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# The Quarterly Review

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## What Next?

### Now, where were we, before we were so rudely interrupted?

The lights are coming back on in Canary Wharf and The City, green shoots have been seen and the number of real projects is growing, across many industry sectors. The backlog is becoming real again as profitability slowly returns, albeit with tighter budgets.

*Where to start? How to prioritise? – Our advice: travel two parallel tracks:*

### Track 1 - Look across your organisation and externally

Firstly remember: the world has changed - it is not the same place it was before the crash. The environment is different and so is your emerging organisation. The projects on your 3-4Q2008 list may no longer be required – or may have a changed in nature and priority. In the case of regulatory-mandated projects, there are short-term 'musts' but the world is changing underneath you. Best have a quiet discussion with your Head of Risk & Compliance to get a handle on the realities of living in a still-stressed environment and the medium term regulatory shifts being discussed. All Heads, whether of Retail, Wholesale, Manufacturing, Operations or Services across all sectors, are facing new external market realities. These need drawing out into explicit bold statements that forge a new strategic vision on which future change can be based.

Additionally in financial services, with or without elements of public ownership, the need to seriously demonstrate corporate social responsibility is a mandatory element.

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## Change Management

### Do you need Change Management? Everyone is talking about it – Sounds easy?

**Pragmatic, effective approaches are not quite as common as the mountain of "Change Management" literature may suggest.**

We all know that the business climate has changed significantly since 2008 and that organisations are cautiously approaching the future.

Undoubtedly we are watching the new business order reassert itself before our eyes. This is represented by the collapse of organisations, growth of lesser known competitors and the widespread quantity of M&A activity. This is almost certainly 'round one' as organisations change in order to survive and prosper in the post recession era. One of the key differences appears to be business operations being undertaken with a leaner workforce and organisation. The criticality of maintaining 'Business as Usual' (BAU) irrespective of external or for that matter internal pressures will be paramount. This puts pressure on executive management to ensure change initiatives (large or small) are delivered in a timely and effective manner or the results will be clear to see...

Over the last 30 years or so Project Management has become a well defined discipline characterised by 'hard' or tangible elements that we all understand; planning, risks & issues, cost control, reporting etc. In essence Project Management is that suite of tangible, repeatable tools and processes used to a greater or lesser extent (depending on the project in question) to effectively manage that project. Project Management typically has some 'accountability' for the effect it has on BAU and this is represented, I believe, by a relatively new trend to describe business projects/programs as a 'Change Program'. Nothing has fundamentally changed however, a change program such as; an organisational transformation, IT implementation, outsourcing etc. will bring about tangible change and it is of course the purpose of these projects to focus on the mechanics of delivering the change.

Organisations often struggle with the complexity of change with the common mistake of focusing on the mechanics of change (the what) at the cost of actually managing it (the how) leaving the organisations most critical asset – the people - bewildered and confused by the change. Worse still, without effective Change Management during a change program employees remain apathetic, unengaged or even negative to the new approaches being introduced. This impacts 'business as usual' and productivity for the company – a situation that in pre-recession was undesirable but post recession is potentially crippling.

This is where the real value of good Change Management is unrivalled; organisations that use a structured Change Management approach adapt more rapidly and engage more effectively with the workforce. This engagement/management of change within the organisation will lead to an effective workforce both in the new operating environment and throughout the transi-

*Continued on page 2*



# Change Management



tion. Which is achieved by addressing the hearts and minds of the people impacted and provide continuity and support throughout the transition whilst ultimately supporting the Change Program maintain pace of delivery.

Organisations will therefore maximise short term stability and longer term return on investment. Companies that can effectively balance these two critical components (stability vs. change ROI) are going to be at a competitive advantage. The strong will flourish and the weak will continue to fall away.

There are a range of articles, theories and promotional material that claim to understand Change Management however, they often do not really satisfy the needs of the reader. They look jazzy and talk confidently about Change Management but never really offer **practical, pragmatic** and most importantly **effective** activities, tools, processes and expertise to

Manage Change for maximum benefit to the organisation.

Chaucer Consulting's unique broad experience brings together the two elements for delivering change effectively; we are recognised experts in project management but coupled with that we also have deep knowledge and practical implementation experience of delivering change management activities. Uniquely Chaucer understands and has practical tools and approach to deliver the "what" and the "how" of any change program. The delivery of Change Management activities is an area where Chaucer can contribute a significant amount to your business improvement projects.

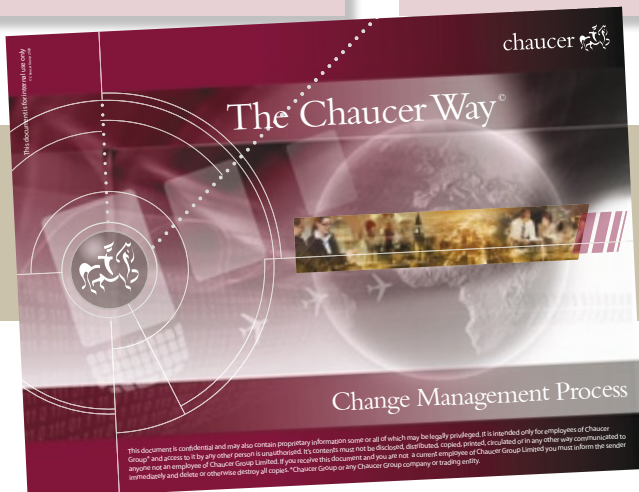
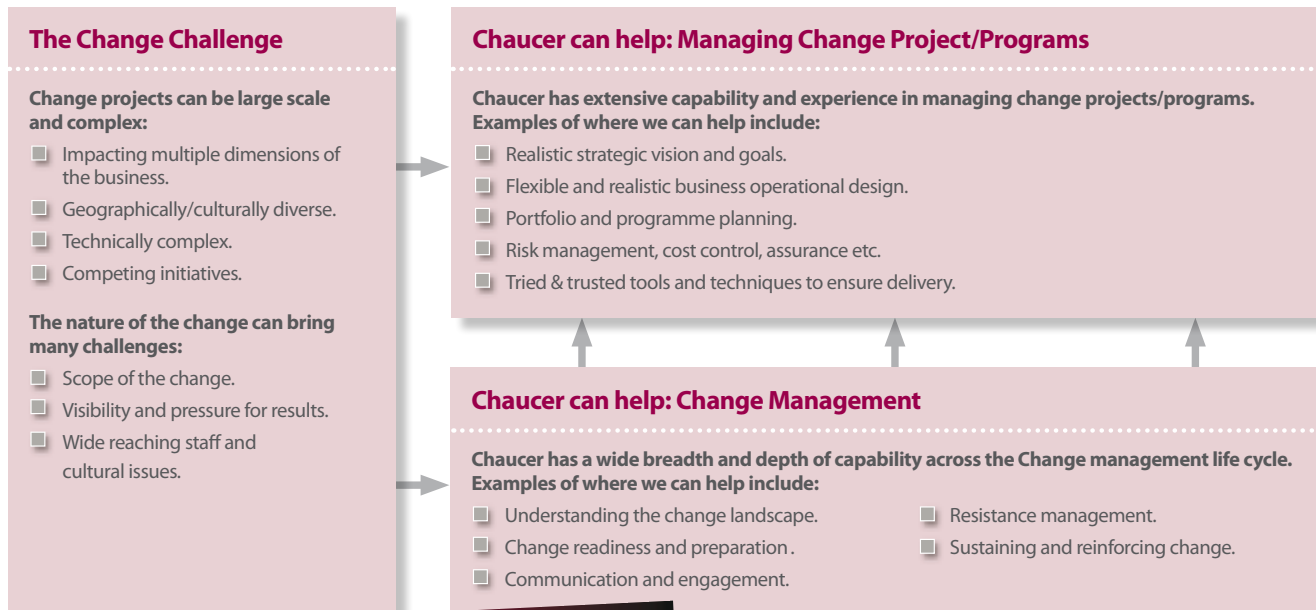
In much the same vein as 'The Chaucer Way' – Project Management (the proprietary methodology by which Chaucer offer's its clients superior project and program management) Chaucer has developed, based on hands on

experience **delivering** Change Management activities, a step by step, manageable, pragmatic, proprietary methodology for effectively managing change for our clients. 'The Chaucer Way' – Change Management.

This methodology is broken down into five simple stages and contains within it clear activities, tools and processes that combined with the experience and expertise of a Chaucer consultant can be utilised or adapted for individual project needs to make the difference.

Please call us today to discuss your immediate Change Management requirements to access constructive, pragmatic support for your Change program/s. Change Management sounds easy now!

## Chaucer has expertise in managing change programs/projects and in performing specialist change management activities.



Deborah Feakins & Phillip Wallis

Phillip Wallis



Deborah Feakins



[phillip.wallis@chaucerconsulting.com](mailto:phillip.wallis@chaucerconsulting.com)  
[deborah.feakins@chaucerconsulting.com](mailto:deborah.feakins@chaucerconsulting.com)

# What Next?

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This will involve a less narrow financial and short-termist approach to shareholder value. Board and management incentives to creative accounting and focus on short-termism need changing<sup>1</sup>. Strategic change programme solutions and cost pressures that compromise risk must be rebutted. Creative solutions are required – not creative accounting nor unacceptably increased operational risks. The challenge is to factor these into the governance and decision-making from board level downwards.

## Track 2 - Sharpen the tools of your trade: managing change

Secondly, it's time to go 'back to school' on change programme and project governance, particularly cost benefit analysis and stakeholder management for initiating change.

<sup>1</sup>Flying in the face of conventional wisdom. Financial World. 7 July 2009

Then the actual programme and project management needs a re-think, particularly for large inter-related complex change. Remember that using any methodology without applying intellect is doomed to failure, or at least unnecessarily high cost. Intelligent application is mandatory. Do not cut corners – **cutting corners costs projects** – but sculpt methods wisely to your needs, keep 20:20 programme vision and keep control. Not just leaving it to your managers and team leaders, but YOU! Individual accountability is several factors higher when the financial tide is still out and the wrecks are so visible.

## So where next with projects and programmes?

After a strategy review, the corporate priorities will be clearer. Stronger governance gates with sharper cost benefit cases will reduce the vol-

ume of change to a manageable level. Rigorous up-front assessment will force out any programme or project element that cannot justify its existence. Remove these from the list rather than putting them lower down the priority into the 'sometime never' category.

Then focus on priority one and run them with your best people, or the best you can get; do not pay peanuts, even in the current weak economic climate; that is a disaster waiting to happen. Only buy quality.

Then look forward to refreshing successful change.



Roger Baker

Roger Baker  
roger.baker@chaucerconsulting.com

# M&A – now or later?

Are you on an M&A journey? Maybe you are about to embark on one!

Companies merge, acquire and form JV's for many reasons i.e. to grow, enter a new market, capture a bigger market share, etc.

Companies also divest for similar reasons i.e. for cash that maybe needed to fund an alternative strategy, to exit from a market, etc.

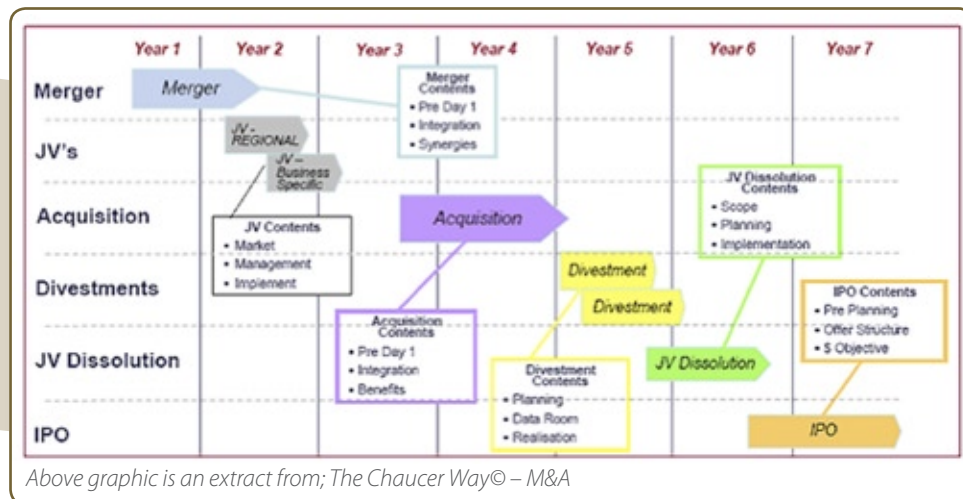
It is important for any company that is making acquisitions to also have a clear and active divestment strategy.

The diagram opposite is a hypothetical M&A journey but demonstrates what could and in many cases does occur over a period of time.

M&A projects are often considered an essential component of a businesses growth strategy; it enables a strategic step change in the growth of a business and provides emphasis to focus on core business direction.

## However M&A projects can be highly complex:

- ▷ Impacting all dimensions of the business
- ▷ Involving geographically/culturally diverse regions
- ▷ Technically complex



The key to successfully realising an M&A strategy is the swift delivery of identified benefits and in retaining focus on delivery of business as usual.

In today's challenging market is it a good time or a bad time to be involved in M&A?

The answer to this question depends on many factors. It is however important not to assume that there are bargains to be had because the market is depressed. This may be the case but there is still no substitute to progressing a possible M&A project in a structured and well

planned way, defining in detail what has to be done.

Due diligence, risk assessment and an in depth appraisal, properly tested, of the benefits and how quickly they can be realised must be completed. This is not to say things cannot be done quickly (maybe through more resource and longer hours) but cutting corners only leads to higher risk and inevitable failure.

Another consideration is that an acquisition may appear cheap, a bargain, but in reality if you cannot dispose of the unwanted elements

# M&A – now or later?

of the acquisition it could become a millstone.

Sometimes a Joint Venture (JV) appears to be an ideal solution rather than an acquisition. There are many differing business drivers that would encourage a JV between two organisations. Ensuring that these business drivers are well understood is key. Assessment of the market and identifying the correct partner is absolutely fundamental. When forming a JV it is also important to consider the possible or eventual dissolution of the JV.

**M&A success requires a realistic strategy, design, rapid mobilisation, delivery pace and strong programme management. It must include:**

- |   |   |
|---|---|
| <ol style="list-style-type: none"> <li>1 Realistic vision and goals</li> <li>2 Mobilising quickly - building merger/acquisition team capability</li> <li>3 Managing people</li> </ol> | <ol style="list-style-type: none"> <li>4 Ensuring commitment of key leaders</li> <li>5 Flexible &amp; realistic business operational design</li> <li>6 Maintaining pace</li> <li>7 Strong programme management and assurance</li> </ol> |
|---|---|



## Strategic challenge:

- **Establishing the strategic objectives**
  - Estimating the benefits without perfect data
- **Impact on the organisation**
  - Resourcing requirements: quantity and capability
  - Prioritisation and focus
- **Prioritisation means difficult choices**
  - Too many initiatives competing for finite resources
- **Pressure for results**
  - The market (and top management) expects quick returns; undertakings may have already been made

## Delivery challenge:

- **Potentially massive scope**
  - Large scale change, multiple dimensions, all areas of the business impacted
- **Defining the target organisation**
- **Mobilising quickly**
  - Many synergies are time critical and are lost if not released to plan
  - Business As Usual priorities can delay the benefits delivery
- **Maintaining the focus**
  - Ensuring adequate backing and commitment from the organisation
  - Managing the legacy whilst transitioning to the new
- **Overcoming staff issues and implementing the cultural changes required**
- **Ensuring the right capabilities to deliver**
  - Wide breadth and depth of experience, knowledge and capability required

**The Chaucer Way® – M&A** is Chaucer Consulting's unique methodology (including tools and techniques) for the management and successful completion of M&A projects and programmes.

It is based upon the experience together with the knowledge and expertise gained in M&A within the oil and gas, petrochemicals, chemicals, power generation, water utilities, financial services and pharmaceuticals sectors of industry throughout the world.

Chaucer Consulting has been involved in circa 50 M&A projects over the past 20 years.

## These M&A projects have included:

- ▷ Mergers
- ▷ Acquisitions
- ▷ Joint Ventures (JV's)
- ▷ Divestments
- ▷ JV Dissolutions
- ▷ Post Merger Integrations (PMI)
- ▷ Initial Public Offerings (IPO)

They have ranged from multi-billion \$ global deals to country specific individual business unit divestments.

Chaucer has been involved on both the acquirer and the divesting sides of M&A projects as well as having been involved in multi-country, cross-border and multi-business M&A programs.



Bob Lastlett

Bob Lastlett  
bob.lastlett@chaucerconsulting.com

# Benchmarking – it's a natural thing!

As the advert for [gocompare.com](http://gocompare.com) once said, 'Comparison is a very natural thing!' We all want to know where we stand in relation to our competitors and to the rest of our industry.

More so in this recession than ever, competition is intense but how can you be sure of your competitiveness? Has demand fallen away because of the downturn? Are you losing your shirt to your competitors without even knowing it? Benchmarking gives you these answers.

## Benchmarking enhances your competitiveness

- ▷ Identifies problem areas – eliminates the guess work - shows where cost savings can be achieved
- ▷ Builds confidence – removes emotion and replaces with facts about strengths and weaknesses – shows where you should compete and where you are already ahead
- ▷ Ensures your change budget gets maximum return on investment
- ▷ Creates a competitiveness culture – challenges people to work smarter not harder
- ▷ Minimizes reinventing the wheel – allows cross industry fertilisation to really shift gears for your business

## What is benchmarking?

There are many styles of benchmarking, dependent on industry and approach, but they fall into 4 broad categories:

- ▷ **Internal:** Measure one function against another (e.g. account opening

for savings against account opening for loans)

- ▷ **Functional:** Measuring equivalent functions often across industries (e.g. compare bank savings account opening against new electricity customer's account opening)
- ▷ **External:** Comparing specific defined benchmark measures against direct competitors – the most powerful, but the hardest to achieve accurate results
- ▷ **Industry Model:** Models such as Capability Maturity Model (CMM) in the software industry rate a capability against a 1-5 scale

At their core, all benchmarking aim to achieve one outcome – improved performance! They all follow 4 basic principles:

1. **Consistent measures** – you must compare apples with apples. This gives you the evidence on which to base your discussions. This first principle is the hardest to get right.
2. **Establish a baseline** – Measurement from the start is vital to see if you have progressed. The baseline and ongoing measurement obviously must use consistent measures. Otherwise it is not possible to compare improvements
3. **Anonymity** – Especially for external benchmarking. Often these are conducted via a neutral 3rd party. Internal anonymity is also of great value as it permits candid discussion.
4. **Understand what you will do with results** – Is this measurement for it's own

sake or do you want use this tool for improvement? If you outline the objectives of benchmarking from the start – it will be clear to everyone what return you want from the work.

Benchmarking can become a very expensive activity if it is allowed to become unstructured. However, when companies have focused on their outcomes and followed the principles above, the results have yielded excellent returns for minimal outlay.

Many organisations have found that they do not necessarily have to look outside their own company – by comparing one in-country operation with another, for example, much insight can be gained and competitiveness improved.

## How Chaucer can help?

At Chaucer we recognise that it can be difficult to get the benchmarking process underway. We can help by delivering a rapid start and quickly bringing our experience of developing the measurement process to bear on the problem.

Once underway we can support you throughout the process of gathering data, identifying the gaps and any under-performances and then delivering the change process to meet your objectives.

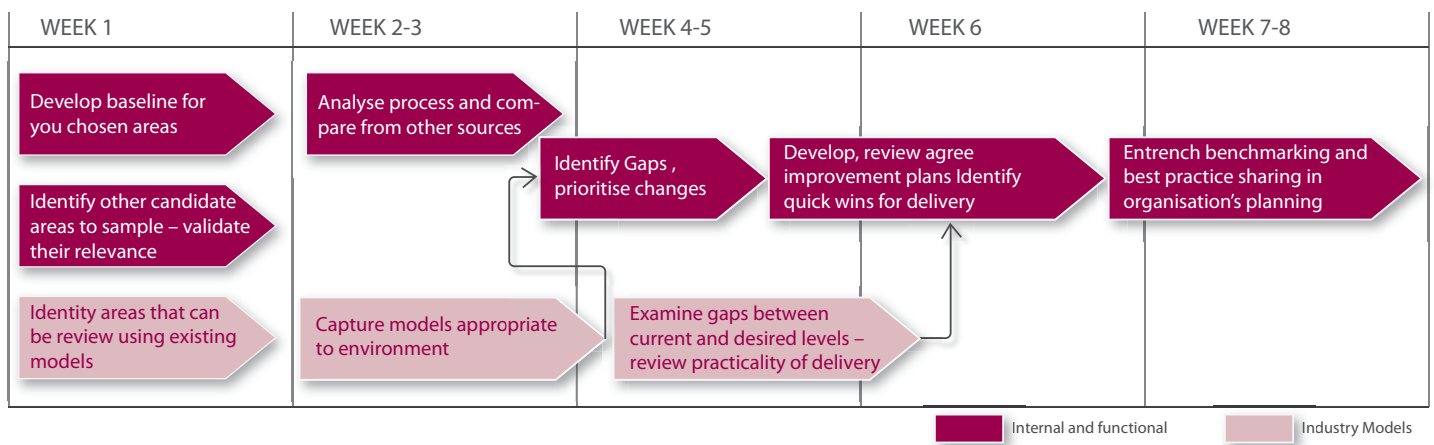
This low cost approach ensures that the Benchmarking project will be able to deliver significant value from the outset and lead you directly to your organisation's weaknesses and the right solution.



Deborah Feakins

[deborah.feakins@chaucerconsulting.com](mailto:deborah.feakins@chaucerconsulting.com)

## Typical Benchmarking Engagement



# 'The City' in the cross-wires

The UK government's July consultation paper, presented to Parliament by the Chancellor<sup>1</sup> has now closed for public comment and we await the new FSMA legislation and regulations this autumn. The first new regulatory changes are being announced as we go to press – a far-reaching overhaul of UK liquidity regulation, with enhanced systems and control requirements, granular and more frequent reporting.

<sup>1</sup> Cm 7667 Reforming financial markets July 2009

## So the target is in the cross-wires:

*"It is clear from the global scale of this financial crisis that there needs to be a major reform of the way that banks are managed and how they are regulated, throughout the world."*

Lord Turner's review and the de Larosiere report have both been accepted by the UK Government and their recommendations form the core of the paper. Actions are already starting.

- ▷ The FSA's Supervisory Enhancement Programme (SEP) is increasing its resources and deepening its skills base in risk assessment and mitigation, supervision and enforcement.
- ▷ More thorough vetting of potential bank board members.
- ▷ A code of practice on remuneration and bonuses to ensure consistency with risk management.
- ▷ Compliance with ten principles of governance, performance measurement and remuneration, to be reported annually to Parliament.
- ▷ Sir David Walker's review on corporate governance to confirm increased supervision.

## So what is expected?

1. A new Bank of England, Treasury and FSA Council for Financial Stability, chaired by the Chancellor, to analyse and examine emerging risks to financial stability – both systemic and specific firms – and to co-ordinate any regulatory action or intervention required.

*It could be the Bank of England and Treasury officials who arrive at your premises to oversee your books*

2. Strengthening the FSA's powers in prudential supervision, greater attention to system-wide risks and providing explicit legal authority to carry out duties and take action to support financial stability in the UK, in Europe & internationally with recently announced "technicians devoted to good regulation and supervision, independent of apparent national interests."

*That could mean direct intervention into your organisation at home and will mean increased overseas operations supervision and reporting*

3. Enhancing the FSA's rule-making powers from 'just' consumer protection to 'own initiative variation of permission' and intervention powers, specifically:
  - a. Enforcement powers in relation to authorised persons and firms, to prosecute market abuse, and extended information-gathering powers.
  - b. A power to suspend individuals or firms for misconduct
  - c. A power to penalise individuals who perform a controlled function without FSA approval.
  - d. An extended power to take emergency action to place restrictions on short selling and require disclosure of short selling. Additionally, to allow the FSA to make rules regarding a permanent disclosure regime for short positions in UK stocks.

4. Bringing new financial instruments and services into scope – including firms currently outside the regulatory perimeter.

*It is expected that the unregulated sector will disappear or further relocate offshore. Beware – some consultancies may over-egg the re-*

*quirements of compliance!*

5. Expanding the role of the Financial Services Compensation Scheme (FSCS) in the ways they demonstrated capabilities in the emergency period last year, particularly acting as the point of contact and paying agents for depositors internationally.

*And requiring contingency payment plans by all deposit-taking firms.*

6. To better educate consumers including a new National Money Guidance Service from 2010, funded from an increased FSA levy.

*At the banks' cost?*

7. Swift and effective redress for the individual, through the Regulator, the Financial Ombudsman Service (FOS) and the Courts, although the primary objective is that firms compensate the consumer voluntarily.
  - a. Redress through the Regulator – The FSA could enforce redress on an industry-wide or firm-by-firm basis, with powers broadened from breaches in FSA rules to areas 'where the FSA has regulatory responsibility'. This includes payment services and could extend to breaches of contract and general law, far beyond authorised persons.

*Avoidance of such impacts requires major reviews of skill and training levels in operational roles far below the approved persons level.*

- b. Redress through the Courts – two new methods are being discussed:
  - i. Collective 'class actions', approved by the FSA, through which similarly

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# 'The City' in the cross-wires

affected consumers can enforce their rights to redress. This would incentivise firms to settle early. It may also require a new financial services alternative dispute resolution body (and enabling legislation.)

- ii. A collective redress mechanism, giving the FSA the power to appoint a nominated qualified representative to pursue a representative action through the courts.
8. Areas for discussion – these are policy areas in which the government 'is seeking to engage in wider discussions and consultation before presenting firm proposals.' *There is steel within the velvet glove here:*

- a. Managing systemically significant firms – individual large, complex and interconnected financial institutions.
- i. Each must prepare its own contingency plans for action in times of failure, including actions relating to depositors. (The government also wish to strengthening crisis management and depositor protection across the EU, via a single point of contact in the firm's 'host' state and harmonising depositor guarantee schemes.)

*Chaucer can help with these operational banking contingency plans*

- ii. Each will have stricter regulation and supervision, including more stringent capital requirements, liquidity management and supervision.

*This may be an FSA 'audit team' in-house at the bank. There will need to be informational and procedural responses by the bank.*

- b. Access to simple, transparent products, without complexity and volumes of small print.

*Chaucer has helped with such product development and associated operations design.*

- c. Improving governance of building societies ('mutuals') and the sharing of operating functions on the European model where there are shared operating models for treasury services and back office functions.



*Chaucer has provided assistance to such clients and banking outsourcers on operational outsourcing and its regulatory compliance.*

## So what happens next?

The current public consultation – including the major financial firms, our clients – has now ended, so we await further announcements and draft legislation for the next Parliamentary session. We can expect further regulations to be drafted throughout the autumn, winter and spring 2010.

It will be a busy time and Chaucer will keep you informed...and help you comply at as low an operational cost as possible, consistent with the risks involved.



Roger Baker  
[roger.baker@chaucerconsulting.com](mailto:roger.baker@chaucerconsulting.com)



# Russia

**Graham Bartlett is the Head of Chaucer Consulting in Russia. He and his family have had an association with Russia since 1996. Much of his time is spent travelling across the 11 time zones that make up Russia, meeting and supporting new and existing clients anywhere from Kaliningrad to Kamchatka.**

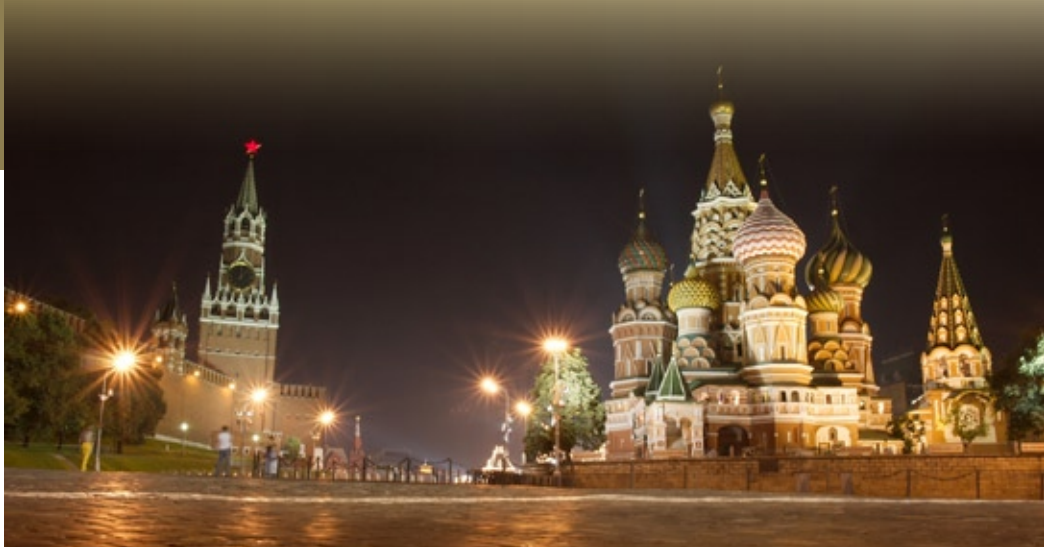
Graham and his team have worked on many business change and business performance projects including European and International programs for major global enterprises.

Chaucer Consulting has worked for many clients in Russia and the CIS since 2002.

The numerous consulting assignments successfully executed by Chaucer have included projects and programs in oil / gas and petrochemicals, manufacturing, banking and financial services, pharmaceuticals, utilities, engineering and construction.

## **Chaucer provides management consultancy for clients including but not limited to:**

- ▷ Strategy Implementation.
- ▷ Mergers & Acquisitions Design/Delivery.
- ▷ Project & Program Management.
- ▷ Enterprise Risk Management.
- ▷ Change Management.
- ▷ Operational & IT Excellence.
- ▷ Business Transformation.



### ▷ Strategic Procurement.

Chaucer's unique expertise and experience in project and program management has provided the basis for the successful delivery of difficult and complex business change projects to the significant benefit of many Chaucer clients during the past 22 years. Chaucer has also worked on many large cross border Merger, Acquisition and Joint Venture programs.

Chaucer Consulting has provided support to companies and organisations throughout Russia and the former Soviet Republics including Ukraine and Kazakhstan.

Chaucer's consulting assignments have been both varied and complex, including specific country projects as well as pan-region and global programs.

*Graham Bartlett can be contacted directly on +7 903 237 8713 or by email [graham.bartlett@chaucerconsulting.com](mailto:graham.bartlett@chaucerconsulting.com) or through the office at: Chaucer Consulting LLC BC Metropolis, Building 1, Leningradskoye shosse, 16a, 125171, Moscow, Russia. Telephone: +7 495 777 0122*

Graham Bartlett

