Australian Graduate School of Management

Case Study Name

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Case Preparation: Ben Bryant, November 1994.

This case has been prepared solely for educational purposes and aims to promote discussion of issues that surround the management of change in organisations. While it is based on real events, there are certain incidents, data and identities that have been changed to enhance the educational value of the case. The case, therefore, is not intended to be a reflection on the managerial capabilities of the persons to which it refers, and should not in any way be interpreted as such.

Diamond Bank is the **commercial and investment arm** of a large retail and investment bank in the UK. Its headquarters are in London, and it has branches in New York, Paris, Milan, Frankfurt and Zurich. At the time of this case its annual revenue is £778m, and assets under management are roughly £15.7 billion.

Charlotte Stanton had recently been head hunted as CEO, following the retirement of the former CEO who had been with the bank for 17 years. Stanton had a solid history of successful management in the finance industry in the United States, and had spent the past 10 years **managing corporate restructuring projects on Wall Street.**

Strategy and restructuring

Within six months of her appointment, Stanton recognised that the impending implications of a single European currency and deregulation of the finance industry across the world would have **major ramifications for financial services in the London and the European offices.**

Stanton worked closely with the European Investment Equity and Operations managers to develop a new strategy and structure for the organisation. The new strategy meant that the company would have to provide full services to all clients, from capital restructuring through to fund raising and investments. This meant it would have to work in cross disciplinary teams, with unclear work boundaries and uncertain career paths. The previous structure had been organised along product lines: equities, futures, fixed interest, derivatives and corporate advisory/finance. There was little or no synergy between the divisions. However, the growing expansion of European companies into new markets meant that the cost of finance in Europe would soon become intensely competitive. Diamond had to look for new ways of doing business – the bottom line forecasts for the current year were looking very disappointing.

People at Diamond had been under a great deal of stress for a couple of years. They knew the bank was in trouble, but blamed the recent recession and the company's outdated systems. A few people started talking about customer service and asking questions about the way forward. Some latched on to the new ideas quickly, particularly in the equities division, but inevitably, there were those who could not understand its logic. The normal strategy in a softening, competitive market had been to become 'leaner', reduce overheads and cut expenses. So Stanton was perceived by some as undermining the solid values upon which past CEOs had built the business, and to be risking the company's future.

Resistance to change took many forms but there was always an element of loyalty to the firm. Although the resistance was sometimes deeply felt, there was never an atmosphere of defiance. There were open confrontations, 'fights' as Stanton called them, and there was much 'tearoom talk' behind closed doors.

To convince the waverers, Stanton and some of the senior managers started a series of 'roadshows' to communicate and explain the vision to the branches.

Part of the problem of convincing people in the local offices about the need to change was that it was difficult to demonstrate the success of the new strategy because it was in its early stages. It was easy for detractors to argue that the new strategy was exacerbating the poor results. It gave them an excuse for not trying. Within six months it became clear that some individuals weren't going to adapt.

Building capabilities as a catalyst for change

One of the key initiatives in developing the capabilities at all levels was the introduction of systematic management and technical development. For example, Bill Jamieson (Equities General Manager) attended a strategic marketing course at London Business School, and discovered how marketing could be applied to investment banking. Jamieson began to understand what 'customers' needs' really meant, and how Diamond could provide valued solutions to meet those needs. Bill Jamieson:

Some of the senior people had begun to grasp the strategic thinking concept but they had no in-depth understanding and were unsure of how to apply it.

Building total commitment

In order to achieve the objectives which she had set herself, Stanton considered the approaches she might take to achieve them:

- the developmental approach, which would make bigger investments in the existing staff through education in management and technical skills

- recruitment of more agents of change from outside the organisation
- boosting the internal communication of the change process, providing more explanations, involving more people, improving communications, and providing more publicity.

Stanton cast her thoughts to some key individuals in the organisation who were sceptical about the new strategy. In particular, Mark Burrows, the General Manager of the Corporate Finance Division, had been concerned that delegating substantial authority to equity and futures managers under the new structure would expose the company, and reduce his ability to influence management practices in his area of responsibility. He resented the fact that his clients would now have to **negotiate with other managers and departments**, who, in Burrows' opinion, were arrogant and self-interested.

Burrows had been with the company since 1969. In the eyes of the former CEOs and Stanton, he had been an extremely successful general manager for almost 12 years. Although the company had been highly successful in the past, **Burrows was well aware that the business had plateaued.** Nonetheless, he was concerned that a radical new strategy might put at risk all that had been achieved. He was also unconvinced that there was a need for expanding staff support in the human resources, corporate development and systems areas. **He believed the current softening market was cyclical, and that the need for fundamental structural change had been overstated.** True to his own professional manner, however, he had completed all the new strategic planning tasks and participated in discussions about the new strategy.

Isolating resistance to change

Mark Burrows carried a lot of personal power in the organisation. He had the respect of all his assistant general managers and imbued them with a strong sense of loyalty, as he himself was loyal to the organisation. It was evident to some around him that he remained sceptical about the changes that were being planned. While some of his more junior managers appeared enthusiastic to take on the new strategy, they sensed his concern and were reluctant to step outside his expectations. There were some assistant general managers and **field staff** who also shared Mark's concerns. The fundamental concern throughout the organisation was whether 'customer service' was in fact possible in **commercial banking**. In closed circles, Burrows used to make fun of Stanton's 'smiling customers' goal.

Another cause for concern was that the recently created flatter structure also created problems in the areas of information dissemination and the delegation of responsibility. There were now hierarchical lines of responsibility and functional lines of responsibility. This was the ambiguity of roles which Stanton had foreseen, but which some organisation members had failed to embrace.

At all the levels in the hierarchy, these two factors led to tension which was unhealthy and bordering on dysfunctional. The key realisation from this analysis was that **implementation of organisation-wide change could not be fully realised without greater commitment from the general managers and assistant general managers**.

At the time, Stanton did not believe the bank culture could be changed unless **the whole organisation** attended a leadership development program. While the bank's senior managers saw attendance at the course as beneath them, they also feared being exposed in front of their colleagues in an academic environment.

Stanton discussed the problem of building the organisation's commitment to change with a personal friend who was an experienced management consultant. The consultant suggested that Charlotte had three choices:

1. To work more closely with Mark and his team to build their confidence in the vision. This was a long-term strategy.
2. To ignore Mark and his team and work around them, hoping that they would eventually fall into line with the vision.
3. To become more directive and insist that Mark become accountable for making change happen in his division.

What would you do if you were Charlotte Stanton?