**FINDING STRATEGIES TO HELP CITIGROUP REGAIN ITS POSITION AS A LEADER IN THE WORLD OF BANKING**

An Analysis

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**Abstract**

Having lost its way before the banking crisis of 2008 (and arguably being a major contributor to it), Citigroup has a tremendous challenge in returning to its former position in the world financial sector. There must be a rebirth of the company’s culture with a renewed emphasis on ethics. The bank has split into two parts, Citicorp and Citi Holdings, to separate out the toxic assets that could have potentially dragged the world economy into depression. This banking giant faces a long road back.

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Finding Strategies To Help Citigroup Regain Its Position As A Leader In The World Of Banking

# The Problem With Citigroup

Citigroup, once the largest banking corporation by value, has been fighting to remain solvent since the full impact of the subprime-lending crisis in 2008. In one week in November of that year the corporation lost half of its stock market value.

Since having been bailed out by the Federal Government due to losses in real estate lending of $30 billion Citigroup is traveling a long road back to profitability. The motivation for that intervention was stated as Citigroup being *too big to fail.*

## Stating The Citigroup Question

The vast number of interconnected financial relationships would apparently lead to further failures within the banking industry if the bailout did not proceed. Citigroup reported a loss of 27.7 billion in 2008, which was largely due to mark to market revaluations of $32 billion in securities and banking losses.

The question to ask is: how can Citigroup craft a strategy to return it to the kind of stockholder value and market confidence that it had before the crisis erupted? A further question to ask is: How must this dictate the foundations of value and strategy to take the company forward?

## Rationale of Choice

My interest in the crisis at Citigroup and in the real estate lending market generally is that I majored in real estate management as an undergraduate and, having done a case study about the Japanese real estate bubble of the early nineteen nineties was fascinated to watch real estate prices rise in recent years, only to drop so rapidly.

In the turbulence caused by the subprime mortgage crisis Citigroup has incurred huge losses as stated above and due to the recent revelations that Goldman Sachs and other entities have allegedly conspired to manipulate the markets at the expense of investors.

This, if confirmed will serve to undermine investor and customer confidence in all financial institutions will suffer for years to come. As well as crafting a strategy to move forward Citibank will need to set the highest ethical standards to build a reputation to overcome that damage.

## Key Concepts

The two concepts I have selected to apply to Citigroup are building the ethical culture approach into the company culture and a strategy of diversification. The concepts are derived from Thompson, Strickland and Gamble (2010). Specifically, they are concepts in strategic management and execution of strategy in business.

Strategy is the set of moves and business approaches that managers employ to build the business. Strategy is important in defining the action of a business because good management is equal to the sum of good strategy and good strategy execution.

# Ethical Culture Approach

Ethics are the socially accepted norms of what is right in action and in word. They go beyond mere legal compliance to account for what is in the best interest of all stakeholders. The lack of ethics in a company’s management culture leads to crises and ultimate failure.

The clearest example of ethical failure comes from the Enron meltdown. That company’s senior managers spoke of integrity and yet looked the other way and even encouraged dishonest behavior. The motivation was that it made money in the short term. The management at Enron failed because they did not walk the talk.

An ethical culture within the company, built from the top down, can form the basis of an organization of great integrity. In fact, it is incumbent upon the senior management to walking the talk. The management must create an atmosphere within the company where values are engrained and peer pressure is aligned to encourage people to observe the ethical norms.

The values, principles and ethical standards that are preached and practiced are the allied concepts of a company culture. They are the interpersonal approaches that set the boundaries of acceptable behavior by staff, the spirit of the work climate and manor of office politics that is tolerated, the strength of peer pressure to conform to the culture norms, and other things such as company traditions, stories and myths.

Culture does not remain unchanged and in a company setting, this is driven by such things as change of leadership or merger with outside organizations that have their own strong culture. In large companies there can be issues associated with having diverse subcultures particularly where employees are drawn from a geographically dispersed base of many nationalities.

The ethical culture can be established through the change of existing cultures by finding the elements of the culture that are worth retaining and those that must change. Then those facets that are desired must be specified, the problems must be discussed openly and what new behaviors are desirable. Finally swift and decisive action must be taken to engrain new norms and behaviors that are in line with the values and ethics of the company.

An additional allied concept, as discussed by Banerjea (2010), is social contract theory which states how a culture enforces “hyper norms” as standards that are universally agreed but with macro and micro contract embedded within the social structure giving structure and hierarchy to ethics and morality within the greater cultural context.

By having a clear moral vision of the values and ethical code of the company as well as the shortcomings, senior management can control and build an ethical culture that is strong and purposeful.

Communication of the vision through formal and informal channels to all levels of the company will support buy-in from the employees. They become the force that builds and enforces the culture through peer pressure and by striving for a common goal.

## Diversification

The strategy of diversification into related areas of business decreases the variability of profits and therefore risk. It was shown to be more effective than diversification into unrelated areas by Amit and Livnat (1989).

Companies that pursue this strategy and are diversified into related areas can decrease risk, although not as diversified as those that operate across unrelated, they are more consistently profitable. A related diversification strategy can enhance shareholder value by transferring skills between businesses, share facilities, leverage the brand name, and combine resources to create new strengths and capabilities.

An allied concept is that of using foreign markets to spread risk through multi-country or even global competition. This can increase the size of the market giving access to new customers, lowering costs and further capitalizing on core competences. In this way foreign markets present another set of related diversification opportunities.

## Rationale for Choice of Concepts

The ethical challenges in banking today will mean that banks will face increased scrutiny in the future by both regulators and by stakeholders such as investors and customers. Banking is based on trust. If there is any hint of impropriety customers will be reluctant to purchase financial products beyond the most basic accounts. Opportunities to create authentically innovative financial products will be lost.

How can a company allegedly found to be creating products designed to fail while betting against them continue to attract investors? This would be a loss to both the banks and to customers. It is imperative that the highest ethical standards become embedded in company culture so that the trust needed to attract investments is solid in the long term.

Companies in dynamic and changing markets need to be resourceful in seeking new business investments with which to grow stockholder value. The largest corporations can grow through acquisition and merger, gaining access to new markets and divesting business units that have matured beyond their ability to maintain the required growth rate.

Built upon the foundation of an ethical culture, a large diversified corporation has the world in which to innovate, invest and grow. It can create the culture to nurture and bring out the best of its people, in that way ensuring its own future indefinitely. The question then becomes: how can Citigroup build the ethical foundation and use a related diversification strategy to return to dominance of the banking industry?

# Analysis

## Is This a Passing Crisis at Citigroup?

In the first quarter of 2010 Citigroup has returned to profit for the first time in two years posting a profit of $4.4 billion for the quarter. This is a huge rebound from November 2008 when Citigroup had to accept the assistance of the federal government to meet its debts and deal with up to $302 billion in at risk commercial and residential real estate loans.

Citigroup does have potential to rebuild wealth for shareholders once the bad investments of the subprime crisis have been dealt with. But something more is required to regain the leadership position Citigroup once enjoyed.

## Ethical Culture at Citigroup

Citigroup has a clear and concise code of ethics that its employees must sign and to which they must adhere. The literature provided by Citigroup in their Global Citizen Report is worded in a manor that approaches ethics as valuable but with an air of contrition due to the bailout.

It is understandable that Citigroup would wish to move on from association with unethical behavior and to gain favor with stakeholders. However, this approach relies too heavily on the top and on the policy engendered in the code of ethics. To move beyond the mere compliance with a code that is dictated from the top to a company that embraces an ethical culture approach leaders must learn to develop what Banerjea (2010) calls wholesome ethical leadership.

In this model, the senior leaders have to set the example by their behavior in their formal and informal roles. They must nurture communication and ethical behavior at all levels of the company. It still starts at the top but has to be inclusive of all stakeholders. There must be enough buy-in for an engrained ethical corporate culture to exert strong peer pressure to ensure moral and ethical behavior at all levels.

An example of a company that has developed its ethical culture to lead and educate its employees in what it means to practice ethical business is Texas Instruments (TI). On the TI website detailed information can be found to help employees understand how to be ethical in their actions. This is more than a statement of a code or policy; it includes case studies and publications that set the benchmark for ethical culture approach to business strategy.

## Related Diverse Business Strategy at Citigroup

After the bailout Citigroup reorganized by dividing into two segments Citicorp and Citigroup Holdings. Citicorp is responsible for consumer and institutional banking while Citigroup Holdings has three businesses: brokerage and asset management, lending, and a special asset pool. The brokerage and asset management business includes joint ventures. Geographically Citigroup is in one hundred forty countries.

Citicorp is the banking core of the business and Citigroup Holdings contains the riskier and non-core businesses that the company is gradually divesting or selling underperforming business units and those that are worth keeping are being transferred to Citicorp. Citigroup Holdings is working to get past the poor investment performance and refocused back into the core business.

This is a basis for an effective strategy of related diversification. By being less diversified Citigroup can be more successfully manage those closely related areas into which it choses to diversify. Businesses where there is a good strategic fit can be integrated so that there are cross business benefits to their inclusion.

Thompson, Strickland and Gamble (2010) explain that, in terms of a service business such as banking, strategic fits can share resources and activities such as supply chain activities, sales and marketing, or managerial and support activities. Competitive advantage can be gained from the synergy of this and from that profit and increased shareholder value. Thompson, Strickland and Gamble (2010) state this simply as 1+1=3 i.e., the sum is greater than the parts.

For Citigroup this means having access to many markets for as a banker and having related businesses that can maximize the benefit derived from those markets. Growth for Citigroup can come through acquisition of existing businesses in markets where innovation and growth are possible. Simultaneously, it can monitor current business units for their continued potential for growth.

Examples of this sort of strategy are provided by Thompson, Strickland and Gamble (2010) include Darden Restaurants, who operate chains such as Olive Garden, Red Lobster and Bahama Breeze, and Johnson & Johnson who produce pharmaceuticals, over the counter remedies, consumer hygiene and first aid products.

# Conclusions

Citigroup needs to advance its strategy on two levels. First to lead from the top in building an ethical culture but work to include all levels of the company. Citigroup must move beyond compliance and make moral and ethical integrity the foundation of the actions of everyone in the company.

There needs to be training and information that goes beyond a code of ethics and policy from the top. Employees must be trained to recognize when a situation could have ethical consequences, what to do when it happens and feel the peer pressure to act accordingly. Ethical policy must be lived and not just referred to in fending off pressure from stakeholders.

Citigroup must continue to implement a strategy of related diversification, dispose of the less relevant assets held in Citigroup Holdings and transfer all suitable businesses to Citicorp once that is completed. Citigroup then will be a banking corporation that is spread globally and diversified enough to enough related businesses that risk will be spread and variations of income will be stabilized.

Citigroup can return to its position of market domination through building the foundation of an ethical culture and by nurturing a closely related group of business units. The company is already on course to eliminate underperforming units and refocus on the core business. But it will need to raise the bar to excel in a market that been badly burned by the misdeeds of corporations. A market that is aware of the need for ethical behavior and watching closely for signs of any moral weakness or duplicity.

## Recommendations

Citigroup is already pursuing a strategy of related diversification. While the company is divesting poor performing business units it is diversified within the core business of banking. It is currently wise for Citigroup to consolidate on the core business. To return to the top of the banking industry the company will need to remain as a group of related business units and not unify into one monolithic organization.

The market is too easily shifted by innovation and changes in what is legal and acceptable. To maintain growth in shareholder value the company will need to continuously seek business that can be acquired to bring in potential future profit and new market growth.

Simultaneously, Citigroup needs to monitor business units from above and be prepared to dispose of units that have passed their usefulness. Citigroup also needs to seek ways to merge units that duplicate services and be prepared to collaborate with outside organizations to exploit new opportunities.

Citigroup can provide something greater than an umbrella for its underlings. The company provides a brand, a culture and resources that can make the subsidiary units more value than if they were independent corporate entities. In the current environment of increased scrutiny and likely increased regulation in the near future it behooves Citigroup to not just conform to the highest formal ethical standards.

The bank must set the standard and make sure that every employee eats, sleeps and breathes an ethical corporate culture. That is something that the group can provide to all of the subordinate businesses but the company must work to be inclusive of all levels. The group must nurture ethical culture by training and setting the example.

The group must provide human resources, people who talk to employees, train them and show what leadership in an ethical culture is, by example. Senior managers must walk the talk, teach subordinates how to walk the talk and then teach them how to teach other employees to do the same.

## Evaluation

It may be that Citigroup will return to good standing without a refocusing of strategy. That would require a growth of stock price of about a factor of ten at this point (April 30, 2010). I believe two specific things about ethical culture that I have attempted to express in this paper.

First, now that it is know in the market that dishonest players can destroy investors for their own profits, scrutiny and regulation will increase dramatically. Second, because of this, companies will need to consistently demonstrate ethical integrity to attract investors. In banking trust is the most valuable commodity. An ethical foundation is absolutely paramount.

The second concept of related diversification is valuable to a company the size of Citigroup. There are many other concepts that could have been validly applied to aspects of the company but the big picture is that of a related diversified banking group.

Many of the single business strategy concepts must be applied every day within the business units of the company, but they are not relevant at the level at which I have attempted evaluate Citigroup. I have treated foreign investment concepts as part of diversification because Citigroup is so large and in so many different national markets that they are essentially the same.

The concept of corporate culture was implicit in this paper because the ethics of any group is contingent upon the culture of that group. If there was one concept that could have formed an alternative focus for this paper it is that of creating change in the culture of a corporation. That would have possibly taken the paper in a very different direction, perhaps one more suitable to a class on leadership rather than one about business strategy.

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