

# Strategy Think-IN delivers optimal business solution for Kleinwort Benson

## Background

In a business environment of increasing complexity, discontinuity and rapid change, much strategic decision-making is event-driven rather than based on more stately elaboration of long-term plans and scenarios. Opportunities arise for business transformation or creation of shareholder value; step-changes in technology, markets or legislation demand rapid changes in outlook and behaviour and create situations where extrapolation from the past does not cut the mustard.

Kleinwort-Benson, one of the oldest and most prestigious names in wealth management, faced just such a scenario. After a succession of changes of ownership its parent, Commerzbank, announced its sale because EU approval for a government bail-out during the banking crisis required it to sell various non-German assets and focus its activities on the German domestic market.

Kleinwort-Benson found itself among these assets and although in principle it had a two and a half-year window to find a new owner and a promise from the parent that there would not be a 'fire-sale', in practice, the uncertainty created by the announcement among customers, employees and the markets dictated that the sooner an effective solution could be found, the less the damage was likely to be. Insecurity has a potentially corrosive effect on customer relationships, business development and employee motivation and retention. Moreover, significant investment in the business was unlikely to be forthcoming given the circumstances and it would therefore be condemned to treading water and competitively damaged by a long hiatus. Robert Taylor, the CEO was quick to reassure clients and employees of the immediate priority for his business - that of continuing to deliver a high level of wealth management and fund administration services and safeguard brand value but his announcement of the time illustrates the fragility:

*"Whilst this announcement may be unsettling for our clients, employees and other key stakeholders, we are fully committed to business as usual and there will be absolutely no disruption to the service clients receive from us. Commerzbank will continue as our parent until a decision is made regarding our new structure and ownership..... "*



Robert Taylor had come in to modernise and drive the business forward around 3 years earlier. He was acutely conscious of all the stakeholder issues and, not least, the very real potential conflict for his senior team between personal self-interest and future career and the requirement for good stewardship in respect of the overall well-being and future prospects of the business and its brand. He recognised that both dimensions had to be dealt with explicitly and that a disciplined process was required for developing an optimum way forward in an environment where strong opinions existed about what the best options were.

Moreover, he needed real energy to sustain business performance because the fall in interest rates and a drop in the value of funds under management had resulted in results being 20 % down in the current year, like many competitors. Senior executives could therefore not take their eye off the ball yet their input to, and ownership of, the right solution for the business was essential.

Whilst a trade-sale looked in many ways the right option to deliver cash more quickly than private equity, the possibility of an MBO was considered by some to be the dream scenario. There was already speculation about the most likely external bidders and a danger that important possibilities would be missed through conventional thinking or unspoken assumptions not being surfaced.

Taylor and some members of his team had themselves been trained as executive coaches, and recognised that attention to behaviour and group process was as important as quality of analysis in securing the right outcome. He and his HRD briefed Crelos and decided to use our Think-IN process to facilitate the generation of strategic options and selection of the right solution, coupled with coaching support to individual executives about their own dilemmas and relation to the business. This proved very effective and all members of the team stuck with the process to the end, when the outcome was one that nobody had predicted at the beginning.

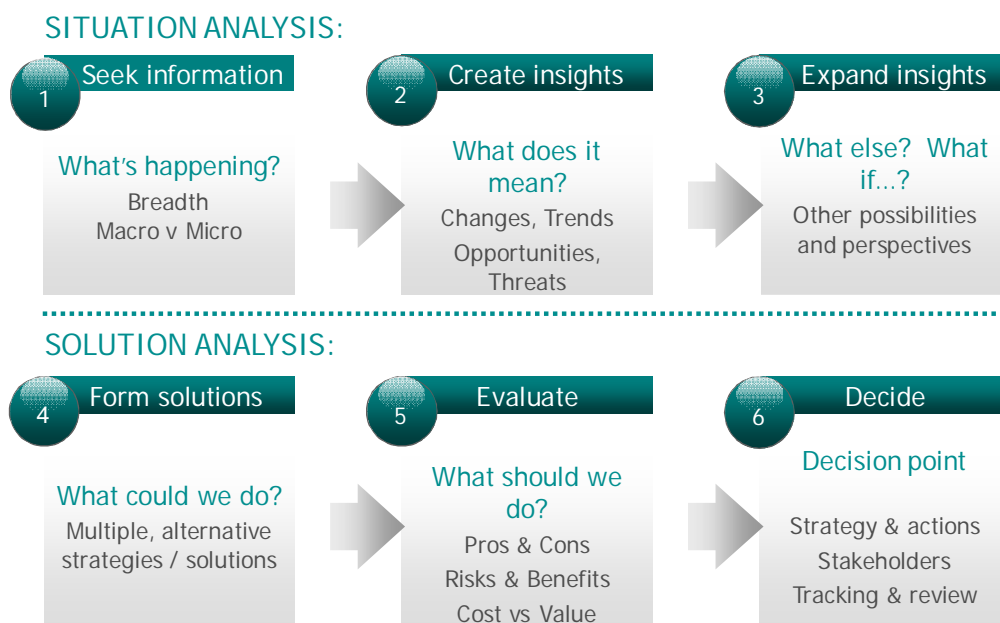
### What We Did

Not only was there a need to balance ongoing operational and commercial effectiveness with the requirement to address strategy, but in parallel with that process, potential suitors and their advisors would be examining the prospectus and engaging in dialogue. Unlike a conventional round of strategic planning the strategy process would therefore take place against a real-time scenario of multiple commercial discussions, each of which might illuminate or complicate the thinking. Robert Taylor recognised that to deal with these multiple demands the Strategy/MBO team could not be simply a subset of the Executive Committee and created a wider strategy group.



The attraction of the Crelos Think-IN approach was its flexibility and ability to accommodate iterative thinking, not just take a linear approach as events unfolded. It was recognised that a strong discipline was required and an ability to separate romantic options from hard-headed financial realities. It was also necessary to avoid easy consensus on obvious options, whilst still holding the team together. And it was important to give people time and space to do their day jobs.

The design of Think-IN accommodates all of these requirements. It is based around a series of facilitated workshops between which further research and analysis is undertaken by individual teams to fill in gaps in knowledge and flesh out understanding and insight into the business situation, options and strategic solutions. The overall Think-IN process is represented schematically below:



The critical attributes of the process that make it superior to other strategy facilitation approaches include:

- A strong discipline for eliciting individual perspectives and possible solutions before moving to team perspectives. This is critical to surface undeclared beliefs, insights and ideas that may lead to conflict or fragmentation later in the process if they are not tabled explicitly. Secondly, it is vital to generate as complete an appreciation of the business and its environment as possible and as wide a spectrum of possible solutions as possible. Often, the most attractive and viable strategy that emerges is not derived from the view of the majority but from a distinctive viewpoint and contribution from one or a few individuals that becomes compelling for the group as they invest time in comparing it with others
- The approach gives full involvement to every participant and avoids the strategy process being biased by the views of the most powerful or the most articulate. In a highly charged situation, with managers under pressure, it avoids hidden agendas and politicisation of the process and avoids the danger of isolation of any key stakeholder.
- Of course, it is necessary at the right points in the process to achieve convergence among members of the group and shared commitment to selected scenarios and solutions. This is dealt with as an explicit activity, subsequent to review and understanding of individual contributions.
- An important feature is the clear separation of the main phases and the steps within them in the diagram above. Easy answers and a rush to judgement are avoided by 'holding' the strategy team in each stage until it is clear that it has been thoroughly explored and resolved. This can cause discomfort but produces confidence and a broader range of perspectives and strategic options. The shared experience also drives ownership of and commitment to execution.
- Effective facilitation ensures thoroughness and avoids teams falling into typical thinking traps by creating the conditions necessary for effective thinking.
- The whole process design is underpinned by being founded on the competencies and behaviours that research has shown are fundamental to great thinking capability:

**Seeking Information** - creating a broad, rich and shared set of data on all relevant aspects of the strategic issue, both in the external environment and internal capability.

**Concept Formation** - recognition of patterns, trends and salient features in analyses and evaluation of the information, using relevant models, frameworks and tools.

**Conceptual Agility** – ability to build and evaluate multiple, alternative concepts, scenarios and solutions, and to explore the benefits of each, against a set of criteria for a successful business outcome.

In the case of Kleinwort-Benson, the principal criteria were:

- 'Survivability' of the business and the brand rather than it being simply subsumed in another entity.
- Generation of maximum shareholder value from the disposal.
- Satisfaction of the relevant regulatory bodies with the preferred outcome.

Because it was deadline driven in difficult business conditions, the process was unusually pressurised in an environment where people were burning the candle at both ends and feeling the strain of the competing pressures on them. Coaching in the background helped each individual to achieve separation between 'what is right for me' and the group focus of 'what is right for the business' and in spite of the uncertainty about their own career futures, all team-members maintained concentration on their accountability for the latter.



Significant work was required between workshops from individuals, their teams and the business's advisers because the group swiftly recognised that the necessary information was not readily available to answer important questions about future market opportunity, segmentation of potential suitors and the like.

The value of the Think-IN approach from the point of view of the participants was that it took the monkey of their backs for process management and left them free to put all their energies into analysis, thinking and strategy formulation. Unlike some external consultant strategy studies, it made appropriate provision for the real challenges of keeping the business performance up at a time of uncertainty and the demands of servicing expressions of interest from outside. The discipline enabled some important yet potentially distorting issues such as the fate of the K-B Channel Islands business to be 'parked' so that they did not become a distraction from the principal objective.

Overall, the process was successful in that a buyer was found that satisfied all the criteria for an effective solution and none of the key players left until it had been secured. Mark Hussein, one of the participants and now Global Head of Commercial Insurance and Investments at HSBC has the following observation on the value of Think-IN:

***"It would have been easy under pressure and fighting on many fronts to 'outsource' strategy development to a big-name consultancy. However, who knew more about our business than we did! The value of working with Crelos and the Think-IN process was that it really got us to delve deeper in our thought process and create several options rather than rushing to an early consensus on obvious possibilities. It led us to some conclusions that, had they been mentioned at the outset, would have probably been pushed aside."***

The eventual acquirer of the business, RHJ, had not really been considered a candidate at the outset, but the rigour of the process demonstrated its excellent fit to the strategy criteria and brought it centre stage. The investment banking community – and many Kleinwort insiders – had speculated that if an MBO was not feasible then Schrodgers, Standard Chartered or the Canadian Bank, RBC, were the most likely buyers. RHJ is a Belgium-based investment company and its heaviest investment previously was in companies manufacturing components for the motor industry. The company had bid for GM's German car-maker, Opel, when the auto-giants were on the verge of bankruptcy and holding fire sales. For that reason its 2010 £225 m investment in Kleinwort reflected a significant change of direction and it was not surprising that it had not been regarded as a probable candidate until the Think-In process exposed it as such and demonstrated the advantages.

RHJ's strategy is now to grow Kleinwort into a major financial services force, initially through takeovers, and make Kleinwort Benson the overarching brand. For RHJ the acquisition was truly transformational, from a diversified industrial holding company into a group exclusively focused on banking and financial services and it had already begun a programme of divestment of the former assets to fund acquisitions in financial services. Kleinwort became the cornerstone for future development and key employee retention packages were put in place to ensure that it had the capability and talent to fulfil this role. Thus the strategic criterion of 'survivability' was fully accomplished.

## Think-IN as an Approach to Strategy Formulation and Strategic Decision-Making

At Crelos we believe that the need for competence in strategic thinking has never been greater. In almost all sectors, the pace of change and the complexity of markets and competition increases inexorably. We also believe that there is a vast reservoir of untapped expertise in most organisations that does not find expression in day-to-day roles and can be harnessed to address major business problems and find new ways of adding value.

This talent can be tapped through a disciplined process like Think-IN to improve the quality of the annual strategic planning round and/or critical strategic decisions such as that faced by Kleinwort. Mark Hussein again comments:

***“I believe passionately that if you recognise, trust and empower the right people within your business and have a process to harness their experience, you deliver strategy more effectively, with greater engagement and considerably less cost. Two other key factors to the greater engagement element are that it lends itself to much more effective implementation as you have full buy in from those responsible and it reinforces the important principle that senior managers are paid to make business decisions, which is often forgotten with too-frequent recourse to external consultants”***

Significant research by Business Schools, benchmarking organisations and consultancies has shown that top quartile companies generate substantially greater shareholder returns than their average peers: more than double over 3 years in a recent study. This superior performance starts with strategy. Many organisations find themselves trapped in the prison of their past success or evolve strategy based substantially on extrapolation from the past. In others, a standardised model or even a well-facilitated process that places too high a value on consensus may not identify breakthrough strategic options. Outperformance requires better pattern recognition, identification of discontinuities, consideration of alternative business models and deep understanding of core competences.



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The key to this is effective behaviour and process for strategy formulation and decision-making. Analytical frameworks and strategy tools are common to all. The difference is the rigour of the process, involvement of key stakeholders and the ownership of the outcomes. McKinsey's recent research ('The Case For Behavioural Strategy') analysing 1048 decisions over five years supports this assertion and shows that decisions characterised by superior process and behaviour delivered 6.9% greater ROI. This makes the investment in improvement of strategic thinking exceptionally attractive in terms of its own ROI!

### Clients seek our help when:

- Strategy capability is patchy across divisions or business units or is recognised as a more systemic weakness in an operational environment.
- A 'beacon' strategy set at the top of the Corporation is not fully understood or translated by business units downstream.
- 'More of the same' or 'Me too' will not provide the results to deliver future shareholder value.
- There is confusion, conflict and politicisation of strategic options and resource allocation decisions.
- Team unity and ownership of solutions and accountability for their execution is critical.
- External strategic exercises have delivered blueprints that may have been impressive but have been difficult to implement and achieve the promised returns.
- A CEO wants to build a culture of openness, trust and shared accountability in the top team and/or the next layer of the business.
- A critical event creates the need for swift, thorough and motivating generation of strategic options (As in Kleinwort)
- Analysis paralysis is a syndrome: the business is high on data but weaker on insight and the ability to break through into powerful, confident solutions.

The business outcomes of generation of genuine strategic options and a fully evaluated way forward are the major benefits from Think-IN. In addition, however, for most teams and individual participants the process is developmental and enhances their competence to conceive, plan and manage strategic interventions for the future. Looking more broadly, when many teams operate in this way a deep fund of strategic competence is created and substantial learning is retained in the organisation.

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