tomorrow's company

Interview with Antony Jenkins

On 17th May we held a discussion event together with Antony Jenkins, former CEO of Barclays, on risk aversion and the boardroom. This is the questions and answers between Antony Jenkins, Mark Goyder and members of the audience.

Antony Jenkins was CEO of Barclays from 2012 to 2015, having previously been head of Retail and Business Banking and Barclaycard. He has been on the board of VISA Europe and the steering group for the Big Innovation Centre. He currently chairs Business in the Community, The Prince's responsible Business Network.

Mark: What in your view are the really significant changes in the way in which people are doing business?

Antony: Understanding context is really important because that shapes the environment we have to operate in. And it seems to me that post the financial crisis of 2008 we are operating in a very different context.

Firstly, I think we'll come to reflect on the period 1945-2008 as one of extraordinary and unprecedented economic growth in the history of the world. It has been driven by all sorts of different factors: the growth of technology, the emergence of powers like China and India, advances in the financial systems and so on. But that period created a sense of optimism and positivity in the economies of the world.

The world we live in today is actually a very different world. Large parts of the globe are struggling to sustain any sort of real GDP growth, and it seems to me that this is not a cyclical but a structural change. I am not a fan of the secular stagnation school of thought, but I do think we have to adjust our thinking to a different economic environment. And really what that means is that all organisations whether its businesses, third sector, or governments have to adjust to doing more with less. When actually most of our organisations, and this is certainly true for businesses, are programmed to do more with more.

The second point of context that I think is really important is the uncertainty and volatility of the world we live in. A lot of that is created by instantaneous communication, and geopolitically things are much more uncertain today than they were in the days of the cold war. In the cold war you basically had a stand-off between the US and the Soviet Union, wars were fought through proxies. Now we have fragmentation in the Middle East, we have fragmentation in Asia, we have fragmentation in the north of Africa and this creates a lot of volatility and spikes.

Thirdly, on demographics you're all familiar with the shifts that are going on around the world: ageing population, slowing birth rates. An interesting statistic, in Japan now more adult diapers are sold than diapers for babies.

And finally, technology. The evolution of fundamental technologies has reached a point of transformation far beyond what we can predict. We are in what is often referred as the fourth industrial revolution: cloud computing, artificial intelligence, natural language, distributed ledger technologies and 5G in mobile. All of these things create massive dislocation for existing business. It presents many questions. How is my business model going to be undermined, transformed, disrupted? How do I deal with questions like privacy, and security of data? What about cyber and all the threats, not just disgruntled teenagers in their bedroom, but from state actors and from organised crime?

The increase in volatility from these requires businesses to become increasingly agile. And that agility is really an anathema to large organisations, because large organisations, in particular the sorts of organisations that are publically quoted, are programmed for a 20th century model of operation. It was a world in which you could predict with a reasonable certainty the context in which you were operating. You could then develop a plan for the next 5, 10 or 15 years, and because there wasn't a lot of deviation in the context, the success of the organisation was down to the ability to execute that plan.

In the 21st century you cannot understand the context, you can only understand the drivers of the context and therefore you cannot plan. So what you have to do is create agility inside organisations, but that is incredibly difficult to do in big incumbent businesses, which is why almost all innovation is being driven in smaller, more entrepreneurial and often start-up organisations.

So if you think about pharmaceuticals for example, primary research is done in start-ups. If you look at financial services a lot of innovation is going on in fintech. If you look at automotive all the work around autonomous vehicles is driven by companies like Tesla and Google, and the big car manufacturers are scrambling to catch up. And this is because the agility that's required to survive in this new world is not prevalent in large organisations. And so when we come back to the topic of today, this presents some very profound challenges for boards, for executives, for investors, as people try to figure out how on earth we can survive and thrive in this new environment.

Mark: So what does this mean for the people working in these large incumbent organisations? Maybe I could ask you personally from your experience, what it takes for the executive leadership of organisations to create the right culture?

Antony: This is very challenging for people in executive management positions because they've spent most of their career in the old world. So when confronted with that challenge, what people tend to do is revert to what made them successful in the past. But of course that's exactly the wrong thing to do because the new era demands different skills. When I was running Barclays I was frustrated that the senior leadership couldn't embrace this concept of agility and pace. And somebody explained to me that when you spend so much of your career doing something and you're asked to do something different, it's actually very scary for people.

Mark: Can you give any examples either from your own experience or elsewhere in companies where an incumbent has innovated really well?

Antony: Of course it is always possible in these conversations to think of the obvious examples of companies that haven't. So Nokia is a great example. Nokia actually reinvented itself many times to dominate the mobile phone industry, but couldn't get their head around smartphones, even though they invented smartphones. So ceded that territory to Apple, and I have this on good authority because I was having this conversation with someone who used to work at Nokia. When confronted with the Apple iPhone, the response of major executives was "it's only got one button". Which was seen as a bad thing, when actually the simplicity of it was its strength.

Kodak invented digital photography, but Kodak could not understand why people would want to take hundreds of thousands of pictures because their business was about manufacturing film - they were very good at manufacturing. Blackberry, Blockbuster… the examples go on and on and on of companies who couldn't make the move because they were unable to conceive of a different future.

So let's try to answer your question which companies have actually been able to make that transformation. Some would argue that Fujitsu as opposed to Kodak was able to adapt themselves to digital. It's also possible to argue that Apple were able to reinvent themselves, but even Apple is now struggling with how to continue to innovate and invent beyond the iPhone and smartwatch and tablet and things like that.

So this question of agility and continuous reinvention is a very demanding one for executive teams and I think the key is to firstly have a rigorous understanding of what is driving context, and then to translate that, not into a strategic plan, but into a set of organisational capabilities. And also to harness the talents in the organisations at much more junior levels, because people at junior levels are encumbered by the baggage of people at senior level.

Mark: Can we move on to think about what this means to corporate governance and indeed the relationship along the stewardship value chain from the investor to the board, and to the executive?

Antony: I think that at the heart of this question is a profound understanding of risk and what creates risk aversion. One of the things that I've become very interested in is brain chemistry and how the brain works. Many of you already know this but to grossly over-simplify we basically have two brains: we have a primitive brain which is driven by the amygdala and we have a modern brain which is our reasoning, thinking, conceptual brain. And the amygdala goes way back through evolution and it's basically the part of the brain designed to protect us from threat and is what creates the fight/flight mechanism in our brains. It is a much more powerful part of the brain than the reasoning part of the brain, because it kicks in and overrides all of the logic, which is when you snap at people. That's your amygdala kicking in because something's triggered in you a response and that's your reaction to it. The brain chemistry affects how people respond to risk because in this new world where agility is required, everything looks extremely risky.

In big organisations the amygdala reaction, the perception of short-term risk, is incredibly dangerous and toxic because it prevents the process of adaptation and response. So in order for business and organisations to survive in this world, they need to actually embrace risk and think about risk in a much more complex way. And the discussion we had that prompted this session is "are our governance structures today designed to embrace risk and respond to it effectively or are they designed to minimise perceived risk?" and "is the way we've established the role of the board and the role of the executive, basically one of check and challenge helpful or unhelpful in that?" and my own view is that we need to find a better way to align the board and the executive behind addressing these questions of risk, perceived risk and actual risk, so that initiatives can be identified and then pursued in order to ensure the long-term sustainability of the organisation. This is not to say that management should be given a free ride at all, it's about the nuance of the conversation.

Recently I was approached by search firm to go and be a non-executive director on a large public company board, and in talking to the search firm they said we want somebody who really understands technology, because this organisation is worried that they're not positioned well for technology. So I said "well, why would you want a NED to do that?" "We need the expertise on the board".

So I said, "well, all I am going to do is torment the CEO about why they are not doing enough on technology, that's not going to do anything in the organisation. If you are really worried about the organisation's ability to respond to tech, what you need to do is have some expertise helping in coaching the executive, helping and coaching the board, and then bringing both together with a tangible set of actions that allows the enterprise respond to those challenges".

And finally for investors there is a first order and second order question. Firstly, during my time as CEO at Barclays and before that, I did a lot of investor relations work and I would say that probably 60-70% of the conversation was always about what is going on in this reported period. Few people actually ask questions about how's the context changing? How are you responding? How are you building long-term sustainability? What's technology really bringing to your business? To be fair, towards the end, particularly with the rise of fintech it became more prevalent.

But the second order is this question, how you're dealing with risk? How are you streamlining your organisation? Are you embracing agile? What are the drivers/capabilities that allow you to build sustainability into the organisation and respond to these technological challenges? And I was asked these questions by only one of our very large shareholders. And you could say the same thing about things like culture and leadership. It's a paradox that in this very volatile and uncertain world, where everything feels short-term, skilful building of organisational capabilities to create agility which takes months and years is the key to success, and as part of that this new view of risk is critical.

Mark: So your paradox is a world where one has to react very rapidly in the short term. But you can only build the capability to do it over a longer period of time because it's about developing people, taking away the fear, and so on. But can I push you on what does it actually mean for how things are really different?

Antony: I think today's short-term was yesterday's long-term and that's the issue. I do believe, we have talked about this before, that requiring companies to commit to a series of long term objectives, through balanced scorecards, is extraordinarily important in addressing the issues we're talking about today. I think that is a mechanism which is exactly the opposite of your opening remarks about governance. It's an empowering mechanism because it creates clarity around what has to be achieved over the long term. How you achieve it is really at the discretion of the executive.

In the time that I've had since I left Barclays I've spent a lot of time in the technology world, in the private equity world and in the VC world, and one of the things that's fascinating about those organisations is they have a long term view of building value. Clearly not all venture capital firms or private equity firms are the same, they have different focuses and emphasis. But the thing that struck me about venture capital and private equity companies in particular, was how rigorously they focus on things like net promoters score. They see net promoters score, which is the measurement of people that love you versus people that hate you, they see that as a core to value creation. So you have to know what your net promoter score is, you have to know how you benchmark against your competitors, you have to be able to drive that score up.

If you look at the big banks in this country, how many of them actively talk about net promoters score? It's supposed to hold the organisation accountable for developing long term value and I think being really thoughtful about what those drivers are and how to build towards them, the sort of things you see in private companies, in family driven businesses, is a much better way of building sustainable value.

Audience question: Could you talk a bit about how you think businesses can go about creating the right culture? How do you go about creating the right culture where risks are managed appropriately but also sensible risk taking is encouraged, not just tolerated?

Antony: It's a rather vast topic but let me try and cover it as succinctly as possible. All organisations have culture, whether you like it or not, so you can choose to manage it or not. In fact, all organisations are the combinations of many subsets of different cultures within them. The reason why I think culture is so interesting is because I certainly believe culture is a massive driver of organisational performance and I think leadership and the role of leadership is really to create the culture that then delivers the organisational performance that you seek. So if you choose not to manage culture, I believe that's a failure of leadership and I believe it'll be detrimental to organisational performance. So far so good, because that was all implied in your question. But actually the curation and management of culture is very difficult. It's extremely hard work, and it has to be made top priority by management and by the board. There are basically 5 things that you need to do that you need to create the culture in any organisation.

The first thing you have to do is you have to define the culture. What do you expect from the organisation? And how do you convey that? This is often done through values.

Most people actually stop there, they just write it down and magically expect the organisation to align behind it. Therefore, secondly, you have to re-tool the mechanisms of the organisation. So how do you recruit people? How do you measure performance? How do you compensate people? Are those mechanisms supporting the values? When products are designed, when customers are dealt with, are the values displayed? And do our procedures and processes support the values or are they detrimental to the values?

The third thing you have to do is implement those values. And they have to be operative in the decision making within the organisation. The actions of the organisation have to be consistent and they have to be applied authentically and relentlessly.

Fourthly, you have to be able to view how the organisation thinks about culture. So you must test through survey mechanisms whether people feel they are able to live the values? Does the organisation support the living of values? What are the obstacles to that, and how do we deal with that?

And then finally this all has to be led and it has to be led from the top down, and there cannot be any deviation away from the values. So if your value is about integrity, the first time senior management turns a blind eye to something because it's economically expedient the whole organisation will see through that.

So there is a very well defined process for employing, implementing and getting the culture outcomes that you desire. And the same is true of risk appetite. So if one of your values is we encourage risk-taking, as long as it's responsible and in pursuit of our goals, and if that risk then proves to create some degree of failure, we use that as a learning opportunity and that has to go all the way through those 5 steps I've described. If what we really mean is you can take a risk but don't screw up, and if you screw up you get fired, then the organisation will see through that in a second.

In short, culture is absolutely operational in organisational performance and in this world of agility you absolutely need the right culture and mechanisms to create performance, and to create the acceptance of risk.

Audience question: How do you explain and get the market to recognise culture, values, and the creation of this process internally? How should investors judge the implementation of such a value system and how could you in a company explain how that has been introduced?

Antony: I think as investors you should be interested in the short and long term performance of the organisation. If you accept my assertion that culture is a big driver of that, you should be testing for culture in the same way as you test for other things. Is management credible? Do they have a reasonable set of objectives? What are the capabilities of the organisation?

I think it is possible to test for culture by going through the series of steps that I articulated a moment ago. So if an organisation can't define the culture it wants, then it's probably not going to have a very successful culture. If it can't show you how it measures the operation of that culture in the organisation, then I don't think it's going to have a very successful culture. If the CEO or the business leader who you are meeting with can't give you three examples of how the culture is made, a decision that cost money but also made money, then the culture probably is not working.

The other thing that you can always do as investors is not just take the world of the senior management you are meeting with, instead, you should be able to look at the operation of the culture in the organisation through its products and services.

Certainly on the buy side this should be a topic of intense interest to investors.

Audience question: I take what you've said about culture and leadership, but I assume there's a need for people to own this, so people don't feel it is being imposed on them?

Antony: That's absolutely right. The engagement of the organisation around values is incredibly important, and in many ways an organisation is just like the brain, it's a set of neuro connections. But I also think that in this discussion around culture we have an imperfect theory of leadership and culture. I see this a bit like physics – you've got to understand both relativity and quantum mechanics in order to understand the whole. We need a much better understanding of the individual and how people react to fear and how brain chemistry works. What are people's real motivations and affiliations? It's an incredibly important component to the bigger picture of culture and leadership which I was describing before.

If you think about culture like a gardener - I'm not a gardener so this may not work - but first you have to plant the garden, you have to wait for all the things to grow, that takes time. But then you have to maintain it. So there's a huge amount of effort that goes into planting the garden, watering and then about 5 years on you've got a lovely garden. But if you don't maintain it, then it's going to deteriorate. Culture is just like that, too often people work on culture for a month and then move on, but it's not like that, it requires constant maintenance.

Audience question: How can we break away from the hyper focus on the financial performance in the next quarter, and how this is reinforced in executive pay structures?

Antony: Again, another massive topic. For me the important thing about compensation is its signalling power, in other words, what do we value? And I do believe that for very senior people in large companies the vast majority of their compensation should be linked to long-term value creation. There's a question of how you measure that, and I've thought about this a lot, but I am afraid I perhaps controversially come back to the attractiveness of stock options.

I think for a CEO you can make a very convincing argument that the base salary of a CEO should be in some way related to the average salary of people in the organisation. But that there should be very significant upside through value creation for shareholders over the long term. So if you had options for example that were granted at today's price but didn't vest for 5 years, then the CEO would be incentivised to create long-term value.

Some people would say options don't capture market volatility, but shareholders experience that volatility as well, so there's a sort of clarity from stock options that I like. But it has to be linked to the overall package of incentives, you could moderate it by inserting an element of delivering against score cards and so on. Overall I like the clarity of this, senior people in organisations need to be compensated almost exclusively on long-term value creation.

Audience question: By long-term value, do you mean shareholder value?

Antony: I think if you accept that we are talking about long-term shareholder value, that's the difference. We are not talking about popping the share price this year, we are talking about if I become CEO today in 2016 what's the value of the company in 2022? In order to create significant value in 2022 you will have to have taken a set of actions that create long term shareholder value. In order to do that, I would assert, you have to take care of your costumers, you have to take care of your colleagues, you have to make sure that you operate within the bounds set by society, and you have to deliver financial returns for shareholders.

It's not perfect, but I think it's better than what we've got right now where you end up with an incredibly complex mix of bonuses and LTIPs. Nobody really controls anything and it's all at the discretion of the remuneration committee, it's unsatisfactory. BP is a great example, whether you agree with that or not, BP had a terrible financial year but they hit all the metrics. I think that debate shouldn't have even happened. Why should you ever compensate the CEO on what they achieve on one calendar year? The job of the CEO is to create long-term sustainable value.

Audience question: How important is purpose in enabling agility and innovation?

Antony: I think purpose is incredibly important for orienting organisations and giving them a sense of agility. One thing I became quite intrigued by was how the military had addressed this issue. People that don't know the military very well tend to think that it's an entirely hierarchical organisation in which orders are given and followed. In fact, that is how armies used to work back in the 19th Century, but the Prussian army, discovered that that was spectacularly ineffective and they kept losing battles. So they developed a doctrine called Mission Command. What Mission Command is about, is understanding the strategic intent and the most important thing that has to happen, which is called the main effort.

If you take a military context or a corporate context it's not necessary for the person at the bottom of the organisation to understand the strategic intent of the CEO, but is necessary for them to understand the strategic intent of somebody two levels up from them. So as long as I understand the strategic intent of the person who's my boss's boss, then I can be given freedom to execute that intent within the context of our values. And this notion of how you actually make purpose real inside an organisation becomes incredibly important.