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Note to the Management Committee and the Managers

COPY FOR Mr. Ross

Postcards

A number of people have spoken to me or sent me written contributions or both. The raw material is rich in insights, some of them historical, others supporting or opposing particular approaches.

My discussions were off-the-record and the points made unattributable. Mr Ross has kindly agreed to make his written contribution available, however, and the assumption made here is that all will have read it.

The attached note then runs together ideas from many people. It focuses on two possible approaches to restructuring, namely a transfer of responsibilities from the CA to the CD and the abolition of the A Function. In neither case is there a fully worked up scheme. Indeed many possible variations could be imagined on each of these two themes. For present purposes, however, the main point is that either would imply fundamental changes in the way that the Bank is run. The first would alter the character of the CA and the CD ; and the second would bring into question the whole concept of the CD as we know it. There is ample material here for a preliminary discussion without going further into detail.

There are some omissions which nevertheless deserve to be mentioned : -

- on the Business School maxim of "strategy before structure" the paper should perhaps have begun with some reflections on the evolving role of the Bank in the post-1992 environment. This has not been done, since in any case the role of the Bank is going to be discussed in the autumn in the context of the capital increase;

- the paper does not consider the possibility of improving the existing situation in detailed ways. This is because the view has been taken that more is required than that, and therefore that improvements of detail are not an appropriate starting point. They will have their place later :

- in similar vein, the consistency of various possibilities with the Statute can perhaps be deferred for later consideration ;

- depending on the conclusions of this exercise, an awkward question may remain as to how to implement far-reaching changes without undue delay. The Governors may not be prepared to wait 4 years until all the existing CD members' mandates have expired and (almost) all the existing Managers have retired. They may well want action earlier than that. It would of course be premature to do more than register this point now.

Finally, because of the collective nature of the present exercise, the attached note has not been circulated in draft for the comments of any Managers or Vice Presidents.

H. Christie

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Annex

Luxembourg, 14 July 1989
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DECISION TAKING AND MANAGEMENT STRUCTURE IN THE EIB

This note is intended as an annotated agenda for a further discussion of decision taking and management structure in the EIB.

What is the problem ?

Everyone agrees that the Bank is top heavy. What they mean by this varies from one person to another, but all would subscribe to at least some of the following points : -

- It looks cumbersome to have four layers of top management, namely CG, CA, CD and Managers ; and other organisations have more streamlined structures ;
- The CA and the CD seem to duplicate one another to a large extent, for example as regards the approval of individual projects. This is because their responsibilities have a large area of overlap. The CA mostly acts as a kind of supervisory body, shadowing the CD. In both the CA and the CD responsibility is collective as distinct from individual ;
- Individual decisions concerning operational matters pass through many hands on their way to the CA and it is arguable that this is not cost effective ;
- Responsibility for operational decisions is widely diffused and, some would say, too diffused. There is insufficient individual accountability.

In any case, the problem of top heaviness has been with us for some 30 years, during which time the Bank has flourished and built up a record of success. This being so, why can we not continue to live with status quo ? The answer seems to be in two parts : the situation has changed ; and perceptions have changed.

The accession of new Member Countries, the widening of eligibility criteria and the growth of business across the board have raised annual lending five-fold in the last 10 years. If growth averages, say, 10 per cent a year compound from now on, lending in the year 2000 will be some three times its level in 1988. The existing structure of decision taking is coming under increasing strain as the scale of operations increases. For example, the CA do not read all their papers even now.

Accession has brought increases in the numbers of CA and CD members, and, with lending growth, PM has been split into two. The CA is unwieldy with 22 Directors and 12 Alternates ; and the CD with 7 members is too big for efficient decision taking, yet too small to be fully representative of all Member States. Increasing the numbers of the people in the CA and CD is not a satisfactory answer to growth.

The management structure was set up at a time when regulation and political intervention in the market place were more pronounced features of the member countries' economies and of the Bank's business than they are today. The top-heavy structure of the Bank's governing bodies is a relic of this period. This structure is less appropriate now that special privileges and close links with national authorities are less prominent features of the Bank's business ; and it may well become even less appropriate in a post 1992 environment in which market forces work more vigorously and over a wider area, requiring faster and more business-oriented responses than the present system is likely to be able to deliver.

Perceptions are also changing. An increasing number of Governors seem to think that structural change would be appropriate ; and in forming this view they were presumably briefed by CA members who themselves think so. In any case, a number of CA members would now admit that the CA is not an appropriate body to take detailed banking decisions on matters such as interest rates or individual loan proposals.

Some members of the CD are more tolerant of the status quo. But this is at least partly because they are conscious both of the difficulty of making changes and of the risks of upsetting a system which has served the Bank well.

Some think that, as matters stand, there is insufficient CD work inside the Bank and outside it to occupy 7 members of the Management Committee full time. "Compétence légère" is interpreted in different ways by different people. It is unsatisfactory for some Vice Presidents, especially those in mid-career who aspire to senior positions elsewhere, after they have left the Bank. This is not a new problem ; it has existed since 1982. In any case, "compétence légère" is not altogether satisfactory for Managers, either. In sum, it is difficult to find any member of the CD or any Manager who is altogether satisfied with the status quo.

In some ways the most fundamental point is that the Governors have asked for changes ; they have accepted that proposals should come from CD members and Managers, as distinct from outside consultants ; and their expectations have been raised that substantive proposals will be forthcoming by next June. There is both a threat and an opportunity here. The threat is that if we do not come up with a solution which is satisfactory, outside consultants will be called in. The opportunity arises because Governors, having asked for change, may be willing to take decisions which would facilitate it. The possibilities for change may be greater at the moment than they have ever been before.

Approaches to a solution

In thinking about possible solutions it is convenient to start from the proposition that the CD is uncomfortably squeezed between the CA above it and the Managers below. Two possible approaches then are to transfer responsibility to the CD either from the CA or from the staff (or both). The following schema have not been worked up in detail or transitional arrangements considered systematically. They are offered simply as a basis for discussion.

Transferring responsibility from the CA to the CD

Since important members of the CA themselves recognise that the Board of Directors is ill-fitted to take operational decisions on banking matters, it is natural to think of transferring responsibility for such decisions to the CD. If this were done, the CA would no longer take decisions on individual projects, interest rates and some administrative matters (? salaries), except of course in special cases where the CD had particular reason to seek CA endorsement. The CA would, however, still decide on individual loan proposals under Article 18 ; it would receive ex post reports on activity, say, half-yearly ; it would give guidance on general policy issues such as those arising in the context of the next capital increase ; and it would approve the Annual Report and Accounts. It would probably meet about 4 times a year.

If the Governors agreed, such a change could be made more or less from one day to the next, even if some CA members were inclined to resist the reduction in their responsibilities that it implied. Alternatively, it could be introduced in stages. For example, responsibility for taking decisions on projects in the A list might be transferred to the CD. The definition of an A list project could then be widened in stages until virtually every project was on this list. The effect would be to give the CD the same responsibility for lending decisions that it has for borrowing decisions at present.

Such a result would require the approval of the Governors, who might well accept it as a fully adequate response to their request that the management structure be simplified.

Arguments in favour

Transferring responsibility for individual loans and other operational decisions from the CA to the CD would transfer decision-taking to the point where the best information was available. For example, if project decisions were the responsibility of the CD, they would be taken with the active participation of CT, ET and the Lending Directorate, which would enable best use to be made of these Directorates' knowledge and experience and be much better than the present system whereby, with few exceptions, projects are presented to the CA carefully packaged, out of context and more or less alike, irrespective of their size and significance (i.e. whether or not they have special features). It would place responsibility with those appointed by the Member Countries to manage the Bank. It would respond to the criticisms that the chain of decision-taking is too long and responsibility for individual decisions too diffused ; and it would bring the formal position of the CA into line with the present day reality that it is mainly a supervisory Board as distinct from a forum in which operational decisions are taken.

Weekly CD meetings would enable operational decisions to be taken about 45 times a year instead of 9 or 10 times as at present.

There would be worthwhile cost-savings since fewer papers would need to be prepared and translated for circulation outside the Bank if the CA only met, say, 4 times a year.

Most important perhaps, greater involvement, responsibility and commitment would permeate the whole of the staff, including the most junior staff ; information flows would improve and a proper management information system might eventually be installed ; substance would gain in importance relative to presentation ; and all would feel the stimulus that comes from closeness to executive action.

Arguments against

Individual loan and other decisions would no longer be taken with the participation of all the interests represented in the CA. But the CA could criticise these decisions after the event and with the benefit of hindsight, holding the CD accountable. Therefore the position of the CD would be more exposed than at present.

A CA which met, say, 4 times a year would be a different proposition from a CA which met 9 or 10 times a year. The atmosphere might be more reserved ; there could be more of an "us and them" approach on both sides. The focus too would be different, although whether in practice this would mean that the CA's influence increased is an open question. We might have to be more explicit about minor innovations and inflections of policy, since it would no longer be possible to deal with them by an accumulation of individual cases and a Darwinian process in which the less appropriate mutations did not survive.

Transferring responsibility from the Managers to the CD

A transfer of responsibility from the Managers to the CD would be simpler to bring about than a rearrangement of functions between the CA and the CD in that it would not require the approval of the CA or CG. The CG would however have to be convinced that the proposed changes constituted an adequate response to their request for a review of management structures.

The main proposal for change is that, as Managers retire, they should not be replaced, and a substantial part of their responsibilities should be transferred to members of the CD. In considering this, it is convenient to ignore transitional problems and focus on the possible end result.

How could a fusion of the Managers' and Vice Presidents' roles work ? A simple approach to this question is to consider the possible workload involved. It would obviously be infeasible for any single individual to hold down the job of a Manager at the same time as that of a Vice President, if the content of the two jobs remained as it is today. Even with some streamlining of present CD procedures, however, and greater delegation than now to Heads of Department, it is difficult to see how the workload could be made manageable for any one individual.

Inevitably then, significantly heavier responsibilities for CD members must mean some narrowing of individual CD members' range. There might, for example, be a Loans Committee, a Finance Committee, a Personnel Policy Committee and a General Purposes Committee each with, say, 3 CD members plus a number of Heads of Department. The principle would be that no CD member was a member of more than, say, 2 or 3 committees. Central direction might be handled by a President's Committee which would comprise all the members of the CD with perhaps a few members of staff as well. It would deal with matters such as the next capital increase and the proposition that the Bank should lend in places such as Poland.

Committees would report formally to the President. In many cases their reports would be forwarded to the CA without further ado. Decisions would be taken by Committee, by the President, or by the CA as appropriate. Coordination would not be an insuperable problem. The staff would be managed in Departments by people of Function B.

Such an arrangement would embody several radically new principles : -

(i) It would involve Vice Presidents more deeply in the detail of the Bank's business than they are involved at present.

(ii) It would cut each Vice President off from some subjects in that no CD member could be a member of every Committee. As regards areas that he himself did not cover, each Vice President would then have to rely on his colleagues in a way that has never applied in the past.

(iii) Links between each Vice President and the country or countries that appointed him would no longer apply in their present form.

(iv) Vice Presidents who were Chairmen of Committees would be more prominent than the rest. Chairmanship would be based on personal qualities and experience and any pressure to create as many committees as there were Vice Presidents would have to be resisted.

(v) The volume of work that the Vice Presidents have to do in Luxembourg would increase to the point where they would normally have to be there from Monday to Friday.

If Vice Presidents had the sorts of responsibility implied by these principles, executive experience would become a prerequisite for appointment to the CD.

<u>Arguments in favour</u>

Such a restructuring would abolish a layer of mangement, namely the A Function ; it would break down the collective responsibility of the CD, without abolishing it altogether ; and it would give much greater executive responsibilities to individual CD members. It would introduce an approach to decision-taking that is arguably more appropriate than the present one to the growth in volume and complexity of the Bank's business in the 1990s.

<u>Arguments against</u>

There are doctrinal and political objections to any move in the direction of eliminating the A Function and transferring a substantial part of the Managers' present workload to the CD. These objections will not be covered here since they have been well set out in a note by Mr Ross dated 15 June 1989 which also treats a number of other relevant issues along the way.

<u>Transferring responsibilities to the CD both from the CA and from the staff</u>

It would be possible to combine the two approaches sketched above. This would amount to a radical change in the checks and balances which are built into the existing system ; and it would streamline the decision-taking structure of the Bank to a very marked degree. For immediate practical purposes, however, it may be best to consider the two approaches separately.