

Developing Business Excellence While Delivering Responsible Competitiveness – The case of Lloyds TSB

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“Management Models for the Future”, Jan Jonker and Jacob Eskildsen, Springer

Abstract. There is a coherent business approach which brings together all facets of corporate responsibility – leadership, values, policy and processes, people, customers and society – to deliver improved performance. The EFQM Excellence Model help us to:

- Ensure we have a clear and constant purpose, it help us to focus on the delivery of results.
- Focus on customers and how we can create value by better meeting their needs.
- Focus by systematically applying processes and fact-based assessments to manage our business and to make us strategic decisions.
- Identify what we need to do to develop our people and maximize their potential.
- Derive value from meeting our responsibilities to the communities we serve.
- Archive sustainable Excellence.

The EFQM CSR Framework, based on the EFQM Excellence model, is more suited to its purpose than other CSR specific frameworks as it more obviously:

- Is business driven;
- Aligns corporate responsibility with business strategy;
- Aligns with balanced scorecard strategic and tactical priorities;
- Delivers intrinsic internal and external benchmarking opportunities;
- Facilitates stakeholder engagement at all levels of the organisation.
- Links self-assessment, improvement activity and external reporting.

The areas for improvement, identified in self-assessment against the Framework, are translated into prioritized objectives and key performance indicators developed to measure performance against these objectives. Working with colleagues across the business, bringing their particular knowledge and expertise to bear on the process, those objectives will inevitably reflect key business unit priorities.

The intention for Lloyds TSB is to deliver corporate responsibility performance that reflects the key strategic priorities of the business and aligns the organisation’s corporate responsibility priorities with the business strategy to deliver value.

Key words: Excellence, Corporate Responsibility, Business Strategy, Performance, Value

1. A value based approach to corporate responsibility

Lloyds TSB is a major banking and insurance group, predominantly UK-based, but with operations in some 25 countries around the world. At the end of 2006, we were Europe's 13th largest bank by market capitalization.

We have nearly 63,000 employees worldwide, serving a franchise comprising some 16 million personal and business customers. Our operation in the UK is probably the largest in terms of distribution reach, serving urban and rural communities through a network of over 2,000 retail outlets in addition to other mainstream channels such as Internet and telephone banking.

Since the merger between Lloyds Bank and TSB Group in 1996 we have more than doubled profits, built significant market shares in the provision of retail financial services, and our cross-selling ratio of products per customer is industry leading. In 2006, our post-tax return on average shareholder equity was 26.6%.

This has been accomplished against the background of a huge amount of change in the UK financial services industry. Competition is intensifying, and the UK financial services market is facing up to the impact of ever increasing regulation and price controls.

But managing a multi-billion pound operation comes from having total focus in what we do:

- Strategies and governance that deliver sustainable business growth – profitable growth – for our shareholders;
- Offering good products at the right price backed by a relentless pursuit of superior service and accessibility for customers;
- Developing a committed and engaged workforce operating at recognised global high performance standards.

Against this backdrop, how exactly does corporate responsibility fit into our business strategy?

In our view, there are three approaches to corporate responsibility:

- A way of doing business, ethically as a good corporate citizen. It's about a value system with an agenda being driven from the top and absorbed throughout the organisation...
- A disparate collection of policies and practices across different areas of business operation that have been bought together as part of an externally driven agenda to define a business' social responsibilities...
- Conscious pursuit of a business strategy that recognises that the development of a brand and a reputation which reflects the expectations of all stakeholders will create real business value.

They are not mutually exclusive. They are three points on a continuum that take us from corporate philanthropy at one end of the spectrum to value-based corporations at the other,

where external expectations demand a very hard focus on margin, productivity and investment performance.

That is the value-based approach to corporate responsibility: a business strategy that recognises that a brand and reputation, which reflect the expectations of all stakeholders, will create real business value. Corporate responsibility is no different from any other investment in the strategic assets and capabilities that drive business performance.

2. Integrating corporate responsibility in the business strategy

Our corporate vision is to make Lloyds TSB the best financial services company, first in the UK then across borders. Our CSR strategy is to support our corporate vision by helping to build a great place for our people to work, a great place for our customers to do business and generating great returns for our shareholders. In so doing, we believe we create value for all our stakeholders through:

- More effective risk management;
- Enhanced brand perception, consideration and commitment;
- Increased employee engagement;
- Increased customer satisfaction;
- Improved responsiveness to changes in patterns of customer behaviour;
- Supporting development of new markets and innovation in existing markets;
- Delivering competitive advantage through better corporate responsibility management.

There is a coherent business approach which brings together all aspects of managing stakeholder relationships and delivering value. We have been using the European Foundation of Quality Management's Excellence Model for some ten years. Its greatest value to us comes from the framework it provides:

- The model helps us to ensure we have a clear and constant purpose, it helps us to focus on the delivery of results;
- It helps us to focus on customers and how we can create value by better meeting their needs;
- It helps us to focus by systematically applying processes and fact-based assessments to manage our business and to make our strategic decisions;
- It also helps us to identify what we need to do to develop our people and maximize their potential;
- And it helps us to derive value from meeting our responsibilities to the communities we serve.

3. The EFQM Excellence Model

The EFQM Excellence Model is the most widely used organisational framework in Europe, Being used by at least 30,000 organisations across more than 20 European countries. There are similar approaches in the United States and Japan. The EFQM Excellence Model is based on eight fundamental concepts of Excellence – a set of axioms that define excellence for

European organisations. Corporate responsibility is one of these concepts: “Excellence is exceeding the minimum regulatory framework in which the organisation operates and to strive to understand and respond to the expectations of their stakeholders in society”.

We know from the research amongst UK businesses conducted in 2005 by the University of Leicester for the EFQM and British Quality Foundation that companies which adopt and embrace the Excellence Model are more likely to create wealth and shareholder value than those that don't.

The research clearly demonstrates a direct relationship between adoption of the Excellence Model and an improvement in overall business performance. The primary message is that the Excellence Model has a very important role to play in improving UK productivity and competitiveness but the opportunities are still not being exploited to the full. Key findings from the research include:

- When the principles of the EFQM Excellence Model are effectively adopted, performance improves in both the short and long term
- Adopting the Excellence Model significantly enhances company value for all stakeholders.

The EFQM Framework for CSR provides a complete CSR picture, while working within a framework that is about achieving organisational excellence. In essence, the EFQM Excellence Model is an organisational tool used to drive performance and continuous improvement, and the EFQM Framework for CSR signposts the key CSR fundamentals inherent in the tool.

The framework recognises that, although the outcomes of an organisation's social and environmental policies may belong, very properly, under society results, the successful implementation of those policies depends upon how well it performs in all of the criteria. It is affected by:

- The effectiveness of leadership at all levels of the organisation;
- Alignment of the organisation's policy and strategy with its overall mission and vision;
- How partnerships and resources and processes are managed;
- The awareness and commitment of people, as well as the way they are managed.

Success can be quantified by measuring people, customer, society and key business results.

Together with the RADAR (Results, Approach, Deployment, Assessment & Review) scoring methodology, organisations are able to use the framework to assess themselves – to identify the strengths they should build on and the areas where they need to focus on improvement. Furthermore, the framework helps organisations to report performance by optimizing the use of available information in a coherent approach which directly links inputs and outputs.

The identification of all the appropriate stakeholders and the understanding of their potential needs and expectations is a crucial starting point for organisations that want to be more socially responsible.

The EFQM Framework for CSR enables the organisation to:

- Research who all the stakeholders are;
- Understand what their expectations are;
- Understand which measures are needed to meet these expectations.

It is a comprehensive, systematic and regular review by an organisation of its activities and results referenced. The self- assessment process allows the organisation to discern clearly its strengths and areas in which improvements can be made and culminates in planned improvement actions that are then monitored for progress.

The primary purpose of undertaking self-assessment is to better understand the status, the CSR maturity, of the organisation and to drive continuous improvement. It can be linked to other management processes within the organisation, primarily strategy development and business planning, particularly where the organisation uses a common approach to these processes.

The EFQM Framework for CSR is far more suited to its purpose than other emerging corporate responsibility specific frameworks as it more obviously:

- Is business driven;
- Aligns corporate responsibility with business strategy;
- Complements balanced scorecard type approaches;
- Delivers intrinsic internal and external benchmarking opportunities;
- Facilitates stakeholder engagement at all levels of the organisation.
- Links self-assessment, improvement activity and external reporting.

The framework integrates CSR with stakeholder engagement in every activity and with many of the performance indicators of the organisation. It focuses not only on direct results, but also on the causes and how to get there. And, since it is a management framework, not a standard, organisations can easily integrate existing standards (e.g. ISO 9000 and ISO 14000) into the framework.

Lloyds TSB has been integrally involved in development of the EFQM Framework for CSR. It was represented on the working group which devised it and was the first organisation to test it through high-level self-assessment, in 2003.

There were a number of drivers behind Lloyds TSB's involvement.

- The value-based approach which it takes to corporate responsibility dictates that the company's corporate responsibility strategy should be aligned with the strategic focus of business. That means that the corporate responsibility management model had to fit with the primary means of driving the company's strategic and tactical priorities – the Balanced CSR are ideally suited as the model is, in itself, a balanced scorecard and there are clear synergies in the stakeholder focus of both approaches.
- Lloyds TSB's corporate responsibility steering group of senior executives clearly wanted to develop a corporate responsibility management system that could be

integrated throughout business and owned by individual business units rather than the central Corporate Responsibility team. Firstly, this reflected the complexion of the steering group which, although including heads of relevant functional disciplines such as Human Resources, Risk Management and Investor Relations, is fundamentally led by business unit leaders. Secondly, it ensured that responsibility is devolved throughout the business to key line management. Widespread familiarity with the EFQM Excellence Model across the organisations, its fit with the Balanced Scorecard and the essential business nature of the Framework, facilitated this objective.

- The company had ground-breaking and award-winning programmes in corporate responsibility areas such as training and people development, equality and diversity, work-life balance and community investment. But it recognised that this was not enough and had already identified the need for a systemic approach which meant both developing programmes in areas where it was not as strong and creating a commitment to continuous improvement where it was. This involved identifying and incorporating a range of corporate responsibility Key Performance Indicators (KPIs) across the business building on existing Balanced Scorecard objectives within individual business unit. Working with individual business units to identify and implement improvement activity against agreed KPIs is inherent in the broad-based self-assessment and improvement focus of the EFQM approach.

4. Implementing the EFQM approach

In 2004, the group's corporate responsibility team undertook a full-company self-assessment against the framework. In 2005, a number of representatives from key business units contributing to the group's corporate responsibility profile participated in a more comprehensive self-assessment. We identified areas for improvement which have been built into the balanced scorecard priorities of the corporate responsibility team. They included:

- Undertaking a self-assessment across the business against the EFQM Framework for CSR
- Use existing data collection processes to inform the self-assessment
- Use existing data collection processes to inform the self-assessment and relate to external reporting
- Analyse performance and perception of performance against the framework and identify strengths and key areas for improvement
- Identify improvement priorities and improvement activity that aligns with Balanced Scorecard objectives for each business unit
- Set Key Performance Indicators and targets based on these priorities aligned with specific target measures under the Balanced Scorecard of individual business units
- Review progress with business unit on an ongoing basis and globally with the Corporate Responsibility Steering Group

- Share results and progress with relevant networks of employees throughout the business, to both highlight achievements and gain buy-in to supporting improvement activity in individual business units.

Table 1. Areas for improvement

Areas	Objectives
Targeted internal communications programme	Develop CR content in all internal communications channels and establish business unit champions amongst CR steering Group and Enablers' network
Ensure managers understand how CR fits with business as usual	Built the business case for corporate responsibility with specific case study evidence to demonstrate application across the business.
Promote employee CR proposition	Shift internal perceptions from basic CR awareness and understanding, through commitment and engagement to built employee advocacy.
Develop CR management system	Use enablers' self-assessment and areas for improvement to develop agreed balanced scorecard objectives and resultant Key Performance Indicators.
Local stakeholder engagement	Develop best practice resources to support local activity and leverage existing commitments.
Build our financial inclusion programme	Support research to increase sustainability of community finance schemes and enhance commercial attractiveness of sector.
Review CR contribution to business tender process	Work with Corporate Relationship Managers to develop CR contribution to business tenders and pitches.
Enhance CR aspects of procurement process	Work with Group Procurement to implement ethical purchasing policy and review contribution to environmental performance.
Develop Climate Change Strategy	Review carbon management programme, environmental performance indicators and develop targets.

In early 2007, the CR team undertook a series of review meetings with enablers to review progress against the identified areas for improvement. Progress against the objectives is detailed in the relevant sections of this report. From this review, and the self-assessment incorporating review evidence undertaken in March 2007, we have now developed a coherent set of strategic focuses to frame our primary objectives and actions going forward. These are:

- CR management development;
- Better communication;
- Focused key stakeholder engagement;
- Confronting climate change;
- Increasing financial inclusion;
- Supporting brand positioning.

5. Results

Already we are seeing significant results from this process in our key focus areas:

5.1 Communication

Fundamental to our communications strategy is the belief in a corporate responsibility business case premised on the impact of our reputation on employee engagement. That is, not just in terms of employees' perception of our social, environmental and ethical performance but, equally, in a greater understanding of how that responsibility is a feature of all our business operations. This employee "CR proposition" recognises that effective communication of the link between business strategy and CR priorities will increase employees' awareness and understanding and ultimately raise levels of engagement, commitment and advocacy of the organisation as both an employer and provider of financial services.

In September 2006, as part of our communication segmented by stakeholder audience approach, we published an employee-focused CR report for the first time. Workout reflected the key CR issues our employees told us they thought important in a series of focus groups in 2005 – responsible lending, people development, local community engagement and the environment – in a lively and engaging format. It was published as a supplement to our employee magazine, UpFront and circulated to all employees.

UpFront magazine itself is published monthly and contains a range of features and news stories on key CR events and issues. It builds on a daily intranet news service, UpFront News, which featured over 250 CR related news stories in 2006. This "bulletin" news stories are supplemented by extensive CR information, regularly updated, on the group's corporate responsibility intranet site which is also linked to CR information on other business units' intranet sites.

Our customer CR leaflet, "*honest, trustworthy...who cares?*", containing case studies of our commitment to various stakeholder groups, was available from branches throughout 2006 and by early 2007, nearly 200,000 had been distributed.

5.2 Stakeholder engagement

Our interaction with communities through local opinion formers, community organisations, local authorities, as well as major local employers and the wider business community, is a critical platform for developing our brand and reputation with key stakeholder groups.

An estimated 20,000 Lloyds TSB employees are involved with these local stakeholder organisations in some form. For example, we employ around 1,500 school governors and hundreds of local councilors and magistrates. Much is represented by personal volunteer activity but there is also significant interaction on behalf of the company or in time supported by the company.

Some of the relationships are based on operational issues – maintaining our "license to operate" as a local business. Others reflect local business development priorities – the

development of business introducer networks or building profile in critical local markets, for example.

Supporting local stakeholder engagement was a key CR objective for 2006. Over the year we have undertaken both qualitative and quantitative research amongst local branch directors, senior business managers and Corporate Bank relationship directors. This has allowed us to develop a simple diagnostic tool for local managers to identify their own priorities, and a database of case studies illustrating the wealth of business best practice across the group.

We have also supported personal development activity in this area. The leadership and management curriculum of the University for Lloyds TSB includes a range of courses which can include short-term “secondments” or interim management “consultancy” with external organisations. The approach is designed to both test individuals’ skills and competencies in a different environment and provide performance development in key stakeholder engagement approaches including networking and influencing skills. In 2006, such courses were part of the support to those people in the organisations moving from managing “self” to managing others and managing managers.

5.3 Climate change

The UK Government has stated its belief that climate change is the greatest long-term challenge facing the world today. Measures to tackle climate change will have potential implications for regulation, taxation and public policy and will carry both risks and opportunities for companies and the public.

In respect of our own direct environmental impacts, our immediate priority is to reduce our carbon emissions. We have introduced a five-year carbon management programme, which, through a series of energy saving projects and other initiatives, will reduce our carbon footprint. We have a target to reduce property-related emissions and identified other opportunities in relation to waste reduction and business travel.

While our direct carbon intensity is relatively low compared to other industry sectors, we still need to fully understand the potential financial impact of climate change on others that we may lend to or invest in, so that we can manage the risks and identify business opportunities. We established a group-wide Climate Forum, led by the deputy group chief executive, to develop a holistic approach to managing climate-related risks and opportunities.

Using 2002 as the baseline, we have set a target to reduce our CO₂ emissions by 30% by 2012. Having set this reduction target, we will offset those emissions we cannot reduce, commencing in 2007. This will make our operations carbon neutral.

5.4 Financial inclusion

Community finance initiatives offer a range of loans covering diverse requirements from debt refinancing, to home improvements and business start-ups. We have supported a number of the early pilots with staff secondments and funding, using our expertise to

develop appropriate processes. Lloyds TSB has also been involved in a wide range of projects on both a commercial and semi-commercial basis, providing capital for loan funds which are on-loaned to business start-ups, micro-business and social enterprises.

With our involvement in Change London, the Local Investment Fund, Bridges Community Ventures Fund, South Coast Money Line and Hampshire Community Banking Partnership, Lincolnshire Loan Fund, One London Limited, Wessex Development Fund, Prime, South West Investment Group and Arrow Fund, around GBP 10 million was committed to the sector in 2006. This is in addition to our normal commercial lending direct to small businesses in the most deprived areas.

South Coast Money Line (SCML) is a community development finance institution, providing a mix of unsecured personal and micro-enterprise loan, and home improvement loans which are secured. This year, SCML launched a financial capability initiative called “Smart Money” to provide money and budgeting skills. SCML also provided a lead role in the development of a Community Banking Partnership for South Hampshire, in partnership with Portsmouth Housing Association and Lloyds TSB who are funding a project manager.

The SCML model of working in partnership to deliver a comprehensive financial inclusion project is also helping them become financially sustainable. Since commencing trading in May 2000, SCML has lent customers loans to the value of GBP 2 million. For the financial year ending March 2007, SCML will generate sufficient income from interest income and other contractual relations to cover up to 70% of its operating costs. These contracts are with housing associations, local authorities and Government. SCML now operates, either by directly delivering services or in partnership with sub-contractual arrangements, in Hampshire, Devon and Sussex. To improve their sustainability still further SCML is working with the original funder Lloyds TSB and Community Finance Solutions from the University of Salford.

In 2006 we set up a Financial Inclusion Fund to finance research and development activities in promoting the long-term sustainability of community finance and enhance the commercial attractiveness of lending to the sector.

5.5 Brand positioning

By the end of 2006, the group’s refreshing of its brand positioning saw the development of our “for the journey...” concept. This underpins the long-standing commitment in our Group Code of Business Conduct (see www.lloydstsb.com/corporate_responsibility) to maintaining long-term relations with our customers and the premise that honesty and integrity in our dealings with customers are prerequisites for a sustained and successful relationship. This, and Lloyds TSB’s sponsorship of the 2012 London Olympic and Paralympic Games, with its legacy issues around economic regeneration, skills development social inclusion, community investment and youth, offers a tremendous platform for increasing the contribution of corporate responsibility to Lloyds TSB’s brand identity.

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