in resources; upgrading of resources; leveraging of resources. Assess them regarding their relative contribution to the realisation of the strategic objectives and give details about expected costs, inherent risks and the time frame involved.)

3.3 Quantitative Outcome

(Quantify the prospective outcomes of the strategic measures as per 2001 provided they will be implemented according to plan. Use the ratios as indicated in the table. The 1996 figures will have to be extrapolated from the latest available data.)

	1996	2001 estimate
- Gross Performance		
- Risk Provisions		
- Cost/Income-Ratio		
- Return on Equity		
- Return on Assets		

4. Divisional Mission Statement

(Formulate a divisional mission statement – half a page maximum)

Source: Deutsche Bank Corporate Planning Department Information, Summer 1997