

**The Corporate Culture in a Japanese Bank:
Study of the Changing Organizational World**

by

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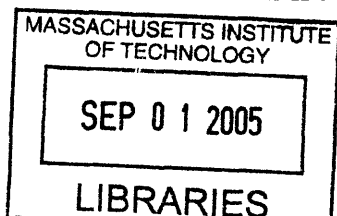
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HIROFUMI HOJO

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the Degree of Master of Science in Management

ABSTRACT

The environment surrounding companies is constantly changing, and that change forces companies into paradigm shifts. If a company cannot cope with change, it faces the distinct possibility of being weeded out of the industry.

Today, Japanese companies are facing dramatic environmental change. For example, the introduction of new global accounting rules is changing the behavior of equity holders. The long and deep recession following the collapse of the Japanese “bubble” economy continues to sap the economic energy of many Japanese companies, and most leaders of those companies still struggle to find new ways to exit from this dark tunnel.

What is happening to corporate organizations in Japan in this changing external environment? To manage a corporate organization in today’s changing world, one must understand that the dynamics of corporate culture are important. They are invisible but powerful, influencing peoples’ business behavior and organizational business performance as a basic and vital factor of human activity.

In this thesis, I analyze corporate culture dynamics in detail, and then develop a case study of the Bank of Tokyo-Mitsubishi, with special focus on Mitsubishi Bank’s perspective.

My purpose is not to evaluate the efficiency or effectiveness of any specific corporate culture but to understand how cultural problems occur during environmental change and the importance of culture management.

Thesis Supervisor: John E. Van Maanen

Title: Erwin H. Schell Professor of Organization Studies

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Every organization has its own unique culture, and we feel the culture in both private life and business life. However, the concept of culture is so abstract that it is difficult to explicitly capture and explain it. The challenge of this thesis was the attempt to capture, decipher, and portray the culture of a corporate enterprise. Although it was difficult work for me, Professor John Van Maanen always sat with me, offered much thoughtful advice, and guided me whenever I needed help. I am most thankful to John for his kind advice and warmhearted support.

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Although this thesis work must be, in the end, an individual effort, through it I learned not only about the importance of organizational culture but also about the importance of human support, friendship, and family.

Hirofumi Hojo
Boston, MA
May 2005

Chapter 1

Introduction

The environment surrounding companies is changing constantly. Those changes force companies into paradigm shifts. If a company cannot cope with the change, they may be weeded out of the industry.

Today, Japanese companies face major environmental changes. For example, the introduction of new global accounting rules is changing the behavior of equity holders. The long, deep recession following the collapse of the Japanese bubble economy has sapped the economic energy of much of Japanese society. Most leaders of Japanese companies still struggle to find new ways to exit from this dark tunnel.

Many economists and critics point to an inability among Japanese companies to establish new business strategies that would enable them to survive in today's rapidly changing world. For example, Susumu Takahashi (2004), an economist, explained: "Although Japanese companies have recovered their profitability by restructuring such as cutting labor forces and expenses, they lack capabilities to establish new strategies." Another example is provided by Seiichiro Saito (2002), an economist and professor at Rikkyo University. He pointed out the inability of management members within Japanese firms to create new business models, and the difficulties

Japanese firms have in building effective planning divisions. Is such criticism valid? Is it the only explanation for the current problem? I believe there are other important basic problems as well, such as a decline in Japanese motivation as a social problem.

In this thesis, I focus on corporate culture because it has an unseen yet powerful influence on business behaviors and organizational performance. Japanese companies have experienced many severe environmental changes and difficulties since the modernization of Japanese society began in 1867. Examples include the financial panic of 1929, World War II, the oil shocks in 1973 and 1978, and so on.

Most companies successfully surmounted difficult circumstances in the past. However, many are still struggling in the current environment. What is different between the past and current situations? What is happening in the inner workings of companies today? I study these questions from the point of view of corporate culture, and I use the Bank of Tokyo-Mitsubishi as my case study. The purpose of this thesis is not to evaluate the efficiency of any specific corporate culture such as the Bank of Tokyo-Mitsubishi, but rather to understand how cultural problems arise in the changing environment and the importance of culture management.

1.1 Selecting a Company

Because each company has a different history, I will focus on the Bank of Tokyo-Mitsubishi, which has managed in a most difficult industry

to accomplish a paradigm shift brought on, in part, by external reasons such as strict regulations. And since the banking industry has been strongly influenced by the social environment, I believe studying the bank's culture is an effective means for understanding current cultural problems. It is also a culture I know well, having been employed by the bank since 1986.

The Bank of Tokyo-Mitsubishi emerged following a merger between Mitsubishi Bank and the Bank of Tokyo in 1996. To study the influence of an organizational culture as it passes through a merger, I will analyze the culture from point of view of the Mitsubishi Bank.

1.2 Research Question

The following key research questions provide the framework for this study:

What is the culture of the bank?

How has this culture developed?

1.3 Research Method

I gathered data from the sources indicated in Table 1-1 below.

Table 1-1 Sources of Data

| Data | Methods/Source |
|---|---|
| Culture of Bank | Interviews and personal work experience |
| History of Bank | The company's official history book |
| Mitsubishi Group's History | Public sources (published books and articles) |
| Financial Data | Annual reports and other public sources |
| Economic Data | Public sources (published books and articles) |
| Regulations | Public sources (published books and articles) |
| Bank's current strategic and organizational information | Data announced by the bank |

Interviews took place in January 2005 with six people who have had different jobs in the bank. The jobs include: (1) planning at the head office (one person), (2) credit supervision at the head office (two people), (3) maintaining a corporate customer business relationship at domestic branch (three people). One senior management member, in particular, was most helpful. He served as my primary cultural informant. He worked as secretary to the president and was the general manager for a major domestic corporate banking office. My lengthy interview with him, combined with my own eighteen years of work experience at the bank, were the basis for deciphering the bank's culture.

1.4 Preview

The remainder of this thesis is organized into six chapters:

Chapter 2 provides an overview of current conditions at the bank.

Chapter 3 sketches out the history of Mitsubishi Bank and provides the societal context in which the bank operates.

Chapter 4 defines the bank's culture. Here I draw upon concepts from Edgar Schein (1994). Artifacts, espoused beliefs, and values are observed and then defined from seven observable dimensions. Finally, several basic assumptions of the bank are proposed. These represent the "cultural DNA" of the organization.

Chapter 5 discusses cultural development in the bank from a historical perspective. Schein's group evolution concept (2004) is applied to these processes.

Chapter 6 discusses recent environmental changes. I also consider the cultural dichotomy between the bank's traditional culture and today's changing environment.

Chapter 7 takes up the importance of culture management and suggests specific measures management could take to control culture (and possibly solve cultural problems).

Chapter 2

An Overview of The Bank of Tokyo-Mitsubishi

In this chapter, I provide background about the Bank of Tokyo-Mitsubishi and discuss its current position in the Japanese banking industry.

2.1 Background

Bank of Tokyo-Mitsubishi was formed through a merger on April 1, 1996 between The Mitsubishi Bank, Limited and The Bank of Tokyo, Limited. According to the 2004 annual report of Mitsubishi Tokyo Financial Group, the origin of Mitsubishi Bank can be traced to the Mitsubishi Exchange Office, a money exchange house established in 1880 by Yataro Iwasaki, a key figure in the Japanese industrial revolution and founder of the Mitsubishi industrial, commercial, and financial group.

In 1895, the Mitsubishi Exchange office was replaced by the Banking Division of the *Mitsubishi Goshi Kaisya* (Mitsubishi Limited Partnership Company), the holding company of the Mitsubishi Group of companies that began in the late 19th century with interests in shipping and trading. Mitsubishi Bank had been the principal bank to many of the Mitsubishi

group companies, but broadened its economic reach to cover a wide range of Japanese industries, small and mid-size companies, and individuals.

The Bank of Tokyo was established in 1946 as a successor to Yokohama Specie Bank, Ltd., a special foreign exchange bank established in 1880. In the postwar period, because of the need to establish a financial institution specializing in foreign trade financing, the government of Japan promulgated the Foreign Exchange Bank Law in 1954. The Bank of Tokyo became the only bank licensed under that law. Because of its license, the Bank of Tokyo received special permission from the Ministry of Finance to establish offices abroad and conduct foreign exchange and international finance business. By 1996, the Bank of Tokyo had a worldwide network engaged in a full range of commercial banking activities, both in Japan and overseas, serving the diverse financial requirements of its clients throughout the world.

The merged Bank of Tokyo-Mitsubishi is now a major commercial bank in Japan and provides a broad range of domestic and international banking services from its offices in Japan and around the world. Bank of Tokyo-Mitsubishi is a “city” bank, as opposed to a regional bank. City banks have their headquarters in major cities such as Tokyo and Osaka and provide both domestic and international services to their clients.

2.2 The Banking Industry in Japan

At the end of October 2004, 224 financial institutions (all licensed under the Bank Law) were engaged in the banking business in Japan, according to statistical data of the Financial Services Agency (2004). These institutions can be categorized into eight types: city banks, regional banks, member banks associated with regional banks, foreign banks, trust banks, long-term credit banks, new-category banks such as Internet banks, and others. Table 2-1 shows the bank classifications and number of each type.

Table 2-1 Classification of Banks in Japan

| Category | Number of banks |
|--|-----------------|
| "City" banks | 6 |
| Regional banks | 64 |
| Member banks of the Second Association of Regional Banks | 48 |
| Foreign banks | 69 |
| Trust banks | 26 |
| Long term credit banks | 2 |
| New categorized banks (internet bank etc.) | 8 |
| Others | 1 |
| Total | 224 |

Note: Data developed from the Financial Services Agency of Japan's home page. The number is represented as of the end of Oct. 2004.

In addition to Bank of Tokyo-Mitsubishi, there are five other city banks: Sumitomo Mitsui Banking Corporation, Mizuho Bank, Mizuho Corporate Bank, UFJ Bank, and Risona Bank. Because most of the city banks have huge total assets, they are often called "mega banks." And due to their enormous business volume, they are leaders of the Japanese

banking industry. According to statistics released by the Bank of Japan, the central bank for Japan, the total bank loan balance as of the end of March 2004, was approximately US\$3.838 trillion). For the same year, the total amount of market capitalization of all listed company on the Tokyo Stock Exchange was \$3.5 trillion (Tokyo Stock Exchange, 2004 Annual Report). In the banking sector, the city banks hold over 50% of the loan balances as shown in Table 2-2.

Table 2-2 Loan balance in each banking category

(Unit: billion dollar)

| Category | Balance | Share |
|--|--------------|---------------|
| City banks | 2,028 | 52.8% |
| Regional banks | 1,266 | 33.0% |
| Member banks of the Second Association of Regional Banks | 396 | 10.3% |
| Foreign banks | 54 | 1.4% |
| Others | 95 | 2.5% |
| Total | 3,838 | 100.0% |

Note: Data developed from the Bank of Japan's statistics on their home page . The dollar amount is translated from the Japanese yen amount with USD1=JPY105.

2.3 Performance of the Bank of Tokyo-Mitsubishi

The current performance of the Bank of Tokyo-Mitsubishi in the city bank group can be assessed using data offered in annual reports for fiscal 2004 published by each city bank. Table 2-3 shows total assets, deposit balances, loan balances, and net income for each city bank. Similar comparisons with other banks shows that the Bank of Tokyo-Mitsubishi does not have a distinct advantage.

Table 2-3 Financial data for City Banks (FY2004)

(Unit: billion dollar)

| | Bank of Tokyo- Mitsubish | Sumitomo Mitsui | Mizuho | Mizuho Corporate | UFJ | Risona |
|-------------|--------------------------------|--------------------|--------|---------------------|-----|--------|
| Total Asset | 835 | 973 | 666 | 660 | 673 | 304 |
| Loan Asset | 362 | 527 | 357 | 244 | 361 | 194 |
| Deposit | 547 | 622 | 517 | 208 | 465 | 177 |
| Net Income | 4 | 3 | 1 | 3 | -3 | -13 |

Note: Data developed from the disclosure booklet and the annual report of the fiscal year 2004 of each bank. The US dollar amount in the financial data presented as conversion of the Japanese yen amounts at the rate of USD1 = JPY105.

However, the Bank of Tokyo-Mitsubishi does have an advantage in its profitability. One reason for the advantage is that the bank has almost finished dealing with bad debt loans generated by the recession following the Japanese bubble economy. Although other banks had similar problems, the Bank of Tokyo-Mitsubishi had relatively fewer bad debt loans outstanding. The fact that the bank did better than its competitors is reflected by the credit rating of the bank. The Bank of Tokyo-Mitsubishi has the highest rating among the city banks (see Table 2-4).

Table 2-4 Credit Rating for Long-Term Debt (as of 3/04)

| | Bank of Tokyo- Mitsubish | Sumitomo Mitsui | Mizuho | Mizuho Corporate | UFJ | Risona |
|---------|--------------------------------|--------------------|--------|---------------------|------|--------|
| Moody's | A2 | A3 | A3 | A3 | A1 | A3 |
| S&P | A- | BBB+ | BBB+ | BBB+ | BBB+ | BBB |

Note: Data developed from the Disclosure booklets and the Annual reports for 2004 of each bank.

The Bank of Tokyo-Mitsubishi also enjoys an advantage in the number of overseas offices owing to its historic connection with the Bank of Tokyo. However, as the result of city bank mergers, Sumitomo Mitsui Banking Corporation, Mizuho Bank and UFJ Bank have a larger number of domestic branches (see Table 2-5).

Table 2-5 Offices and Number of Employees

| | Bank of Tokyo-Mitsubishi | Sumitomo Mitsui | Mizuho | Mizuho Corporate | UFJ | Risona |
|----------------------------|--------------------------|-----------------|--------|------------------|--------|--------|
| Number of domestic offices | 267 | 435 | 511 | 18 | 472 | 343 |
| Number of overseas offices | 73 | 37 | 0 | 21 | 37 | 4 |
| Number of employees | 17,714 | 42,014 | 20,494 | 4,903 | 16,911 | 11,924 |

Note: Data developed from the Disclosure booklets and the Annual reports for 2004 of each bank.

2.4 Comparison with Other Banks in the World

While the Bank of Tokyo-Mitsubishi has comparative advantages in its profitability and credit risk in Japan, it has fewer advantages than other mega banks in the world, such as Citigroup, Bank of America, HSBC Group, and JP Morgan Chase. Table 2-6 shows the rankings by total assets and market capitalization of the leading banks in the world.

Table 2-6 Rankings of Banks in the World

| Total Asset | | Market Capitalisation | |
|-------------|----------------------------------|-----------------------|----------------------------------|
| 1 | Mizuho Financial Group | 1 | Citigroup |
| 2 | Citigroup | 2 | Bank of America |
| 3 | UBS | 3 | HSBC Group |
| 8 | Mitsubishi Tokyo Financial Group | 7 | JP Morgan Chase |
| 9 | Sumitomo Mitsui Financial Group | 10 | Mitsubishi Tokyo Financial Group |
| 14 | JP Morgan Chase | 15 | Mizuho Financial Group |
| 15 | UFJ Holdings | 21 | Sumitomo Mitsui Financial Group |
| 16 | Bank of America | | |

Note 1: The ranking retrieved on Feb.14,2004 from "The Banker"web site
http://www.thebanker.com/news/fullstory.php/aid/1699/Top_1000_World_Banks.html

Note 2: The total assets of the Mizuho Financial Group are very high because the group was formed in 2002 through the merger of three big Japanese banks; Daiichi-Kangyo Bank, Fuji Bank and Industrial Bank of Japan.

Because the Japanese economy is gradually beginning to improve, and the bad debt loan situation is slowly being resolved, the Bank of Tokyo-Mitsubishi (and other Japanese mega banks) hopes to compete soon with other top-ranked banks in the world. *The Banker*, a magazine about the world banking industry, commented in its website (<http://www.thebank.com>):

Japanese comeback: Another key shift was Japanese banks' efforts to claw their way back into profit. While significant problems still remain, the 113 Japanese banks in the Top 1000 were able to report an aggregate \$14.9bn in net profits – a significant turnaround from the \$39.3bn aggregate net losses recorded last year. This swing of more than \$54bn in profits from banks in the world's second-largest economy represents an important stage in the recovery of Japanese banks, which have experienced more than a decade of poor performance.(2/14/05)

2.5 Summary

Bank of Tokyo-Mitsubishi was established as the result of a merger in 1996. The Mitsubishi Bank has an excellent customer base in the domestic market, while the Bank of Tokyo has unique advantages in overseas business. Together the two merged entities now generate comparative advantages in profitability, credit risk, and overseas networks.

Other banks in Japan will resolve their bad debt loan problems soon. This will enable them to once again become strong competitors to Bank of Tokyo-Mitsubishi. How the Bank of Tokyo-Mitsubishi can sustain its existing advantages and create new advantages are now the most critical problems it faces.

Chapter 3

Historical Transition of Mitsubishi Bank

In Chapter Two, I explained that Bank of Tokyo-Mitsubishi emerged as the result of a merger on April 1, 1996 between Mitsubishi Bank and Bank of Tokyo. Both banks had a 116-year history when they merged. One was a commercial bank and the other a special bank for foreign exchange. Both banks survived many difficulties. Understanding the history of each bank is necessary if we are to understand the culture of the new bank entity. Because this thesis focuses on Mitsubishi Bank's culture, I highlight only the history of Mitsubishi Bank in this chapter.

As the name suggests, Mitsubishi Bank was a financial institution and part of the Mitsubishi Group. The Mitsubishi Group played an important role in the modernization of Japanese society following the end of the seclusion policy in the Edo era (1867–1980's). Accordingly, to understand the development process of Mitsubishi Bank, the bank's history is explained in parallel with the modern history of Japan and the history of the Mitsubishi Group. The key sources I relied on to narrate this history are: Mitsubishi Bank (1980), Sakamoto (1986), Miyakawa (1996), Ootsuki (1987), Hazama (1996), and Okumura (2005).

3.1 Start of Modernization in Japanese Society (1854–1873)

3.1.1 The State of Society

Before modernization began in 1867, Japan had a class society. Samurais, who governed the society, were at the top of the social pyramid. Within the Samurai class, the Shogun was at the apex. The emperor theoretically ruled the social pyramid and entrusted the Shogun with the government of Japan. However, in reality the Shogun had the real power in society, and the emperor ruled in name only.

The Edo period began when Ieyasu Tokugawa was appointed as Shogun in 1603. He established the Tokugawa Shogunate in Edo (known today as Tokyo) and governed all of Japan. The Tokugawa Shogunate adopted an indirect government system with many feudal clans as regional units of governance over specifically allocated territories. The Shogunate appointed upper-class Samurais to govern the feudal clans.

One important policy of the Tokugawa Shogunate was seclusion. Under this policy, Japan had no communication or trade with foreign countries. Only Nagasaki, a city in western Japan, was open for foreign trade, and then only as an off-shore market. Following the Industrial Revolution in Europe, many Western countries attempted to trade with Japan, but the Shogunate refused all contact during this period lasting over 200 years.

In 1854, Commodore Matthew Perry of the U.S. Navy came with four warships into Tokyo Bay. Threatening those on shore with the power of his

ships' cannons, he demanded that the country be opened to trade with the United States. The Tokugawa Shogunate decided it would enter into a Treaty of Peace and Amity with United States, and open Japan to other foreign countries as well. However, public opinion was sharply against the Shogunate's decision because it meant that Japan had bowed to U.S. military strength. Criticism was fierce, especially from four Samurai feudal clans whose members held important roles as politicians in the Meiji government. Banding together, the four clans aimed to overthrow the Tokugawa Shogunate and the budding relations with foreign powers by creating a new social system under the emperor. Although the Shogunate tried to suppress the movement led by the four clans, he was not successful. In 1867, the Tokugawa Shogun turned over his sovereignty to the emperor, which marked the end of the Edo period

A new era, the Meiji period, began. At the start of this new era, political power was wielded by people from the regions where the four feudal clans were located. But the clan members did not get along because they competed against each other for dominance by one clan.

In 1867, the Meiji government was founded. Most of major politicians came from the four western regions that were home to the feudal clans: Satsuma, Chosyu, Tosa, and Hizen. However, the Meiji government's goal was to build a centralized state with the emperor as ruler. In 1869, all territories and all people who were members of the feudal clans were placed under the rule of the emperor. Two years later, all the feudal clans were

replaced with prefectures. The government abolished the class society and granted equal rights to all citizens.

3.1.2 Yataro Iwasaki and the founding of Mitsubishi Group

Yataro Iwasaki was the founder of Mitsubishi's industrial, commercial, and financial groups. He was born in 1835 into a poor Samurai family in the feudal domain of Tosa (one of the clans that sought the overthrow of the Tokugawa Shogunate). When he was twelve, Yataro was apprenticed to a Confucian scholar for his education. According to Sakamoto (1986), Iwasaki was a larger-than-life figure. He tended to behave rudely. Sakamoto tells a revealing story about him. One night Yataro's father drank excessively with rich acquaintances and lost his memory. After getting up the next day, he became aware that he had been wounded in a fight. He took the acquaintances to court on a charge of inflicting bodily injury. However, the court turned down his lawsuit and put the father in prison for telling a lie. Yataro, angry about the judgment, wrote on the wall of the court: "Government service is done by bribe, and imprisonment is decided by love and hate." Then Yataro was sent to prison.

At that time, the feudal domain of Tosa sold its regional products to other feudal domains and used the revenue to buy weapons through a trading company, Kaiseikan, which was managed by the Tosa domain. However, the trading company got into financial difficulties due to lax management by the Samurais who had no business experience. Shojiro

Goto, an upper-class Samurai from Tosa, who had been educated with Yataro, was a member of the trading company. After Yataro was released from prison, Goto appointed Yataro to restructure the trading company. Yataro went to Nagasaki where foreign trade was allowed and where the trading company had a subsidiary, Tosa Shokai. Many forward-thinking people came to Nagasaki to discuss the future of Japan. Indeed, most of them would later take an active part as politicians in the Meiji government. In Nagasaki, Yataro made friends with them.

After the return of political rule to the emperor in 1867, the new government prohibited feudal clans from managing their own trading companies in order to remove government pressure on businesses in the private sector. The Kaiseikan, and its subsidiaries such as Tosa Shokai, were dissolved by the government in 1869. At this time, Yataro founded a new private trading company, Tsukumo Shokai, with Shojiro Goto and Taisuke Itagaki who were powerful politicians in Tosa. Because of their influence, the feudal domain of Tosa permitted the trading company Tsukumo Shokai to use three ships that were owned by the clan.

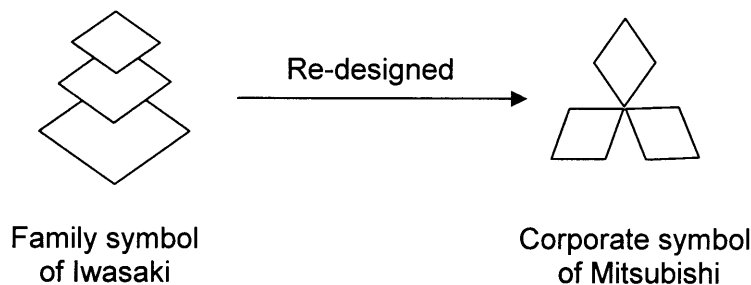
The company began a marine transport business between Tokyo and Tosa via Osaka. In 1870, Yataro bought out Itagaki and Goto, and Tsukumo Syokai became the first company owned by Yataro. This company represents the origin of Mitsubishi Group.

In 1871, the feudal clans were replaced by prefectures. When they lost the right of self-government, Tosa sold its ships to Yataro's company

Tsukumo Shokai. At that time, Yataro designed the current Mitsubishi symbol of three diamonds, and he ordered that flags with the Mitsubishi symbol be flown on his ships. In 1873, the company name of Tsukumo Shokai was changed to Mitsubishi Shokai (meaning Mitsubishi & Company).

“Mitsubishi” means three diamonds in Japanese (“Mitsu”=“Three” and “Bishi”=“Diamond”). The Iwasaki family’s symbol was three diamonds and so the company was named as “Mitsubishi”. The family symbol of three diamonds was re-designed to derive the corporate symbol (Figure 3-1).

Fig. 3-1 Family symbol and corporate symbol



3.1.3 Mitsui Group

In the late nineteenth century, giant family conglomerates known as *zaibatsu* began to emerge in Japan. One of them was Mitsui Group. Mitsui Group was founded by a textile distributor, Echigo-ya, in 1622. From the Edo period until that time, Mitsui constantly expanded its textile business and earned enormous wealth during the Edo period. Mitsui Group was able

to seize power not only in the commercial business but also in the government (Sakamoto, 1986). Eiichi Shibusawa, a competent and famous bureaucrat who was very close to Mitsui Group, was also a director at the Ministry of Finance from 1868 to 1873, and he represented Mitsui Group's interest in the government (Sakamoto, 1986).

In 1869, Shibusawa founded a new marine transportation company, the Mail Steam Ship Company, with the help of funding from the government. The new shipping company transported rice which was collected from citizens as tax payments. The new company became large enough to force many existing shipping companies out of the market. Mitsubishi Shokai was struggling as well because it was a small start-up company at that time (Sakamoto, 1986).

3.2 The Era of Political Confusion (1871–1886)

3.2.1 The State of Society

The Meiji government's goals were to: (1) increase the prosperity of its citizens; (2) secure the country's national defense; (3) expand national wealth; and (4) develop modern industries. It made an effort also to develop strategic industries such as foreign trade, energy, steel, textiles, and shipbuilding. Marine transport was also an important industry of interest to the Meiji government.

In 1873, the government split into two groups due to a conflict of opinion about how to deal with Korea. Politicians such as Takamori Saigo,

and Shinpei Eto, who came from Satsuma, Tosa, and Hizen (three of the four ancient feudal clan regions) wanted to put military pressure on Korea. But politicians from Chosyu were opposed and in the end their opinions prevailed. Takamori Saigo and Shinpei Eto left politics at this point. However, in 1877 they led rebellions against the government (the Seinan Rebellion and Saga Rebellion) but were defeated. During these rebellions, it was Mitsubishi that transported military supplies for the government.

One politician, Shigenobu Okuma, was close to Yataro Iwasaki. He was a highly capable politician from Hizen. From 1873, he devoted himself to efforts to establish a national Diet and became a Minister of Finance (Sakamoto, 1986). However, in 1881, he was dismissed by Hirobumi Ito, Okuma's political opponent from Chosyu, who was close to the Mitsui Group. After his dismissal, Okuma established a new opposition party, Rikkenkaishintou, and began to demand enactment of a constitution and the founding of a national Diet. Mitsubishi provided financial support for his effort.

3.2.2 Yataro Iwasaki, Developing Entrepreneur

Mitsubishi Shokai, although now reasonably well established, still had to cope with the Mail Steam Ship Company. The reputation of the Mail Steam Ship Company — operated in a joint venture between the government and Mitsui Group — gradually declined due to its arrogant and bureaucratic attitude toward customers. In contrast, Mitsubishi Shokai's reputation grew

stronger because it was said to provide “good customer service” (Sakamoto, 1986).

When some Japanese were killed by Chinese in Taiwan in 1874, the Japanese government sent its army to Taiwan. The Mail Steam Ship Company refused to transport the troops because of “business difficulties”. The government, angry with the Mail Steam Ship Company, ordered Mitsubishi Shokai to provide transportation for the troops and left eighteen ships owned by the government in trust with Mitsubishi Shokai. In addition, the government stopped subsidizing the Mail Steam Ship Company and in 1875 began to subsidize Mitsubishi Shokai instead. Coincidentally, this decision was made by Shigenobu Okuma, then Minister of Finance, and a strong Mitsubishi supporter. Thus, Mitsubishi Shokai expanded its business and strengthened its relationship with an influential politician (Sakamoto, 1986).

In 1877, when Mitsubishi Shokai transported government troops to fight in the Seinan Rebellion, it agreed to do the work in exchange for a loan and agreement by the government to build ten new ships. This was an enormously profitable decision, and as a result Mitsubishi Shokai quickly became the biggest shipping company in Japan. According to Sakamoto (1986), Mitsubishi Shokai had 61 ships and 73% of the total gross tonnage of all Japanese ships by 1877.

In 1875, Mitsubishi Shokai changed its name to the Mitsubishi Mail Steam Ship Company. Because the government restricted Mitsubishi

Shokai's business only to shipping and related industries in exchange for a government subsidy, Yataro Iwasaki diversified his business only into industries related to shipping transportation. He established Tokyo Marine Insurance in 1878 (the origin of the Tokyo Marine and Fire Insurance Company Ltd.), the Mitsubishi Exchange Office in 1880 (a money exchange house for long-distance trade, the origin of Mitsubishi Bank) and Meiji Life Insurance Company in 1881.

In 1873, Mitsubishi Shokai acquired its first mining operation. In 1881, Mitsubishi Mail Steam Ship Company acquired the Takashima coal mine, one of the biggest mines in Japan, as a source of coal for its steam ships.

Mitsubishi continued to expand its businesses throughout the 1870s. However, after Shigenobu Okuma was dismissed from the government in 1881, his opponents took power and Mitsui Group began to economically attack Mitsubishi Mail Steam Ship Company. In 1882, the government and Mitsui founded a new transportation company, Kyodo Transport Company. This company was jointly owned by the government, Mitsui, and other investors.

Mitsubishi and Kyodo entered a period of intense commercial battles and, in the end, both were harmed by the conflict. Mitsubishi Mail Steam Ship Company endured the fierce competition by closing its Exchange Office and cutting salaries and other expenses. During this commercial war, Yataro Iwasaki died in 1885.

Yanosuke Iwasaki succeeded his older brother as president of the company. He decided to repay the government subsidies in order to break the relationship with the government. He also suggested that the Mitsubishi Mail Steam Ship Company might blow up all the government-owned ships. Afraid of critical public opinion if it allowed this ruthless competition to continue, the government unilaterally decided to merge the two companies. Mitsui, of course, was opposed to the merger, but the government prevailed over Mitsui's objections.

Yanosuke Iwasaki accepted the merger and Nippon Yusen Kaisya was born in late 1885 as Japan's most dominant shipping company. Because the merger ratio was six of Kyodo to five Mitsubishi, the name Mitsubishi Mail Steam Shipping Company disappeared following the merger. But, since people related to Mitsubishi held shares of Kyodo, Mitsubishi actually owned over 50% of the shares of the new company, Nippon Yusen Kaisha. Thus, Mitsubishi supporters held major positions in the new company and dominated the board of directors.

3.3 Wars and Disasters (1886–1923)

3.3.1 The State of Society

In 1889, Japan established a constitutional monarchy. The next year, the first national assembly was held.

During the early years of the form of government, relations between Japan, China, and Russia were strained because of conflicts of national

interests in the Korean Peninsula: Japan wanted an independent Korea; China wanted Korea as its own dependent state. In 1894, Japan and China went to war, and Japan eventually won the year-long war. China paid a huge compensation to Japan, far in excess of the costs of the war.

Then in 1904, Japan and Russia went to war. That fight continued about one and half years and Japan won that war as well. But, this time, despite the fact that Japanese citizens paid heavy taxes to fund the military operation, there was no compensation paid to Japan by Russia. Concluding the peace treaty with Russia without compensation provoked enormous criticism from Japanese citizens.

In 1914, World War I broke out, but Japan did not participate in the war. Since only European countries were involved into the war, the Japanese economy grew dramatically through international trade during this period. Yet, economic growth could not be sustained after the war, and the Japanese economy went into recession in 1920. In 1923, the Great Tokyo Earthquake killed more than 140,000 people, and the city was completely destroyed. The earthquake also severely damaged the already weak Japanese economy.

Politics during this period were in transition, shifting from control by the feudal clans to control by the major political party. Shigenobu Okuma, a politician close to Mitsubishi, was inaugurated as Prime Minister in 1898 but he resigned the same year. Takaaki Kato, the son-in-law of Yataro Iwasaki and a former Mitsubishi employee, became prime minister in 1924

and he contributed to developing Japan's modern democratic government by establishing the Election Law in 1926. Clearly, national politics were influenced by Mitsubishi and its supporters (Sakamoto, 1986).

3.3.2 Yataro Iwasaki's Successors

After the merger of Mitsubishi Mail Steam Ship Company and Kyodo Transport Co., Yanosuke Iwasaki founded a new company, Mitsubishi & Company in 1886. Mitsubishi's other businesses—the coal mine at Takashima, and shipbuilding at Nagasaki—were integrated into the new company.

Then Yanosuke aggressively expanded the business by diversification. He started a coal trading business (the origin of Mitsubishi Corporation), a brewery (the origin of Kirin Brewery), a paper manufacturer operation (the origin of Mitsubishi Paper Mills), and an electric equipment manufacturing operation (the origin of Mitsubishi Electric). In 1889, Mitsubishi & Co. bought extensive amounts of land in the Marunouchi area (around the current Tokyo Station) from the government. Modern office buildings were developed on the site, and this became the Mitsubishi Estate Company. Today, most Mitsubishi Group companies have their headquarters in this Marunouchi area, now called "Mitsubishi Village."

In 1894, Mitsubishi & Co. was reorganized to Mitsubishi Limited Partnership Company. Each of the businesses became independent entities in each enterprise division of the company.

With the acquisition of Hyakujuyuku Bank in 1885, Mitsubishi moved into the banking business. In 1895, the Banking Division was established as part of Mitsubishi Limited Partnership Co. Mitsubishi's banking business began to grow during the period of a strengthened economy following the war against China. But this positive economic situation did not continue long. Mitsubishi had provided loans collateralized only by commodities to finance the needs of its customers' businesses. It suffered losses on bad debt loans during the Japanese post-war recession but remained essentially sound financially. There were runs on a few banks but not on Mitsubishi. Indeed, the bank increased its deposit balances during this period.

The banking business of Mitsubishi Limited Partnership Co. had defined several principles on which it operated (at least in the ideal) (Mitsubishi Bank, 1980). These principles stemmed from Yanosuke Iwasaki's belief that Mitsubishi's banking business should be "reliable" and should "serve" its customers well.

During the war against Russia (1904-1905), Mitsubishi underwrote a large amount of government bonds to finance the war expenditures. After the war, Japan was again mired in deep recession because Russia did not pay compensation. But Mitsubishi's banking business sustained the company and it never faced bankruptcy.

In 1919, the Banking Division became an independent business named Mitsubishi Bank. A modern building in Marunouchi was built to serve as its head office in 1922. When the Great Tokyo Earthquake occurred

the following year, causing massive destruction and loss of life, the new building sustained little damage. This gave rise to the myth that Mitsubishi Bank never goes bankrupt and can withstand any crisis.

In term of the Group's leadership, Yanosuke Iwasaki remained in charge until 1893 when he turned over control to Hisaya Iwasaki, Yataro's son, and Yanosuke took a subordinate position in the Group.

In 1906, Koyata Iwasaki, a son of Yanosuke, was inaugurated as vice president of Mitsubishi Group. In 1916, Koyata became president of Mitsubishi Limited Partnership Co. He decided to replace the traditional stern management philosophy developed by Yataro and continued by Yanosuke and Hisaya Iwasaki. Koyata's philosophy was summarized and put in statutory form. Known as Mitsubishi's Three Guiding Principles, it required all Mitsubishi employees to (1) "Enrich society" both materially and spiritually—and safeguard the global environment; (2) "Conduct business in the spirit of integrity and fairness and on a foundation of transparency and openness"; and (3) "Adopt a global perspective in developing and expanding business."

3.4 Launch into Militarism (1924–1945)

3.4.1 The State of Society

In 1924, Japan was in recession, many companies went bankrupt, and bad debt loans increased cumulatively. The government helped banks in crisis by providing relief loans. However, in 1929 Japan faced its worst

financial crisis, triggered by the steep drop in stock prices at the New York Stock Exchange.

Fascism also began to take hold as Japan started to make aggressive forays into China. In 1932, Prime Minister Tsuyoshi Inukai was killed by navy officers and the army came into power. In 1936, Japan allied itself with Germany and Italy, and opposed the U.S., England, China and Netherlands. In December 1941, it entered World War II. The war continued three years and ended in 1945 with the surrender of Japan.

3.4.2 Contributions to the Nation

During the Great Depression (felt worldwide as well as in Japan), many big companies went into bankruptcy, including Suzuki Shoten, a big trading company. These bankruptcies dealt a severe blow to the national banks. People transferred their deposits from commercial banks that had suffered heavy financial damage, to banks belonging to *zaibatsu* groups such as Mitsui and Sumitomo. For its part, Mitsubishi Bank increased its deposit balance and expanded business by subsidizing other banks, such as Morimura Bank, Kinbara Bank, Tokyo Nakano Bank, and Daihyaku Bank.

Based on the Mitsubishi Three Guiding Principles, Mitsubishi would soon begin developing modern industries. During the depression, however, all the Mitsubishi businesses faced difficulties. Nevertheless, the Mitsubishi Group successfully expanded during this period. For example, shipbuilding orders for battleship declined, but Mitsubishi's Shipbuilding Division

covered this loss by developing new technologies such as submarines, aircraft, and automobiles. Building submarines required high-quality periscopes, so Mitsubishi developed the technology and manufactured them (the origin of Nikon). In order to build the submarines, Mitsubishi established manufacturing plants for steel, chemical products, glass, and so on.

During World War II, Mitsubishi Group companies played a critical role as a military supplier. Mitsubishi Bank was also involved in the war. The government required the banks to finance the war effort, but the government agreed to guarantee the loans. Many banks in this period provided loans unconditionally thus expanding their loan business. Mitsubishi Bank also provided huge amount of loans to military suppliers during the war, but it did not make the loans unconditional. At the time, that decision was perceived as very conservative, especially since the loans were guaranteed by the government.

3.5 Occupation and Restructuring (1945–1952)

3.5.1 The State of Society

In 1945, after Japan's surrender, the Allied Powers (U.S., U.K., U.S.S.R., and China) became the governing entity in Japan. Together they appointed General Douglas MacArthur as the Supreme Commander of the Allied Powers. He was responsible for overseeing the reconstruction of Japan as well as implementing the U.S. Initial Post-Surrender Policy for Japan

approved by President Truman (Miyakawa, 1996). During that time, the following changes were accomplished:

- Liberalization – *zaibatsus* were dissolved and *zaibatsu* owners were prohibited from holding management positions. Five million acres of land were taken from the nobles and given to farmers who began to work the land.
- Democratization – in 1946, a new U.S.-style constitution for Japan was established.
- Education reform – The Imperial Rescript on Education was established by the Meiji government in 1890 and distributed to every school. It required that all Japanese people offer themselves to the nation, to guard and maintain the prosperity of Japan for the emperor. MacArthur abolished this mandate because it had been used in numerous ways by Japanese fascists.
- Purging of war leaders – Judgments were issued against war leaders as criminals.
- Disarmament – MacArthur dissolved the national police force and added a “peace clause” in Japan's new constitution which specifically forbade Japan from waging war. It also restricted Japan to spending no more than 1% of its budget on defense, effectively ensuring that the country would never be a military power again.

After completing social reconstruction, the occupation army left Japan in 1952 following the signing of the San Francisco Peace Treaty, and sovereignty was returned to the Japanese people.

During this period, the domestic economy had collapsed, so priority was given to restructuring the social structure ahead of restructuring the economy. Capital resources were spent to develop industries that provided daily necessities. The outbreak of the Korean War in 1950 provided many economic opportunities that aided the social and economic recovery of Japan.

3.5.2 Dissolving and Reorganizing

The occupation army decided to dissolve the *zaibatsu* to end monopolized economic power. A secondary purpose was to make it clear that wars are not profitable, so the wealth earned by Japanese companies during the war was taken away. The occupation army left dissolution to the judgment of *zaibatsu* owners. Some *zaibatsu* groups, such as Mitsui and Sumitomo, accepted dissolution. But Koyata Iwasaki resisted the order, arguing that since Mitsubishi only did its “duty” as a Japanese citizen, it had no reason to dissolve. Eventually, however, Iwasaki bowed to pressure, accepted the requirement, and began to dissolve Mitsubishi Group in 1945 (Miyakawa, 1996).

Fortunately, Mitsubishi Bank was not dissolved. But, using the name “Mitsubishi” was prohibited. Therefore, Mitsubishi Bank started over as a

new bank in 1948 pursuant to new laws regarding financial institutions. The new bank was named Chiyoda Bank. In 1952, following the San Francisco Peace Treaty, the bank took back its original name, Mitsubishi Bank (Mitsubishi Bank, 1980).

Immediately after the war, Mitsubishi Bank began to suffer as depositors withdrew money to buy daily necessities. Hyper-inflation was rampant. The bank struggled through the crisis by expanding its branch network to increase deposits. The government helped the banking industry by enacting temporary laws limiting withdrawals. This improved the bank's cash flow and eventually stabilized the organization. The bank expanded its loan business to help rebuild domestic industry. Loans to industries that manufactured everyday necessities increased dramatically during this period (Mitsubishi Bank, 1980).

Other Mitsubishi companies were completely dissolved. For example, Mitsubishi Heavy Industry was split into three companies. The most extreme case was Mitsubishi Corporation, which split into 139 companies. Yet, after 1952, the divided companies re-formed into a single entity again, and most of the Mitsubishi Group companies returned to their former status (Hazama, 1996 and Hiroshi Okumura, 2005).

It is worth noting that Mitsubishi Estate, which owned and managed real estate in Marunouchi area, was succeeded by two new companies, Yowa Estate and Kaitou Estate. In the earlier reorganization of Mitsubishi companies, the stock of Yowa Estate was bought by a third party in 1952.

Because Marunouchi area was Mitsubishi's home base — corporate headquarters and a valued symbol — this loss of control shocked the Mitsubishi companies. But Mitsubishi Bank, acting as an agent, negotiated the buy-back (at an exceptionally high rate) and Mitsubishi companies held onto their symbolic center (Ootsuki, 1987).

The Mitsubishi companies were reorganized as Mitsubishi Group in 1952. The Group was managed by a council consisting of the presidents of each Mitsubishi Group company, instead of a single owner. This council met every second Friday of each month. It was called *Kinyokai* (meaning the Friday meeting).

In 1956, Mitsubishi Chemical was established as one of Mitsubishi Group's new businesses and it bought the entire Yokkaichi Petrochemical complex, which had been owned by the government (Okumura, 2005).

3.6 Period of High Economic Growth (1952–1985)

3.6.1 The State of Society

The Korean War broke out in 1950, but because Japan supplied a variety of goods for the war effort, it had a positive effect on the Japanese economy. The government began to redevelop Japanese industries and aggressively invested in public utilities. At the same time, it promoted money circulation from the personal sector to the strategic industry sector by controlling the financial sector (especially the banking sector). As a result, raw material manufacturing industries such as steel, chemicals, and

paper; heavy machinery industries such as shipbuilding, automobiles and machine tools; and electric equipment industries such as heavy electric equipment and household appliances developed rapidly, both technologically and economically. Japan suffered, as did the rest of the world, from the oil shocks of 1973 and 1978, but demand—both domestic and international—kept the economic recovery on track.

3.6.2 Rapid Growth

During this period, each Mitsubishi company was autonomous. As a result, conflicts between group companies sometimes occurred because the group no longer had a single owner who had authority over all Mitsubishi businesses. For example, Mitsubishi Kasei and Mitsubishi Yuka, manufacturers of chemical products, competed with each other. On the surface, this competition looked as if it would be harmful to the Mitsubishi Group as a whole but, in fact, the competition contributed to accelerating the development of new technologies. Mitsubishi Group companies rapidly developed their businesses as leaders in each industry based on their technological competitive advantages.

Mitsubishi Bank expanded dramatically during this period, becoming one of Japan's largest banks. In 1964, Makoto Usami, President of Mitsubishi Bank, was inaugurated as President of the Central Bank of Japan.

3.7 The Bubble Economy (1986–1991)

3.7.1 The State of Society

The banking industry had been strictly regulated since the post-war period. The industry was also protected by the government because banks supported the development of Japanese industries as providers of financing. However, as Japanese industry and infrastructure matured, the role of financial institutions began to shift during late 1970s and early 1980s. Many manufacturers began to finance their investments from capital markets, and depositors started diversifying their investments. The liberalization of the exchange rate in the mid-1980s accelerated this movement. Many debtors and depositors stopped putting their money into traditional bank products. The banks, however, did not change to match their business to the new trends mainly because of the regulations that were still in force. Since huge amounts of money were concentrated in stocks held by both domestic and foreign investors, stock prices shot up dramatically and continued their upward growth. Investors also wanted to put their money into the stock market. And the banks, eager to find new loan customers, provided loans to such investors as stock prices continued to spiral upward. A similar situation was also occurring in the real estate market. This huge upward expansion is referred to as the Japanese “bubble economy.”

3.7.2 Dilemma

Mitsubishi Bank continued to base its actions on the philosophy of founder Yataro Iwasaki. Before the bubble economy, Hajime Yamada, president of Mitsubishi Bank from 1978 to 1986, disliked the strategy of loans to support investments in the stock and real estate markets because he felt the strategy represented a moral hazard to both lender and borrower (Anonymous, 2005). However, the financial environment forced Mitsubishi Bank to go along with the bubble economy or find itself unable to grow by taking part in the soaring loan requests.

Other banks aggressively increased their loan volume by lending money to speculators. This disturbed Mitsubishi Bank because asset volumes and profitability among the other banks continued to increase. Slowly, Mitsubishi Bank began to participate in the bubble economy. According to my recollection, however, the bank was apprehensive about becoming overly involved in the bubble economy.

3.8 The Post-Bubble Economy (1991–2005)

3.8.1 The State of Society

In 1991, the government instituted new regulations to reduce the number of loans for real estate investment as a way to cool down the heated economy. As a result of the regulation, real estate prices began to decline sharply. At the same time, stock prices also dropped dramatically because many companies held latent losses in their fixed assets. Consequently, most

of the speculative investments suffered losses and the bubble economy collapsed.

After the collapse, most people and companies stopped making new investments and refrained from consumption. This in turn caused the Japanese economy to spin quickly into recession. The banks were suffering because they now held an enormous number of loans that could not be repaid; hence the banks' profitability declined.

In the first half of the 1990s, the government began to implement deregulation of the banking industry in order to internationalize the Japanese financial industry. Due both to recession and deregulation, Hokkaido Takusyoku Bank, the thirteenth largest bank among the Japanese city banks, went into bankruptcy in 1997—the first bankruptcy of a bank since the end of the war.

In the late 1990s, every company restructured itself by scaling down and relocating factories to foreign countries that could offer low-cost labor. Unemployment increased and consumers continued to slow their consumption. The economic spiral became worse.

In the early 2000s, many banks were looking simply to survive. Most suffered from poor profitability. Many banks opted for mergers in order to survive. Sumitomo Bank and Sakura Bank merged in 2001. In 2002, Mizuho Corporate Bank and Mizuho Bank were created through the merger of Fuji Bank, Dai-ichi Kangyo Bank, and Industrial Bank of Japan. In the

same year, Sanwa Bank and Tokai Bank merged. Since 2004, the economy has gradually started to improve, but the pace of improvement is very slow.

3.8.2 Finding a New Business Direction

In the first half of the 1990s, although Mitsubishi Bank's bad debt loans were smaller than other banks, the bank's profitability worsened. But as deregulation progressed, Mitsubishi Bank sought new business opportunities in international banking.

Another bank, the Bank of Tokyo, had suffered little damage from the collapse of the bubble economy since its business was mainly in overseas banking. But the Bank of Tokyo also faced a difficult future because the overseas activities of Japanese companies had declined. So Bank of Tokyo was looking for opportunities to expand its business in the domestic market. Recognizing the matching interests, Mitsubishi Bank and Bank of Tokyo merged in 1996.

Since the merger, the new bank entity, Bank of Tokyo-Mitsubishi, has been in relatively better financial condition than other banks. But it still struggles to improve its sluggish banking businesses because of the long and still ongoing economic recession in Japan.

Most other Mitsubishi Group companies also faced difficulties following the collapse of the bubble economy because of low domestic demand and fierce competition with manufacturers in other countries, especially China. Mitsubishi as a whole has been forced to rethink how to

survive in world markets and how to contribute to society. As of this writing, however, they have not yet identified concrete business directions or goals.

Chapter 4

The Bank's Culture

In this chapter, I will describe the culture of the Bank of Tokyo-Mitsubishi. Much of this description rests on my own experience as an employee of the bank, where I began working in 1986 after graduating from university—just as the bubble economy was emerging. I also interviewed others at the bank on this topic. One interviewee was especially important: a skilled and experienced senior manager who was the former secretary of the bank's president.

To describe the bank's culture, I make use of the framework developed by Edgar Schein (1994). First, I point out the visible culture—"artifacts" from seven cultural dimensions identified by Schein:

1. office features and people's (bankers) behavior to customers,
2. people's (bankers) features,
3. leadership style,
4. organizational features,
5. organizational behaviors,
6. customer business,
7. innovation.

Then I introduce my assessment of the "espoused beliefs and values" that exist behind the artifacts. Finally I try to determine "basic

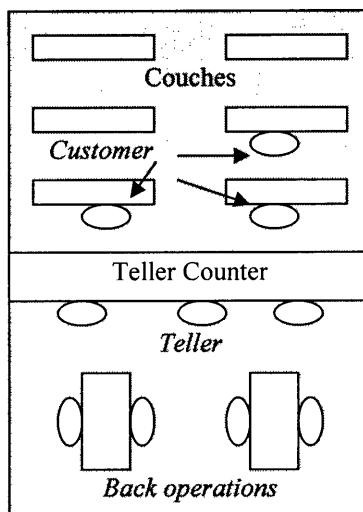
assumptions” that explain and shape the artifacts and the espoused beliefs of the bank.

4.1 Artifacts and Beliefs and Values

4.1.1 Office Features, and Bankers’ Behavior toward Customers

On my first day at work at the former Mitsubishi Bank, I entered the head office building feeling somewhat uncomfortable and nervous. After a concentrated introduction training course, I was assigned to work at a domestic branch in Tokyo. At the branch, I felt the same tension. Since I was anxious and ambitious, such tension might be expected. However, even today, I still feel the same sense of discomfort after 18 years working at the bank.

When I visit a bank branch as a customer, I notice that sometimes the tellers and guides in the lobby welcome me with a smile and politely greet me. However, this behavior creates a curious atmosphere, as if they might block admittance to customers who are unfamiliar to them. What creates this atmosphere? One reason may be the highly structured layout of the branch (see Figure 4-1). Couches for waiting customers are put in front of the teller counter, facing each other. Customers do not chat with one another, it is all business.

Fig. 4-1 Example of typical office layout

Second, the bankers are formally dressed and very polite. All bank employees are educated about the standard dress code for the ideal banker including color of shirts, length of hair, length of nails, and so on. People must also learn basic business manners, such as how to get into and out of an elevator with other people, how to exchange a business card, and so forth. Because most Mitsubishi bankers are neatly dressed and very polite, they look serious and seem to be always on guard.

Bankers must always be cautious toward customers because, presumably, money is involved. Robbery is a threat, which generates tension between customers and bankers. The presence of video recorders also adds to the tense atmosphere.

Artifacts of Office Features of a Branch

- The office has a formal and tense atmosphere which creates an uncomfortable feeling for customers. It often feels unfriendly to unfamiliar people.
- The office is very quiet.
- The office is tidy and orderly.
- The office layout suggests that bankers and customers are confronting each other.
- The office is strictly secured.
- Bankers are thoroughly educated on their appearance and business manners.

Why does the bank not change its style? I believe these artifacts are built on espoused beliefs and values that are difficult to change. The banking business consists of basics: deposits, loans, and exchanges. The banker's job is to deal with the money of others. If customers cannot rely on their bankers, they will not deposit their money with the bank. All banking business is based on ideals of trust and credibility. If bankers are sloppy and untidy, would people rely on them? Most people would not. Neat and polite bankers look more credible than sloppy, untidy people. The bank believes in the value of credibility. And it believes that being neat and tidy are basic conditions for bankers.

Espoused Beliefs and Values

- Bankers must be neat, accurate and well-behaved.

4.1.2 Bankers' Features

In general, most bank employees argue a lot about many topics—sometimes business, sometimes just general matters. No one hesitates to express his or her opinion. In the past, we would visit a bar after work and argue about different topics. One day we argued about why the bank entertains customers and how the entertainment should be performed. The argument gradually heated up. Opinions clashed. A young manager rebuked a relatively senior manager and the senior person cried. This may be an extreme case, but it suggests that bankers are expected to think about business problems, to have concrete personal opinions concerning them, and to bring those opinions into the organization.

Bankers have relatively high self-respect. Pride may well contribute to the culture of argument. Bankers are “elitists” who take pride in the fact that they belong to Mitsubishi Group, the biggest *zaibatsu* in Japan, and that they work at the bank which is a core company of Mitsubishi Group.

To be successful at the bank, bankers are required to develop their skills and abilities, to identify the essence of a problem but behave with a sense of balance between personal opinions and organizational decisions. Once business decisions are made after considerable argument, people give that decision precedence over all individual opinions.

Artifacts of Bankers' Features

- Bankers *like to argue*.
- Bankers are expected to develop individual opinions and thoughtfully determine *the essence of a problem*.
- Bankers *faithfully follow official orders and rules* when decisions are made organizationally.
- Bankers have *high self-respect*.
- Bankers are *elitist*.

The bank recognizes that a diversity of personal opinions is valuable for the organization and helps minimize wrong decisions. The bank encourages employees to think about the essence of business problems and to express their opinions. Employees have different opinions and different point of views.

Why do employees faithfully follow decisions? I think such behavior comes from the Japanese culture in which Japanese people inherently respect and obey organizational decisions collectively arrived at, rather than individual opinions. This aspect of Japanese culture influences the bank, especially in the strategy execution phase.

The bank believes that highly educated people have the ability to identify the essence of a business problem. While there are no specific data, graduates of elite universities—for example, University of Tokyo, Keio University, Waseda University, and Hitotsubashi University—are probably over-represented in the workforce.

Espoused Beliefs and Values

- A diversity of opinions are important for making right decisions.
- Final decisions are absolute, and followed faithfully.
- Highly educated people have the ability to identify the essence of business problems.

4.1.3 Leadership Style

Depending on the leader's personality and character, the leadership style in the bank varies. However, there is one common feature among most bank leaders: empowerment.

One of the most important responsibilities of a leader is to educate subordinates. In the bank, subordinates are educated through their empowerment. A leader assigns a difficult task which is normally given to someone who is one rank higher. This empowers the person to carry out the difficult task—both officially and unofficially.

When I was a 26-year-old clerk at an overseas branch, I was assigned to be head of the General Affairs Department in a manager position. Because I had only five years of work experience, the task of department head and managing eight subordinates seemed very difficult. However, the general manager who made the assignment me told me later that the position was used to train people.

In bank branches, only the general manager has the authority to grant a loan. However, senior managers actually make most loan decisions; the general manager leaves that task to senior managers as a way to

increase their education. As a result, the general manager's workload seems light and his or her leadership is invisible. However, the general manager who is doing the empowering must always check the performance of the senior managers. In the end, all responsibility for the outcome is borne by the general manager. This is the typical leadership style of a bank.

Empowerment is seen everywhere in the bank. When the president chooses a general manager, that person has complete authority to manage the branch or division. Even when the performance of the branch or division is lower than expected, a general manager is not usually replaced; instead, patience is expected as learning increases.

Artifacts of Leadership Style

- One of the most important responsibilities of leaders is educating subordinates.
- Subordinates are educated through empowerment by their leaders.
- Leaders still bear full responsibility for results.
- In normal circumstances, leaders seem to do little work. They make decisions only about critical problems.
- A leader has the responsibility to be patient.

Why do leaders empower junior staff? The bank recognizes that well-trained employees, especially those who value the bank's goals and vision, are the bank's most important asset. Therefore, training junior staff is one of the most important responsibilities of leaders.

Leaders believe it is difficult to train people. To empower them, those in the bank believe that the standard for decision making must be the same

for all employees. If the standard is not same, a leader cannot empower because the results based on the decisions of junior staff cannot be estimated. Standards develop through the discussion process mentioned in the previous section and through repeated daily business at the branch.

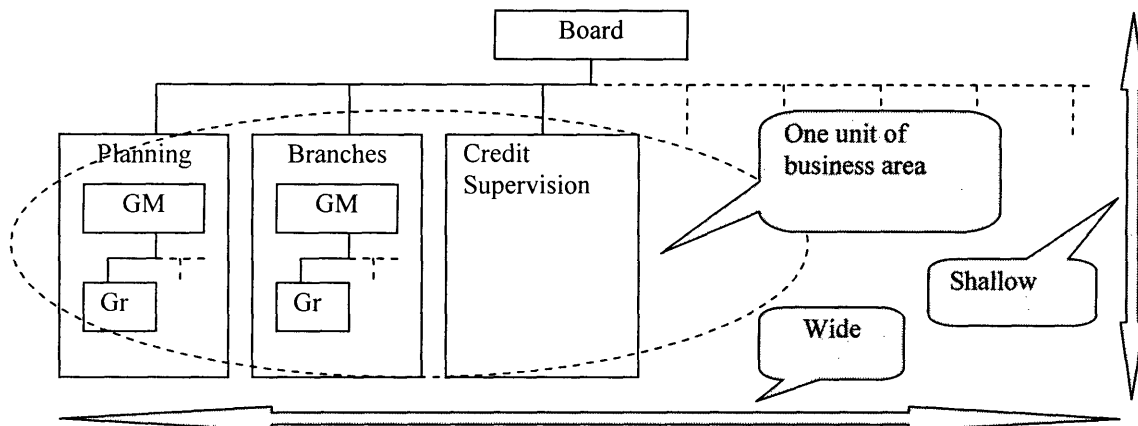
Espoused Beliefs and Values

- Well-trained employees are the bank's most important asset.
- Difficult tasks and positions enhance the personal capabilities of future leaders of the bank.
- All employees must have the same standards of judgment.

4.1.4 Organizational Features

The bank's organization is structured horizontally by business areas and functions, such as domestic corporate business planning, domestic retail business planning, domestic branches, international business planning, overseas branches, financial market business and so on.

Vertically, it is structured by duty and authority. The shape of the organization is horizontally very wide and vertically shallow (see Figure 4-2).

Fig. 4-2 Organization Design

The job flow is complex in spite of being organized in a shallow hierarchy. If managers want to provide a loan to a customer, they must obtain the approval of a general manager, and the approval of their credit supervision division, even though the credit supervision division is not a part of the managers' organizational reporting line. A number of organizational units must be negotiated with, both vertically and horizontally. The reporting lines are tangled depending on the business matter.

To accomplish this task requires horizontal, cross-division teamwork and close communication between divisions. Success depends on whether the counterparts are friends or not. For example, when I worked in the R&D Division at the head office, I needed the cooperation of the System Division and the Operation Planning Division. Initially I knew no one in either division. Therefore, I took the time to create relationships and develop

products. Once those relationships were in place, I could smoothly and quickly develop new products because my friends in both divisions helped me, officially and unofficially.

Artifacts of Organizational Features

- The bank is a *large and complex* pyramid organization.
- All responsibilities are *clearly defined and assigned* to each organizational unit.
- *The human network* is critical for smooth and quick job execution.

4.1.5 Organizational Behavior

A bank is proud. It dislikes betraying weakness. When others are facing difficulties, a bank likes to help. When the bank faces difficulties, it tries to solve problems through its own efforts without help from others.

For example, the bankruptcy of Hokkaido Takusyoku Bank in 1997 damaged the credibility of the Japanese financial system. In 1999, the government decided to prepare special funds for capital injections to banks that were financially damaged by bad debt loan losses, in order to sustain the Japanese banking system. From 1999 until 2002, many Japanese banks were helped by those funds, including the Bank of Tokyo-Mitsubishi. But the bank quickly repaid the loaned funds by public stock offerings and selling its headquarters building. And the bank never increased its capital through the use of the government's special funds.

The bank dislikes advertising and self-praise. After the collapse of the bubble economy, bankers were criticized about their relatively high salaries, and shareholders and other stakeholders were angry about the banks' poor profitability. Many banks, including Bank of Tokyo- Mitsubishi, reduced the salaries of board members and employees. Many banks made a number of public announcements about such actions to the mass media. However, the Bank of Tokyo-Mitsubishi did not announce its actions in the press.

The bank severely punishes employees who act dishonestly, and the name of the punished person is announced internally. On the other hand, the bank does not blame people for failure if the decisions they made were based on a correct process. In that case, the organization takes responsibility for the failure. This means that a failure is resignedly accepted by the whole organization. For example, managers who fail are not blamed for the failure if they performed their tasks faithfully and according to bank rules. The loss from such a failure is quietly absorbed by the bank.

Artifacts of Organizational Behavior

- The bank is *proud*.
- The bank *dislikes announcing their efforts*.
- The organization takes responsibilities for the results, if correct processes have been observed.

I believe the bank strongly values independence. The bank influences others, but it does not want to be influenced by others. A belief in

independence helps create and sustain the pride that members feel toward the bank.

The bank believes in fairness. Results are less important than fair decision making and execution. All the bank's businesses are done through teamwork. Results are produced through organizational teamwork. Therefore, the responsibility for all results is borne by all in the organization.

Espoused Beliefs and Values

- The bank is *independent*.
- The bank must be *fair*.

4.1.6 Customer Business

Since the bank's business is primarily commercial, customers have a right to select banks. But, according to Bank of Tokyo-Mitsubishi's philosophy, the bank has a right to select its customers as well. This makes the bank different from other industries.

Before becoming close to customers, business matters are examined across divisions from a variety of viewpoints based on business standards the bank has developed. Consequently, the base of bank customers is selective and conservative. Such behavior allows critics of the bank to say it lacks assertiveness, is too risk-averse, and too courteous.

Artifacts of Customer Business

- The bank selects its customer.

Because the bank plays a major role in the economic infrastructure of the country, some believe the bank must open its doors equally for all people. However, it is the bank's position that it needs to develop and sustain business relationships only with sound customers. The bank believes that doing business with weak customers damages the bank's credibility. It utilizes a specific standard of judgment when developing its banking business. In my experience, when the bank enters into a relationship with a new customer, the bank carefully checks whether this customer is appropriate for the bank and meets current standards. The selective behavior of the bank is conspicuous. It creates a somewhat uncomfortable atmosphere in the branch as well.

Espoused Beliefs and Values

- The bank's customers must be of good character, honest, and sound.

4.1.7 Innovation

The bank seems to frown on innovation, choosing instead to behave conservatively based on past policies and firm standards. The bank understands the importance of innovation, and it encourages all employees

to think creatively in terms of business processes, products, and services. However, the bank is comparatively slow to innovate. For example, one is encouraged to create an innovative product, but when one proposes an innovative idea, others in the organization will find flaws. Consequently, the approved new products resemble old products. Innovation is slow and slight.

Artifacts of Innovation

- The *bank is conservative*.
- Innovation *progresses slowly* in the bank.

There are several reasons for this conservatism. First, the fear of bankruptcy holds back innovation even though, without innovation, bankruptcy might occur. This dilemma can be seen throughout the organization. Historically, the bank has tried to balance innovation and tradition.

Espoused Beliefs and Values

- *Drastic innovations and rapid change may lead to difficulty.*

4.2 Basic Assumptions

Before World War II, the founder, Yataro Iwasaki, and his successors managed the Mitsubishi companies including Mitsubishi Bank based on the

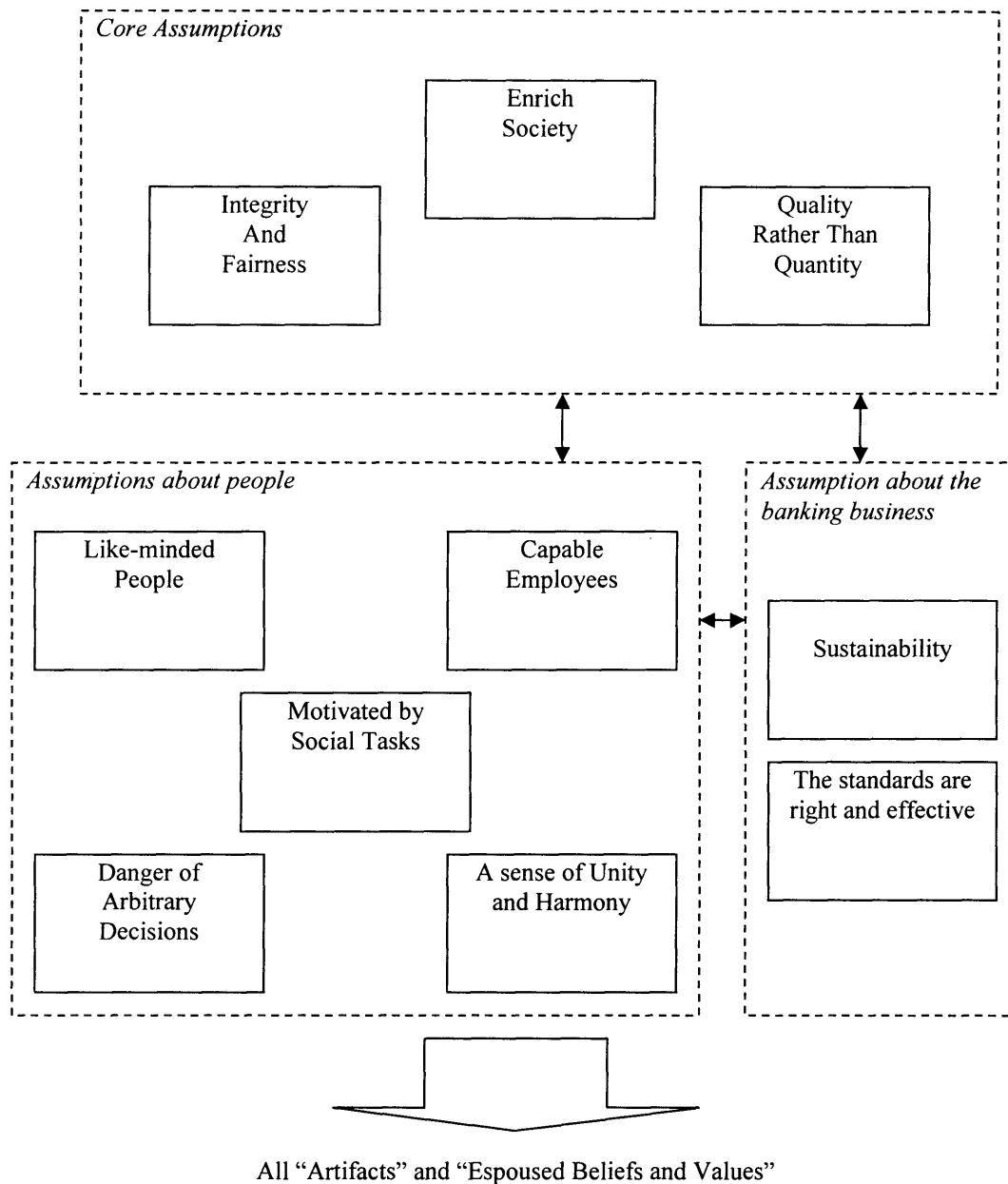
following basic core assumptions. These have been passed down in the bank from generation to generation:

1. Mitsubishi enriches society both materially and spiritually.
2. Mitsubishi conducts its business in the spirit of integrity and fairness.
3. Mitsubishi pursues quality of business rather than quantity of business.

The first assumption concerns the purpose of the Mitsubishi business. Around this assumption, the following two assumptions are developed that relate to the first. To enrich society, Mitsubishi must maintain integrity and fairness in its business dealings with members of society. Also, Mitsubishi must avoid becoming involved in commercial competition that leads to the pursuit of quantity rather than quality of business.

The bank is managed along the lines of these assumptions. For example, to pursue business quality for the purpose of enriching society, the bank is carefully selective about its customers' business. The bank avoids speculative businesses. The bank wants to be independent from others, including the government, in order to accomplish their ideal contribution to society. These three assumptions are located at the center of the Bank of Tokyo-Mitsubishi's cultural paradigm as core assumptions (see Figure 4-3).

Fig. 4.3 The Cultural Paradigm of the Bank



To perform the bank’s business based on the above-mentioned core assumptions, the following secondary assumptions were developed:

1. All employees are like-minded people who agree with the bank's business purpose.
2. All employees have the ability to make decisions and to execute the bank's way.
3. All employees are motivated by their social tasks.
4. Arbitrary decisions lead Mitsubishi in the wrong direction.
5. All employees respect organizational unity and harmony.

All employees agree with the purpose of the bank's business — “to enrich society” — and they all strive to perform the bank's way based on integrity and fairness. All employees have the capability to perform the bank's way.

These assumptions influence recruiting as well. The bank recruits highly educated people whenever possible. All employees are motivated to contribute to society through their tasks as members of the bank and they take pride in their contributions to society. The bank believes that arbitrary decisions are dangerous and it is possible for anybody to make a wrong decision. This assumption encourages a culture of argument and leads to a complex decision-making processes in the organization. To avoid making wrong decisions, the bank encourages argument and the close examination of decisions from several points of view. This decision-making process proceeds slowly.

In the execution phase, a sense of unity and harmony is given top priority. In addition, because the purpose of the bank's business is agreed by all employees, decisions are smoothly executed, even though not all employees have same opinion about the final decisions.

The following assumptions are developed by the bank.

1. Sustainability of the banking business is the most important goal of the organization.
2. The bank's standards are always right and effective.

It is commonly believed that credibility is one of the most important assets for the banking business, and that banks have roles both as a public company and as an economic pillar of society's infrastructure. Yet, due to the influence of the first assumption, the bank's role as a pillar in the economic infrastructure takes precedence over its role as a public company. To fulfill its social role, the bank believes that managing the bank in a stable manner and providing secure and dependable banking services to its customers are the primary tasks of the bank. And they believe that performing these tasks well enhances their credibility.

Based on these assumptions, the bank develops business relations only with honest and sound customers (i.e., selective behavior). The bank refuses to do business with customers who have speculative, dishonest, and/or unsound business practices. The bank values its long-term relations with good customers. The bank believes that its standards are effective and

that society agrees with them. This assumption about sustainability influences the bank's behavior toward innovation. Because the bank must provide secure and stable banking services to maintain long-term customer relations, sustainability is more important than innovation.

These assumptions are the foundation of the bank's culture. The source of the visible culture (artifacts) and beliefs summarized previously can be understood only through these assumptions. These assumptions are the Bank of Tokyo-Mitsubishi's "cultural DNA."

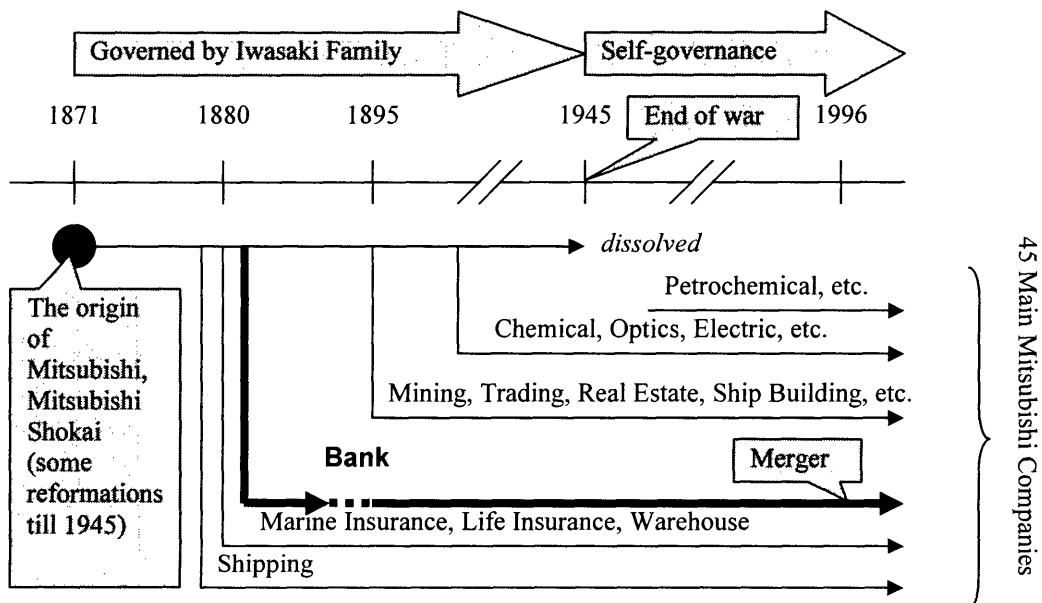
Chapter 5

Origin and Development of Assumptions

In this chapter I analyze the origin, development, and embedding process of the assumptions I have defined based on the bank's history.

As discussed earlier, the Bank of Tokyo-Mitsubishi was a member of the Mitsubishi Group (as well as a special foreign exchange bank earlier in its history). The history of Mitsubishi Group is summarized in Figure 5-1.

Fig. 5-1 History of Mitsubishi Group



Where did the bank's cultural assumptions originate? How were they developed and embedded in the organization? I discuss these questions by analyzing the process through which each assumption was developed.

5.1 Characteristics of the Development Process

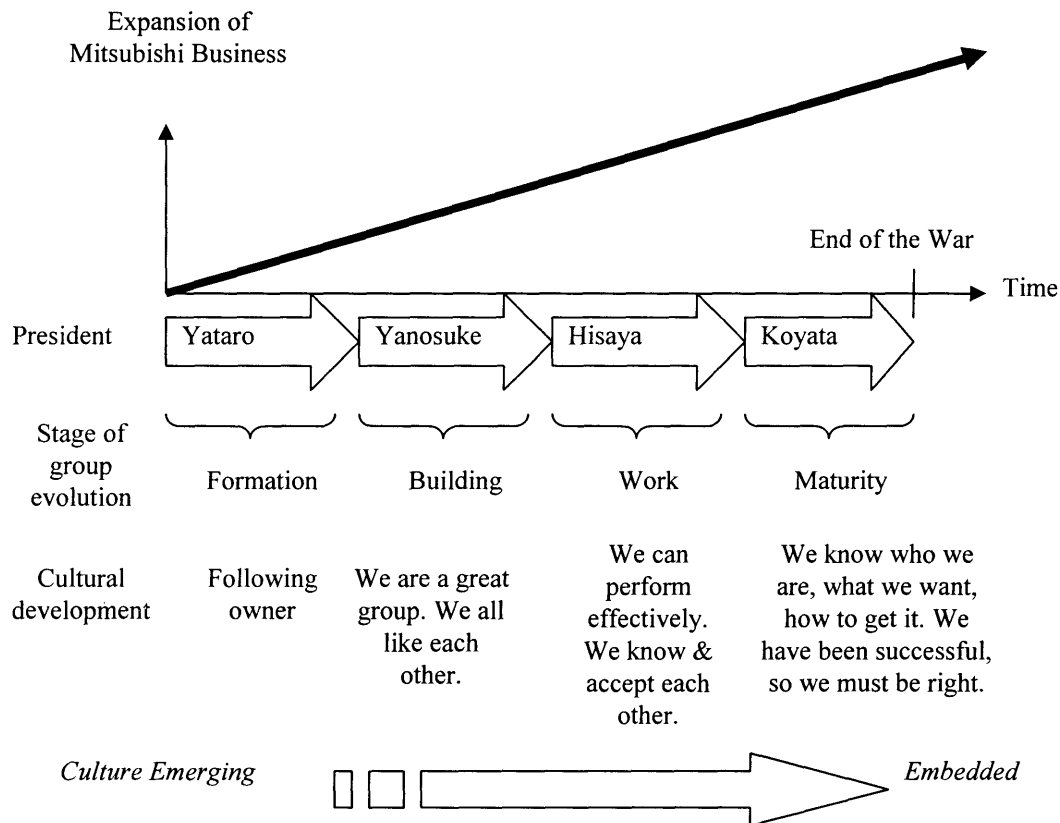
The bank experienced two periods of culture development. One occurred before World War II and the other during the post-war period.

5.1.1 Process before World War II

The development process before the war (1871 -1945) is shown in Figure 5-2. It is based on Schein's group evolution stages (2004).

Most of the bank's assumptions had their origins in the philosophy, values, and spirit of the founder and his successors. The owners regularly communicated these values during this period to ensure they were fully understood and performed. As Mitsubishi's business expanded and the organization functioned as a team and performance improved, these values gradually became embedded into the organization as the Mitsubishi culture. During this period, most assumptions were "espoused beliefs and values."

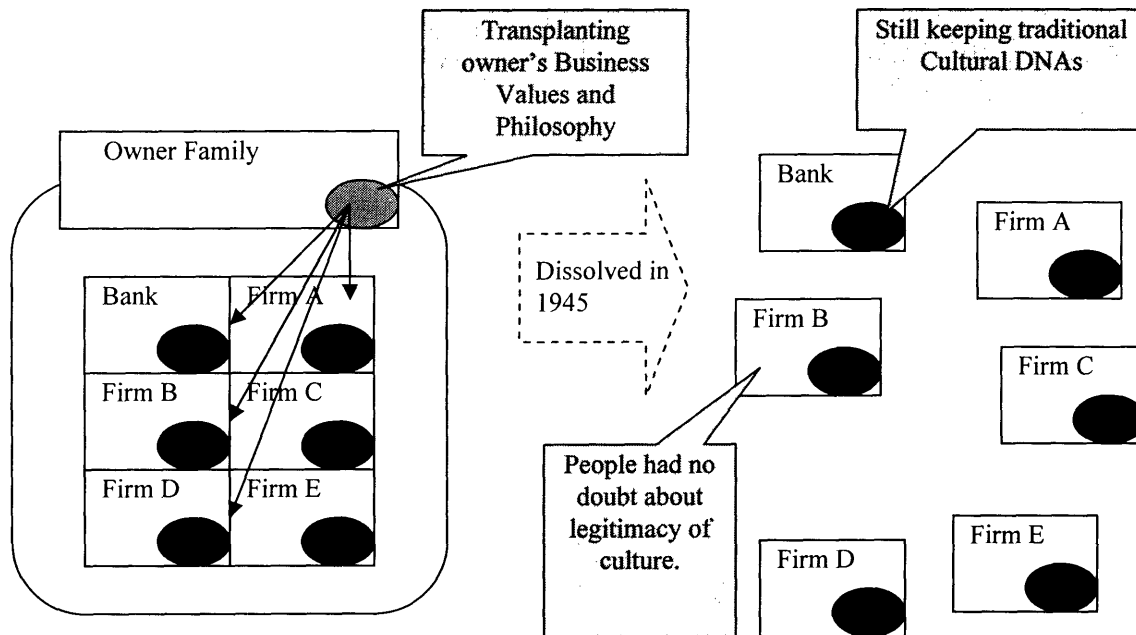
Fig. 5-2 Emerging and Development Process (1871-1945)



5.1.2 Inheritance of the Culture after Mitsubishi Group was Dissolved

After World War II, Mitsubishi group's governance system changed dramatically due to orders from the occupation army. The army's intent was to eradicate *zaibatsu* activities by dissolving the groups (see Figure 5-3). Mitsubishi Group was dissolved too, and the owner's family was exiled from management. The Mitsubishi companies, including the bank, were then restarted as self-governed organizations.

Fig. 5-3 Culture remains despite dissolving of *Zaibatsu*



On a superficial level, the change and restructuring strategy succeeded. The company's culture, beliefs, and values developed in the previous period were no longer repeated to employees as the owners had done before the war. However, the occupation army could not fully eradicate the Mitsubishi culture. The culture was quietly resumed in other Mitsubishi companies by employees who had been educated by Mitsubishi men/women during earlier periods. Thus, the culture remained despite the external pressure for environmental change.

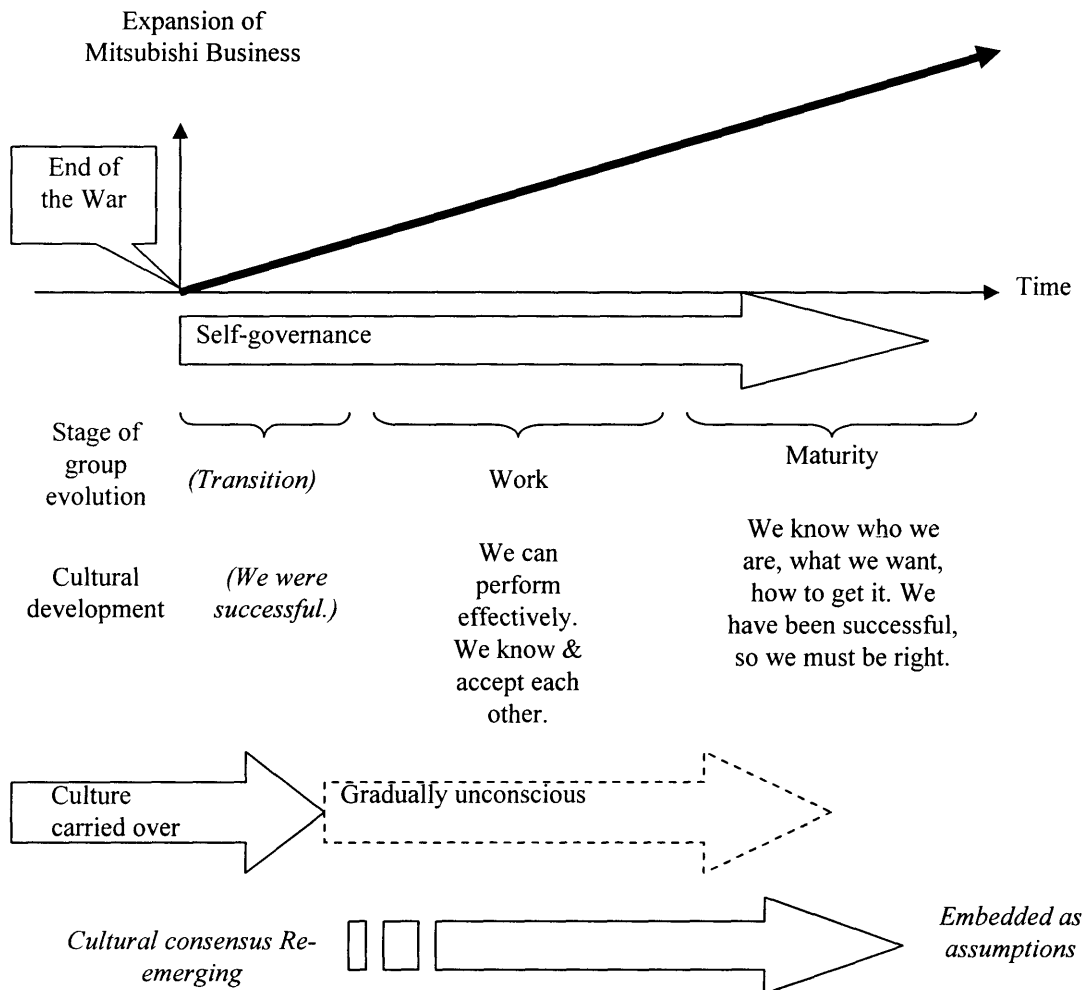
Why? Even after the group was dissolved and the owner's family was gone, the employees continued to believe "we did nothing for which we can be blamed by others." They had no doubt about the legitimacy of their

culture. Thus, the culture could not be easily changed by any external pressures. In fact, culture usually changes only when people in the organization have doubts about the culture or believe that it needs to change.

5.1.3 Process after the War

The firm's culture (i.e., its beliefs and values) gradually dissolved as a new generation of employees took over after the war. Yet the bank and other Mitsubishi companies performed well and contributed to the redevelopment of Japanese industry and society at levels similar to those in place before the war. Society in general held a positive view of Mitsubishi's performance and contributions. Based on its performance and reputation, the cultural consensus about the bank's behavior gradually redeveloped in the organization. Thus, the culture (not as beliefs and values but as assumptions) became re-embedded in the organization during this period (see Figure 5-4).

Fig. 5-4 Emerging and Development Process after the war



5.2 Core Assumptions

Core assumptions are closely related to each other. The origin of the three core assumptions are the same and reflect the Samurai spirit of the founder. The assumptions were embedded largely by the same process. Only the timing of their appearance in the organization is different.

5.2.1 Core Assumption: “Enrich Society”

Before the modernization of Japan began, Samurais governed society. Samurais had great pride, a strong sense of justice, and an equally strong desire to serve society. Together these make up the “Samurai spirit” (Nitobe, 1938).

Yataro Iwasaki was born in a Samurai family. He started his shipping business in 1871 based on the Samurai spirit: a strong desire to contribute to the nation. When the government ordered Mitsubishi Shipping Company to undertake military transportation to Taiwan in 1874, Yataro Iwasaki wrote the following letter to the government:

[Summary of letter]

The government thinks that Mitsubishi is important for the nation. Mitsubishi must meet the government’s expectation with all its might to help the nation develop. The government chose Mitsubishi from among many other shipping companies. Therefore we must perform well in order not to disgrace the government. If this shipping transportation does not succeed, the national wealth of Japan will not grow. If the national wealth does not grow, the navy will not grow. Therefore Mitsubishi’s social responsibility is beyond measure. I am fortifying myself for this responsibility. Then, with the successful accomplishment of Mitsubishi’s task for the nation, Mitsubishi will obtain commercial benefit. (Miyakawa, 1996)

Iwasaki’s business philosophy is clear in this letter, and it presumably formed the basis of one of the company’s core assumptions: “enrich society.”

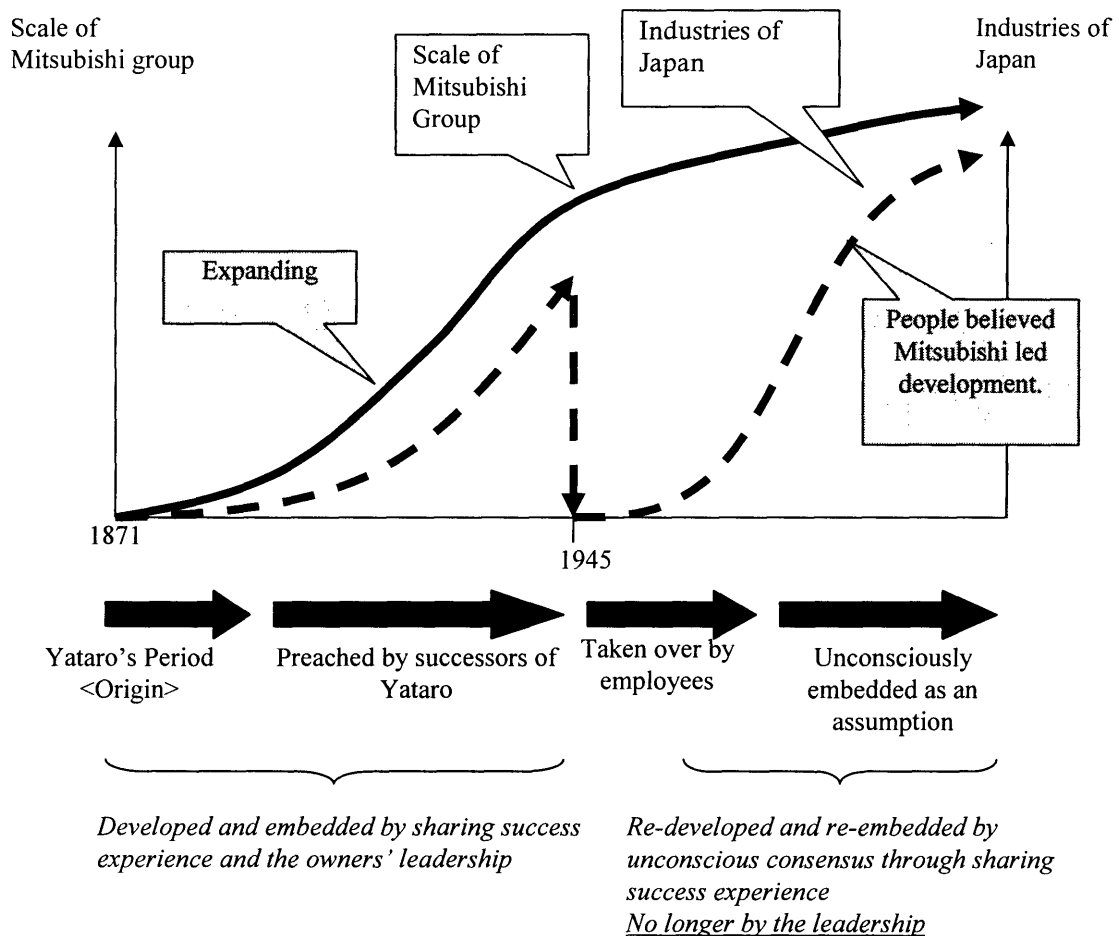
His successors, Yanosuke Iwasaki, Hisaya Iwasaki, and Koyata Iwasaki, continued to maintain Yataro's philosophy and conducted their business according to his established business philosophy (Miyakawa, 1996).

As the business became successful and expanded, and the number of employees increased, Yataro's successors repeatedly preached his business philosophy so that all employees fully understood and adopted it. For example, the fourth Mitsubishi president, Koyata Iwasaki (president, 1916-45), specifically mentioned Yataro's philosophy in a 1921 speech: "We are commissioned to perform manufacturing and provide services to the nation. We must measure up to these national expectations. As we remember this purpose, everybody must strive to accomplish each task" (Miyakawa, 1996). Thus, the philosophy became firmly embedded in the organization through sharing success experiences and via the owners' leadership example.

After Mitsubishi Group was dissolved by the occupation army, the new company hired employees who espoused the owners' philosophy which had been drilled into them earlier. So, although Mitsubishi Group was dissolved, the new employees consciously and unconsciously incorporated the old culture and values into the redevelopment process. The philosophy gradually became inherent as new generations entered the company. But, arguably, even new employees felt that "we, Mitsubishi, contributed to Japanese society and led Japanese society." This mutual feeling is spread

throughout the organization. Figure 5-5 summarizes this process of development.

Fig. 5-5 Embedding Process for the Core Assumption, “Enrich Society”



In my experience, although I have never been specifically taught the philosophy that Mitsubishi gives priority to contributing to society, I have been aware at some level that the bank is a leader in the banking industry

through its contributions to society. I recall that the media referred to Mitsubishi as a leading business in Japan in the 1980s. Probably because I have been motivated by the company's reputation, I have unconsciously accepted the assumption.

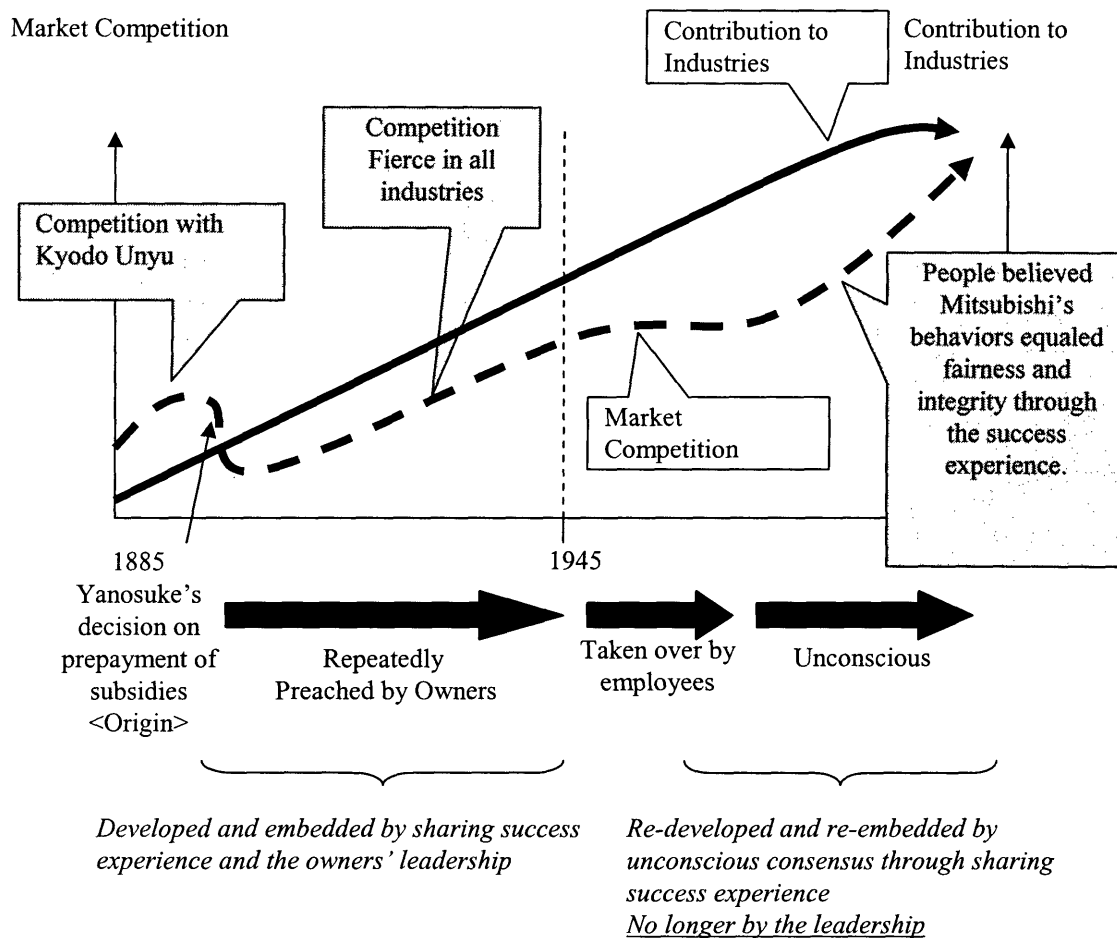
5.2.2 Core Assumption: "Integrity and Fairness"

The first appearance of the core assumption of "integrity and fairness" in the organization became apparent in the business behavior of the second president, Yanosuke Iwasaki when Mitsubishi Steamship Company competed with Kyodo Unyu (1882-1885). During Yataro's presidency, Mitsubishi had obtained subsidies from the government (1875-1885). However, when Yataro died in the middle of a period of fierce competition, Yanosuke decided the company should repay all the subsidies it had been given by the government in the past. He wanted to compete "fairly" with Kyodo Unyu (which had been established by the government and Mitsui) by breaking off all financial relationships with the government (Sakamoto, 1986). This decision represented a tangible action based on the belief that had been espoused by the company. Because Mitsubishi obtained commercial benefit as a result of its contributions to industrial development, other companies began to enter the same markets Mitsubishi had developed and began to enjoy the benefits. Thus commercial competition increased (Miyakawa, 1996).

To sustain the spirit of “integrity and fairness” in the organization, Yanosuke’s successors, Hisaya (president, 1893 to 1916) and Koyata Iwasaki (president, 1916 to 1945), repeatedly preached the importance of “integrity and fairness.” For example, when Koyata was the vice president, he wrote in a magazine published for Mitsubishi employees in 1915: “Integrity and fairness are two of the most important values for an industrialist. Success that is accomplished by unfair tactics is a disgrace. Success accomplished by doing our best fairly and bearing up well under difficulties, is real and pure success” (Miyakawa, 1996). Thus, this spirit was firmly embedded in the organization as part of the Mitsubishi business culture, by sharing the success experiences and following the leadership of the owner.

After World War II, these values re-emerged among new employees. They were then re-embedded as assumptions in the organization in a process similar to “enrich society.” With a shared feeling that “we performed our business well and fairly for social development without any help from others,” the consensus about business behavior with integrity and fairness was gradually and firmly embedded. Figure 5-6 illustrates the process of embedding the core assumption of “integrity and fairness.”

**Fig. 5-6 Embedding the Core Assumption of
“Integrity and Fairness”**



5.2.3 “Quality rather than Quantity”

Before World War II, Mitsubishi placed great emphasis on national benefit rather than on the company's own benefit. This behavior led the spirit of “quality rather than quantity.”

Although the Mitsubishi businesses diversified and expanded after Yanosuke's presidency (1885 - 1893), this expansion was not for the purpose of pursuing business quantity and commercial benefit. For example, when Mitsubishi acquired Hyakujuyuku Bank in 1885, Yanosuke Iwasaki's decision was based on his desire to help the bank get through difficulties it was facing in order to sustain the stability of the Japanese financial system (Sakamoto, 1986).

As Mitsubishi's businesses expanded and competition increased, the Mitsubishi owners repeatedly preached the need for this spirit of "quality not quantity," driving it home to all employees. For example, Koyata Iwasaki stated in his speech to employees in 1919

[Summary of the speech]

We should thoroughly compete with other companies if it is a fair competition. However, we should compete not in quantity but in quality. We do not evaluate our business in comparison with others' turnover. Otherwise, such competition may lead to a moral hazard. Such competition is against Mitsubishi's business purpose, and would be the destruction of Mitsubishi. We must absolutely avoid such competition. (Miyskawa, 1996)

This spirit was well understood throughout the organization and influenced the bank's management. Until 1980, some bank board members were directly educated by Koyata Iwasaki. They conducted all the bank's business in this spirit and refused to pursue a strategy of increasing asset volume (Anonymous, 1/13/05).

The present generation in the organization has had no experience with actually learning this spirit. However, most employees unconsciously

feel it in their daily work experience. Thus, the consensus that the bank gives priority to business quality rather than quantity has spread imperceptibly and become embedded in the organization.

Today Mitsubishi products are generally regarded as high quality in each market where they compete. Such a public perception and reputation has helped develop a consensus among employees in the value of that core assumption of “quality rather than quantity.”

5.3 Assumptions About People

All the assumptions about people come from the human resource strategy that was developed and embedded by the owner family.

When Mitsubishi began, the company was governed by an autocratic system run by the president, Yataro Iwasaki. This was confirmed in some of the company regulations of the Mitsubishi Steamship Company established in 1875:

[Summary of the regulations]

Article I: Although our business is conducted as a company business, it is the business of the Iwasaki family as a practical matter. All decisions must be made by the president.

Article II: Consequently, all profits belong to the president. And all losses are borne by the president. (Sakamoto, 1986)

Yataro required loyalty and absolute obedience from his employees. He hired academic people to support him as he accomplished his business ambitions. According to Sakamoto (1986),

Yataro said: “When I started my business, I hired normal people. Because they had no academic education, they could not understand what was important and why it had to be a certain way. I must hire people who have academic education.”

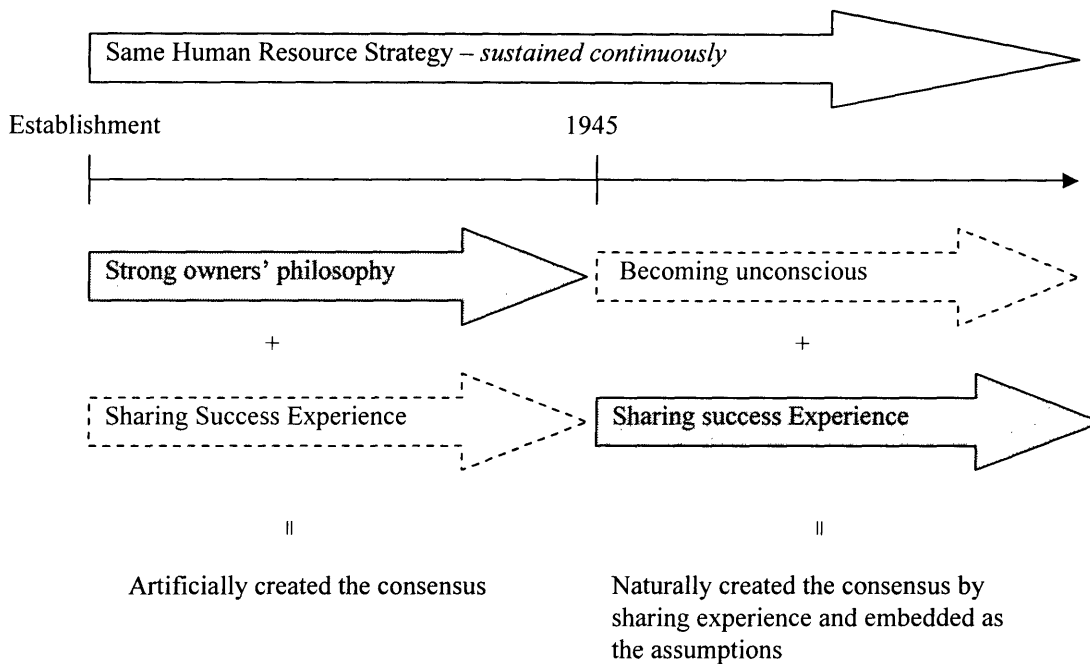
At the beginning of Japanese modernization, most educated people came from Samurai families (Sakamoto, 1986), so they presumably understood Yataro’s business spirit and ambition. They were also probably motivated to share his ambitions. Some people left Mitsubishi because they did not agree with Yataro’s despotic management style. As a result, Mitsubishi was run by highly educated, like-minded people who gave absolute loyalty to Yataro and his dictatorial style (Sakamoto, 1986).

Yataro encouraged his successors, Yanosuke, Hisaya, and Koyata, as well as some highly capable employees, to expand their knowledge by studying abroad. Yanosuke studied in the U.S., Hisaya studied at the University of Pennsylvania, and Koyata graduated from Pembroke College of Cambridge University (Sakamoto, 1986; Miyakawa, 1996).

To accomplish his ambition, good teamwork was necessary (“a sense of unity and harmony”). Team members were motivated by contributing to society rather than obtaining personal benefit (“motivated by social tasks”). Yataro needed a range of diverse opinions in order to make the right business decisions and to conduct business (“danger of arbitrary decisions”).

After Yataro's presidency, as Mitsubishi business expanded, the company's fame spread throughout Japanese society (Miyakawa, 1996). Young university graduates who dreamed of contributing to the nation applied for jobs at Mitsubishi, attracted to Mitsubishi's business philosophy and their own sympathy with its business behavior. Mitsubishi hired many such people and repeatedly drilled into them the Mitsubishi values (Miyakawa, 1996). Thus, the Mitsubishi organization is filled with people who approach problems in similar ways ("like-minded people") and are highly motivated to contribute to society ("motivated by social tasks" and "a sense of unity and harmony"). This process is illustrated in Figure 5-7.

Fig 5-7. The embedding process for assumptions about people



Since World War II, this strategy of hiring highly educated people has continued. The assumptions about people have been developed and embedded, following the same process as the three core assumptions. By sharing successful experiences and supported by its good reputation, bank employees feel they are motivated by social tasks and that they are like-minded people. My colleagues and I feel we are capable of performing our tasks and value the importance of unity and harmony. Such feelings run deep throughout the organization and a consensus surrounding the core assumptions on the firm has been unconsciously but firmly created.

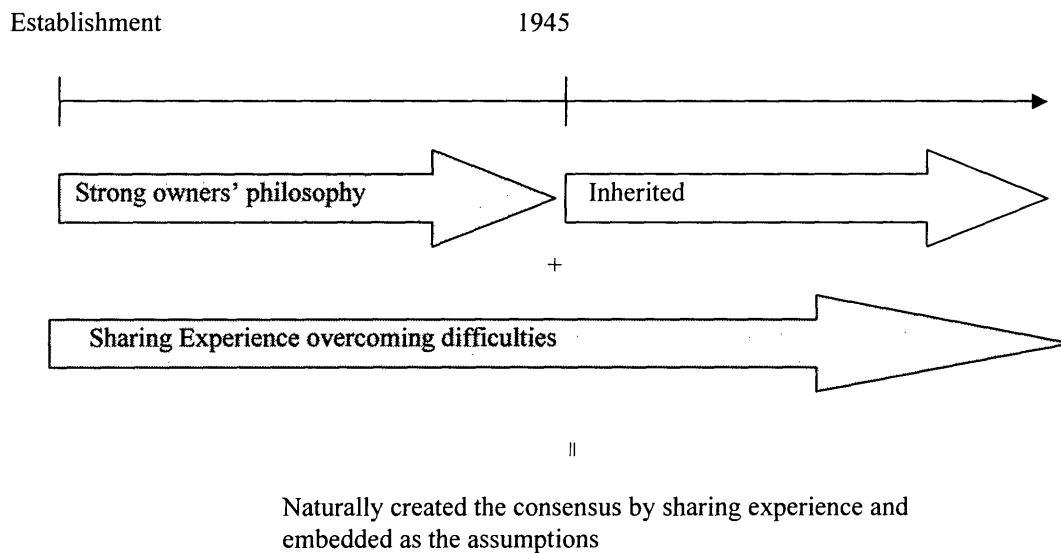
5.4 Assumptions about the Banking Business

Yanosuke and Hisaya Iwasaki recognized that the bank served a “public function” when they started the full-scale banking business in 1895 (Miyakawa, 1996). They established a priority for sustainable and sound management that could perform its social tasks as part of the bank’s financial infrastructure (Miyakawa, 1996). They separated the banking business from other Mitsubishi businesses. For example, when Mitsubishi started a new business, the bank provided loans when the business encountered problems (Miyakawa, 1996). Yanosuke’s stance for conducting banking business is the origin of this assumption.

The same conservative stance was adopted by Koyata Iwasaki. For example, he prohibited speculative businesses (Miyakawa, 1996). That business philosophy reflects directly back to the bank’s standards previously explained.

In the postwar period, bank personnel still held the same consensus: that “sustainability” was their most important responsibility. The bank overcame many difficulties, including the 1922 financial crisis, hyperinflation after World War II, and so on. The bank believed it would always be sustainable because it had sound and effective business standards and practices that had been in place since the earliest days of the company. This process is illustrated in Figure 5-8.

Fig. 5-8 Embedding Process for assumptions about the banking business



5.5 Summary

In order to develop and embed the bank's cultural assumptions, the following three factors were necessary.

(1) Leadership

All assumptions have origins in the spirit and philosophy of the founder and his successors. The founder brings the values and philosophy into the organization.

(2) Excellent fit with social needs

Since the beginning of Japanese modernization in 1867, Japanese society has wanted to enhance national wealth and catch up with

other Western countries. Mitsubishi's business spirit contributed to society by developing industry. Social needs and Mitsubishi's business spirits have always fit well together.

(3) Success experiences

To create and firmly embed the assumptions in the organization, success experiences are necessary. Because of these successes, the bank personnel easily converted beliefs into assumptions.

Because the Mitsubishi culture was created and embedded based on these factors, the culture held firm even when Mitsubishi Group endured the process of dissolution.

Chapter 6

Conflicts between Culture and Reality

The bank's external and internal environments have changed dramatically since the collapse of the Japanese bubble economy in 1991. During this period, I felt that the atmosphere in the bank's office had become different and employee motivation seemed to decline. The tightly united organization of the past seemed to become loose. What happened? I will analyze the changes from the cultural point of view.

First I will explain the changes in the environment in the period following the collapse (the early 1990s to the present), then analyze the cultural problem now facing the Bank of Tokyo-Mitsubishi.

6.1 The Changing External Environment

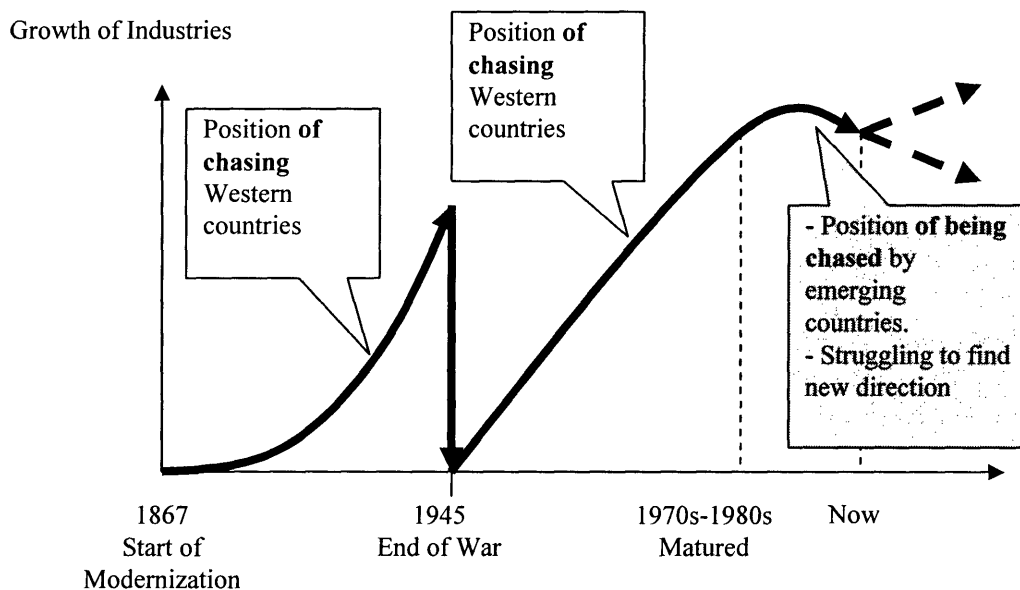
Since the early 1990s, the environment surrounding the Japanese banking industry has dramatically changed compared with the previous periods.

6.1.1 Completion of Redevelopment of Japanese Industries

Japan had been in a continuous state of industrial development since the beginning of modernization in 1867. During this time, all Japanese citizens had the same dream: to catch up with other Western countries in terms of both industry and living standards. Most Japanese believe that dream became a reality in the 1970s and 1980s.

Since the redevelopment process was completed as Japanese industries matured, Japan moved into a sustaining phase. At the same time, Japanese society struggled to identify new goals that could arouse enthusiasm and galvanize the population toward consensus.

Fig. 6-1 Development of Japanese Industries



In the late 1980s, because of the rapid progress of emerging countries such as China, Japan found itself being chased by others—the first time this had ever happened to Japan. How could the country cope with such industrial competition? How could it create sustainable competitive advantage? Japanese industries in general faced the problem of finding a new direction.

6.1.2 Deregulation

As industries developed and matured, regulatory policy became unnecessary. In addition, external pressures from Western countries to repeal regulations and protective tariffs became fierce in the first half of the 1980s. The government began to prepare for deregulation in the mid-1980s (Tanida, 1986).

During the regulated period, banks were required to obtain advance authorization by the Ministry of Finance when they wanted to do something new. But the government also protected the banks by strictly excluding new entrants from outside. Competition in the Japanese banking industry was limited and highly controlled.

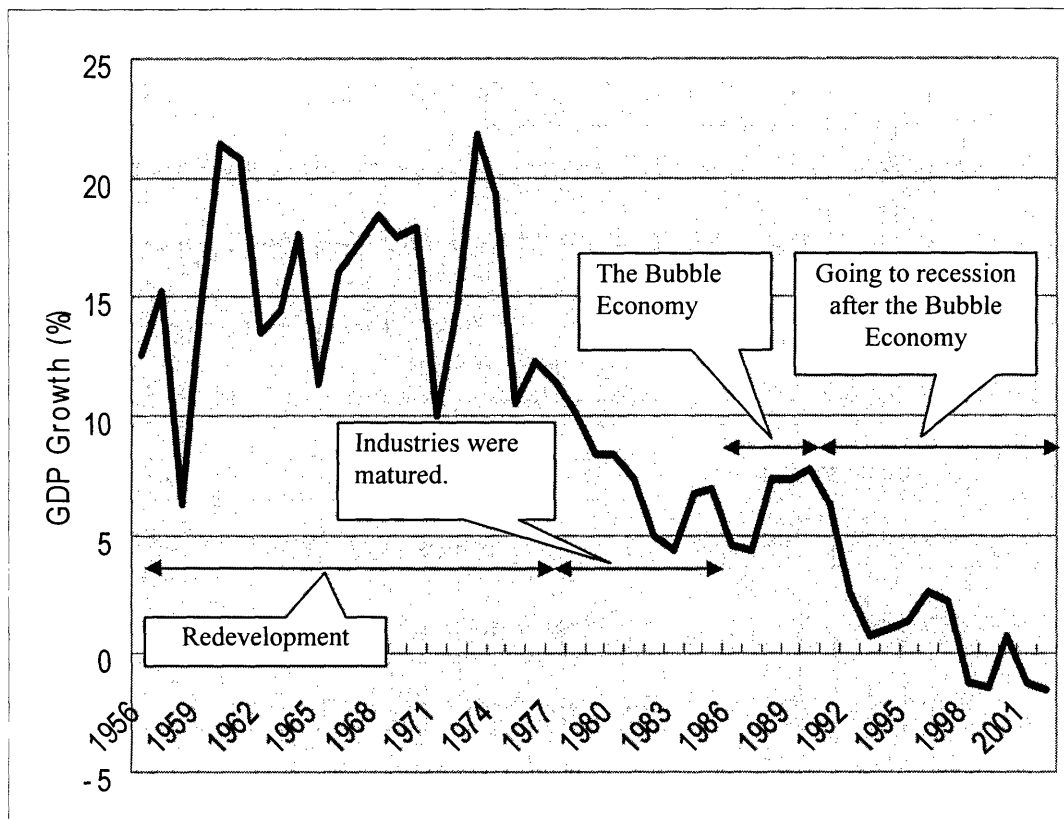
After deregulation begun in the second half of the 1980s, it became much easier for new firms to enter the banking industry from outside. Banks found many opportunities to run their business without first obtaining authorization from the government. They also found ways to start new businesses related to financial services, such as insurance and security

businesses as agents. Such strong competition in the banking business has now moved the industry into competition with insurance companies, with firms in the securities industry, and into competition with foreign banks.

6.1.3 The Collapse of the Japanese Bubble Economy and Recession

In 1991, the Japanese bubble economy collapsed. Because of the rapid progress of emerging countries into the world industrial market and weak domestic consumer demand, the Japanese economy declined sharply, and Japan went into a deep recession. Figure 6-2 shows changes in the growth of GDP from 1956 to 2002.

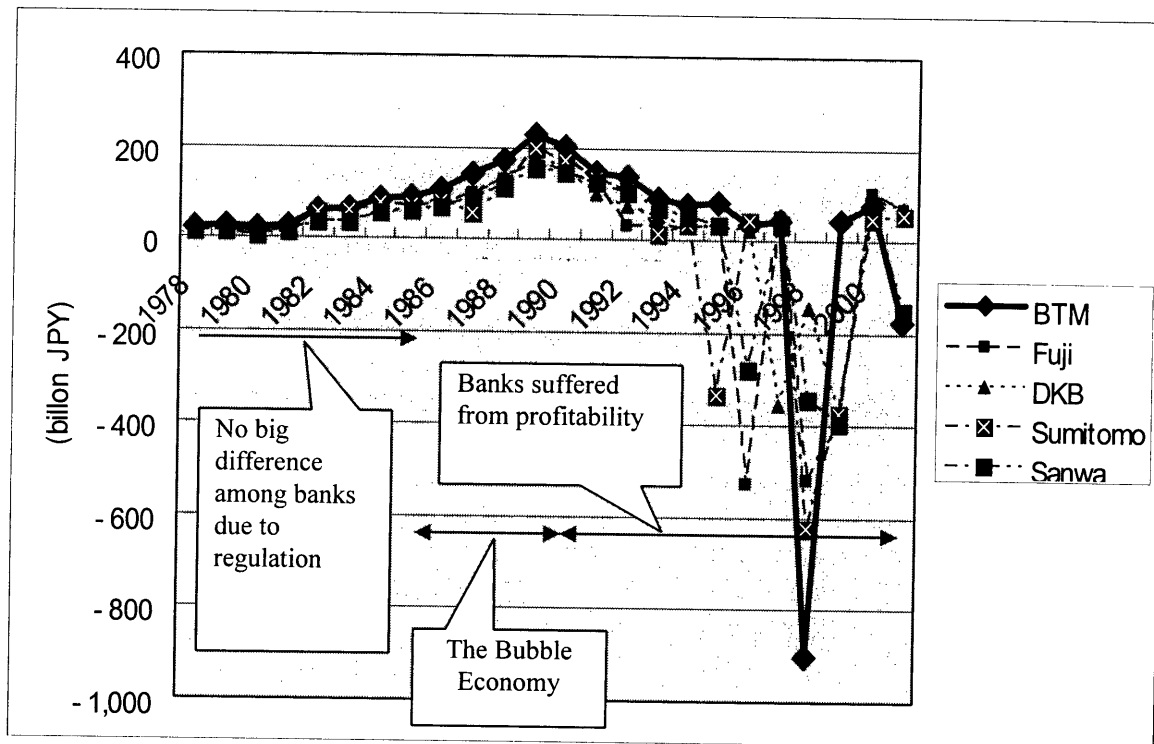
Fig. 6-2 Changes in GDP Growth Rate, 1956-2002



Source: Economic White Paper, 2003. Economic Planning Agency.

The profitability of Japanese banks dropped sharply due to the economic recession and losses from bad debt loans. Figure 6-3 shows the transition of net income among the big city banks from 1978 to 2001.

Fig. 6-3. Changes in net income for the major city banks, 1978-2001



Notes:

BTM: Bank of Tokyo-Mitsubishi (data before the merger in 1996 are the addition of the net income of Mitsubishi Bank and Bank of Tokyo.

Fuji: reformed now to Mizuho Bank and Mizuho Corporate Bank

DKB: Daiichi Kangyo Bank, reformed to Mizuho Bank and Mizuho Corporate Bank

Sumitomo: reformed to Sumitomo Mitsui Banking Corporation

Sanwa: reformed to UFJ Bank

Source: Nikkei Financial Yearbook 1978 – 2001.

Beginning in 2000 (as recounted in Chapter 3), a number of banks began to merge in order to survive. For example, Daiichi Kangyo Bank, Fuji

Bank, and Industrial Bank of Japan merged in 2000; Sumitomo Bank and Mitsui Bank merged in 2001; Sanwa Bank and Tokai Bank merged in 2001.

6.1.4 Bank-Bashing

During this period, many Japanese citizens became frustrated as the poor economy continued to grow worse. They criticized banks as the root of the economic problems because many thought the bubble economy was caused by loans, provided stupidly by banks, that fueled massive speculative investments. Paradoxically, people also believed that the recession was caused by the weakness of the banking industry because banks hesitated to provide loans due to their internal bad debt loan problems. In 1997, Hokkaido Takusyoku Bank went bankrupt, and at that point the credibility and reputation of Japanese banks were badly damaged.

6.2 Bank of Tokyo-Mitsubishi's Challenge

To cope with some or all of the above-mentioned environmental changes, the bank has implemented several new strategies. I discuss several of them below.

6.2.1 Merger

In 1996, The Mitsubishi Bank and the Bank of Tokyo merged in order to survive during this difficult period. For Mitsubishi Bank, the overseas

businesses of Bank of Tokyo were attractive; for Bank of Tokyo, the domestic businesses of Mitsubishi Bank were attractive; both banks saw potential synergies that could be developed to create new value-added business and combine both market strengths into one integrated entity. For example, the new bank could provide more high-value, cross-border banking services for former Mitsubishi Bank customers by making use of the overseas business skills of Bank of Tokyo. Both banks expected to see improved profitability by cutting redundancies and thus cutting expenses.

6.2.1 Pursuing Short-Term Profit and Increasing Loan Assets

As Figure 6-3 showed, the bank faced profitability problems. Large losses due to writing off bad-debt loans had damaged its financial condition. So the bank's strategy has been driven by the need to achieve profit in the short term. To survive in free market competition, not only with other Japanese banks but also with major foreign banks in the deregulated financial markets, the Bank of Tokyo-Mitsubishi must develop a sustainable profit base. It must also increase its loan assets because well-developed loan assets are stable profit generators.

6.3 The Influence of External and Internal Environmental Change

Because changes in the external and internal environment have damaged some of the bank's basic assumptions, the culture no longer fits

the new environment, and the cultural harmony in the organization has begun to crumble.

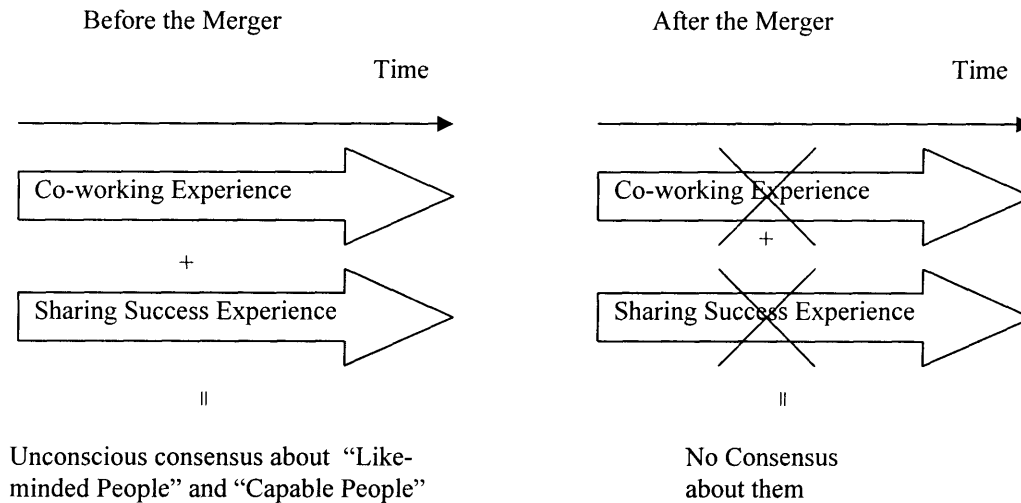
6.3.1 Damage from the Merger

Bank of Tokyo has a long corporate history and its own corporate culture, which clashed with Mitsubishi's culture following the merger. While I will not go into a discussion of the differences between the two cultures, the fact is that while Bank of Tokyo employees understand the Mitsubishi culture, they do not agree with it. As a result, since 1996 there have been two cultures in the organization, with little or no integration between them. Consequently cultural harmony has not yet developed.

When I consider the influence of the merger on Mitsubishi Bank's assumptions, the most damaged assumption is the one concerning people, especially "like-minded people", "capable people" and a "sense of unity and harmony" (see Figure 6.4). As previously discussed, these assumptions were developed through sharing successes based on excellent teamwork.

Following the merger, however, Mitsubishi employees had no experience working with Bank of Tokyo employees. And for new members coming into the organization, the older assumptions were viewed as inefficient if not wrong. Consequently, the artifacts, beliefs, and values that had been build on the assumptions — for example, empowerment of the leadership style — are no longer visible or widely held.

Fig. 6.4 Destroying assumptions, such as “Like-minded people” and “Capable People”

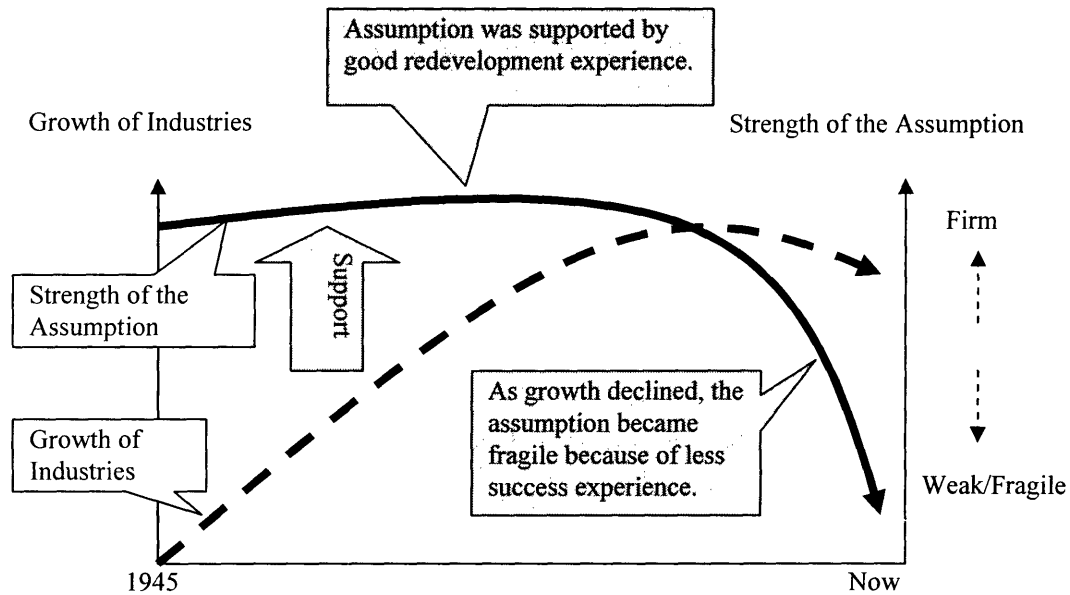


6.3.2 The Negative Influence of Industrial Maturity

In the industrial redevelopment period (1970 through the 1980s), the bank realized it had made a substantial contribution to the redevelopment of society, both as a bank and as a member of Mitsubishi Group. With that realization, a new assumption, “Enrich Society,” was developed and embedded in the organization.

But as the industry has matured, the assumption has been challenged. Society lost its belief that people could stand together and enthusiastically share common goals. Likewise, the bank’s employees have fewer opportunities to contribute to society. Thus, the organization has lost an important external factor that once supported a consensus about the “enrich society” assumption (see Figure 6-5).

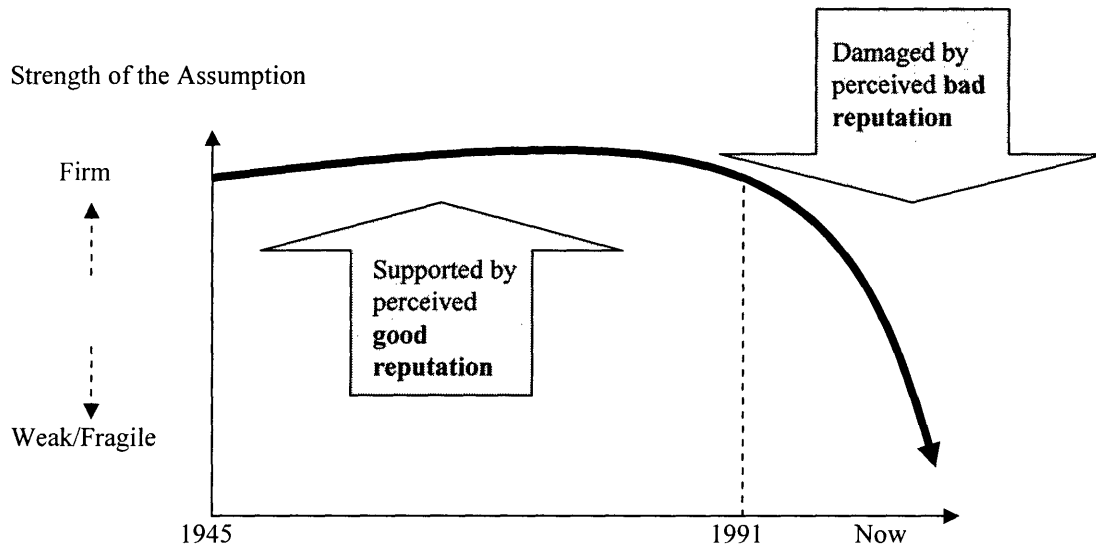
Fig. 6-5. “Enrich society” assumption becomes fragile



6.3.3 Damage from Bank-Bashing

Two assumptions—"Enrich Society" and "Integrity and Fairness" were heavily damaged by so-called "bank-bashing" (see Figure 6-6). During the postwar period, the embedding process of both assumptions was influenced positively by the bank's excellent public reputation. However, after the collapse of the bubble economy, the assumptions were badly influenced by negative public perceptions of the bank's reputation. As a result of bank-bashing, bank employees lost confidence, and the former consensus about these assumptions has been replaced by disagreement about the use and value of these assumptions.

**Fig. 6-6 Damage to “Enrich society” and
“Integrity and Fairness”**



6.3.4 The Negative Influence of Changing Strategy

A strategy that emphasized short-term profit and greater loan assets is understandable as the bank tried to overcome a difficult situation and meet the challenges of free competition in the deregulated market. The strategy, however, negatively influenced all three core assumptions—“enrich society,” “integrity and fairness,” and “quality rather than quantity.”

In the past, the bank had faced and overcome several recessions. However, during those times it remained focused on pursuing business quality rather than quantity and successfully overcame each recession. All employees agreed that the bank gave priority to benefiting society rather than to the bank’s own profit.

Today, however, a change of strategy had led to feelings of skepticism in the organization. Some employees, although not all, feel that the change of strategy means that the bank's priorities have changed. As a result, core assumptions have been shaken. Some people now focus aggressively on profit and volume, while others do not adopt this behavior. Thus, the conflict between the assumptions and the new strategy has led to considerable organizational conflict and disharmony.

6.3.4 A Positive Effect on the Culture

The bubble economy of the early 1990s was caused in part by banks that pursued loan volume by lending to speculative investors. In the past, the bank's traditional culture had enforced business standards that prohibited the pursuit of quantity and lending for speculation. Thus, when the bubble economy collapsed, it confirmed to most bank employees the importance of quality over quantity and the effectiveness of the bank's traditional business standards.

6.4 Summary

The bank's culture was not destroyed despite the major impact of the dissolution of Mitsubishi Group. So why has the culture been so damaged in recent years?

6.4.1 Mismatch with the Environment

Some assumptions no longer fit in today's environment, which is characterized as a mature industry influenced by wide-ranging deregulation.

6.4.2 Loss of Supporting Factors for the Assumptions

Until recently, most of the bank's cultural assumptions were supported by good performance and the bank's excellent domestic and international reputation. But because the bank's reputation declined in both realms, consensus among employees about the assumptions has been shaken.

6.4.3 New Colleagues Following the Merger

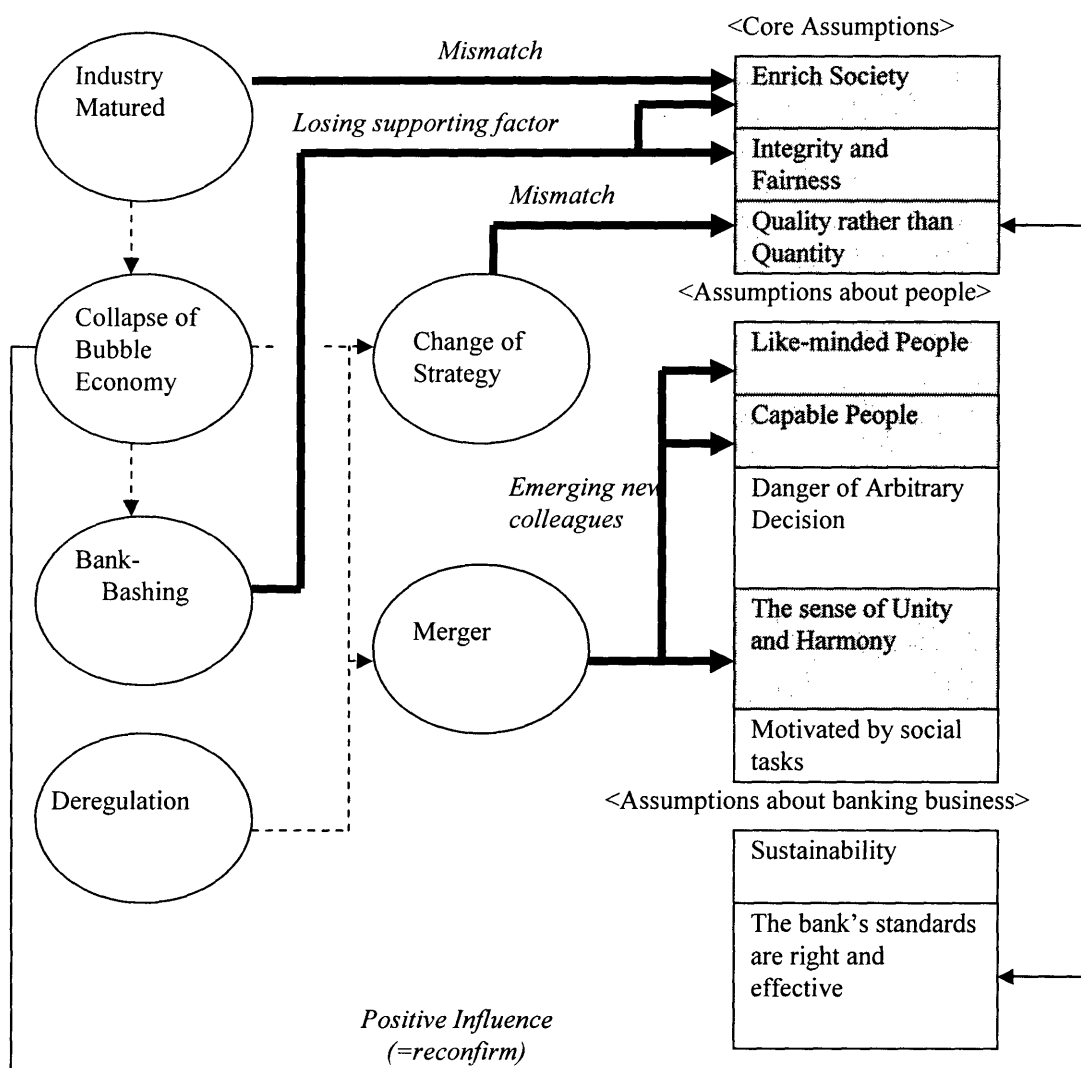
The merger brought in new employees who had been educated in a different organization and culture, so their cultural assumptions differed from those of Mitsubishi Bank. As a result, two different cultures existed in the same organization, and that led inevitably to conflict. In particular, assumptions about people were no longer agreed upon because the group formation process is not yet finished.

These shifts have influenced the thinking and behavior of bank employees. The strength of the bank's basic assumptions has been eroded. Employees are skeptical and shaken (Anonymous, 1/13/05). Thus the

culture, which is strong if there is organizational agreement, has become fragile when the agreement is shaken.

The dynamics of the relationship between environmental change and the culture are summarized in Figure 6-7.

Fig. 6-7. Dynamics of the Influence of Environmental Change on the Culture



Chapter 7

Conclusion

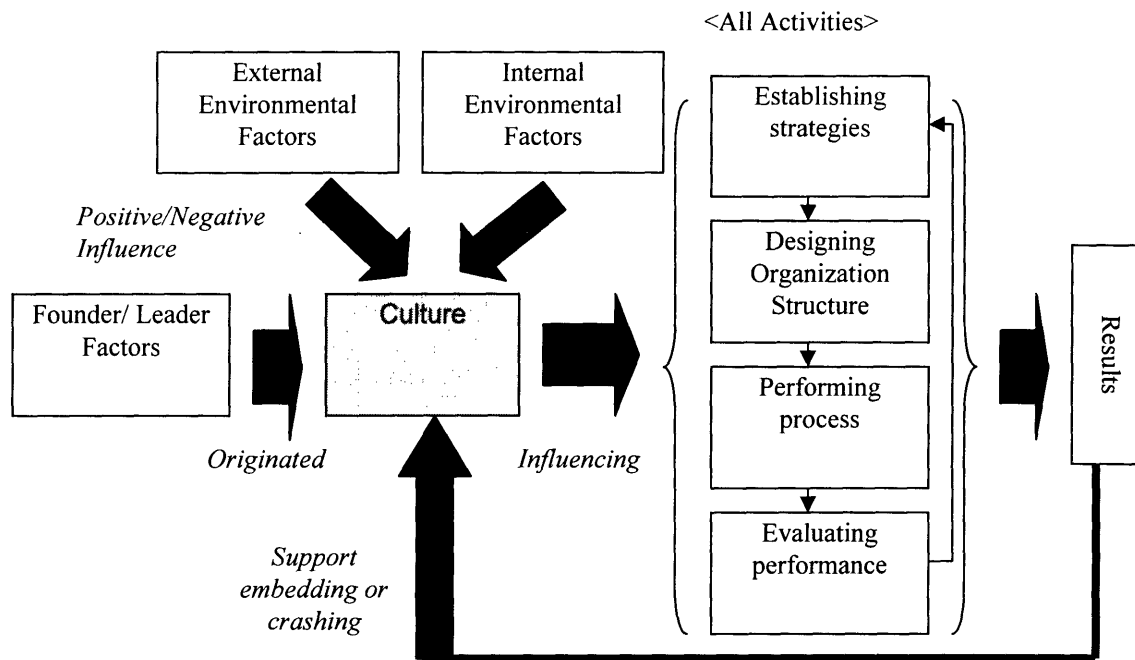
From the standpoint of cultural harmony, the bank has performed its business well. However, some of the bank's cultural assumptions have not functioned efficiently of late, and some have been damaged as a result of recent environmental changes. How can the bank deal with these problems? In this last chapter, I summarize the importance of culture management and offer some suggestions for restoring the bank's damaged culture.

7.1 The Importance of Culture Management

Because there was for a long period a rather good fit between the bank's culture and its internal and external environment, there was cultural harmony. The traditional assumptions fit the environment until the 1970s. The bank's traditional culture was firmly embedded in the organization and had a powerful influence on all banking activities, including strategy formulation, organizational structures, job performance, and the results evaluation processes (see Figure 7-1). This consistency across the environment, culture, and activity produced good results which in turn supported the bank's excellent reputation. That good reputation led

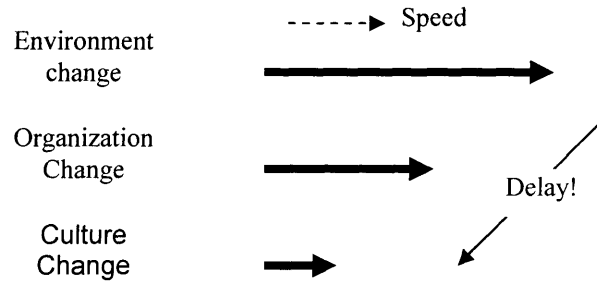
employees to affirm the cultural assumptions. During the period from the bank's founding until the 1970s, a positive influencing loop could be observed.

Fig. 7-1. The influence of organizational culture



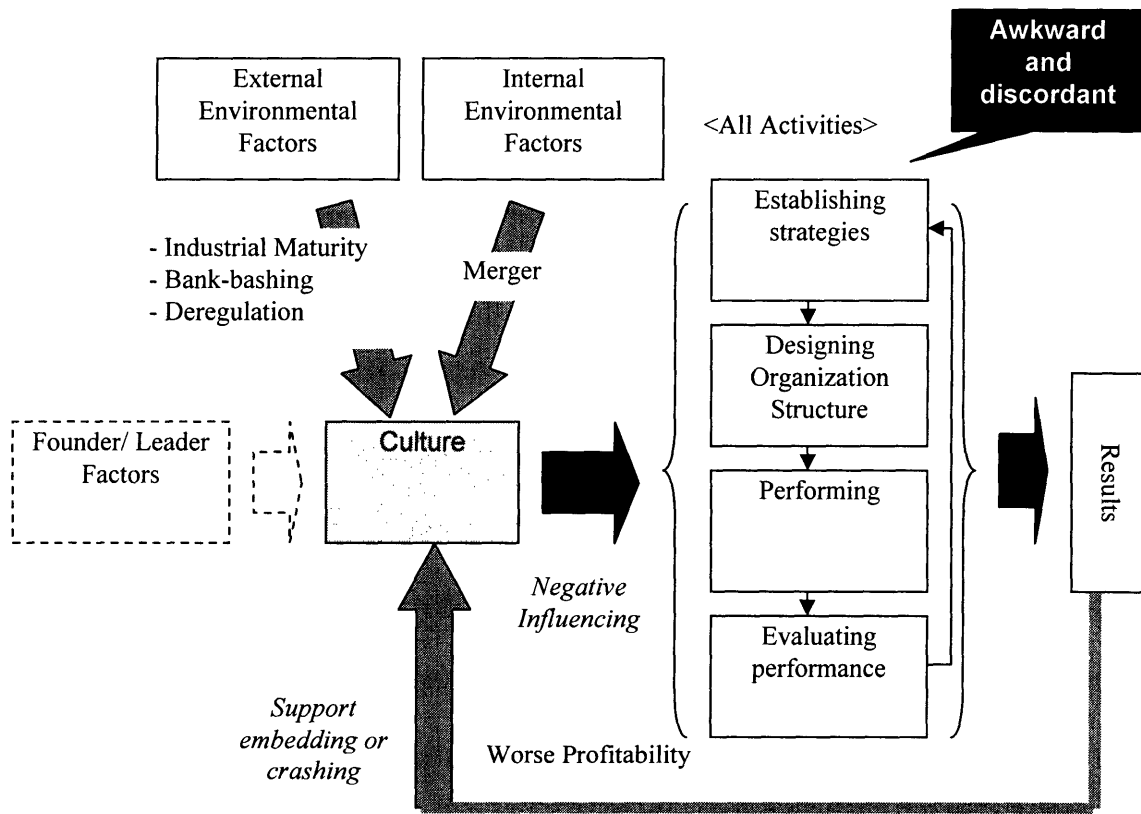
Since the 1990s, however, the inefficiency and failure of some basic assumptions have damaged the bank due to changes in the external and internal environments. To survive in today's rapidly changing world, the bank has introduced many changes including a merger and strategy shifts (from quality to quantity). Some of the external and internal changes have occurred so quickly that cultural changes lagged. Consequently, organizational discord followed (see Figure 7-2).

Fig. 7-2. Differences in rapidity of change



This incongruence has generated frustration in the organization (see Figure 7-3).

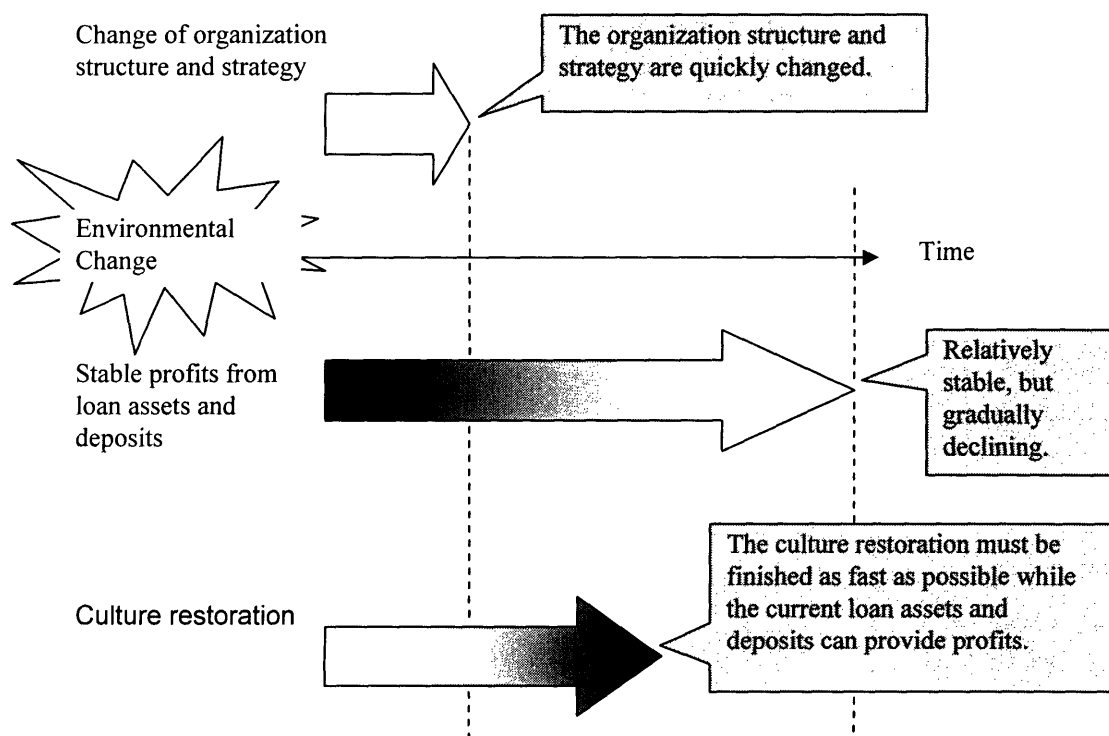
Fig. 7-3. Damage to the Culture of the Bank



Fortunately, most of the corporate income generated from loan assets and deposits are a relatively stable source of profit for the bank. Thus profit has remained stable during this discordant organizational situation. Therefore, the bank's current financial condition and performance are relatively good in the Japanese banking industry even though the organization is experiencing cultural problems.

However, I believe that if the damaged assumptions are not restored, profitability will gradually decline and the organization will eventually suffer. Therefore it is imperative that the bank restore its basic assumptions as fast as possible (see Figure 7-4).

Fig. 7-4. Restoration of culture



Nobody can stop environmental change. Therefore the organization must change so that it fits with the new environment. At the beginning of this change process, organization leaders must pay attention not only to visible problem such as strategies and organizational structures, but also to cultural problems. They must identify where organizational consensus about assumptions has broken down because of environmental change as well as where it is apt to break down because of newly established business strategies for survival.

Then they must plan culture restoration measures, establish new business strategies, and execute them. Otherwise the organization will become trapped in a culture mismatch and cease to be able to carry out new (or old) strategies.

7.2 Measures for Culture Restoration

The bank has already taken some steps to restore some assumptions that have been damaged by the external environment. For example, “Enrich Society” was damaged after the collapse of the bubble economy. To restore that assumption, the bank established a new Code of Ethics in 2002 (see Table 7-1).

Table 7-1 The Code of Ethics

1. Establishment of Trust

Fully cognizant of the importance of the Group's social responsibilities and public role, we strive to maintain unwavering trust from society through the sound and proper management of our business activities, based on the principle of accountability.

2. Serving Our Clients First

We recognize that the satisfaction of our clients and their confidence in MTFG form the foundation of the Group's very existence. As such, we endeavor to always provide our clients with the highest quality products and services best suited to their needs.

3. Sound and Transparent Management

We endeavor to manage our affairs in a sound and transparent manner by maintaining appropriate and balanced relationships with all stakeholders, including clients, shareholders and others, while assuring fair, adequate and timely disclosure of corporate information.

4. Strict Observance of Laws, Regulations, and Internal Rules

We are committed to strictly observing relevant laws, regulations, and internal rules and to acting with fairness and integrity in conformity with the common values of society at large. As a diversified global financial services group, we also make continuous efforts to operate in ways that reflect internationally accepted standards.

5. Respect for Human Rights and the Environment

We respect human rights and the environment and seek to co-exist in harmony with society.

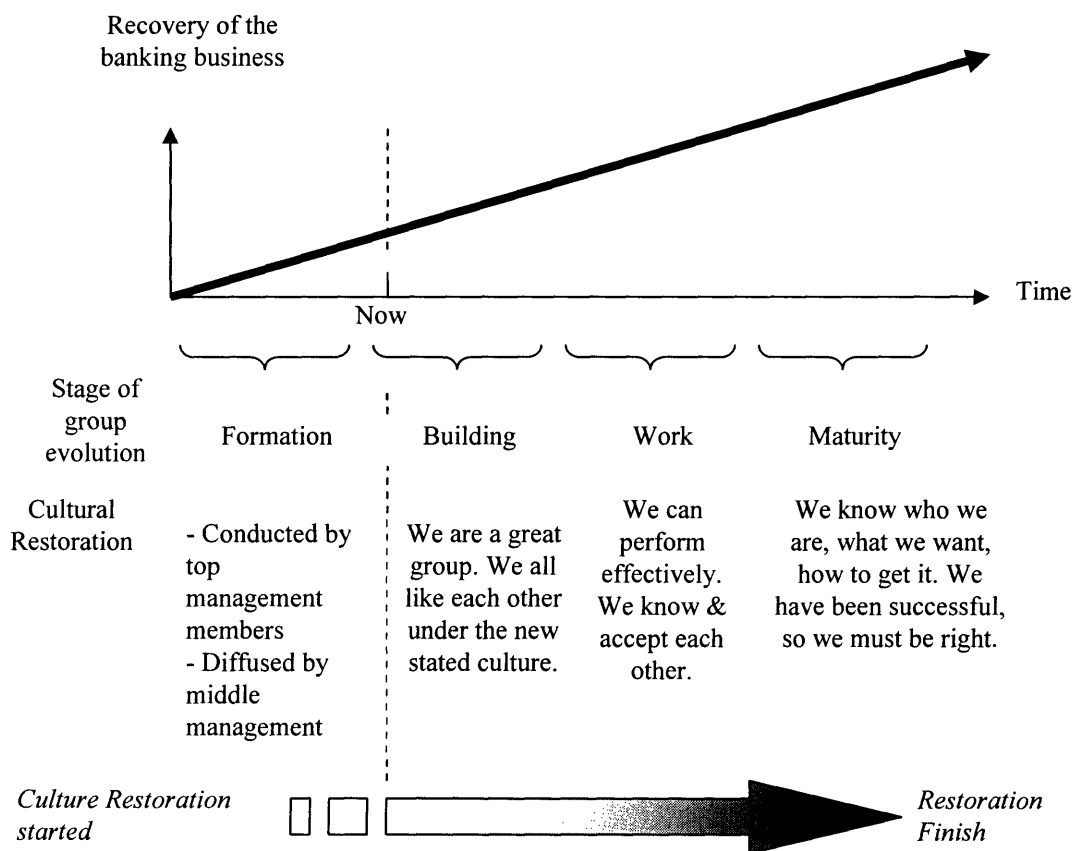
6. Disavowal of Anti-Social Elements

We stand firmly against supporting the activities of any group or individual that unlawfully threatens public order and safety.

The bank re-emphasized the importance of social responsibility as its core mission, and it is my belief that most employees understand and support the new code of ethics. However, the assumption, "Enrich Society" has not yet been completely restored. Why?

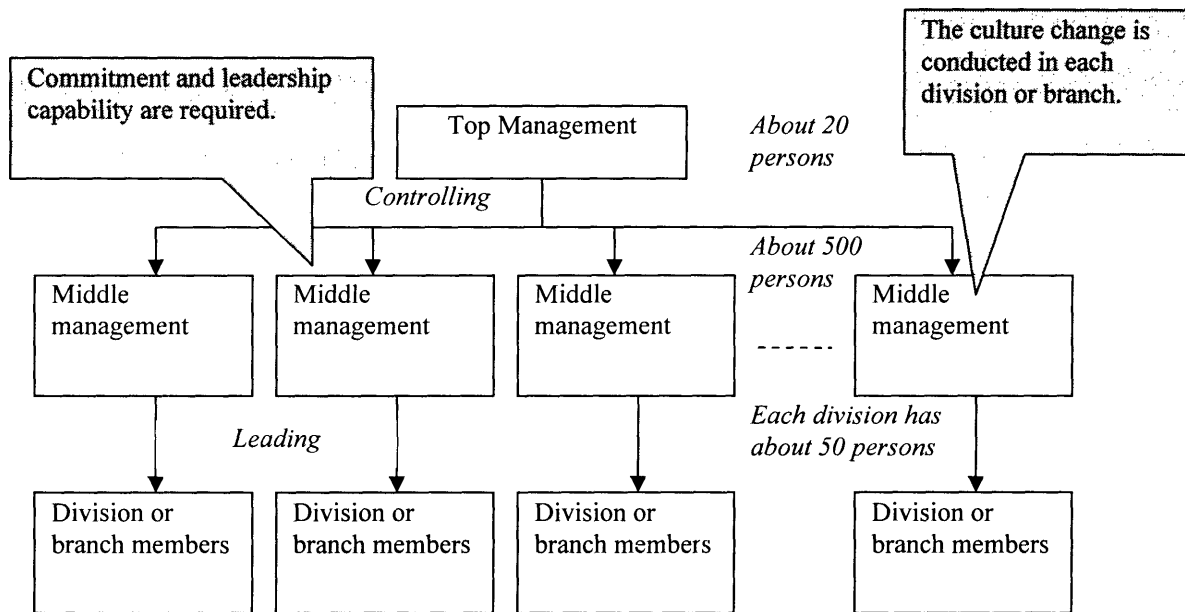
One reason is that success experiences are necessarily a part of the restoration process. The bank has reconfirmed its business philosophy, but it has not yet experienced or shared success experiences throughout the organization. Therefore consensus about this assumption remains elusive. Restoration will require time. Figure 7-5 shows the restoration process using Schein's group evolution concept (2004).

Fig. 7-5 Restoration process after the culture was damaged in the 1990s



First stage: Formation

In the formation stage (see Figure 7-6) of the restoration process, the bank's top management members must reconfirm or re-establish their business spirit, philosophy, and values regarding the assumptions that need to be restored. Because the current organization is very large and complicated compared with the earlier era of autocratic governance of a relatively small organization by the Iwasaki family, the restoration process must be executed not only by the charismatic leadership of top management members but also through the work of division heads. Top management members will need to thoroughly preach their philosophy to middle management members. And middle management members will need to preach it to their team members. This leadership process is effective, however, only when middle management understands the intention of top management. When there is sufficient commitment and leadership capability in the organization, an autocratic leadership style is no longer needed.

Fig. 7-6 Formation Stage

Second stage: Building

To complete the building stage, both teamwork and satisfactory results are necessary. This stage requires a more cooperative leadership process rather than autocratic because, to remain true to the bank's assumptions, it is important that leaders let team members execute tasks using their own skills and obtain success through their own efforts. Reward systems may be helpful to enhance motivation throughout the organization. But, again, to be consistent with the bank's assumptions, it is important that the reward system not be individually based but be team based. A reward system is needed that encourages all employees to work together and help one other.

Every leader must pay attention the daily situation of his/her team and act accordingly. Leaders should allow their team members to share success experiences as much as possible and as early as possible. By repeating this process, the assumptions will gradually start to gain support and become embedded in the organization.

Third and Fourth stages: Work and Maturity

The third and fourth stages are necessary for firmly embedding the restored culture in the organization. But both processes have to be accompanied by organizational successes.

7.3 Recommendation

The bank's damaged assumptions can be restored, slowly and patiently, by the following steps. No measure will take effect immediately.

➤ Re-define and re-confirm the core assumption: "Enrich Society"

To restore this assumption, re-confirming and stating its importance is not enough. It is necessary to redefine the reason why the assumption is important so that all employees can understand its importance and perform their tasks in ways that will realize the goal (responsibility).

➤ Defining the importance of “quality” and “quantity” and setting priorities

The importance of business quality remains unchanged. However, when the environment changes, quantity also becomes important. The leaders of the bank must set priorities and help all team members to fully understand their priorities in every situation.

➤ Let team members experience the good team work and share success

The above-mentioned steps are the group formation stage of the restoration process. They are part of a group building process. Leaders must allow members to experience teamwork and to share success experiences as much as possible. Through this process, old assumptions can be renewed if they work. Success experiences (results) can help change external and “bank-bashing” will decline.

7.4 Summary

As a result of this research I have identified a number of factors that I believe are useful for any organization facing a culture change or the need to restore a damaged culture:

- Companies hoping to survive must change in order to fit with environmental shifts that are continually occurring around them.
- Leaders must understand that changing or restoring the organizational culture is difficult and requires a long period of time.

- When a successful culture is damaged, the organization cannot operate smoothly until the damaged culture has been restored or changed.
- During the transition period, no one can avoid awkward and sometimes discordant situations that are bound to occur in a rapidly changing world.
- Leaders should carefully analyze their organization culture and begin to adjust or restore that culture as quickly as possible.
- Leaders must be patient when they begin a restoration or change process.
- Leaders must tackle the culture problem steadily, and recognize that simple straightforward measures work best.

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