B301: Making Sense of Strategy

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Part 1 – Compare and contrast Sanjiv Ahuja & Stuart Grief
1,057 words (including in text citations, excluding references)

Part 2 – Describe & evaluate Barclays Strategy using the
Economist Article 'Jewel Gets Crown'
1,533 words (including in text citations, excluding references)

Part 1

Introduction

Sanjiv Ahuja (CEO, Orange) and Stuart Grief (VP Strategy, Textron) both contributed a short talk to the Fifty Lessons archive on strategy. I am going to compare the similarities, contrast the differences and comment on how convincing I find their statements.

Ahuja's view

The title of Sanjiv Ahuja's (2009) video is "Communicate Your Strategy Clearly" and this is an excellent précis of his statement. His organisation has a complex customer-centric strategy. Lots of effort goes into simplifying the message so that all 33,000 staff can understand what they need to do to make it happen.

Grief's view

Stuart Grief's (2009) video is titled "Strategy should Continuously Evolve". His thesis is that it isn't enough to do strategy to a timetable because things are continually changing, and even though a strategy may still be viable for a whole year it isn't wise to rely on this. He also puts forward the idea of constant dialogue as this keeps the ideas fresh in people's memory and also includes a greater number of people in the development of strategy.

Similarities & Differences

Both Ahuja and Grief share a common view that all staff in the organisation need to understand strategy to be able to successfully deliver it. However where they differ is in their solution to that understanding. Ahuja looks at the audience he has (33,000 mainly retail staff across 16 countries) and adopts the posture of simplifying the complex customer focussed strategy so that everyone can understand it and have clarity on their goals. Grief also sees a problem with changing business environments potentially reducing strategy's shelf-life. Given this he adopts the approach of ensuring frequent dialogue with staff on what strategy is, and distinguishing it from the strategic planning. Grief believes that this keeps it fresh in everyone's head and allows it to adapt to changes in circumstances. Ahuja on the other hand believes that if the objectives are clear enough people will be able to operate within the parameters they have been set.

Context

"The position in the company that they both come from is important here. Ahuja is Chairman and Grief is VP of Strategy and Business Development." (Clarke, 2011) I think that the different positions of Ahuja and Grief makes a difference. I know from within my own organisation that there is a significant difference between the way the CEO puts things and the way the Strategy Director does. This isn't to do with any disagreements, but more to do with their audiences. The CEO generally talks to the wider audience (in simpler terms and clearer lines). The Strategy Director is often more expansive about the why and wherefore of what we are doing because she tends to have the senior leadership team as her audience and not the whole organisation. It occurred to me that possibly with Textron, being an umbrella company, the audience that Grief has his dialogue with might all be the senior leaders of the subsidiaries and the corporate centre rather than every single one of the employees. This would lead to a very different sort of conversation, and one that was more about evolving strategy than simply communicating it.

Credibility

What we don't know from the articles is exactly what the communicated strategy is, which means that we cannot be sure whether simplification lost anything for Orange, nor whether dialogue added anything for Textron. If the Orange strategy was "Increase market share by giving better deals to customers" then that could be simple enough to be flexible in their market and still be understood by the workforce.

Equally the Textron strategy might have had to react to increasing pressure on customers to defer major capital expenditure and perhaps also the difficulties faced in raising investment to buy the products their companies manufacture (a combination of defence, aerospace and automotive businesses). Their 2009 annual report (Textron, 2010) mentions significant re-scaling in their operations because of the economic downturn.

Having been involved in major public procurements (as well as many personal mobile phone ones) there is a major difference between the two markets which is well explained through Porter's five forces (cited in B301, Readings for Blocks 1&2, pg.60). Mobile phone companies are very much retail, you take what they have, or you get nothing. The bargaining power of buyers is very low as there are so many low volume customers that the company can afford to lose any particular one, there is also a very small number of competitors and the barriers to entry are quite high. So a very small group of central strategy people could come up with all the complex bits of what packages/phones they offer. The sales force just need to shift those deals. When an industry has a small number of high-value customers they are more sensitive to losing custom, which is the case with major investments. The customer has a lot more buyer power and the industry needs to tailor their offerings to the buyer's needs, which involves lots of competitive dialogue. I have no doubt that this has a wider impact on corporate strategy, especially when the purchases get into the hundreds of millions range.

Conclusion

Ahuja and Grief are not mutually exclusive and I find them equally compelling. Both believe that people need to understand the strategy for it to work. The main difference is that Stuart is talking about strategy formulation as well and Ahuja is only talking about how to communicate strategy. I believe that it is possible to involve many people in continuous dialogue about strategy, and how it should evolve, as well as to communicate to everyone what their current objectives are.

In my experience of working in operational delivery in the public sector there is a significant portion of the workforce that just wants to know what it is that they need to do. So Ahuja's message of simplifying and clarity is definitely relevant. There are also many people that want to feel involved, usually in the management chain, but not always, and these people need to be allowed to take part in the dialogue and have their views feed into the strategy process, which from Mintzberg & Lampel (cited in B301, Readings for Blocks 1&2, pg.28) needs to take an eclectic approach and always be looking again at fresh evidence and new ideas.

Part 2

Introduction

The article “Jewel gets crown” (The Economist 2010) is about the announcement of a new chief executive for Barclays bank, Bob Diamond who was previously in charge of Barclays Capital. It reviews the recent past of Diamond's involvement with Barclays and how the investment bank has become responsible for the bulk of the profitability of the group. I am going to draw on this article to describe and evaluate Barclays' strategy using Mintzberg's five Ps, Mintzberg & Lampel's ten schools of strategy formation and also Whittington's Practitioners, Practice and Praxis (all cited in B301, Readings for Blocks 1&2).

Barclays' Strategy

In the article Diamond is quoted as describing the Barclays strategy over the last few years as having been opportunistic in its increased reliance on investment banking for profitability. In particular the acquisitions of Lehman Brothers from bankruptcy and also the reluctant sale of the asset management arm to boost capital ratios. There is also a temporary problem with consumer banking which has made them much less profitable as they make provision for bad debts. However this is expected to re-balance naturally as these charges decline and interest rates rise.

Both Diamond and his predecessor believe in having Barclays as a 'universal' bank, with a contribution of profits from the different divisions. The benefits to Barclays Capital being a subsidiary of the larger retail & corporate bank is having an overall lower risk (compared to being an independent investment bank) and also being able to get lower interest on borrowing, which enables a greater profit margin (half a percentage point on £220 billion amounts to just over £1 billion). However this may not be entirely in the shareholders best interests once the rest of the group regains its previous profitability as the risk associated with the investment banking will have an effect on them too. The article suggests that Barclays strategy will be to avoid being broken up through a combination of showing that Barclays has adopted a lower risk stance (it has improved its capital to borrowing ratio) and also by threatening that they will move their Corporate HQ (and by extension their tax contribution) to a more favourable jurisdiction if any move to compulsorily break them up was made.

Mintzberg's 5 Ps

We could relate this description of Barclays' strategy to Henry Mintzberg's five ways of looking at strategy as plan, ploy, pattern, position and perspective (cited in Mintzberg 2005). There is a stated plan for the future, which is to ensure continued profitability as a universal bank by avoiding being broken up. How realisable this is depends very much on external influences, primarily government but also public opinion because government is most likely to act when there is a perceived need to be seen to be doing something (Lusk et al, 2008). Two overt ploys are referred to in the article, emphasizing reduced risk and also threatening to move offshore. From the information in the article the first of these appears to be credible, there is no direct cross-subsidy of the investment banking arm from the consumer and corporate banking arms. This may well be seen by regulators as a rational argument against the need to break up Barclays because their primary worry is likely to be whether or not the consumer bank will need to be baled out. The latter threat of moving offshore is believable, but it is not a new argument and recent public opinion on banks may ensure that the government cannot rely on this excuse, especially given the relatively small level of tax paid on corporate profit by Barclays. The BBC (2011) reported corporation tax of £113m in 2009 out of

£4.6bn global profit, although around £2bn tax was paid, mostly income tax by employees.

The pattern so far for Barclays is one of opportunism in dealing with the current issues at hand, whether the acquisition of Lehman Brothers from bankruptcy for almost nothing or the reluctant sale of the asset management arm to raise more capital when the rules on capital ratios were changed following the banking crisis. The position that Diamond takes is that Barclays is better off as a universal bank and that size brings stability. However the article makes it clear that this is not a view shared by all, a few stockmarket analysts hold a contrary view that a break up might be better for Barclays shareholders. The risk associated with investment banking would be removed, and they claim that there are no structural issues associated with the break up because the divisions are already run separately. Perspective is much harder to gauge from the article, it being a mixture of sources and not simply a direct interview with Barclays top management.

Ten Schools

Mintzberg and Lampel (cited in B301, Readings for Blocks 1&2) describe ten 'schools' of the theory of strategy formation. While each of these schools offers an alluring route into 'understanding' strategy and some guiding principles to help you formulate strategy none of them seem to have a holistic view. They each stem from the perceived short-comings of the initial (Design) school or its off-shoots. It is entirely possible that strategy formation in any particular corporate body may draw upon all of these ten schools, indeed Mintzberg & Lampel suggest that this ought to be the case.

Using the description of Barclays' strategy in The Economist article it is very difficult to be certain how the strategy was formed and what processes were gone through. However looking at what the article reveals it could be said that the Barclays' strategy has the following elements

- cognitive, because there is a clear articulation in the minds of top management
- positioning, because the article shows an understanding of how they got to where they are
- entrepreneurial, because they have a vision of their desired future and it appears to be the chief executive who is making opportunistic decisions to turn things around
- power, because there is an understanding of the future they want to avoid and the need to be able to counter the external threats that could break them up with their own counter-threats
- environmental, because they need to continue reacting to market and political changes to remain in being

Practitioners, Practice & Praxis

Richard Whittington (cited in B301, Readings for Blocks 1&2) puts forward an alternative set of three Ps in place of Mintzberg's five. Whittington's are Practitioners, Practice and Praxis. This is a more human centred approach to describing strategy. It looks at who does it, how do they do it and what they do to promote change. The view this gives is much wider than that espoused by Mintzberg's five Ps, because it has a broader range of questions that takes the softer aspects into account. In relation to the Barclays strategy it is difficult to answer the sorts of questions that this approach prompts because we don't actually know who was involved in developing the strategy, nor how they went about it. However, the change in leadership will make the emphasizing of a lower risk approach less credible because the former head of the perceived risk taking investment banking arm is taking over as the group chief executive officer. He has a reputation, according to the article, which will provoke those worried about 'casino banking'. The article shows that he was keen on getting involved in the takeover of ABN AMRO, which caused the actual buyer to go bust. Similarly he was keen on taking on Lehman Brothers toxic debt and only stopped by the regulators. Past performance is seen as an indicator of likely future performance, and although Diamond has been lucky so far, one cannot rely on luck alone. An analysis of the likelihood of the Barclays' strategy being a success using the 3P method suggests that chances of success are relatively low if the regulators look at the people running Barclays and their past practices and praxis in coming to their decision about whether or not to break up the bank.

Conclusion

Barclays' strategy is one of profit maximisation, and is based on their belief that keeping the investment bank within the group is the best way to ensure that the group as a whole remain profitable, at least in the short term until the problems with bad debt charges etc are gone. With this in mind they have come up with a couple of ploys to discourage the regulators from breaking them up. Using Mintzberg's five Ps to evaluate their strategy makes this look plausible, although Whittington's Practitioners, Practice & Praxis approach makes it all look much more dubious as the people concerned have a track record which contrasts with the chosen strategy. The ten schools view shows that there is a rounded aspect to how the strategy has been developed, although it isn't absolutely clear how that has been done.

Overall Barclays' strategy is rational given where they are and how they got there, but some of the people that they need to influence to ensure that they are not broken up might not buy the arguments put forward in the article, assuming of course that the article accurately depicts their chosen approach.

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