

Jens Weidmann: Forging strategic plans without a crystal ball – the importance of target-based management within the German authorities, with the Bundesbank as a case study

Speech by Dr Jens Weidmann, President of the Deutsche Bundesbank, at the top-level meeting on “target-based management within the German authorities”, Berlin, 29 September 2014.

* * *

1. Opening remarks

Dr de Maizière

Mr Bullerjahn

Professor Weber

Professor Hirsch

Mr Weise

Ladies and gentlemen

Welcome to the Bundesbank’s Regional Office in Berlin and Brandenburg.

Some of you may already have visited the Regional Office to attend one of the events in our “Bundesbank in dialogue” series. If not, I can highly recommend it. Three weeks ago, Bundesbank experts were here providing information and fielding questions on the banking union. I hear that it was a very lively event.

Today, we aren’t here to discuss banks and the financial industry but to talk about ways to make our authorities and public institutions more effective overall, and I’m delighted that the Bundesbank is hosting this event.

2. Authorities need to adapt to new requirements

The setting in which we operate is evolving so rapidly that we also need to be swift in implementing the necessary changes in the right way.

The ever-changing possibilities and requirements in the world of IT mean that we are constantly obliged to review our processes. Only recently, the Bundesbank set up a brand new data centre in the north of Frankfurt to make its IT infrastructure less prone to errors.

Growing European integration is also changing the requirements we face. This is, of course, particularly true of the Bundesbank, as it forms part of the European System of Central Banks. Yet the Federal Employment Agency, the Federal Statistical Office and the German Patent Office are also embedded in a European framework, which means that they think and act in a European context. And I’m sure that the same can be said of many of you here today.

For some of us, the European setting not only means being part of a European framework; it also creates quite specific competitive pressures. This is again particularly true of the Bundesbank; it often offers the same services as the central banks of the other euro-area countries. Yet it is not alone: the German weather services also have to compete with other providers in Europe. EU-wide tenders are already being held for certain meteorological services designed to ensure safe air travel. The providers of these services therefore have to attract clients by offering top quality and service and competitive prices.

In the world of politics, too, we are all competing with other ideas and approaches from across Europe. How can monetary policy best respond to the gloomier economic outlook and

price prospects? How should the Single Supervisory Mechanism operate in future? What should we make of the idea to introduce a single European unemployment insurance scheme? These issues aren't just on the Bundesbank's agenda; they also occupy the German government and many of you here today, and they are met with a throng of proposals from across Europe on how to address them.

Germany has rightly introduced a debt brake in response to the difficult public finance situation that this country is destined to face: fewer employees paying income tax and more pensioners. That is no easy scenario for our public coffers. The debt brake rules out the supposed "quick fix" of funding public expenditure through new borrowing.

You don't need a crystal ball to see that the pressure on public authorities to provide their services cost-effectively is set to increase. And public authorities will also face increasing competition: they will be competing for scarce funds.

I make no secret of the fact that, in this regard, the Bundesbank is undoubtedly in a better position than the public authorities. After all, it is not funded from the public coffers but from its own profit. But the Bundesbank, too, is monitored by the Federal Court of Auditors. Any euro that it wastes is one euro less for the Finance Ministry.

The tighter budget will also reduce the options open to public authorities – including their ability to fulfil the public's wishes. I'm sure that is a fairly bitter pill for some of you to swallow, as focusing on the public's needs has been made a major priority in recent years – and with great success. A very recent Forsa study indicates that the public now rate the services provided by public authorities more positively than in previous years, which shows that they notice and appreciate these efforts.

Yet this means that, in future, the authorities will need to be even more creative and willing to innovate in order to meet the growing demand to address the public's needs even when budgets are tight. Even so, it will probably no longer be possible to fulfil some of the public's wishes. For example, the Bundesbank now declines to accept coins in bags, as it is not cost-effective to do so. Accepting them would make life easier for some of the Bank's customers. But the Executive Board has decided on a "wholesaler" business model for cash processing, and so the Bank now only accepts standard coin containers.

Despite our best efforts to innovate and find new solutions, we will all increasingly feel the squeeze, faced with limited funds and growing expectations to perform effectively.

And, ultimately, competition for young talent is going to get tougher. Our so-called population pyramid already looks more like a mushroom. There are fewer and fewer young people entering the labour market, yet demand for highly qualified young workers in particular is growing ever larger.

On the surface, it might seem reassuring that today's students seem particularly drawn to a career in the public sector. Students do not rate other sectors, such as the car industry, nearly as highly. And a third of students would like to work solely in the public sector, not in private industry.

Ladies and gentlemen, as public-sector employers that is, of course, music to our ears. Yet I have my concerns about this desire among young people to work in the public sector. After all, Germany's economy is doing well, and there are a whole host of opportunities on the labour market for young people with qualifications. I feel that, for society as a whole, it is better if the mood among young people does not become too biased towards security and reliability.

Ultimately, a market economy does not thrive on the work of public authorities but on successful business activities. Germany's prosperity is founded on innovation and the willingness of companies and their employees to take risks; it is based on them truly engaging with their customers' needs and on their openness to the rest of the world. And public authorities should create the best possible conditions for all this to take place.

Given the changing needs in today's environment, we too need to innovate and be willing to adapt.

3. The Bundesbank also constantly has to adapt to new challenges

I'd now like to give you a brief overview of the major challenges that the Bundesbank has faced since the turn of the millennium. The environment in which the Bank fulfils its statutory mandate has undergone numerous and major changes. And that is why the Bank already began with its target-based management more than ten years ago.

In 2002, the Bundesbank decided to implement a fundamental structural reform which radically changed its set-up. European monetary union gave the Bundesbank a new role in Europe. The banking sector underwent a significant concentration process. Automated processes were introduced for many banking services. The Seventh Act Amending the Bundesbank Act (Siebente Bundesbankänderungsgesetz) ultimately provided the crucial impetus for a structural reform by further developing the tasks and set-up of the Bank. The Bundesbank made a virtue of necessity. It aligned its set-up to its role in the Eurosystem and became more cost-effective.

At the same time, the launch of the Eurosystem gave rise to joint projects. In these projects, selected central banks – on behalf of all Eurosystem central banks – provide services for the Eurosystem or for European banks. This allows all concerned to benefit from greater efficiency. As a service provider, the Bundesbank is involved in the largest European projects on financial market infrastructure. We can therefore be sure that our standards are feeding into these areas. And, at the same time, we benefit from this cooperation with our partner central banks.

That is true of TARGET2, a payment system operating across national borders in the EU, which the Bundesbank launched and now runs in cooperation with the central banks of France and Italy. This system enables banks to execute payments in real time and to settle transactions in central bank money. And it is also true of TARGET2-Securities, which will soon offer users throughout Europe a harmonised and centralised service for the settlement of securities in central bank money.

Alongside the structural reform and the transfer of tasks and functions to the European level, the financial crisis is another factor that has radically changed the setting in which we operate.

- The European Systemic Risk Board (ESRB) was launched in 2010. Since then, it has been responsible for macroprudential oversight of the financial system in the EU, focusing on risks to financial stability in the EU. The ESRB is also tasked with helping to ensure that the financial sector makes a sustainable contribution to economic growth.
- At the beginning of 2013, the Bundesbank was given a mandate to monitor financial stability in Germany. And ...
- the banking union will be launched in five weeks' time, on 4 November 2014. From that point on, the ECB will be responsible for European-level banking supervision. That won't put the Bundesbank's supervisors out of a job; far from it. But it will change some of the key focuses of their work.

Ladies and gentlemen, in view of the dizzying pace of change in China at the turn of the millennium, it was said that you could be glad if your bed was still in your bedroom when you woke up in the morning. The pace of change in Europe is certainly slower than that – and, to borrow that same image, I would say that some countries' beds have remained in the bedroom far too long. Yet Europe is also experiencing rapid and major innovations – and that is bound to continue.

4. Target-based management: the Bundesbank's response to the pressure to change

In view of this situation, the Bundesbank views target-based management as a vital tool.

Of course, the Bundesbank is not a private business. It isn't listed on the stock exchange, and its main "customers" are the general public, who benefit from a stable currency, a secure cash supply and payment systems which function smoothly.

Target-based management ensures that the Bank is managed with results in mind. The focus here is on an effective and efficient use of resources. This is not only important for the Bundesbank, but probably for all public authorities. Ultimately, target-based management contributes to the objective of sound budgetary management, and this is also of significance at the macroeconomic level. After all, sound public finances are an essential precondition for sustainable economic growth and not a danger to it, as some commentators in the discussions on the euro area crisis – which is still far from over – would have us believe.

At the Bundesbank, target-based management is implemented by a cutting-edge controlling department. This team of employees is responsible for the two important and intertwined building blocks of "strategic planning" and "operational planning", for which the Bank adopted its first strategic plan in 2002 and its third in 2012.

The strategy acts as an important roadmap, both within the Bank and externally. It provides clarity, which I already touched upon when talking about the "wholesaler" business model for cash processing. And, what's more, the strategy allows us to hold our own in the European "competition for ideas", which I have also already mentioned. Ultimately, the strategy provides a framework for assigning resources to individual areas of responsibility and deciding which projects and measures should be implemented there.

The title of my speech is "Forging strategic plans without a crystal ball." Having a crystal ball would be the best of all worlds; there would be no uncertainty, no surprises, and no doubts about what the future holds – and all this with minimal resource input. At the Bundesbank, we are forced to make do without a crystal ball – and this means deploying considerable resources to produce economic forecasts. Strategic planning is a tried and tested instrument used by the Bundesbank to ensure that we are ready to respond to the influences of a dynamic environment at any given moment. We do this in a way that is as resource-efficient as possible.

The primary objective of the Bundesbank is achieving its statutory mandate of ensuring price stability. In keeping with the idea of a strategic vision, we have defined the primary objective of our strategy in slightly broader terms. In our strategy we therefore speak of "ensuring stability" as opposed to merely "ensuring price stability".

We have used this strategic vision as the basis for defining a number of fields of activity, including, first and foremost, the tasks of our five core business areas. These are

- first, implementing monetary policy in Germany;
- second, and closely related to the first, maintaining the supply of cash;
- third, executing domestic and cross-border payments, thus contributing to the smooth functioning of payment and clearing systems;
- fourth, ensuring the stability of the financial and monetary system; and
- fifth, carrying out banking supervision.

These core business areas are supplemented by a number of other fields of activity, such as statistics and research, which see to it that the right conditions are in place for successful work in the core business areas.

5. The Bundesbank's strategic planning is carried out in the form of an open process, thus ensuring it is firmly entrenched within the organisation

In strategic planning terms, the Bank has learned new tricks with each round of planning. Our third strategy cycle, which involved drawing up the current "Strategy 2016", was characterised by the realisation that a strategy only has a chance of being implemented if it is rooted across the entire institution.

The strategy was therefore drawn up in a transparent, open process involving the senior management of our Central Office and our nine Regional Offices. At a management conference, the Executive Board discussed the Bank's strategic options with the senior managers of the business units at Central Office and the presidents of the Regional Offices.

The conference rested on two pillars: top-down guidance outlining the Executive Board's fundamental approach and a discussion paper based on a scenario analysis. This discussion paper was prepared in advance by the Controlling Department in consultation with the responsible business units of the five core business areas.

This management conference laid the groundwork for the future strategy. The Executive Board then set up working groups and tasked them – alongside Controlling – to develop strategic and development objectives as well as corresponding measures and indicators. The working groups presented their results to the Executive Board at a second management conference and the Controlling Department subsequently used these as a basis to prepare a draft "Strategy 2016" for the Executive Board.

The principles of transparency surrounding the strategy and its firm rooting within the organisation have been upheld to this day. Indeed, they are part of our everyday business life at the Bundesbank.

For example, when providing information on the steps taken to develop the strategy, we did not limit ourselves to the various internal communication channels available. We also placed the adopted strategic and development objectives of each strategy on the Bank's intranet. Speeches at staff assemblies and talks with staff representatives form part of the traditional set of tools used to communicate internally within the Bank.

At the Bundesbank we are also seeing very positive results from the new dialogue-oriented formats in which we openly invite a large number of employees to participate. For example, since 2012 we have been holding events with the appealing title "Weidmann direct". Our employees are invited to these Regional Office events twice a year, where I speak about current topics and, above all, engage in dialogue. This form of direct contact is also offered by the Bundesbank's Deputy President – though here of course with the title "Buch direct". We reach 250 employees directly in this way.

In our event series "Lunch with ...", things are significantly more focused on the individual. The format entails one member of the Executive Board going for lunch with 15 employees. Since 2012, this kind of lunch has been scheduled once a year for each member of the Executive Board.

And, for nearly a year now, we have organised ad-hoc online chats on a specific subject. Regardless of their location, employees can direct questions to the member of the Executive Board taking part in the chat. On average, just over 400 employees follow these chats, which can be organised at very low cost.

These various communication vehicles give the Executive Board the opportunity to clarify its strategic outlook and to garner employees' support. The new communication formats have been particularly well-received. In contrast to the existing formats that have been around for some time such as the Bank's employee magazine or the intranet, they are dialogue-oriented and largely open to everybody.

So why am I talking about instruments of internal communication in the context of "target-based management"? Because, in my experience, they are decisive in ensuring that our

strategy is worth more than the paper it's written on. It's only by working inwardly within our institution and taking our employees with us on this strategic journey that we will have any chance at all of reaching our destination.

In this context, one of the results of the 2012 employee survey was particularly gratifying for me in my capacity as Bundesbank President: 65% of those surveyed feel they have a good level of knowledge on the Bundesbank's strategy. That's not bad going.

In order to ensure support for our strategy among employees, it is also essential that the Executive Board identify with that strategy. The members of the Executive Board need to be seen to accept and respect it, even if it goes against the short term interests of their own area of responsibility. I am firmly convinced that without this visible support, it won't work.

Indeed, sometimes implementing a strategy means having to face up to harsh realities. For example, some time ago the Executive Board took a strategic decision to streamline the branch network. At the start of the structural reform in 2002, the Bank still had over 100 branches. Today there are 41, providing coverage for the entire Federal Republic of Germany. This goes hand in hand with fundamental procedural changes that first need to take root in the organisation.

In 1996, John Kotter, a pioneer in change management, was the first to suggest that only 30% of change efforts succeed. Numerous subsequent studies have confirmed this to be the case. One of the many responses to this has been to ascribe greater importance to the role of CEO and senior managers in the context of such changes.

It therefore strikes me as pertinent that the working group "Management and Controlling in Public Institutions" has chosen "Change Management" as its annual topic for 2014–15.

6. Strategic planning needs to be translated into operational planning

It is important to ensure that the aforementioned strategy is firmly anchored within the organisation but we also we also need target-based management. We can't have one without the other.

In light of the environmental changes that I outlined at the start of my speech, once a strategy has been adopted it needs to be monitored on a regular basis to ensure it remains up to date. This is why we have annual strategy reviews, which look at both the extent to which strategic measures have been implemented and any changes that have occurred in the environment. These reviews also act as the basis for operational planning.

Translating strategic planning into operational planning is a second challenging area of target-based management. The motivation and willingness of staff to implement a strategy is one thing, but translating this strategy into measurable – and therefore reviewable – operational objectives is quite another.

"What gets measured gets done" is a well-known maxim in the Anglo-Saxon management literature. This is why we are in the process of devising a cascading series of measurable indicators for our strategic goals. This too, is anything but trivial. Indeed, there are grounds for a lively debate about whether some indicators accurately measure the phenomenon they are supposed to gauge.

Please allow me to explain the way indicators are assigned to strategic goals using the example of "external communication".

The core objective of external communication is "to ensure that the Bundesbank's positions are communicated credibly, consistently, transparently and effectively to the outside world."

We have broken this down into a number of development targets, such as:

- "Improving our ability to promptly take a stance"
- "Increasing transparency with respect to the impact of communications", and

- “Expanding direct public communications.”

To illustrate the point further, I will now outline the two measures and corresponding indicators that have been assigned to our target of expanding direct public communications. These are

- first, “setting up and maintaining up-to-date webpages for the public”, with the indicator being the “number of website visits”, and
- second, “holding an open day”, with the indicator being an “evaluation of the open day” – for example by analysing visitor numbers, evaluating the media response or interviewing visitors.

Only when the strategy has been fleshed out with indicators down to the operational level will it be possible to effect its implementation. If this does not occur, there is a serious risk that the strategy will simply be filed away and forgotten.

7. “Making our case” is something we all need to see as part of our daily work

The operational implementation I have just described falls under the responsibility of Controlling. On the other hand, as I have already pointed out, it is quite clearly the task of senior management to practise open communication so as to ensure that the strategy is firmly anchored across the organisation.

Based on my experience, the importance of this cannot be overstated. With every step we take, we are constantly reminded of the need to make the case for our plans and projects. We need to convince our employees of the merits of our strategy and make the case to the public of the importance of price stability; target-based management and confidence in the euro are additional areas where we must win over support – and I am sure that you could continue this list with any number of examples from your authorities.

I have set myself the personal objective of creating a culture of openness at the Bundesbank – both within the bank and in relation to the outside world. For many in the Bank, this means changing one’s mindset. But it is most often people outside the Bank who continue to perceive it as a rather closed institution. They often see the Bundesbank as a “fortress”, with the grey, austere-looking building at our Central Office certainly contributing to this image. David Marsh once wrote that the way the Bundesbank operates and the sort of people running it are things that people rarely hear about. Let me assure you that there is nothing secretive about the Bank’s work or its way of thinking. This is something I want to really spell out through my actions and words.

The culture of openness is an important new area of focus for the controlling department; a conclusion also reached by the “Management and Controlling in Public Institutions” working group. With this in mind, I would like to wish the working group continued success in the important work it is carrying out.

8. It’s time to act

Ladies and gentlemen, I am now coming to the end of my remarks. We have all been aware for some time of the need to manage in a target-based way. The necessary concepts and instruments are at our disposal. Controlling departments are increasingly ready to work in partnership with decision-makers. They don’t want to merely provide data and information and be written off as number crunchers or nit-pickers. They want to advise.

It is now up to us to get our institutions on track and ensure that we continually improve our target-based management. To this end, we need suitable processes. And this requires leadership at the top and much effort in winning over people’s hearts and minds. I am convinced that if we want our institutions to be able to hold their own in future then we have no choice but to pursue a target-based management approach.

Thank you for your attention.