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When Michael Chaney arrives at the National Australia Bank, chances are he will be carrying the business manual he swears by.

By Tim Treadgold, Australian Business Review, March 2005

If National Australia Bank's (NAB) chief executive, John Stewart, does not have a copy of the Argenti System in his office, he had better get one - quickly. Argenti, a strategic planning technique, is the business bible by which Michael Chaney lives his commercial and personal life. From September, Chaney in effect becomes Stewart's boss as Chairman of NAB, and one of his first questions will almost certainly be whether the bank uses Argenti.

John Argenti, 79, creator of the system that bears his name, says: "I imagine the question would be more like where's your strategic plan?" Argenti now lives in semi-retirement at Suffolk, on the British coast.

Chaney skips lightly around questions about NAB and Argenti. "Like most companies, NAB engages in strategic planning. I have only attended one board meeting to date and have not discussed what process is being used," he says.

He may not have asked, yet, but anyone who has followed Chaney's career knows the answer he wants to hear, because he is the world's leading disciple of Argenti. Words of praise from Chaney are liberally scattered across the Argenti web site <http://www.argentisys.com> and he has applied its teachings at:

- o Wesfarmers, where he is in his final months as chief executive
- o John XXIII College, a Perth school when he was chairman of the council
- o A science museum
- o The University of WA Graduate School of Management, where he is patron.
- o Other organisations with which he was involved, including a government department.

Chaney's devotion to Argenti is demonstrated by this quote attributed to him on the web site's home page:

"The Argenti system has undoubtedly played a big part in our company's (Wesfarmers) average annual 30% returns since 1984."

The emphasis on financial performance goes to the heart of Argenti, a system based almost entirely on critical measurements such as return on capital, and on determining the big issues facing an organisation rather than focusing on a mountain of small details. The Argenti system is brutal in its simplicity. It says that if managers cannot get the required returns on equity, then the money should be given back to shareholders; there is not justification for being "married to the business",

Mission statements are forbidden because, according to the delightfully outspoken John Argenti, "they are generally just an ego trip for the chief executive". Ego tripping is something Chaney has avoided in his 13 years at the Wesfarmers helm. But, comparisons between what Wesfarmers has achieved and the failures of NAB are impossible to avoid. While Wesfarmers has grown exponentially, NAB has stumbled, last year producing a total return of just 1.8% to shareholders, and underperforming the banking sector by 15% and the overall market by 26%. That result, perhaps more than a currency options scandal and other disasters, saw the downfall of former chairman Charles Allen and chief executive Frank Cicutto.

It has been NAB's abysmal performance and widely criticised culture of arrogance that led to the appointment of Stewart, the temporary elevation of Graham Kraehe to chairman and the anointment of Chaney as chairman-elect with the September changeover date.

Stewart would be a wise man to familiarise himself with Argenti, even if he finds the \$4200 price tag a bit steep for a set of manuals. It may also be a good idea to understand how deeply Chaney has immersed himself in the system, starting with his original acquisition of a set of Argenti manuals in 1983 (they were just \$400 then) when he was finance director at Wesfarmers, just before Trevor Eastwood was appointed chief executive.

Chaney, in a speech on "the importance of corporate planning in school governance" delivered to a school heads conference in 2002, said the unusual power of the Argenti system lies in its simplicity and its clarity around issues such as objectives and strategies. "The system is very good at helping you focus on the big issues; namely, what is the real objective of the organisation, how is it currently faring, what are the major internal and external factors bearing on its success, and what do we need to do in order to achieve the objectives?"

What Chaney did not tell the conference, but which people who worked with him 22 years ago now tell, is that his \$400 Argenti manuals gathered dust on his bookshelf for some time until noticed by Eastwood. One witness to the event says Eastwood visited Chaney in his office and saw the Argenti manuals on Chaney's bookshelf, after skimming through them, he said "This is just what we need". Whether by accident or design, Chaney had achieved step one of the Argenti system, it must be approved and led by the chief executive. There is no room for outside consultants. The system is entirely an internal process designed to capture the hearts and minds of not just the management team, but the entire workforce.

Strategic planning is a bit like an elephant hunt," John Argenti told BRW in an interview from his home in Suffolk. "It is a process of looking for the really big issues, and showing them to the entire workforce so that everyone can understand the issues facing an organisation. But the starting point for every profit making company is that question of profit".

Eastwood was quick to grasp the simplicity of Argenti and how profit, and the related question of return on capital employed, had to be the single focus of a business. Chaney followed the same path when he became chief executive in 1992, demonstrating how profit transcends everything else. In 2003 he sold, for a profit of \$400 million, the cornerstone 90 year old rural trading operations of Wesfarmers to AWB. In effect, under Argenti, even a company's history is for sale at the right price.

"You really have to think very deeply about why you're in business" John Argenti says. "Managers can get caught up in an awful lot of detail, and often can't see the big issues because they're so busy dealing with today's emergency, whereas what they should do is find the time to take a look at the really big issues affecting their business."

Argenti discovered that personally more than 40 years ago when he was a senior executive at Fisons, one of Britain's oldest fertiliser makers. "I was asked to come up with a plan for them," he says. "This was a time when corporate (strategic) planning was at its beginning. No one really knew what it was, or how to do it, so I had to invent what was needed.

"There was a feeling among various people I asked that the plan had to be fairly comprehensive - lots of detail, rather like a five-year budget - which I did. It was an absolute disaster, because it didn't answer all the big questions, but it was what the board wanted. I learned a very bitter lesson there, and it stayed with me for the rest of my life."

Argenti says his Fisons experience taught him that strategic planning is an elephant hunt. "It's really about looking for the huge things that are going to have a massive effect on the long-term future of the company. That is damned difficult for executives to do because they're usually rushing about doing their normal jobs."

One of the earliest examples used in his 1968 book, *Corporate Planning, A Practical Guide*, is of a pesticide manufacturer that has captured 20% of its market. But a competitor with a 30% share is seen as potentially feeling threatened and may "act against our interests". The solution is to diversify into fertiliser, foodstuffs and pharmaceuticals to avoid a head-on confrontation and to maximise the return to shareholders.

Argenti says the development and application of a strategic plan is entirely an internal matter because "outside consultants simply can't get into the company". It is his criticism of external management consultants that largely explains why the use of the Argenti System is not on the list of recommendations from management consultants.

The main area of criticism from the consultants (about the Argenti System) is that they say you shouldn't start with a profit target," he says. "They say you should start with vision and mission and so on. Well, I think that's a load of old cobblers. What it does is open the opportunity for the chief executive to go on an ego trip.

One of the best recent examples of a company heading off in the wrong direction is DaimlerBenz. Its chief executive had this wonderful German company that he wanted to turn into a global company. So, he bought Chrysler, and a piece of Mitsubishi, and it was a disaster. That's what happens if you don't start with the aim of the company being to satisfy shareholders."

In a potentially ominous comment for Stewart, given Chaney's attachment to Argenti as a management tool, John Argenti has no doubt that his system is well suited to application in a bank. "Oh good Lord, yes", says Argenti. "Our web site has a list of banks that have been clients. On that list are names such as Morgan Grenfell, Allied Irish, Bank of Western Australia and Lloyds - but no appearance by NAB.

Argenti says the motivation to apply his system must come from the chief executive. "If the finance director asks whether he can introduce strategic planning and the chief executive says no, then it's no" he says. "My experience is that providing the chief wants to do it then that's it".

Over the past 40 years, Argenti's client list has included some of the world's biggest companies ranging from Mexican steel mills to Parisian fashion houses, the Financial Times newspaper in London, ICI, Dyno Nobel, British Aerospace and Philips Electronics in the Netherlands.

"When I conduct the first session with them, and that is always on the profit target, as soon as they realise that the profit target is different to what they were thinking of they come together as a team, and they realise that any plans they had are irrelevant if they are to achieve that profit target", he says

At Wesfarmers, and in most adoptees of the Argenti system, the profit target is generally based on return on capital. This varies between industries, but a common theme is that a division of a company that cannot achieve its key performance targets within a specified time, suffers either a withdrawal of capital, or what Eastwood once called the ultimate capital sanction; it is sold.

The interesting question for Stewart, and the management team at NAB, is what to expect as they inherit a chairman in Chaney who is so dedicated to the Argenti system that he has taken it out of the Wesfarmers business environment and applied it at schools, museums and university faculties in which he is involved? The chances of him not taking his love for Argenti to NAB are very slim, and prompted this exchange of question and answer between BRW and Argenti.

Q: Can the chairman encourage the use of the Argenti system?

A: Neither the chairman nor any of the non-executive directors should get involved in doing the strategic plan. That's for the executives to do. But, if the chairman hasn't persuaded the chief executive to develop a strategic plan then he hasn't done his job. That's when the chairman should say, "Where's your plan? I want to see it".

Argenti's elephant analogy, the hunting of the really big issues affecting a company, runs through his presentation and his web site as does his disdain for outside consultants. "Strategic

planning is not something for an expert", he says. "This is for someone who is running a business. This is definitely a hands-on thing."

Among his elephants are issues such as technological change, marketing, corporate culture and the activity of competitors. But in most companies the list of big issues is restricted to a handful, and never more than six. The speed of modern business (and technological change) has caught up with the system he says. "You can't have the wrong produce in the market these days, or you just get smashed".

For NAB's Stewart, as he contemplates life under chairman Chaney, there is much to be learned from studying the thoughts of his new boss in that 2002 speech to school heads, particularly these words, "Argenti specifies that the objective of an organisation must have three characteristics; it must be concise; it must be measurable; and it must be cast in concrete." And, with six months until Chaney takes over, it must also be sitting on Stewart's bookshelf for the day the chairman asks: "Where's your plan? I want to see it."