THE EFFECTS OF CULTURE ON BANKING STRATEGY: A STUDY OF THREE BANKS IN THREE COUNTRIES

by

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SUBMITTED TO THE MIT SLOAN SCHOOL OF MANAGEMENT
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ABSTRACT

Every company pursues a different strategy, and banks are no different. In the banking industry, each bank performs its business based on its own business strategies. Japanese banks have different strategies, but in terms of Japanese banks as a whole, there is little difference among them. From my prior work experience in Germany, I became aware of obvious differences between Japanese banks and German banks in terms of thought processes and doing business—despite being in the same industry.

I believe cultural issues have a significant effect on each bank's strategy. The diverse strategies among banks have evolved from the various ways of thinking, sensing, and doing, which are formed based on deep-seated cultural values or assumptions in each country.

In this thesis, in the first section, I discuss a specific system implementation project, which provides a framework for identifying fundamental problems and developing a theoretical approach toward the problems. Then I analyze the cultural effects on Japanese, German and US banks, comparing the data analysis and personal interviews among three banks.

My desire is to shed light on the differences among banks in three countries and to reveal the reasons for such differences. It is hoped that this will give Japanese banks a substantial push so that they will differentiate themselves before global competition becomes even more severe.

Thesis Supervisor: John E. Van Maanen
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ACKNOWLEDGEMENTS

My first thought after I finished this thesis was how the banks to which I refer in this thesis will look in ten years. If some of my implications are reflected in Japanese banks' behavior, I will know my devotion of time and energy to this thesis has been valuable. Or maybe I will recognize something missing in my thoughts. At any rate, I look forward to watching the situations of Japanese banks over the next ten years.

The trigger for writing this thesis was my experience with a system implementation project in Germany. It had a tremendous impact on me, forcing me to consider cultural issues that I have written about in this thesis. I questioned what was driving people to behave in such a manner. It is often said that people are the legacy of a company, and most people would agree with that.

Organizations are comprised of people. Each person has a set of cultural norms, and the group has the power to drive the organization. It is a simple idea, but quite refreshing for me, to deliberate the problems identified from a cultural angle.

I would like to thank my thesis advisor, Professor John van Maanen, who gave me many insightful clues from a variety of angles as the scales fell from my eyes. I recall last winter when I was still thinking about the thesis content. His classes and unstinting advice helped me conceptualize the issues in this thesis. Without his enthusiastic help, I could not have make the thesis what is it today. I also thank for Ms. Cherie Potts, who devoted considerable time to edit my writing, and offered many writing hints.

I thank Liam Reid and Debo Lukanmbi, my teammates in study group 23, who never made every effort to give me advice in analyzing the project case in the summer of 2005. Thanks to them I identified several ideas that have been articulated in this thesis. It is clear that a part of my thesis is much better as a result of their efforts.

Mr. Kawashima, who earned a Masters degree at MIT in 1991 and was my previous boss in Germany, gave me the opportunity to participate in the Sloan Fellows program. He remained involved in the "project" and always encouraged me when I faced problems. It is hard for me to find appropriate words to describe my thankfulness for him.

I am grateful to the senior leaders of Bank of Tokyo-Mitsubishi, Ltd. who sponsored me in this program and gave me the opportunity to study academic subjects that align with our business. I believe that this will become part of my legacy and my duty to feed back my acquired knowledge to the banking business.

I am extraordinarily proud of my wife Yumi, and daughter Hazuki, who have supported me while I worked in Germany and studied in the U.S. for five years and seven months. The time has passed quickly, but their support continually encouraged me mentally and helped me to achieve my goals. I hope sometime in the future that Hazuki will look at my thesis and say, "Dad, this part does not make sense." That will surely be my great pleasure!

Seiichi Kuroiwa

Boston, Massachusetts
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CHAPTER 1

Introduction

1.1 Organizational Strategy

There are many opportunities for discussing organizational strategy. Most company leaders spend a great deal of time thinking about how to make their organizations ideal, efficient, and practical. For example, major Japanese banks have changed and modified their organizations many times over the last decade due to corporate decisions to pursue the most optimal organization structure.

When problems appear, people often argue that an "unorganized" organization caused the problems, and suggestions abound for changing the organization to resolve the problems. Every company's annual report tells how it restructured the organization in response to some problem. Japanese banks are no exception.

However, in my experience while working at a major Japanese bank, I have wondered whether such organization restructuring had an effect on solving problems. It is evident to me that the organization structure itself cannot automatically solve problems. Problems are solved by the people working in the organizations, not by the organization itself. Even if a special organization is constructed to deal with a problem, it will not solve a problem without utilizing people who have appropriate problem-solving qualifications. This seems like a simple issue, but I believe senior leaders in Japanese banks—like high ranking managers elsewhere—tend to focus on organization structure and tend not to discuss people as part of their problem-solving strategy.

In my company, the Bank of Tokyo-Mitsubishi (BTM), one of Japan's largest banks, I have witnessed numerous occasions when the people in an organization did not change even though the organization itself had changed. Also other times when people with lesser ability were not transferred to another division where their skills fit better, nor were they fired. I wonder why such things happened when it is obvious that an unqualified employee should be replaced by someone who can better perform the requisite tasks.

This reflects Japan's traditional philosophy of lifetime employment, a Japanese custom since World War II. Although there are no physical contracts that guarantee lifetime employment, it is still customary in most Japanese companies. BTM still maintains this policy in favor of its employees as do other Japanese banks. This is not a corporate culture issue but something more ingrained in every Japanese bank. I think one reason for continuing this tradition can be called "collectivism," described as "a prime orientation toward common goals and objectives" (Persons and Shils, 1951; they use the word "communitarianism"). In a collective society, the group goal has utmost priority, and favoritism is not shown. Therefore, no one is evaluated extremely high or low. Even the most poorly evaluated person will not be fired.

1.2 Effects of Culture on Corporate Strategy

Most major Japanese banks conduct their business in the same manner. During the so-called "bubble economy" of the early 1990s, every bank invested huge amounts of money in real estate. When the bubble collapsed, every bank incurred enormous amounts of bad debt, and it took more than ten years for the banks to write off most of the bad debts and return to net profit. Those ten years between 1990 and 2000 are now called the "lost decade" in Japan.

When I worked in Japan, I did not think much of the strategies adopted by Japanese banks. It was difficult to differentiate the ways in which Japanese banks do business because they are strictly controlled by the financial authority of the Japanese government. However, when I began working in Germany as a banking officer, and we encountered stiff competition from German banks, I realized that German banks approach their clients very differently from Japanese banks. And while German banks are also under the control of the national banking authority, they do not face the same situation as Japanese banks. For example, one German bank can offer a higher rate while other will offer a much lower rate; in Japan, all banks set virtually the same rate—almost as if they had agreed beforehand.

Even today, the strategies of Japanese banks do not differ significantly. Most invest in the same business areas at the same time; they earn similar profits; they suffer from similar problems because they all pursue similar corporate strategies. Why? I believe it must be because there is some cultural element that influences how Japanese banks develop their strategies.

The word "culture" has many meanings. For instance, Hofstede (1991) defines it as "the collective mental programming of people in an environment. Culture is not a characteristic of individuals; it encompasses a number of people who were conditioned by the same education and life experience."

It is important, therefore, to distinguish the level of culture. According to Schein (2004), there are three levels of culture: artifacts, espoused beliefs and values, and underlying assumptions. Artifacts reside at the surface, and include phenomena that one sees, hears, or feels. They also include the visible output of the group. They are easy to observe, but difficult to decipher. Espoused beliefs and values include strategies, goals, and philosophies. When a new group is created, those who can influence the group to adopt a certain approach to a problem will later be identified as leaders. What leaders want and what is shared among the members become beliefs or values that ultimately transform into assumptions, the third layer. However, not all beliefs and values undergo such a transformation. Only the beliefs and values that can be empirically tested and continue to work reliably become assumptions. Those basic assumptions are so taken for granted that one finds little variation within the social unit. Schein explains: "Cultures as a set of basic assumptions define for us what to pay attention to, what things mean, how to react emotionally to what is going on, and what actions to take in various kinds of structures." (Organizational Culture and Leadership, p. 32)

Corporate culture is one level within Japan's overall culture, and it belongs within Schein's espoused beliefs and values. Therefore, if one talks about corporate culture, many differences can be seen among the Japanese banks. But all of them fear failure or bankruptcy, and this could be why Japanese banks tend to adopt similar banking strategies that are driven by the basic assumptions of Japanese culture.

1.3 Thesis Structure

My research focuses on banks in three countries: Japan, Germany, and the U.S. I will use two types of analysis to identify national banking strategies in each country. The first is data analysis based on published data; the second is practical, first-hand analysis via personal interviews. I will compare the factual information from the published data with information culled from the interviews to determine relationships between the two analyses. Then I will highlight key elements that differentiate the national banks of the three countries.

In Chapter Two I will describe a new banking system project of a Japanese bank and use that framework to articulate my initial questions about cultural issues. The banking project itself involved huge costs in terms of time, money, and human resources, and it created basic problems that should have been solved in previous phases.

I will explain the problems using a service operations framework and a gap model to identify the causes. The gap model is a conceptual framework into which one can position key concepts, strategies, and decisions in services marketing (Zeithaml & Bitner, 1996). It measures the service quality gaps between the services companies provide and the customers' perceptions. However, this research also raises questions about whether such causes are linked to cultural fundamentals that cannot be easily changed.

Chapter Three provides data analysis. To determine the differences and commonalities of each national bank's strategy, I chose four Japanese banks, four German banks, and three U.S. banks. I used each bank's published data, such as annual reports, financial reports, and IR presentation papers for FY 2004. By focusing on the business portfolio that shows each bank's corporate banking business and geographical business segments, I will try to identify correlations between business strategy and geographical network strategy, which could offer clues to explain cultural backgrounds and differences.

In Chapters Four, Five, and Six, I will describe interview results. The interviews were conducted between January and March 2006. I interviewed 15 people: 7 Japanese, 4 German, and 4 American. The interviewees' names, titles, and bank affiliation are listed in Appendix 1. The major research questions for the interviews included:

1. Organization of the bank's corporate banking division

1-1. What does your bank's organization structure look like (any significant differences from Japanese bank)?

1-2. What is the organizational responsibility structure?

1-3. Describe employee contract and human resources development system

1-4. What personal evaluation system is used?

1-5. *How close or far is the relationship between the employer and the union?*

1-6. *What about relations between the front office and the systems and operation division?*

2. Corporate banking strategy

2-1. *What is the target customer segment?*

2-2. *Describe the functions of the "main bank system"*

2-3. *Describe the risk evaluation system*

2-4. *How do you think quantitative factors affect credit risk evaluation?*

2-5. *Describe the bank's investment policy*

Appendix 2 provides a sample of questions that I submitted to each interviewee beforehand.

Based on the interview results and analysis, I will describe each bank's overall philosophy and policies in terms of organizational structure and banking strategy.

Chapter Seven will explain core cultural values. I will describe how these core values affect each national bank by using Hofstede's map and list of values. I also articulate how the Samurai spirit, as a core Japanese value, influences Japanese thinking and behavior, and may still have a major affect on the strategies of Japanese banks. For this, I will refer to the book *Bushido*, written by Inazo Nitobe in 1889.

The goal of this thesis is to identify lessons and implications for Japanese banks by analyzing the strategies utilized by Japanese banks and the banks of Germany and the U.S. It would be easy to attribute everything to cultural differences. However, not much attention is paid to the underlying causes of those differences; instead, they seem to be defined by looking only on the surface. But culture is like an onion: it comes in layers, and to understand it, it has to be peeled back layer by layer, until the deepest core is reached, i.e., the norms and values that are difficult for outsiders to understand. I am convinced I will find meaningful answers by going to this level. If Japanese banks hope to be truly global, there is much they can learn from other banks and incorporate into their core values. In this thesis I will provide ideas and recommendations for Japanese banks that wish to enhance their future growth and expand in the international market.

CHAPTER 2

Cultural Issues Affecting New System Implementation

As discussed in Chapter 1, my hypothesis is that there are critical cultural influences on an organization's activities. In this chapter I will identify several cultural issues by citing my own experience with a new system implementation project at Bank of Tokyo-Mitsubishi.

I have chosen this example because, for me it raised simple but fundamental questions. Before I became involved in this thesis project, I worked primarily in the customer relations office and had nothing to do with banking systems. Hence, like an outsider, many issues that made sense to IT people were not understandable to me. Also, I confronted various problems during the course of this project, but I found that most people tended to see them as surface issues. I believe the reasons behind some of the problems are more inherent, and in this sense this thesis has made me think in greater detail about the cultural aspects.

2.1 A New System Implementation Project

The Bank of Tokyo-Mitsubishi (BTM) is one of Japan's largest banks, providing retail and corporate banking services to clients in Japan and other major cities around the world. In carrying out its activities, BTM uses specialized computer applications and systems, developed in-house, to manage and supervise its operations, both within and outside Japan

Until early 2004, the system used for managing operations outside Japan was one that had been in place for about 18 years, and it had become obsolete and inadequate to satisfy diverse customer needs and BTM's own internal operating needs. A new system known as

"OVS" was developed and deployed in 2004 to help resolve issues emanating from the use of the previous system.

2.2 Implementation of OVS

The mandate of the OVS project was to deliver a new banking system that would update the operations of BTM's European branches. Figures 2-1 and 2-2 are schematic diagrams of BTM's computer systems before and after the OVS project.

Figure 2-1

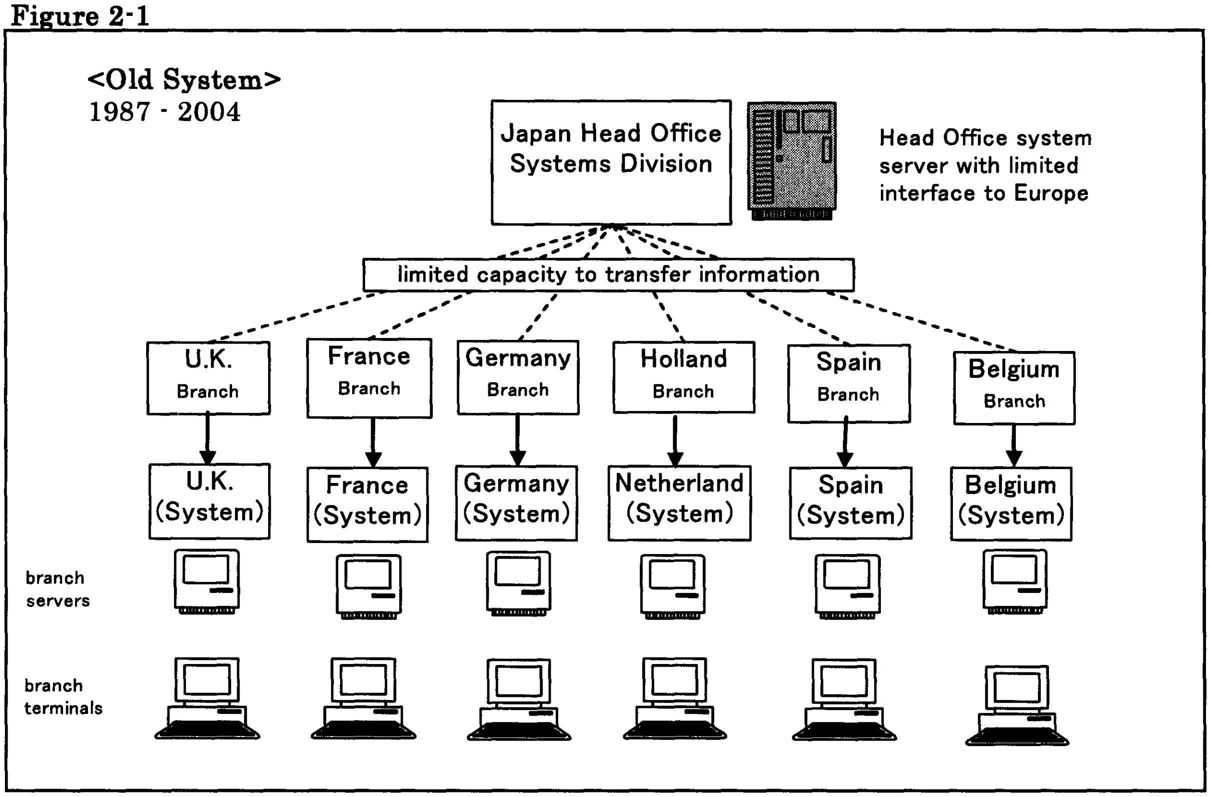
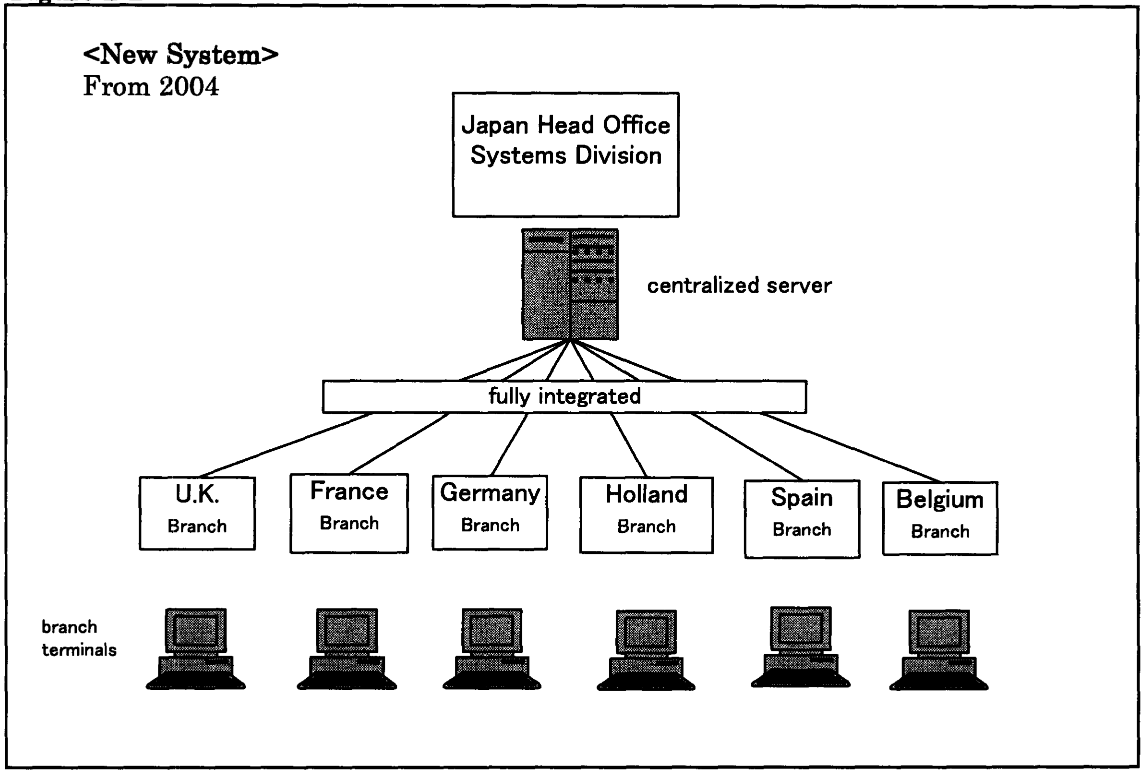


Figure 2-2



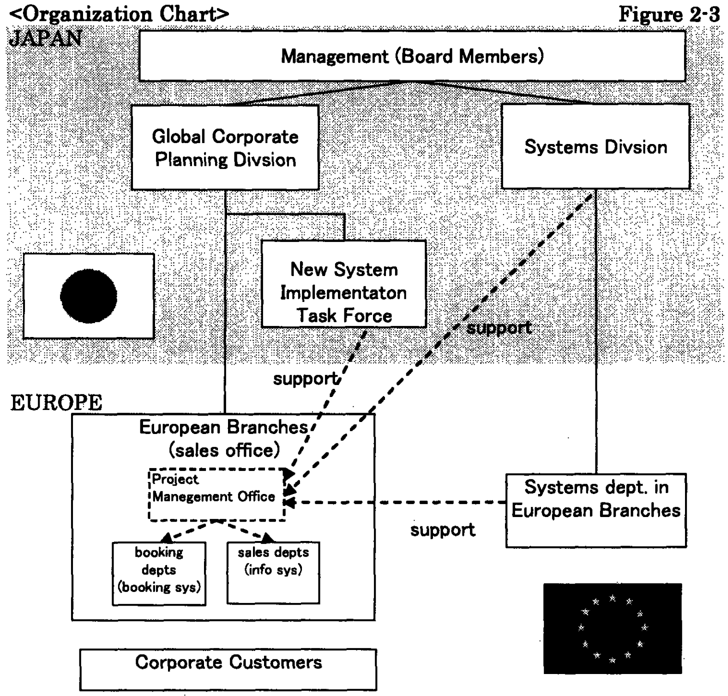
The essential difference between the new and old systems is centralization. With the old system, each branch maintained its own system with local staff, and they were perceived to provide good service. However, the old system did not unify branch information with the head office systems.

The new system has a central server in Tokyo to which each European branch is connected. Each branch uses the same type of terminal. Each branch and head office can see and manipulate all customer data. The new system is maintained by staff in Tokyo.

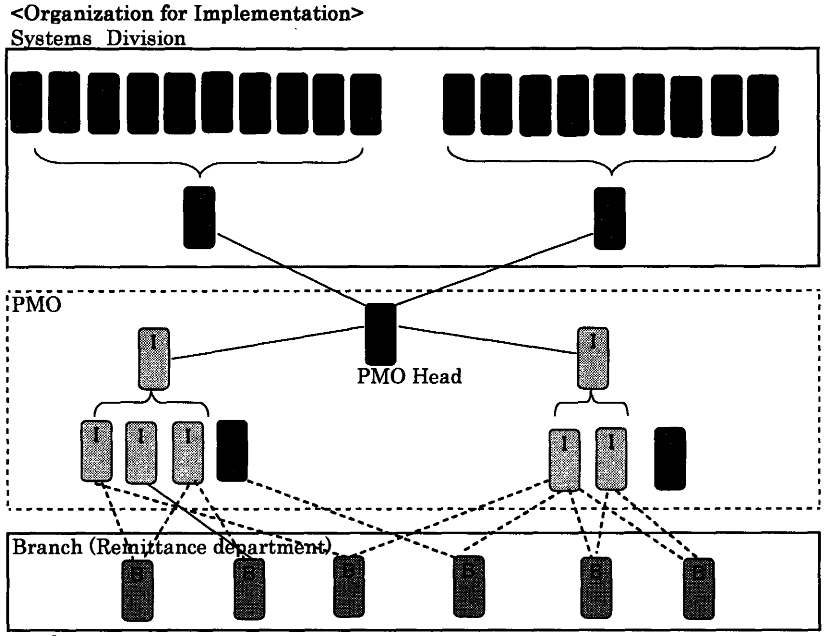
2.3 Organization Structure

Figure 2-3 shows the different stakeholders in the OVS project. The European branches are controlled by the Global Corporate Planning division (GCP) in Tokyo, and each

<Organization Chart> Figure 2-3



<Organization for Implementation>



one box represents one person
S= person form Systmes Division
I = person from New System Implementation Task Force
B = person in Branch

branch takes care of its Japanese corporate customers in that country. GCP has ultimate responsibility for the project's implementation.

The System Division (SD) in Tokyo is an independent division of BTM that controls technical computing matters, both in Tokyo and in each European branch. SD created the OVS computer system and is responsible for the technical aspects of the OVS rollout.

The New System Implementation Task Force (NSI) is a temporary organization established by GCP to roll out OVS to the European branches. NSI is also based in Tokyo. Finally, each branch has an NSI Project Management Office (PMO) that rolls out OVS at the local level.

2.4 Results of the OVS Implementation

OVS had an difficult rollout. The German branch counted over 100 problems, a figure to which other bank branches could attest. Several problems were unsolvable and others took a long time to rectify. The result was a significant loss of current and potential business for BTM.

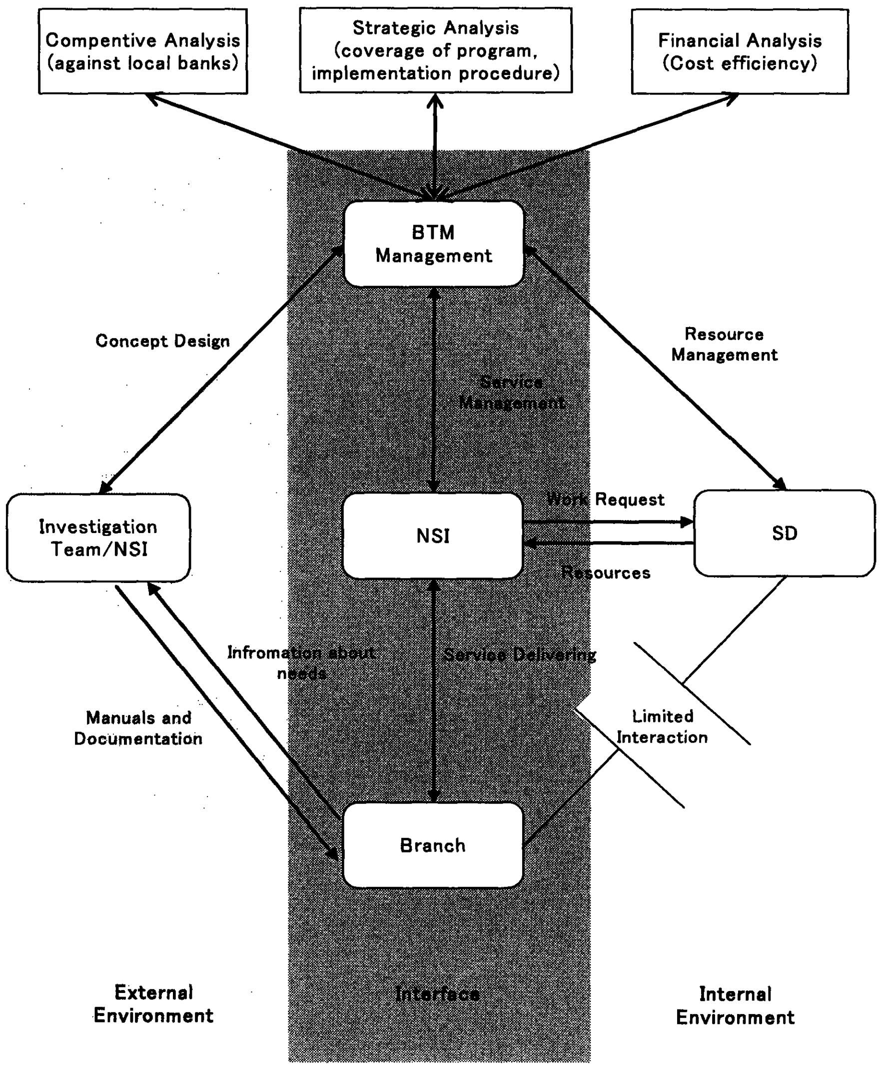
Most of these problems were the result of poor understanding of branch needs. Examples include: incomplete customer account statements, excessive/wasteful use of paper, customer statements written only in English, reduced compatibility with customers' existing computer banking systems, increased (and unjustified) complexity to branch internal procedures, incomplete user manuals/documentation, and significantly decreased flexibility to meet customer needs.

Many of the problems that the branches experienced were symptoms of larger problems with the project team's service delivery process. Two frameworks that highlight these larger problems are applied below.

2.4.1 Framework for Analyzing Service Operations

The OVS delivery project has three environments: internal, external, and interface (see Figure 2-4). Underlying problems are explored in terms of these relationships.

Figure 2-4
Chart of OVS implemantation project



Source: Bitran and Lojo, 1993 (A Framework for Analyzing Service Quality)

It is useful to classify the questions that I address according to the environments to which they pertain. This framework illustrates this basic concept and presents a way of thinking about the relationship between the major functions and participants in service operations.

External Environment and Poor Identification of Customer Needs

In 2000 an investigation team was sent to identify the requirements of BTM's European branches. This team based its investigation on BTM's London office, with limited investigation of any other European offices. The investigation team returned to Japan with little understanding of the specific cultural issues that regularly challenge a multilingual European office (e.g., the need to print account statements in several languages, or minimizing paper waste to comply with environmental concerns). These misunderstandings were further compounded when NSI rolled out the project in 2004 based on an incomplete and outdated investigation.

These and other problems could have been avoided if the project investigation had recognized (a) the importance of a precise product definition, i.e., delivery of an OVS system that met the core needs of all European branches, and (b) the rollout's fast clockspeed, which required flexible service delivery in order to adapt to evolving customer needs four years later.

Further, acting in this external environment, NSI did not introduce their new service effectively. The NSI Project Management Office (PMO) failed to communicate its role and it most users soon found that the product was difficult to adopt with little perceived value-added to branch operations.

Ineffective Interface Coordination

An important part of any roll-out process is managing bug fixes and requests for software changes. As the entity responsible for interfacing with customers, the PMO's task was to coordinate SD's limited resources in Japan with the branches' need for service. Refer back to Figure 2-3 for an illustration of NSI's system for delivering SD's services to the customer.

This system had many levels and distributed responsibilities, with at least four layers (branch – PMO clerk – PMO head – systems division) between the customer and the service provider. This stifled information flow, decreased the power of service providers to "own" a customer's problem, and increased service delays to unacceptable levels (for example, a change that previously would take local staff only two weeks took Tokyo staff six months to complete).

Limited Flexibility

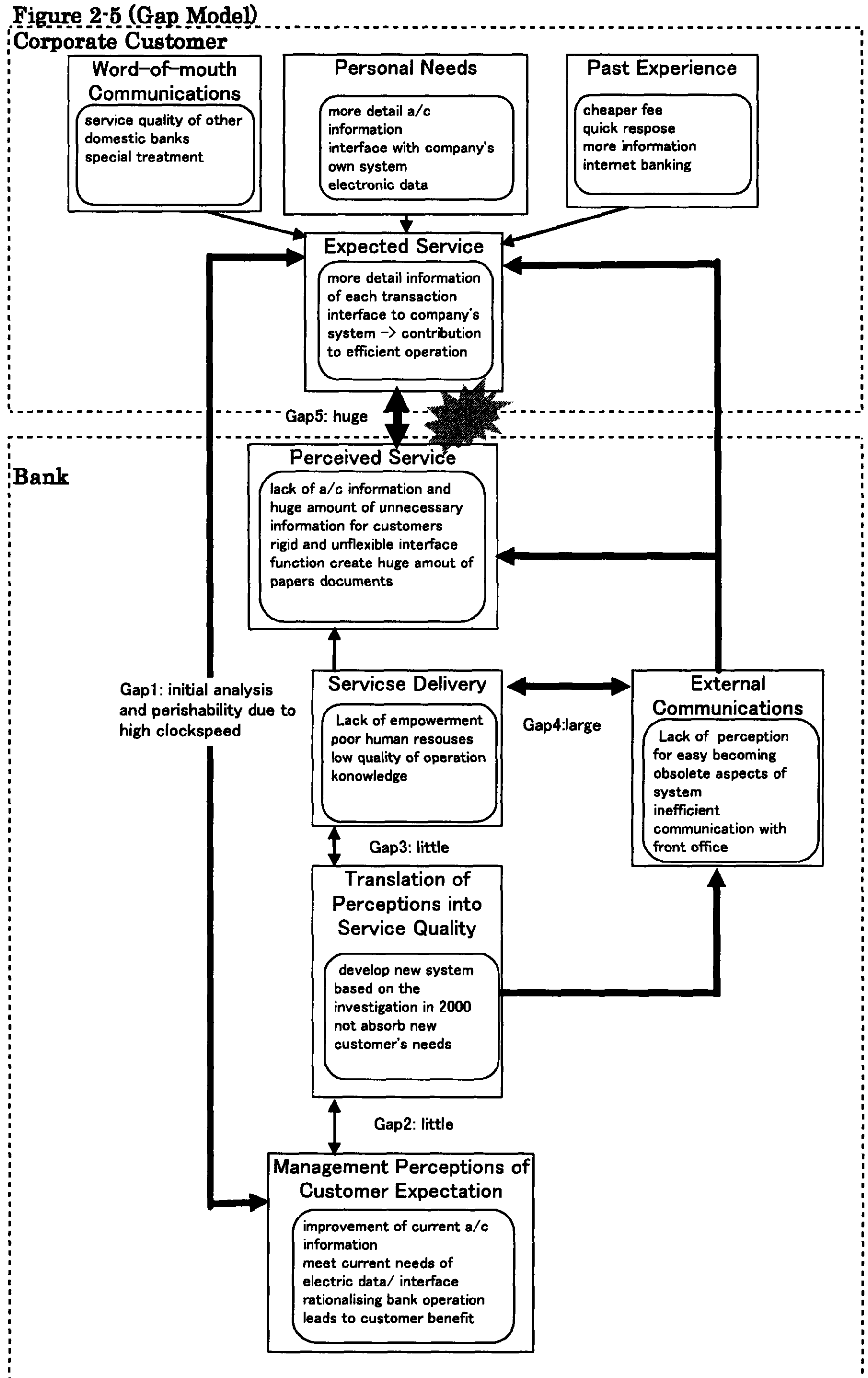
Interface coordination was exacerbated by the fact that members of the SD team were often so specialized they could only solve a specific type of problem, and were not trained to focus on solving a customer's specific needs.

From the NSI's functions shown in Figure 2-4, it can be assumed that NSI's failure to design a system that maximized the capabilities of people to deliver service created costly and unnecessary misunderstandings that sacrificed BTM's profits.

2.4.2 Gap Framework to Suggest Further Improvements

While the service operations framework is useful for describing the structural causes of service delivery problems, the gap framework can highlight differences between the customer expectations and what is actually received. Figure 2-5 shows the gap framework applied to services delivered to BTM's European bank branches as of 2005.

Figure 2-5 (Gap Model)



Source: Zeithanml and Bitner, 1996. (Services Marketing, McGraw-Hill)

Gap 5 is the largest – the gap between what customers expect and what they perceive to be getting. However, Gap 5 is actually comprised of several other gaps.

Gap 1 is a major gap because NSI failed to adequately inform senior management of the customers' needs, and it was not aware of the clockspeed of European banking (i.e., information collected in 2000 is outdated by 2004).

Gaps 2 and 3 are comparatively less significant because NSI has competently translated its view of customer needs into a service chain. However, NSI's culture does not emphasize employee empowerment, and as a result service staff do not have the flexibility to meet customer needs at the front line.

Gap 4 is significant because the PMO overpromised on service improvements that have yet to emerge, and there was inadequate communication to the branches by management of the project's intentions. More communication with the branches at an earlier stage could have avoided many of the later implementation problems.

2.5 Analysis and Recommendation

An analysis of the application of the service operations and gap frameworks suggests several key improvements that could be made for both structure of service delivery and what that service must do to satisfy the needs of branches and customers. These include:

- improve culturally specific services to solve European bank needs outside of London;
- improve flexibility of service to reflect the high clockspeed of modern banking services;
- reduce the complexity of the interface between branches and SD service providers;
- increase empowerment of NSI and SD service staff to take ownership of whole customer complaints;

- enhance the skillsets of SD service staff so that they can solve a wider range of problems;
- increase communication between management and customers so both sides understand the nature and scope of the project.

Overall, this analysis found that greater understanding between management and the European bank branches would significantly improve the level of service in rolling out technical services to the branches. The end results are reduced costs, improved service to customers, and increased levels of customer satisfaction.

2.6 Cultural Effects

There are several important ways to solve the problems. The question is: if we accept the solutions and implement them, could BTM realize significant improvements to its services and greater efficiency of internal operation? Perhaps, but I also believe there may be a more deep-seated problem tied to the Japanese culture itself.

2.6.1 Project Strategy

The project schedule was precisely constructed and there was sufficient leeway to reschedule the plan and change the project direction. There was also enough budget to modify the system design in the intermediate period and to take care of potential problems after the implementation. However, that did not work. Once the project was set, people focused on implementing the system on schedule. The means had transformed to the purpose. Besides, there was no more budget to further modify the system design in order to meet customer needs.

I think two cultural issues affected the strategy. The first is the culture of "power distance." Japanese companies have a rigid hierarchy, and the power distance between higher- ranked people and subordinates is very large. Once the higher-ranked officer makes a decision and gives instructions to subordinates, they are expected to get the job done. No excuses are allowed. The new system project was a critical project, and the CEO monitored its progress. In this situation, maintaining the schedule and achieving implementation became the highest priority rather than meeting customer needs.

The second cultural issue is the "tendency to avoid risk." I believe the Japanese do not like to take risk; they are generally very risk-averse. Given this tendency, the Japanese banking industry is strongly controlled by the financial authority. No mistakes are allowed. Even though the new system was designed for other countries, the initial investigation and analysis was insufficient because people in the Japanese head office did not recognize the feature differences of existing systems in European countries.

Two examples are useful. One is language. Apart from the emotional issue, some documents written in English are not acceptable as official bank statements for tax, legal, and financial authorities in European countries. But the Japanese head office investigated only a small number of sample documents and made the decision to standardize English bank statements. Another example is concern about environmental issues. Germany is well known for its efforts to introduce political measures dealing with the environment, and Germans in general are quite sensitive to and conscious of environment-friendly decisions. They work to minimize waste and trash on a daily basis. The importance of environmental issues was under- valued by the Tokyo head office, and consequently the bank generated huge amounts of paper—much to the dismay of their German counterparts.

These gaps led to additional investigations and design changes just before implementation in an effort to make everything perfect by spending more money than had been initially been budgeted or planned.

2.6.2 Organization

There were three key organizational players in this project: Systems Division (SD), New System Implementation Task Force (NSI), and the branches themselves. The most important organization was NSI because it was responsible for identifying the needs and opinions of SD and the branches so as to produce the most optimal effects from the new system. In other word, only NSI could have done it. SD could not because it is the system specialist and it did not know about customer needs. The branches could not because they focus on customer needs in order to create more business; they have no idea about the details of the system.

Here, too, the culture of "power distance" played a critical role. While both SD and the branches had their respective, rigid hierarchical organizations, NSI was a temporary organization put together only for this project. NSI did not have any power. It could not make decisions regarding the project, either against or in favor of SD and the branches. As the focus of this project changed to maintaining the schedule, the voice of SD gradually grew until NSI became a part of transformed SD.

2.6.3 Human resources

Human resources within SD and NSI were an issue. Employee qualifications in both organizations were low—a result, I believe, of our culture of "collectivism." Most Japanese prefer teamwork and tend to evaluate the individual based on how much he/she contributed to the team. The notion of a team-oriented culture generates egalitarianism, which extends to the traditional policy of lifetime employment. In general, Japanese companies do not lay off employees but instead make strong efforts to keep their employees contributing to the company. In my experience, this policy is in force at BTM and there are a number of people with low ability who are not qualified for an organization with high responsibility and high risk. I believe those people should be put in some other position in the bank. Instead, these less-qualified people were put into NSI. This is related to the lifetime employment system still implemented in BTM and other Japanese banks. I will discuss this issue in greater detail in Chapter 4.

My hypothesis is that the deep-seated cultural issues underlying the phenomena I have described could be applicable for most of the events I have ever faced—often with uncomfortable feelings. The explanation I have given in this section is a micro example, but insofar as the bank is an aggregation of many organizations, and they are composed of Japanese people, these cultural issues could indeed influence the bank's macro strategy.

CHAPTER 3

Data Analysis

In this chapter I will discuss the profit and business portfolios of major banks in three countries based on published financial and IR data. I selected the top three or four major banks in each country. The group of Japanese banks, called "city banks," has diverse business lineups and deploys an international business network. These banks compete with major European and U.S. banks in the same bank category, so the comparison is intended to be relatively equal.

3.1 Definition of "Corporate Banking"

The banking business is generally referred to as "corporate banking," but what that term means differs from bank to bank. Some banks define "corporate banking" as similar to traditional banking, including loans, deposits and various clearing transactions. It may also be called "commercial banking." Other banks utilize a broader meaning to include investment banking, such as issuing equities and bonds, M&As, and financial advice. Japanese banks tend to distinguish these services as distinct from corporate banking.

During my research through the published information, I found that each bank in each country defined "corporate banking." Therefore, I define this term in the narrow sense, that is, excluding investment banking. I also note when a bank's business portfolio seems to be a combination of both corporate and investment banking.

3.2 The Japanese Banking Industry

The Japanese banking industry can be roughly divided into two categories: city banks and regional banks.

City Banks

Until the early 1990s, there were 13 city banks, 6 of which were part of conglomerates (Zaibatsu). There were three long-term credit banks, authorized by law to support the heavy industries that anchored the Japanese economy after World War II. The collapse of the bubble economy forced these banks to confront many bad debts, which resulted in severe financial distress. In 1996, Mitsubishi Bank merged with Bank of Tokyo, the smallest city bank, which meant that the Mitsubishi conglomerate absorbed a minor city bank.

After 2000, the financial problems of city banks became more critical, which triggered a series of bank mergers among city banks, especially outside the conglomerates, and against conventional wisdom in the banking industry.

Today there are five city banks that offer full banking services all over Japan and also conduct international business.

Regional Banks

There are 112 regional banks. Their head offices are located in each prefecture and their main business is banking for local companies and private customers in their own area. They are doing almost no international business. Therefore, I will not focus on regional banks in this thesis.

3.2.1 Data Summary for Four Major Japanese Banks

Table 3-1 summarizes the latest financial data for Japan's four major banks.

Table 3-1 US $ in million

	MTFG	UFJ	SMBC	Mizuho
Net Revenue	15,938	11,297	17,608	17,330
Interest income	55.0%	56.8%	57.8%	55.5%
Trustee fees	5.5%	4.6%	0.1%	3.2%
Non-interest fees	27.3%	19.2%	25.5%	23.7%
Trading fees	6.8%	1.6%	7.1%	8.3%
Others	5.4%	17.8%	9.4%	9.3%
Net Income	2,943	-5,930	-2,037	5,455
Total assets	959,004	717,857	867,233	1,244,141
Portion of Corporate Banking	50.1%	43.9%	73.6%	43.9%

Source: Annual Reports for FY2004 of MTFG, UFJ, SMBC and Mizuho

The data illustrates the characteristics of Japanese banks. First, the structure of net revenue does not differ among the four banks. Each bank earned its main revenue from interest income, which represents around 55% of total net revenue. The non-interest fee portion is similar, although the proportion of UFJ is a somewhat lower. This trend is consistent with the total average ratio of all Japanese banks (129), that is, the average of interest income is 64.9% and non-interest fee income is 16.5%.

Second, it is clear that corporate banking is core for all four banks. Due to limited information about segment breakdown, SMBC appears to bring in more corporate banking business, but in fact there is little difference compared to the other three banks.

Thus, when considering the data, it is hard to see how each bank differentiates its strategy from its other competitors.

3.2.2 Analysis of Four Major Japanese Banks

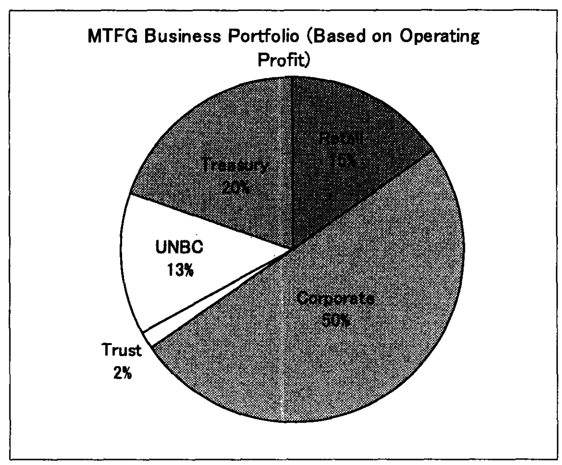
MTFG Group

Mitsubishi Tokyo Financial Group (MTFG) is a member of the Mitsubishi conglomerate, which consists of Bank of Tokyo-Mitsubishi. (BTM) and Mitsubishi Trust and Banking Corporation. BTM was established in 1996 after Mitsubishi Bank (the third-largest city bank at the time) and Bank of Tokyo (a foreign exchange bank) merged. In 2001, MTFG was established by including Mitsubishi Trust in order to pursue synergy effects for customer services and internal rationalization.

US$ in million

Fiscal Year	2002	2003	2004
Net revenue	15,281	15,335	15,938
Interest income	9,207	8,949	8,772
Trustee fees	882	751	877
Non-interest fees	3,084	3,666	4,343
Trading fees	695	1,179	1,090
Others	1,325	787	854
Operating profit	6,645	6,897	7,310
Current net profit	-1,403	4,877	2,943
Loans	408,263	405,131	403,866
Deposits	544,559	574,761	587,380
Total assets	862,394	927,090	959,004

Number of employees	43,948
Network	736
domestic	328
foreign	408



Source: Mitsubishi Tokyo Financial Group, Inc. (2005) *Annual Report 2005*

In terms of total assets, MTFG is ranked second among all Japanese banks; in terms of net revenue it is ranked third. Unlike other banks, MTFG's financial condition is sound, and it did not accept any capital injection from the Japanese government after the collapse of the bubble economy. Because its international network is larger than its competitors, MTFG is regarded as the most international bank in Japan. Its UNBC business unit is a merger with Union Bank of California, so the bank runs a full banking business in California as a U.S regional bank.

In 2004 corporate finance comprised 50% of the bank's portfolio. MTFG's strategy is focused on corporate and retail business, and it aims to evolve those business areas even further.

Recently MTFG began to pursue an integrated group strategy. In July 2004, MTFG decided to integrate with UFJ Group to further promote this strategy, seeking to become one of the top five global financial institutions (based on market value) by FY 2008. In order to achieve maximum leverage of its strengths, MTFG will further strengthen the integrated business group and develop its subsidiaries so they respond fully and quickly to customers' needs. The bank aims to create a premier, comprehensive, global financial group that can succeed against global competitors and win strong customer support.

According to its annual report, MTFG identifies three core businesses: (1) corporate finance, (2) retail business, and (3) trust business. Its aim is to enlarge the proportion of these three core businesses to 90% from the current 72%. Its ultimate goal is to achieve a well-balanced, highly profitable business portfolio.

UFJ Group

UFJ Group was formed in April 2001 from the merger of Sanwa Bank, Tokai Bank, and Toyo Trust Banking Corporation. Sanwa Bank was the financial arm of the Sanwa conglomerate, one of six Japanese conglomerates that include many independent companies (including former Nissan Motors). UFJ's main business territory was western Japan centered by Osaka. Tokai Bank was famous for being the financial bank for Toyota Group located in

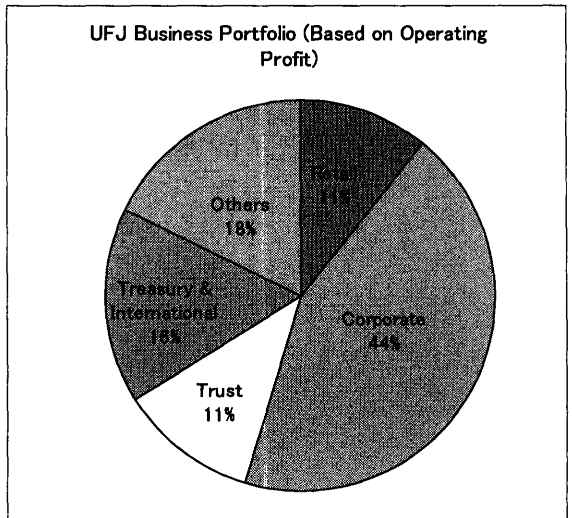
Nagoya area.

The reason for forming UFJ Group and including a trustee business (Toyo Trust) was to focus on the small and middle company market and to create synergies that would enable it to expand geographically and to target additional customers.

US$ in million

Fiscal Year	2002	2003	2004
Net revenue	11,926	11,846	11,297
Interest income	6,882	6,784	6,420
Trustee fees	673	579	523
Non-interest fees	1,454	1,917	2,169
Trading fees	851	1,275	176
Others	2,064	1,290	2,006
Operating profit	6,773	6,910	6,674
Current net profit	-5,440	-3,265	-5,930
Loans	384,162	369,240	324,821
Deposits	444,779	460,658	441,093
Total assets	697,456	714,212	717,857

Number of employees	31,453
Network	566
domestic	540
foreign	26



Source: UFJ Holding, Inc. (2005) *Annual Report 2005*

UFJ has suffered from considerable bad debts, and the bank was forced to accept a capital injection from the Japanese government to resolve its financial problems. As the financial data above shows, UFJ spent its entire profit to write off the bad debts, and as a result the current net income for 2004 remains deeply negative.

In June 2004, UFJ Group received an administrative censure from the Financial Services Agency for an improper response to inspections. Former staffs, including executive officers, were convicted of violating provisions of the Japanese banking law. Therefore, it is understandable that at the beginning of UFJ's 2005 Annual Report it states that UFJ Group is working to rebuild solid corporate governance and a system of internal controls.

In terms of its business portfolio, corporate finance is the major share (44%). Although this share is lower than that of MTFG, it is assumed that "Treasury & International" business includes some portion of the corporate finance business conducted outside of Japan. Therefore, the proportion of corporate finance is undoubtedly larger than the figure shown on the chart.

The 2005 Annual Report notes that one of UFJ's goals is to increase its housing loans and loans to small and medium-size enterprises. Another goal is to enhance retail services through more fees and commissions from ATMs, asset management services, and other sources, and to enhance corporate services through expanding settlements, derivatives, trusts, and other business categories. UFJ's greatest strength is its willingness to take on new challenges and then carry through with concrete actions. UFJ has already created many new groundbreaking services for its customers.

UFJ merged with MTFG in January 2006. The new group is named Mitsubishi Tokyo UFJ Group. This merger is widely viewed as MTFG giving a helping hand to UFJ, otherwise it could not survive its severe financial distress and lost reputation as a result of the legal punishment.

SMBC Group

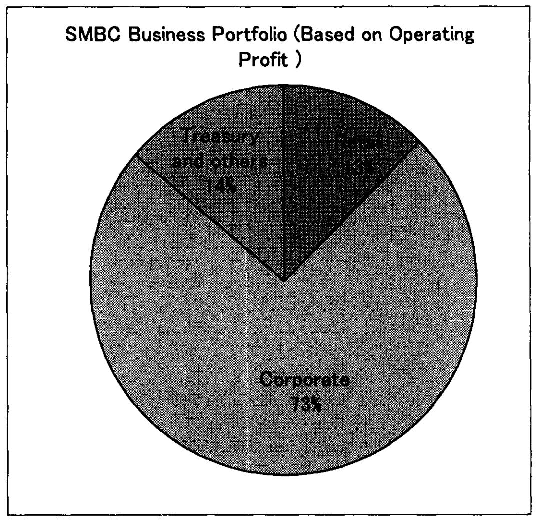
Sumitomo Mitsui Financial Group (SMBC) was founded as a result of the merger of Sakura Bank and Sumitomo Bank in 2001. This merger caused a sensation because the two largest zaibatsu agreed with the merger even though it transcended the boundaries of conventional conglomerates.

Culturally, these two parties to the merger are very different While Sakura (Mitsui) espouses a mild and gentlemanly corporate culture derived from the eastern region of Japan, Sumitomo maintains an aggressive and tough negotiating corporate culture derived from the Osaka region in western Japan. Since medieval times, Osaka has been the center of commercial trading, so it was expected that after the merger Sumitomo would take the initiative in deciding the business direction of the new banking entity.

US$ in million

Fiscal Year	2002	2003	2004
Net revenue	18,991	17,996	17,608
Interest income	12,170	11,139	10,185
Trustee fees	0	3	23
Non-interest fees	3,069	3,688	4,488
Trading fees	1,789	2,643	1,255
Others	1,963	520	1,657
Operating profit	9,835	9,483	8,821
Current net profit	-4,046	2,873	-2,037
Loans	531,156	481,590	476,520
Deposits	547,226	568,117	595,433
Total assets	909,630	888,827	867,233

Number of employees	21,020
Network	489
domestic	472
foreign	17



Source: Sumitomo Mitsui Financial Group, Inc. (2005) *Annual Report 2005*

Indeed, the aggressive stance is seen in the bank's 2004 mission statement, which states:

> SMBC's competitive edge derives from its four strengths of (a) solid business franchise in commercial banking, (b) spirit of innovation and transformation, (c) speed in making business profitable and (d) high efficiency. In order to leverage those strengths, grasp the ever-changing needs of its customers and future grow its business, it reflected on what kind of organization it should be and the direction it should take. The obvious answer is to become a globally competitive top bank with the highest trust of its customers, its shareholders, the market and the society. It will formulate and implement its business strategies guided by this mission.

Today, SMBC maintains a culture that is willing to take more risk and to drive into new areas – features that distinguish it from other major banks.

Regarding the bank's business line, its corporate banking business comprises 73% of total business. Because SMBC does not have a trust banking unit, the bank focuses on corporate finance as its core business. Yet, analyzing the breakdown of net revenue, each profit segment, especially net interest income (57%) and non-interest fees (26%), is similar to the other banks. There is no significant difference regarding the source of profit.

Mizuho Financial Group

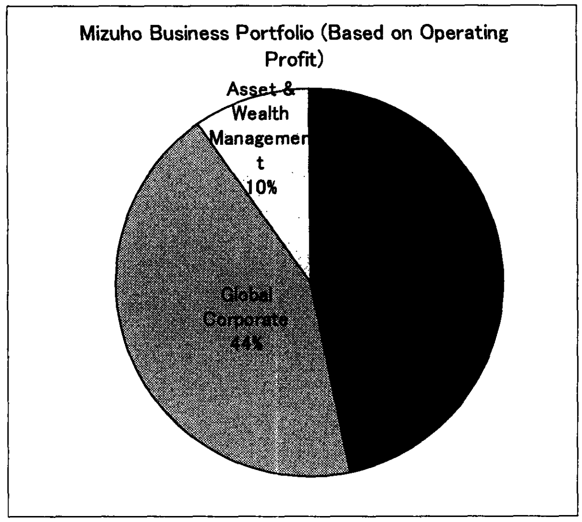
Mizuho Financial Group was founded in April 2002 as a result of the triple merger between Fuji Bank, Dai-Ichi Kangyo Bank, and Industrial Bank of Japan. Fuji Bank belonged to Fuyo Group, and Dai-Ichi Kangyo Bank was the financial institution for Ichi-Kan Group. Like the SMBC merger before it, the Mizuho merger also went beyond the boundaries of existing zaibatsu. In terms of total assets, Mizuho is the largest bank in Japan and its net revenues are almost the same as SMBC.

Today Mizuho Financial Group is comprised of three independent banks: Mizuho Bank, Mizuho Corporate Bank, and Mizuho Trust and Banking Company. Mizuho Bank focuses on retail business and corporate banking for small and medium-size companies while Mizuho Corporate Bank covers corporate banking targeting large and international firms.

US$ in million

Fiscal Year	2002	2003	2004
Net revenue	19,423	18,368	17,330
Interest income	10,924	10,304	9,621
Trustee fees	482	539	550
Non-interest fees	3,570	3,710	4,110
Trading fees	2,126	2,016	1,435
Others	2,319	1,798	1,615
Operating profit	0	8,799	7,935
Current net profit	-20,670	3,538	5,455
Loans	601,826	575,703	547,107
Deposits	567,460	587,207	604,343
Total assets	1,165,502	1,197,826	1,244,141

Number of employees	28,697
Network	808
domestic	764
foreign	44



Source: Mizuho Financial Group, Inc. (2005) *Annual Report 2005*

Like other Japanese banks, Mizuho suffered from extensive bad debts following the bubble economy, and it had to accept a capital injection from the government. The red figures for Current Net Profit in 2002 indicates the severity of the problem. However, since 2003 its business performance has begun to recover, and the latest figures shows Mizuho has achieved its highest net profit since the company was established. The bank's 2005 Annual Report stated:

> Mizuho entered into a new phase in its management strategies and shifted the management focus toward expanding top-line growth. In line with this shift, each of the group companies implemented their own strategies customized to suit each customer segmentation and business feature. The group's focus has moved to a future-minded and customers-oriented phase that will seek to gain support of customers.

Accordingly, in April 2005, Mizuho announced a new business strategy, the "Channel Discovery Plan," with the objective of making Mizuho a world-leading financial group. Following its business portfolio strategy based on customer needs, the group will realign its activities into three global groups: Global Corporate, Global Retail, and Global Asset &

Wealth Management, each of which will be managed by Mizuho Bank, Mizuho Corporate Bank, and Mizuho Trust and Banking Company, respectively. This corporate structure is unique among the mega-banks. While other banks have a single entity covering retail and corporate banking, Mizuho uses different entities. Although details are not available, its corporate finance business, including small and medium-size companies, will be the bank's core business.

3.3 The German Banking Industry

The four German banks described in the following sections dominate the German banking industry in terms of revenue. According to 2001 statistical data from the German central bank, these four banks together hold 16% of the total German market.

German banks have instituted a "universal banking system" that provides a full range of financial business, including securities and insurance. The major banks have implemented universal banking in order to optimize their business by cross selling products.

There are two other types of banks: state banks and savings banks. There are 16 state banks, each owned by one of the 16 German states, and their purpose is to facilitate the regional economy. Today, however, state banks are becoming more like private banks. Savings banks are rooted in smaller cities, towns, and local communities. Their business is focused on retail banking, and all savings banks are interconnected via a savings bank network system.

From the standpoint of breadth of business, diversity, and scale, I will focus on the four major banks, each described in the following sections.

3.3.1 Data Summary for Four Major German Banks

Table 3-2 shows a summarized comparison of the top four German banks.

Table 3-2 US $ in million

	Deutche	Dresdner	HVB	Commerz
Net Revenue	26,521	7,685	11,277	7,671
Interest income	23.6%	35.9%	60.7%	47.2%
Trustee fees	14.7%	0.0%	0.0%	0.0%
Non-interest fees	28.7%	40.4%	30.5%	35.5%
Trading fees	29.3%	23.8%	7.7%	14.2%
Others	3.7%	0.0%	1.1%	3.1%
Net Income	2,991	31	-2,410	476
Total assets	1,016,482	634,028	565,554	514,104
Portion of Corporate Banking	60.6%	16.4%	28.7%	39.2%

Source: Annual Reports for FY2004 of Deutsche Bank, Dresdner Bank, HVB and Commerzbank

The strength of Deutsche Bank is startling. Every bank provides full banking services, but each bank's strategy is different from the others. Deutsche Bank focuses on investment banking, which is supported by large profits from non-interest fees and a well-balanced revenue structure.

Dresdner is also moving into investment banking because it has its own strong investment banking entity. But its business size is much smaller than Deutsche Bank. It also provides regular corporate banking services.

HVB's profit structure is similar to Japanese banks. The difference is its focus on Central and Eastern European countries.

The figures for Commerzbank are similar to Dresdner Bank, but Commerzbank emphasizes retail banking while Dresdner focuses on investment banking.

Unlike Japanese banks, German banks conduct their business based on strategies that are intended to differentiate themselves from other competitors. They tend to bring in more investment banking business. The figures provide graphic proof of the result of their different strategies.

3.3.2 Analysis of Four Major German Banks

Deutsche Bank

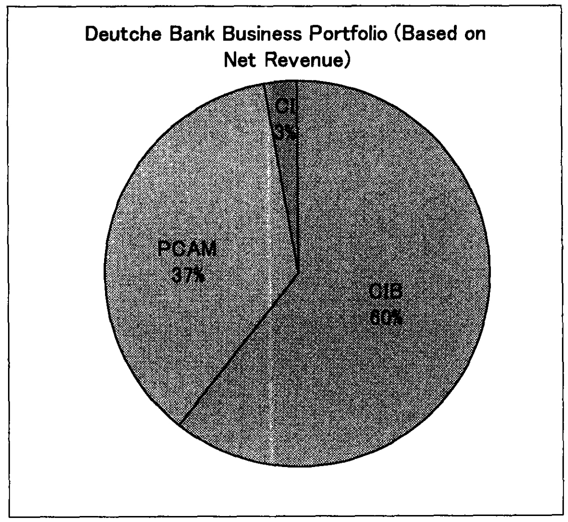
The name "Deutsche Bank" means "German Bank" in English, and it has been the leading bank in Germany for over 135 years. Deutsche Bank was founded in 1870 in Berlin to transact a full range of banking businesses that would promote and facilitate trade relations between Germany, other European countries, and overseas market. From 1880 to 1914 the bank pursued promotional and investment activities. After World War II, Deutsche Bank was divided into ten institutions that remained in place until 1959 when the bank was restructured again.

Like Japanese banks, Deutsche Bank played an important role in supporting German heavy industry. It focused primarily on the German market and it was not until 1976 that the bank opened its first foreign branch in London. From the late 1980s, Deutsche Bank began to acquire other European banks as a way to enhance its business throughout Europe.

US$ in million

Fiscal Year	2002	2003	2004
Net revenue	32,122	25,734	26,521
Interest income	8,695	7,075	6,270
Trustee fees	4,750	3,960	3,885
Non-interest fees	8,359	7,331	7,617
Trading fees	9,132	6,814	7,769
Others	1,186	554	979
Operating profit	N/A	N/A	N/A
Current net profit	480	1,652	2,991
Loans	202,437	175,385	164,976
Deposits	396,426	370,446	398,506
Total assets	917,610	972,373	1,016,482

Number of employees	65,417
Network	1,576
domestic	845
foreign	731
Number of customers (corporate)	56,434
(private and SM Corp.) in thousand	13,331



Source: Deutsche Bank AG (2005) *Annual Review 2004*

Deutsche Bank has three business divisions: Corporate and Investment Bank (CIB), Private Clients and Assets Management (PCAM), and Corporate Investments (CI). If one were to draw parallels with corporate banking in Japanese banks, CI could be called a kind of corporate banking business. Yet the German unit emphasizes equity business rather than conventional corporate finance such as loans, deposits, and other transactions.

Each profit source of net revenue illustrates the nature of the bank. The proportion of revenues—interest income, non-interest income, and trading fees—are in approximately the same range, which indicates profit sources are better balanced in the German banks than in the Japanese banks. In other words, the investment banking business anchors the CIB division.

Turning to business strategy, Deutsche Bank expands CIB in parallel with PCAM; there is no priority between the two business divisions. In the 2004 Annual Report, four strategic priorities were cited, two of which refer to the business divisions. One priority is

"Capitalizing on global leadership in CIB," and the second is "Delivering profitable growth in PCAM." This indicates that Deutsche Bank focuses on both these areas and will expand their business worldwide.

At the same time, however, Josef Ackerman, CEO of Deutsche Bank announced, "We are strengthening our regional management structure and have reaffirmed our absolute commitment to our home market (Germany) with the creation of Management Committee Germany." This indicates that Deutsche Bank is also planning to focus on becoming a more global investment bank within the German market.

Dresdner Bank

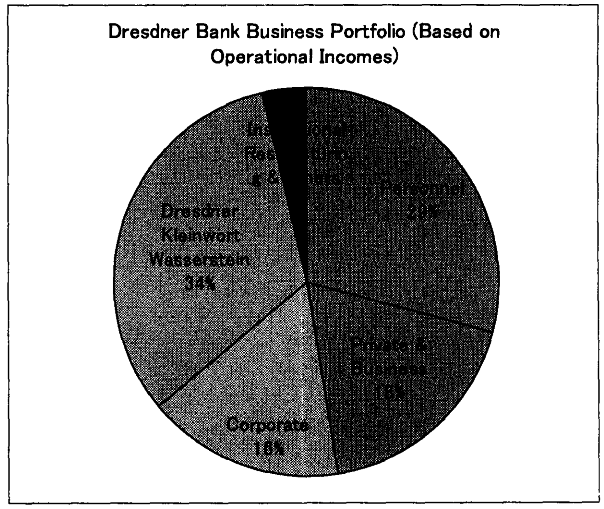
Dresdner Bank, the second largest bank in Germany, was founded in 1872 in Dresden by the transformation of a local private bank. Prior to the end of World War II, the bank expanded its business throughout Germany by acquiring smaller local banks. After the war, the bank changed its head office from Dresden (formerly in East Germany) to Frankfurt am Main (formerly in West Germany).

Dresdner Bank began internationalizing in 1972 by opening its first overseas branch in Singapore. When German reunification occurred in 1990, the bank expanded its local branch network into East Germany and also into Eastern Europe, well ahead of other competitors. In 1995, Dresdner Bank took over Kleinwort Benson, a British investment bank, and it now comprises one of Dresdner's core business units. In 2001, Dresdner Bank was acquired by the major German insurance company Allianz.

US$ in million

Fiscal Year	2002	2003	2004
Net revenue	8,586	8,107	7,685
Interest income	3,556	3,127	2,758
Trustee fees	0	0	0
Non-interest fees	3,446	3,134	3,101
Trading fees	1,584	1,846	1,826
Others	0	0	0
Operating profit	0	0	0
Current net profit	-852	-2,407	31
Loans	148,938	123,432	114,738
Deposits	76,672	83,223	84,652
Total assets	500,268	577,205	634,028

Number of employees	35,946
Network	1,576
domestic	911
foreign	58
Number of customers (corporate)	9,000
(private and SM Corp.) in thousand	5,250



Source: Dresdner Bank AG (2005) *Financial Report Dresdner Bank Group 2004*

Dresdner Bank has organized its business activities into four strategic divisions: personal banking, private and business banking, corporate banking, and Dresdner Kleinwort Wasserstein. This structure recorded a balanced distribution of operating income in 2004. In FY 2004, 36% of operating income was attributable to net interest income, 40% to net fee and non-interest fee income, and 24% to net trading. Although the proportion of non-interest fees is higher than the other two profit categories, the profit structure is similar to that of Deutsche Bank.

One significant difference is the regional profit share. Dresdner Bank earned 67% of its operating profit from Germany and the remainder outside of Germany, mainly in European countries. Dresdner Bank focuses primarily on German markets.

As a result of operating losses suffered from 2001 to 2003, the bank undertook restructuring measures that led to the "New Dresdner Program," which focused on securing its base, on disciplined costs, capital and risk management, and the successful development of growth initiatives in all strategic business areas. Although business performance in 2004 showed the first profit in three years, the profit level is well below that of Deutsche Bank. In 2002 the bank dropped from second position to fourth. Today it has come back as the second-ranked bank in Germany. However, its COO announced that more effort is needed to launch the next stage of profitable growth.

HVB Bank

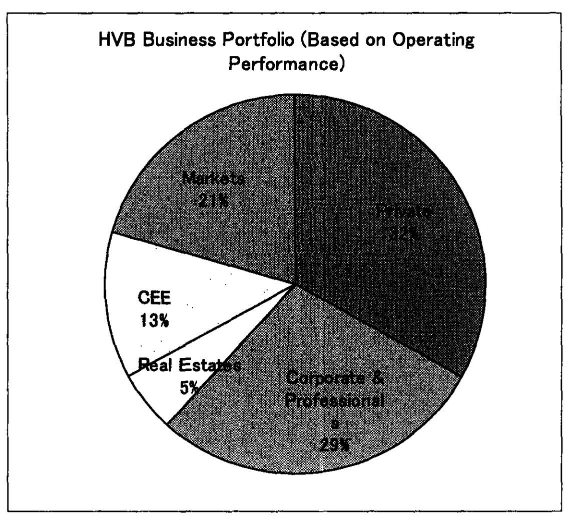
Bayerische Hypo-und Vereinsbank (HVB) was formed in 1997 through mergers with Bayerische Vereinsbank (founded in 1869) and Bayerische Hypotheken und Wechsel Bank (founded in 1835). Both banks are situated in Bavaria, the largest state in Germany. The former was a regional bank that conducted commercial banking; the latter was authorized by law to conduct real estate financing.

In 2000, HVB took over Bank Austria Creditanstalt, the major Austrian bank, which was strong in the Central and Eastern European markets. After this merger, HVB exceeded Dresdner Bank and was long second-ranked among German banks, although today it is ranked third. In 2005, HVB was bought by an Italian bank, UniCredit, and it now belongs to that group.

US$ in million

Fiscal Year	2002	2003	2004
Net revenue	11,586	12,240	11,277
Interest income	7,183	7,116	6,844
Trustee fees	0	0	0
Non-interest fees	3,233	3,382	3,442
Trading fees	952	992	869
Others	218	750	122
Operating profit	-742	1,733	1,681
Current net profit	-1,029	-2,955	-2,410
Loans	454,718	409,343	392,766
Deposits	177,986	169,778	174,786
Total assets	648,318	580,195	565,554

Number of employees	57,806
Network	2,036
domestic	681
foreign	1,355
Number of customers (corporate)	N.A.
(private and SM Corp.) in thousand	N.A.



Source: Bayerische Hypo- und Vereinsbank Aktiengesellschaft (2005) *Annual Report 2004 HVB Group*

HVB's business strategy is unique in that it focuses on retail and corporate banking in Europe. Following its strategy of "Growing with Europe," HVB consolidated its market position in core European regions – Germany, Austria, and Central/Eastern Europe – with the aid of innovative products for private and corporate customers. The HVB network in Central and Eastern Europe exceeds all of its German competitors, spanning 16 countries and serving more than four million customers. HVB plans to open 200 new branches and continue to increase its customer base. It relies primarily on organic growth in central and eastern Europe. Table 3.3 shows the strength of its European market.

Table 3-3

Segment by region

Germany	Austria	Other W.Europe	CEE	Americas	Asia
49.8%	26.4%	7.0%	13.6%	2.7%	0.6%

Regarding its business portfolio, the retail and corporate banking businesses have almost the same weight on total operating income. Due to the difficult German real estate market, the real estate portion of the business (HVB's original business) is way down. Note that HVB utilizes a specific category for Central and Eastern Europe (CEE) business, in addition to other segments, which indicates the importance of that region to HVB's overall strategy.

In contrast, HBV's business performance is not positive. The bank has suffered net losses since 2002, and the current net loss has not diminished. The reason is the heavy burden of bad debt in the real estate business. In 2005, HVB decided to restructure its German business, and will transfer its workout portfolio for the entire German real estate business to its restructuring segment.

Mr. Rampl, CEO of HVB, stated in HVB's 2004 Annual Report:

> For the sake of our Bank's future viability, we had to free ourselves by drawing a line under the troublesome subject of our legacy burdens in the real estate business. ---- Now we can remove a significant portion of the risk form our future income statement and concentrate our resources entirely on profitable new business.

HVB is still in the process of transforming itself by moving out from Germany and into the Eastern markets.

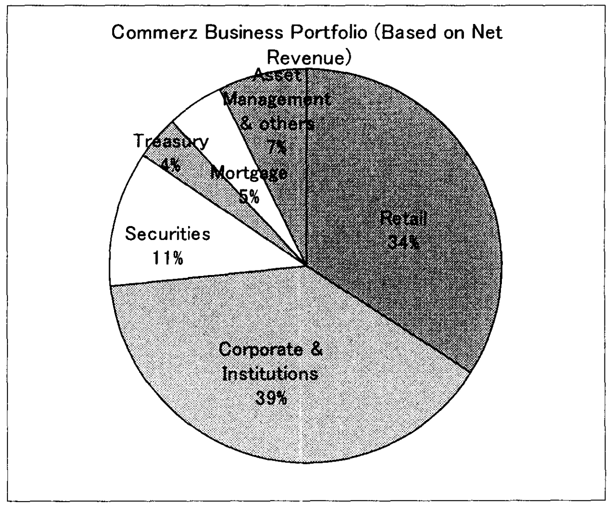
Commerzbank

Commerzbank was founded as Commerz und Disconto Bank in Hamburg in 1870. The youngest bank among top four banks (at 135 years old), it is ranked fourth among German banks. In 1958, it was reorganized, and in the early1970s, it moved its head office to Frankfurt am Main.

Its activities are focused on the customer. Its business is organized in two divisions to achieve mutual synergies: Retail Banking and Asset Management, and Corporate and Investment Banking. The bank maintains both private customer banks and corporate customer banks. The pie chart below shows that the two main business lines equally support the bank's business performance.

			US$ in million
Fiscal Year	2002	2003	2004
Net revenue	8,068	7,446	7,671
Interest income	3,791	3,359	3,619
Trustee fees	0	0	0
Non-interest fees	2,565	2,585	2,723
Trading fees	645	1,244	1,089
Others	1,067	259	241
Operating profit	232	676	1,262
Current net profit	-361	-2,807	476
Loans	169,241	158,546	151,482
Deposits	115,797	121,000	127,127
Total assets	510,782	461,718	514,104

Number of employees	32,820
Network	965
domestic	798
foreign	167
Number of customers	7,880,000



Source: Commerzbank AG (2005) *Annual Report 2004*

Commerzbank focuses its business on Germany where, as an integrated provider of financial services, it maintains a nationwide branch network to provide advice to customers and distribute its products. Its corporate business focuses on Western, Central, and Eastern Europe as its core markets. Outside of Europe, North America is the bank's most important and profitable region. Just as Deutsche Bank and Dresdner Bank did, this bank opened overseas branches in the 1970s, with its first branch in Chicago. It primary purpose in the U.S. is to serve German companies located in the U.S.

To strengthen its other core businesses, Commerzbank has a subsidiary in Luxembourg and is establishing private banking units outside of Germany. The bank earns 78% of its operating profit in Europe, including Germany (no figures are disclosed for only its market in Germany).

Considering these figures, like Dresdner Bank and HVB, Commerzbank is also a Europe-driven bank. However, the difference is that this bank focuses on retail banking in Europe. The bank's 2004 Annual Report highlighted its history of retail banking as an example of leveraging the Luxembourg subsidiary as a strategic entity.

Comparing Commerzbank with the other three German banks, Commerzbank's strategy is not as clear. It seeks to strengthen its brand and aims to become the best bank in Central Europe. However, it is difficult to identify a clear strategy for how the bank plans to achieve this target.

3.4 The Banking Industry in the United States

U.S. banks can be divided into four groups: community banks, regional banks, super-regional banks, and money center banks. There is no rigid category of specific financial data that identifies each group. As a result of the many mergers in the last decade, the number of U.S. banks has decreased. Still, 95% of all banks are small community banks.

Money center banks have diversified business units with both nationwide and international focus and a huge branch network. These banks have the largest total assets and are the top banks in the U.S. Therefore, money center banks are comparable to Japanese and German top banks as described in the previous sections.

3.4.1 Summary of Three Major U.S. Banks

Table 3-4 US $ in million

		Citigroup	JPM Chase	BOA
Net Revenue		86,190	43,097	48,894
	Interest income	51.8%	38.9%	58.9%
	Trustee fees	7.9%	18.5%	0.0%
	Non-interest fees	24.1%	32.3%	37.6%
	Trading fees	4.4%	8.4%	1.8%
	Others	11.8%	1.9%	1.8%
Net Income		17,046	4,414	14,143
Total assets		1,484,101	1,157,248	1,110,457
Portion of Corporate Banking		12.0%	5.1%	13.5%

Source: Annual Reports for FY2004 of Citigroup, JP Morgan Chase and Bank of America

The three banks to be discussed here represent the top three U.S. banks. In both business scale and net profit, they exceed the Japanese and German banks. The net revenue of the U.S. banks is similar in structure to the Japanese banks, the proportion of interest revenue is relatively high, and the percentage of non-interest fees is approximately the same as Japanese banks.

The most notable difference between these American banks and their Japanese and German counterparts is the magnitude of their corporate banking business, which is lower than that of the other two nations' banks. This means the U.S banks focus much more on retail banking.

Among the U.S. examples, each bank's strategy is significantly different. Citigroup focuses on global retail banking. JP Morgan Chase focuses on both investment banking and retail banking equally. Bank of America is more a domestic bank than international.

3.4.2 Analysis of Three Major U.S. Banks

Citigroup

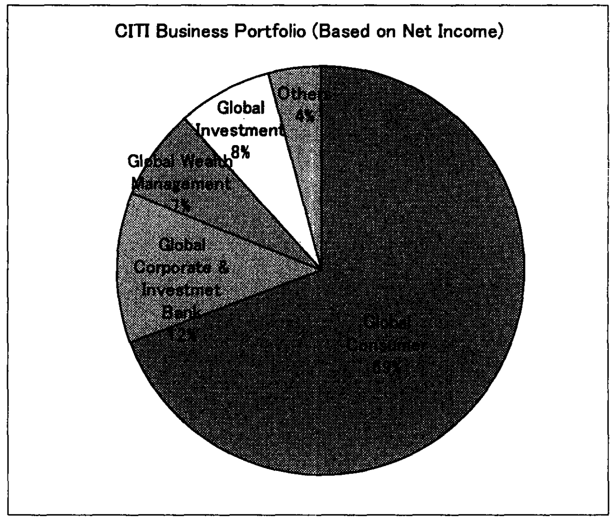
Citigroup, the largest and most famous bank in the world, was founded in 1812 as City Bank of New York. In 1894, City Bank was already the largest bank in the U.S. It expanded into Asia, Europe, and India in 1902. In 1929, it became the largest commercial bank in the world, and its expansion accelerated following several mergers. In the 1960s Citibank entered retail banking, with a special focus on the credit card business.

As of the end of FY 2004, Citigroup maintains nine distinct product lines within four business groups: Global Consumer (GC), Corporate and Investment Bank (CIB), Global Wealth Management, and Global Investment Management. The bank's strategic goal is to expand internationally, to continue growing its consumer business, and to ensure that its corporate and investment banking business is best in class—goals that are clearly described in the bank's 2004 Annual Report.

US$ in million

Fiscal Year	2002	2003	2004
Net revenue	71,308	77,442	86,190
Interest income	37,691	39,776	44,623
Trustee fees	5,146	5,665	6,845
Non-interest fees	18,668	20,063	20,765
Trading fees	4,513	5,120	3,756
Others	5,290	6,818	10,201
Operating profit	0	0	0
Current net profit	15,276	17,853	17,046
Loans	447,805	465,363	548,560
Deposits	430,895	474,015	562,061
Total assets	1,097,590	1,264,032	1,484,101

Number of employees	275,000
Network	N.A.
domestic	N.A.
foreign	N.A.
Number of customers (thousand)	100,000



Source: Citigroup Inc. (2005) *2004 Annual Report*

The pie chart shows how each business line aligns with the bank's overall strategy. There is no doubt that the GC business is the bank's strongest revenue engine, with CIB the second core business—even though it produces five times less than the GC segment. Nevertheless, it remains highly competitive against other international banks. GC is comprised of two products lines: Capital Markets and Banking, and Transaction Services. Unlike Japanese banks, Capital Markets and Banking is similar to investment banking. At end of the fourth quarter of 2004, Citibank became the first financial institution to achieve number one ranking in all four major investment banking products.

Transaction Services means on-line banking services for corporate customers. This bank is the world leader in online banking, combining state-of-the-art products with its worldwide network.

Citigroup's business portfolio is quite different from Japanese and German banks. While it conducts business worldwide, the retail banking business is dominant.

Geographically, 47% of total net income comes from North America, the bank's home market (see Table 3-5). Yet 53%--over half of net income—is generated outside of North America. Roughly speaking, one-third comes from regions other than North America. As Japan has almost a 5% share, it can be said that Citigroup puts its first priority on the Japanese market among Asian countries.

Table 3-5

Net Income - Regional View

North America	Mexico	EMEA (Europe, Middle East and Africa)	Japan	Asia	Latin America
47.2%	10.3%	14.3%	4.7%	16.1%	7.4%

JP Morgan Chase

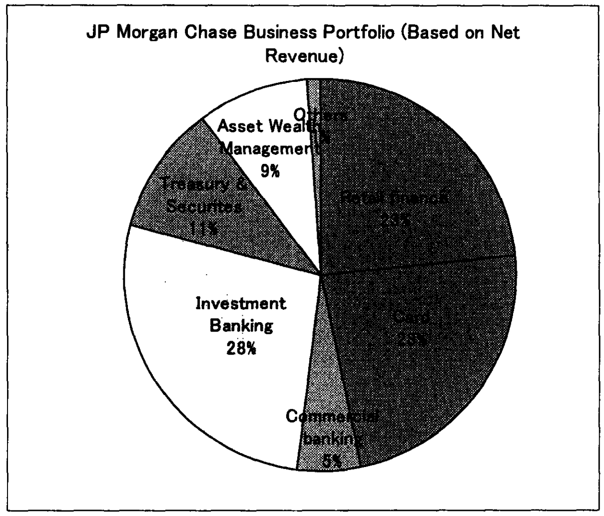
As its name indicates, JP Morgan Chase was established through several mergers, although two were responsible for its present name: the former investment bank of JP Morgan and the commercial bank Chase Manhattan Bank. That merger united two prominent U.S. financial service companies, whose joint legacy stretched back more than 200 years from the founding of its earliest predecessor (The Bank of Manhattan Company) in 1799. Today the bank's headquarters are located in New York, but its commercial banking headquarters are in Chicago.

Mergers have not stopped, however, with the latest one being the acquisition of Bank One in 2004. Based on background of mergers, this bank uses the two brands names to define its business areas. JP Morgan handles investment banking, asset management, and private banking; Chase handles retail and commercial banking. Net revenues from Chase are almost equal to that of JP Morgan.

US$ in million

Fiscal Year	2002	2003	2004
Net revenue	29,614	33,384	43,097
Interest income	12,178	12,965	16,761
Trustee fees	5,754	5,906	7,967
Non-interest fees	8,549	9,485	13,927
Trading fees	2,675	4,427	3,612
Others	458	601	830
Operating profit	0	0	0
Current net profit	1,663	6,668	4,414
Loans	216,364	214,766	402,114
Deposits	304,753	326,492	521,456
Total assets	758,800	770,912	1,157,248

Number of employees	160,968
Network	N.A.
domestic	N.A.
foreign	N.A.
Number of customers	94,000



Source: JP Morgan Chase & Co. (2005) *2004 Annual Report*

Although no data is provided that shows regional revenues, the bank's net revenues from investments are given in its 2004 Annual Report, which shows 54% from the Americas, 32% from Europe, and 13% from Asia/Pacific. Comparing this data with Citigroup's GCIB division, there are slight differences: 64% from the Americas, 11% from Europe/Africa, and 25% from Asia. As far as the investment banking business is concerned, JP Morgan Chase depends on considerable revenue from outside the Americas. However, both divisions have the same strategy – to expand their business globally.

The bank's strategy is to invent organic growth; expand consumer banking, aggressively fund new investment banking, intensify its card business, and increase private banking. The goal is to produce equally balanced business areas simultaneously.

In terms of business scale and business portfolio, JP Morgan Chase is smaller but more diverse than Citigroup. However, their commonality is worldwide business, and there is little emphasis on corporate banking.

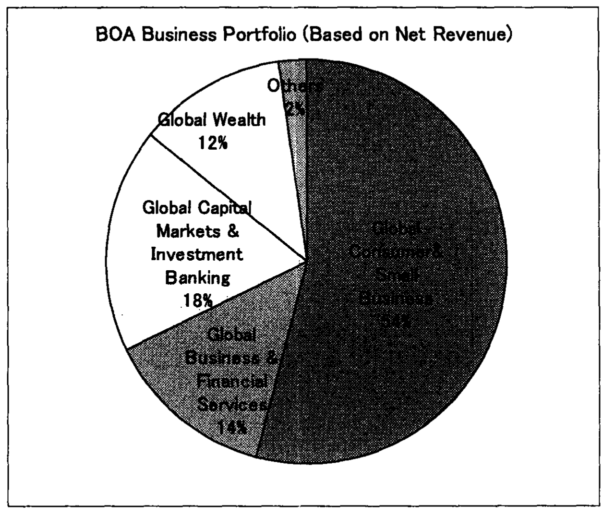
Bank of America

Bank of America (BOA) was established in 1998 as a result of the largest merger at the time, between Nations Bank and Bank America, both of which are over 100 years old.

US$ in million

Fiscal Year	2002	2003	2004
Net revenue	34,503	37,914	48,894
Interest income	20,923	21,464	28,797
Trustee fees	0	0	0
Non-interest fees	12,159	14,914	18,365
Trading fees	778	409	869
Others	643	1,127	863
Operating profit	0	0	0
Current net profit	9,249	10,810	14,143
Loans & Lease	342,755	371,463	521,837
Deposits	386,458	414,113	618,570
Total assets	660,951	719,483	1,110,457

Number of employees	177,236
Network	5,879
domestic	5,844
foreign	35
Number of customers	N.A.



Source: Bank of America Corporation (2005) *Portrait of a Bank 2004 Annual Report*

As the financial data shows, net revenues and total assets are similar to JP Morgan Chase. Also, BOA's business portfolio is divided into four business units, which the bank recognizes as its core business lines.

This bank's goal is to expand its global business, and it is presumed that every business unit is named "Global" for that reason – like other two American banks discussed here. However, Table 3.6 confirms that the majority of BOA revenues are derived from the U.S. market.

Table 3-6

Net Revenue by geographic area

Domestic (incl.Canada)	Asia	EMEA (Europe, Middle East and Africa)	Latin America
94.4%	1.4%	2.3%	1.8%

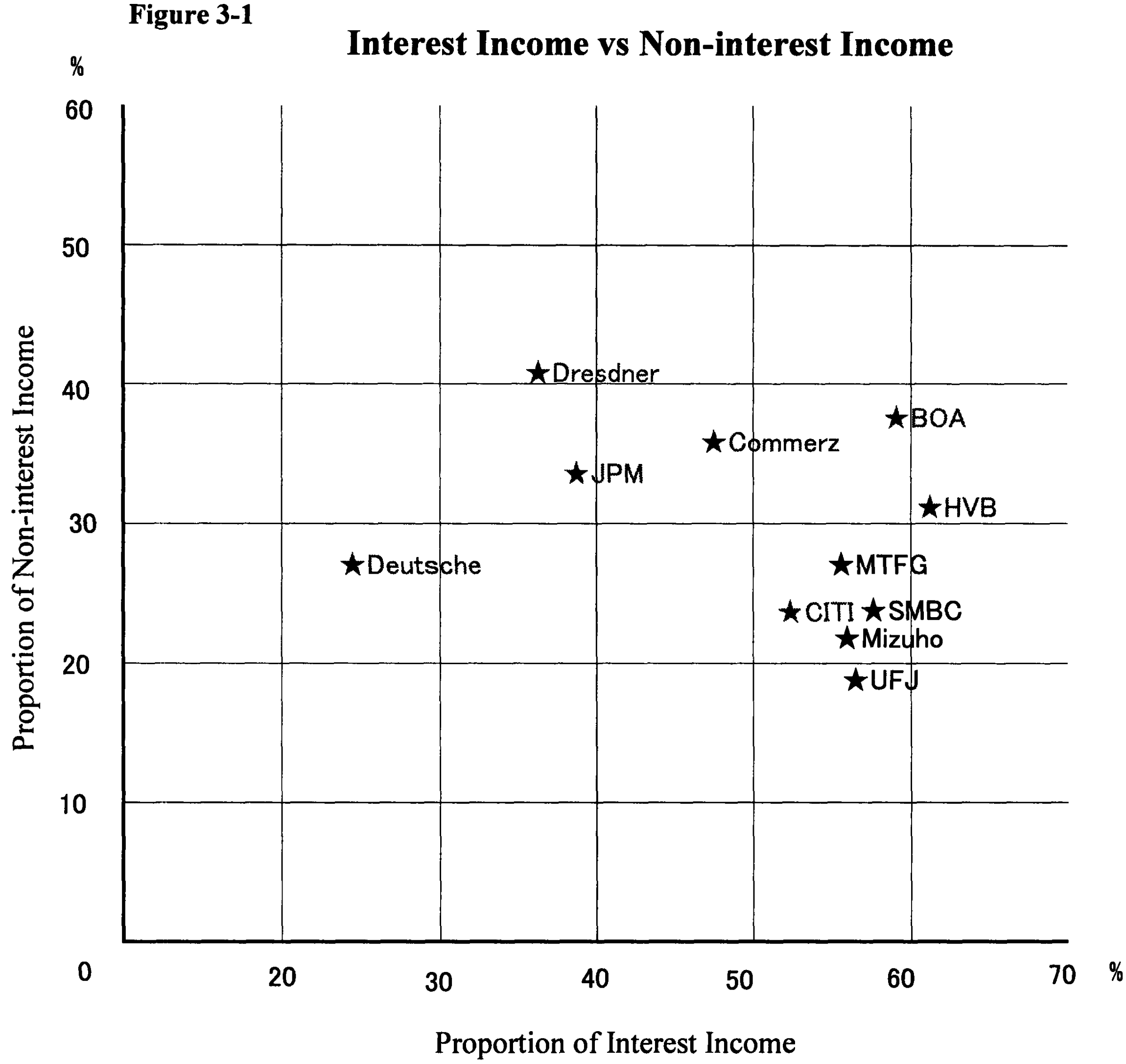
In 2004, 94.4% of net revenues were earned in the domestic market, with the remainder coming from outside the U.S. BOA's 2004 Annual Report stated that the bank's strategy is to be a nationwide, universal bank for consumers and small businesses, and to be a full-service corporate and investment bank with global capabilities for its commercial and corporate clients. Yet, BOA's direction is significantly different from other top U.S. banks. Based on this, BOA can be categorized as the largest regional bank in the U.S.

3.5 Summary and Conclusion

3.5.1 Summary

Figure 3-1 illustrates the position of each bank in terms of interest income and non-interest income—one indicator of the products from which each bank earns its profit.

Figure 3-1



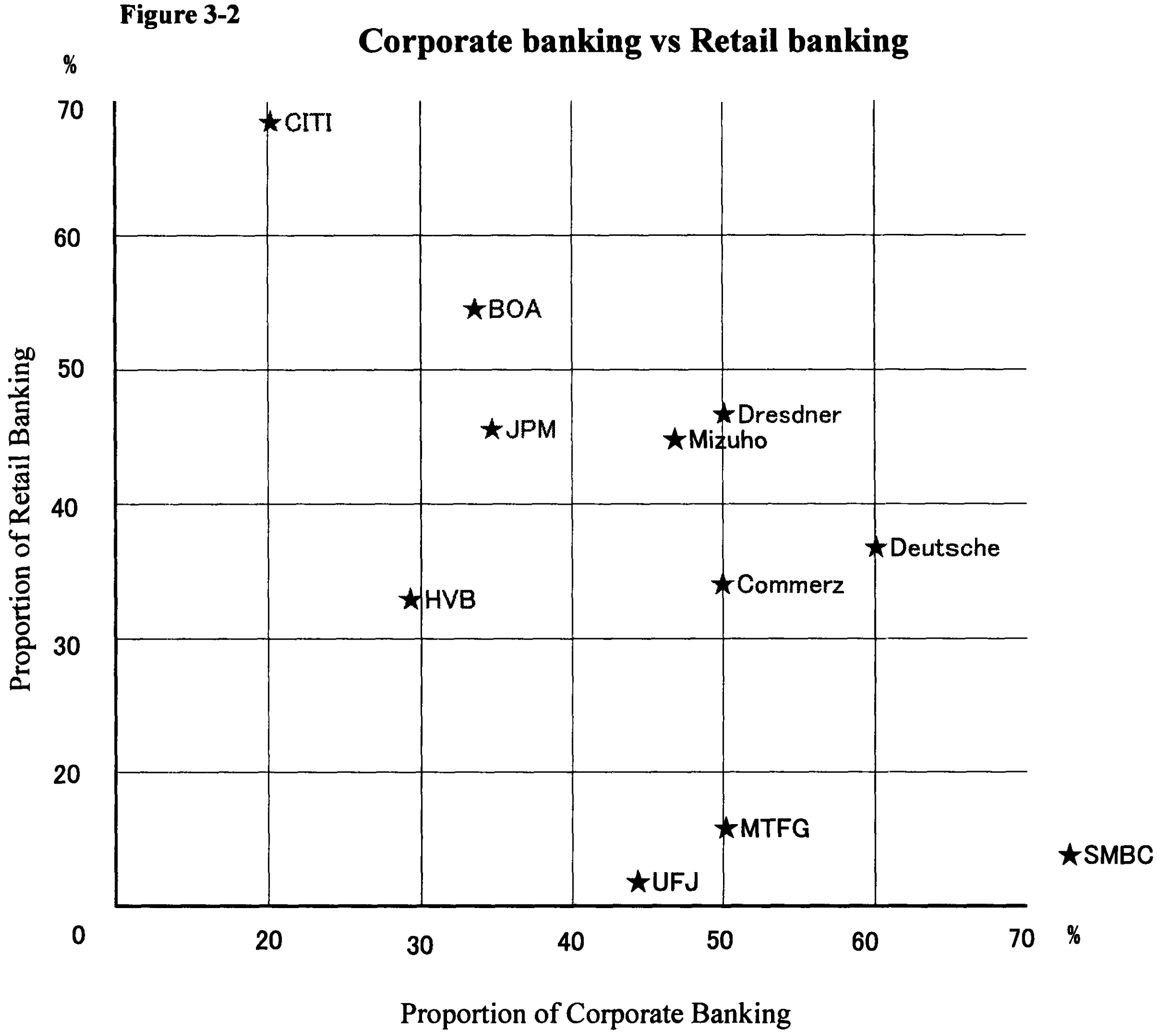
The high ratio of interest income indicates that the bank emphasizes its conventional banking business associated with loans and deposits. On the other hand, a high ratio of non-interest income signals that the business is focused on a fee business driven by investment banking. The Japanese banks are in a cluster together, signaling high-interest income and low non-interest income. One can see little difference among the banks, and all are focused on conventional business.

In contrast, German banks are much more scattered. HVB is closer to the Japanese banks, while the other three banks are different. This means that each German bank's income source is different, and they pursue different strategies.

Like the German banks, the three U.S. banks are different again. Interestingly, Citibank is closer to the Japanese cluster as far as the ratio of income sources, although its strategy is totally different from Japanese banks as I will show later.

Figure 3-2 depicts each bank's position vis-à-vis the relation between corporate banking and retail banking. This indicates target customers.

Figure 3-2



As the differences in the nature of business between corporate banking and retail banking is significant, one can distinguish the bank's target customers. If a bank focuses on retail banking, its target is individual and private customers, and the bank tends to offer mortgage loans, card loans, and savings deposits. A bank that focuses on corporate banking works primarily with corporate customers and institutional investors. It provides investment banking business in addition to basic commercial banking services.

The figure highlights the characteristic tendencies of the thee national banks. Japanese banks focus more on corporate banking. Although Mizuho's retail banking is more than the other three Japanese banks, I assume the ratio is lower because the bank did not disclose more detailed segmentation figures.

U.S. banks are more retail-banking-driven. It is interesting to me that when it comes to major U.S. banks, most are international, global banks, leading investment banks. But the data in Figure 3.2 shows that major U.S. banks earn more profit in investment banking with a much larger volume than Japanese and German banks.

German banks fall between U.S. and Japanese banks. Their business portfolio is balanced. However, each bank's position is closer either to Japanese banks or to U.S. banks It is quite possible that Deutsche Bank focuses on corporate banking and HVB focuses more on private customers.

Figure 3-3 shows the geographic distribution of net income for each bank. This highlights each bank's strategy from a horizontal angle, while the previous two figures explain it vertically.

One can see clearly where each bank earns its profit. Generally, each national bank earns the largest profit from its home country, but the percentages are quite different.

Japanese banks gather 82.3% of their profit from the Japanese market. U.S. banks earn their profit in the U.S. market including Canada, but the amount is less than Japanese banks. However, for German banks, their profit from the German market is less than 50%. The reason is that German banks earn more than one-third of their profit from other European markets. This means for German banks it is not necessary to distinguish their home country from other European countries. They consider the German market and other European market as inseparable.

Figure 3-3

Proportion of Net Income by Geographical area

Japanese Banks

Japan	82.3%
Asia	3.2%
America	9.5%
Europe	3.2%

German Banks*

Germany	47.8%
Europe	34.7%
America	13.1%
Asia	4.4%

US Banks**

N.America	70.8%
Latin America	9.8%
Europe	8.3%
Asia	11.1%

* Except for Commerzbank
**Except for JP Morgan Chase

BTM

Japan	69.4%
Asia	4..4%
America	18.0%
Europe	8.1%

One characteristic of the data for Japanese banks is the low ratio of income from Asia. In contrast to the Germans and Americans, the Japanese do not to reap their large profits from the Asian market although they are located geographically closest to their home market. However, from a data perspective, the closest market for Japanese banks is the U.S. market. U.S. banks, too, earn more than 10% from the Asian market, which is somewhat larger than that of their neighbor countries. It indicates how U.S. banks recognize the potential of the growing Asian markets rather than the Latin America market.

When considering BTM specifically, its ratio is more diverse than average, and it is similar to the U.S. banks. In this sense, BTM is the most international Japanese bank, although its strategies are totally different from those of U.S. banks.

3.5.2 Characterization

The three national banks can be characterized as below.

Japanese Banks

- ✓ Corporate banking oriented
- ✓ Conventional commercial banking oriented
- ✓ Emphasizing home market, not so international
- ✓ Each bank strategy has little differences

German Banks

- ✓ Corporate banking and retail banking are well balanced
- ✓ Commercial banking and investment banking are balanced
- ✓ Emphasize the European market including Germany
- ✓ Each bank has a different strategy

U.S. Banks

- ✓ Retail banking oriented
- ✓ Commercial banking and investment banking are balanced
- ✓ Major market is home country, but geographically diversified

- ✓ Each bank has a different strategy

In the following chapters, I will analyze to what extent these characteristics are aligned to cultural issues in each country using data acquired from my interviews.

CHAPTER 4

A Study of Japanese Banks

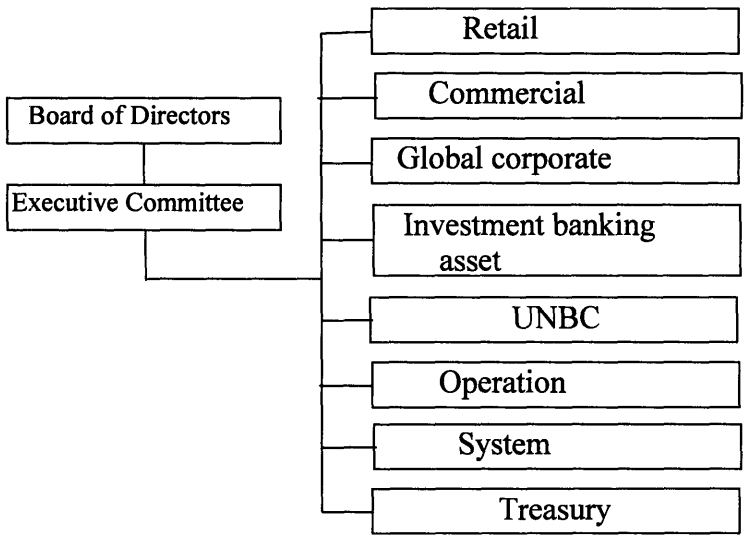
In this chapter I will describe several aspects of the organization of Japanese banks and their strategies. To the best of my knowledge, the points I emphasize in this chapter do not appear in the published literature. My purpose is to shed light on the thinking behind building the organization and conducting business. This study is based on interviews held with seven Japanese bank officers, six of whom now work at the Bank of Tokyo-Mitsubishi (BTM); the other works at Mizuho Corporate Bank. Discussion in this chapter focuses mainly on BTM but I believe it accurately represents the organization and organizational culture of most Japanese banks.

4.1 Organization

4.1.1 Structure

The structure of Japanese banks does not differ markedly. Each Japanese bank typically has several business units. In the case of BTM, there are eight business units that appear to be on the same level superficially on the organization structure chart (see Figure 4-1). However, in reality the power of each business unit is very different. Business units that take care of corporate customers, such as Global Corporate and Commercial have the strongest power because they earn the largest portion of the profits for the commercial banking business. In contrast, a non-profit business unit like Operation and Systems has the least power because it only spends money and does not earn a profit. The Treasury and Investment Banking units are an essential part of the banking business, and their performance contributes directly to the bank's profit. Yet Global Corporate and Commercial is regarded as superior to Treasury and Investment Banking.

Figure 4-1
Corporate organization of the Bank of Tokyo-Mitsusbishi



Source: Mitsubishi Tokyo Financial Group, Inc. (2005) *Annual Report 2005*

4.1.2 Corporate Banking Units

The reason why corporate banking units have greater power can be explained by the so-called "main bank system," which exists only in Japan. "Main bank" refers to the bank that has the closest relationship with a company; this bank reaps the largest share of the profits to be made through its banking relationship with the company, and the main bank has the most power to influence the company. Following World War II, the decision about how to finance investment funds was crucial for Japanese industries. Since there was no capital market, Japanese companies had to borrow funds for investment from banks. Thus banks played the key role for company growth at the time. Main banks lent money and acquired deposits from firms. As a result of this process, the main bank became defined as a major leading bank, which holds the major share of funds lent to companies. Details of the main bank system will be further described in Section 4.4.3.

Each company has a main bank, and most of the bank's business comes through this main bank, which is usually very profitable and the growth engine of the bank. The business unit that plays the role of a main bank is the most valued in the bank, and at BTM, this unit is Global Corporate and Commercial. Therefore, the most qualified people, who have demonstrated significant achievement, are placed in this main bank unit and those units are ranked even above other profit-earning business units. Opportunities for promotion are greater, and salaries are higher in the main bank unit than for other business unit employees.

Mr. Asano explains:

> *When I decided to work for my bank 17 years ago, I compared banks and security companies. But at the time there was an image that banks were high-status corporations while security companies seemed to be stock jobbers or a bucket shop. Almost the same notion was found in the bank. People did not like to do retail banking because it was not profitable, more risky, and more trouble with individual customers.*

This comment indicates that there is an invisible hierarchy in the organization, and the distance between each layer in the hierarchy is not small. In BTM, bank officers who are responsible for the largest companies at headquarters (*Honbu*) in Tokyo are regarded as elites. Employees aim to work in the elite position, but of course that is not easy. Thus, the historical legacy is that to work in corporate banking in the organization gives the most status.

4.1.3 System Services and Operations Services Business Units

In contrast, the system services and operations services units are ranked by these in the organization at the lowest level. Of course, many qualified people work in these units, and the bank is continually seeking additional skilled employees. However, it is also true that employees who have been judged to be unqualified for work in other business units are often transferred to these two business units. Such transfers are often referred to as "matching the right talent with the right job," but in truth it is a kind of demotion.

Even though the organization is well-structured, the success of every project depends on people. At BTM, there is no matching of the right talent with the right job. And when a person not suited for his/her job, the inevitable transfer to some other unit occurs because most Japanese businesses still observe the tradition of life-time employment. As a result, the bank continues to keep unqualified people working somewhere in the bank, and most of them end up in the Systems Services or Operations Services units. Life-time employment will be explained in a later section.

Mr. Suzuki of BTM commented:

> *I see a culture in the bank where the back office is looked down on, and people admire the front officer who makes a profit through business with big companies. Some system features of our banking system are behind those of foreign banks and it constrains business promotions. Morgan Stanley in Tokyo has developed a new system to meeting customer needs. As far as I know, one-fourth of its employees are IT people, and the IT division is highly regarded. That is very different from us.*

This explanation implies a business unit hierarchy in the bank that varies across organizations. But within the variance of ranking, each bank maintains a status hierarchy.

4.2 Human Resources

4.2.1 Human Resource Development System

Responsibility for human resources (HR) is centralized in a human resource office. While each business unit has its own human resource office, all HR employees are located on the same floor, work together, and share information about employees.

The fundamental concept underlying human resource development in Japan is "on-the-job-training" (OJT). At BTM, there are several employment categories, each dependent on the employee's education path. Most students graduating from four-year universities are hired as future bank officers. The bank has its own training program. It rarely uses external training programs nor does it send people to external educational institutions. In the first two or three years, all freshmen employees are allocated to small branches where they become familiar with all aspects of the banking business available at the branch.

After the initial training period, each employee's abilities and skills are evaluated by the human resource office, and then the employee is assigned to a business unit. It is customary that salaries and bonuses for employees who start work in the same year (called "*doki*") do not differ significantly until they are promoted to manager (almost eight years after entering the company). The human resource office tends to make as few distinctions as possible among the younger bank officers. Some interviewees call this system "egalitarian," and others called it "communitarian." Every interviewee agreed that Japanese banks to tend to promote people as equally as possible.

The Life-time Employment System

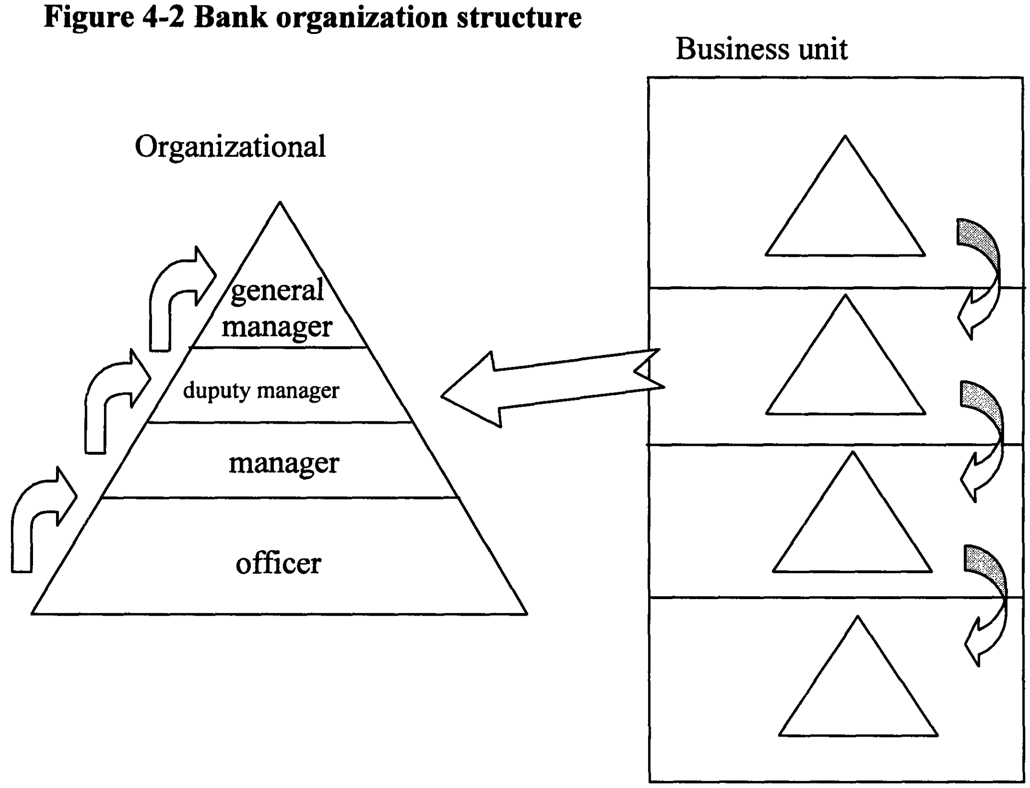
It is often said that there is a life-time employment system in Japan. Yet strictly speaking, Japan has no life-time employment system because no Japanese company has a life-time employment contract. Japanese laws allow companies to fire their employees for reasonable cause. Before World War II, and during the 1940s and 1950s, there were many lay-offs. Again in late 1970, the oil crisis triggered drastic lay-offs and there were no guarantees of employment. Thus, it cannot be said there is such a "system" in Japan. In reality, however, the tradition of life-time employment exists as a custom and an ideal system, and the banking industry is no exception.

How did this custom develop? After the war, demand for labor increased as the Japanese economy grew dramatically over the next 20 years, and companies also grew rapidly. At the time the number of younger males was quite low. Due to the chronic lack of laborers, companies began to hire many young new employees in April every year—the so-called "spring hires." In order to train these young freshmen quickly, Japanese companies built internal training programs and developed a promotion system. Soon the notion began to spread that there was no risk of being fired after once entering a company and life-time employment became a household word. Most Japanese companies continue to observe this custom, or at the very least are reluctant to fire employee, preferring to keep employees for as long as possible.

4.2.2 Performance Evaluation System

Every person I interviewed agreed that the notion of life-time employment still exists in most banks. Employees are retained as long as possible. To enable this, two hierarchical structures are used. One is the typical organization hierarchy shown in Figure 4-2. This structure is linked to the titles and positions of all employees. Every time an employee moves up the ladder, he[1] gets a promotion, but as long as he remains in the same layer, there is little difference in salaries and bonuses. Yet officers are evaluated on their performance by their supervisors who can recommend a subordinate's promotion to the human resources office, which makes the final decision in a highly centralized process.

Figure 4-2 Bank organization structure



Once an officer is promoted and moves up in the organization, he receives a higher salary and larger bonuses. The difference between a manager and an officer is relatively high. However, if an officer is evaluated as not sufficiently skilled, he could be transferred to another business unit rather than be demoted within the same unit. Such a transfer is in fact a

[1] While my preference would be to use he/she in recognition of the important role of women in the workforce today, the reality is that in Japanese banking the overwhelming majority of employees are men. Thus I have used the pronoun "he" because it more closely represents today's situation in banking.

demotion because the business units are also in a hierarchy and the business unit where he will be transferred will be lower than his previous unit. Therefore, a transfer to another business unit more often means moving from an upper level to a lower level. There are cases in which an employee changes from a lower level to an upper level, but such moves are rare.

A transfer has some merit for an officer who must change to another business unit. First, his salary level will remain virtually unchanged because his title is unchanged. He does not have to worry about being asked to leave the company because of life-time employment as the unspoken consensus. Second, he will find that officers in his new workplace have similar careers and his new group consists of people similar to him. He will feel confident because there is no apparent "difference" between himself and his co-workers. One negative thing is that he has to accept the fact that he has little chance for a big promotion. When he accepts that, however, he will be happier.This system was understood by all interviewees.

Mr. Enomoto explained it further:

> *Regarding the appraisal system, we have to set our goals on a semi-annual basis and they should be the kind that can be quantified and measured. If the quantified goal is achieved, it is clear to everyone. But there are some goals that I wonder how to measure, such as "strengthen customer relationships," "control the project more strictly," and so on. Unfortunately, the correlation between achievement and promotion is sometimes not clear. Some people complain about this and I know this is bad in terms of convincing people to achieve a goal. Overall, however, I think it works well. The bank tries to evaluate people over the long term and from various angles. Figures and measurable achievements are important for the short term, but do not represent a worker's entire value.... There is definitely a culture that we prefer team-oriented work values. The evaluation system is also results in keeping people equal in the firm.*

4.3 Unions

Like most Japanese banks, BTM has its own union. Union members come from all levels of employees ranging from clerks to managers at lower levels who do not have the possibility of becoming internal board members. Most employees assume that board members are elected annually and that board members change after one year. The union's executive office is expected to optimize economic conditions and welfare programs for all union members and negotiate with bank executives to obtain benefits and better pay for all union members from the bank.

In reality, the members of the union executive office are appointed by the bank. If they finish their work as a union executive officer without any major problems, they usually receive a good promotion after one year. Typically they go to the planning section or to corporate finance as an officer, or become senior managers of a large corporate finance branch—jobs that are perceived to be in the superior layer of the business unit's hierarchy. Few people return to the systems service and operations service business units. Why? The union executive office is used as a "checkpoint" to decide whether a selected employee will be promoted by the bank. In other words, it is almost guaranteed that they will get a promotion at the end of their assignment in the union, especially if they prove to be good at obtaining consensus from union members in line with the bank's preferences. There are no written or clearly explained rules about the relationships between the bank and the union executive office, but there is an implicit understanding.

Mr. Suzuki and Mr. Otsubo were previous members of the union executive office. They told me:

> *We cannot deny that people who worked in the executive office of the union tended to have more chance to be promoted. Everyone knows how the system works. We also know that the union executive office is called the "second human resource*

office." But even if we fight aggressively against the bank in order to obtain better pay, it might not produce good results. In the end, people know it does not make sense. It is a kind of "give and take" relationship. The bank raises salary as much as possible even though the percentage is not large. So we [the union executive office] *try to persuade all union members that aggressive opinions from the union members cause concerns among bank executives and upsets routine bank operations. Harsh negotiation produces little benefit to union members.*

This is a good example of collectivism and the power of distance. In terms of collectivism, the priority of both the bank and the union is a compromise result for the group and the bank rather than negotiations about better conditions. The bank uses the union executive office to control the union members. The system works because the human resource office is ranked among the top layer of the bank's organizational hierarchy, and people in BTM perceive the power distance at this part of the hierarchical structure.

4.4 Strategy

4.4.1 Target Customers

What kind of customers do banks target? The answer is a key issue that sheds light on the banks' cultural background. In the case of BTM, it is clear that the bank focuses on banking with Japanese companies, even though it has more than 400 overseas branches. This does not mean that BTM does not seek non-Japanese companies; however, but the amount of corporate banking business with non-Japanese firms is small. In terms of retail banking, BTM does not conduct retail banking abroad. When it comes to retail banking in BTM, it is synonymous with domestic business.

Mr. Suzuki, who now works as corporate relations officer at the head office in Tokyo said that BTM's CEO announced that the bank's international strategy was to support

Japanese companies in other countries. This aligns with my own work experience in Germany where BTM branches there maintain only a few employees to cover blue-chip German companies.

In my interview with Mr. Asano, who works at BTM's Düsseldorf branch, he said that the bank's strategy for all of Europe is no different from what the BTM German branches are doing, and that BTM's major main customers are Japanese firms doing business in Europe.

Mr. Murakami, corporate relationship manager in the New York branch said:

> *All of my clients are Japanese customers and almost all counter parties are Japanese, so I do not have to communicate in English. The only time I have to talk to somebody in English is when I talk with clerks in the back office. The New York branch is the one of the largest overseas branch in BTM. It operates a full banking business with approximately 2,000 employees. It has the largest non-Japanese corporate banking department, but the number of employees who are engaged in U.S. corporate banking and the business volume is very low in comparison with banking conducted with Japanese firms.*

Mr. Takeuchi, of Mizuho Financial Group, said that its strategy is more focused on domestic. Indeed, while BTM earned around 70% of its revenue from the domestic market, 82% of Mizuho's revenues depend on the Japanese market (2004 annual reports of BTM and Mizuho). Among major Japanese banks, BTM appears to be the most international bank, but its business nature actually is not especially global.

This implies that the purpose of major Japanese banks' overseas branches is to follow Japanese companies that are also their main customers in Japan. It is clear that they do not establish overseas branches in order to follow non-Japanese customers.

4.4.2 Customer Relations

Another difference among the Japanese banks is how each maintains their customer relationships. Every national bank has a customer relations manager, and there is no objection to maintaining close relationships with customers in order to enhance the banking business. However, there are major differences in the way to maintain and think about such relationships. I believe these differences highlight each bank's organization culture.

For Japanese banks, the foundation of relationships is very much focused on "give and take" and "long-term relationships." In many cases, important decisions depend on these two factors. Japanese banks certainly operate their business based on internal rules, but how rigorously such rules are applied differs from other national banks and indicates the characteristic behavior of Japanese banks. The degree to which Japanese banks place great priority on qualitative factors rather than quantitative is much greater than German and U.S. banks. Often, such decisions by the Germans or U.S. banks appear to lack logic.

Mr. Suzuki explained:

> *The term "relation" sometimes carries very strong power when making decisions. One example is pricing. Loan margin is different from a company's rating risk [each bank has an internal risk rating for credit, for example, 1 to 10 where 1 is the lowest risk]. If a well-known company has a risk rating of 6, we have to take 100 points as margin according to the rule. In many cases, we compete with other banks, and some provide the same financial product only with 50 points, i.e. half of our price. Our rule does not allow us to offer such low margins, but the customer requests us to consider their long relationship with us and to reduce the margin to the same level of our competitors. Otherwise the customer will shift his business to the competitor. In this case, BTM usually does not reject the customer's request because BTM can expect other business from that customer in the future as long as it maintains its relationship with BTM. For customers, the situation is the same. Many companies borrow money from banks only to maintain their relationship with*

the bank, and leave the same amount of money in deposit. This money does not have any economic meaning for the company.

These two examples are evidence of the value of long-term relationships for both banks and companies. And both of them expect to take some compensation if something is given.

Mr. Suzuki cited another example of different policies between Japanese banks and foreign banks. A few Japanese banks (including BTM) lent money to a famous food company to establish as joint venture with a major Japanese and European food company. Its business has not gone well, and its balance sheet looks shows a major capital deficit. HSBC bank entered the credit business with twice higher margin than Japanese banks by utilizing their relationship with the European parent company. the new bank entrant withdrew its credit in short time because of the company's bad financial condition, while the Japanese banks continued to lend money with low margins. It is assumed that HSBC performed solely according to its internal credit policy because it made logical sense. For Japanese banks relationships exceed pricing rules.

4.4.3 Main Bank System

Considering the relationship between Japanese banks and businesses, the main bank system plays an important role in Japan, and also exemplifies one of the common characteristics of Japanese banks. Such a main bank system does not exist in the U.S. or Germany. I will describe it below.

In the main bank system, one bank is called the "main bank" and it provides all banking functions to businesses, and it controls the largest share of each company's banking business. That share may differ from company to company, but normally it ranges from 30% to 60% of a company's banking business. The main bank also provides the largest share of money lending. In another words, it is a company's largest creditor. Its priority is to provide banking services for many companies and as such, it wields great influence over many corporations.

Like life-time employment, there is no written contract or rules regarding the main bank system. Companies usually do not appoint their main bank; rather, it is based on a long-term historical relationship. Legally, the standardized general business agreement, which all customers—including businesses—sign when they open an account, gives the bank its legal status as the major creditor.

Following World War II, since there was little in the way of capital markets or investors, Japanese companies were unable to finance their investment funds directly from a capital market. However, heavy industry in Japan grew rapidly after the war and there was strong demand for investment funds. At this stage, Japanese banks played an important role as the key institution lending money to meet the financing demand of companies and facilitate the growth of Japanese industry. This is how the main bank of each company originated.

The main bank system helps each company serve its public owner or shareholder interests if CEOs are unable to do so, because the bank is an interested third party and can monitor corporate decisions from a stakeholder perspective. Even if the government and/or public agencies lack the wisdom and capacity, the main bank functions to guide the company along the right financial pathway. Major Japanese companies gave their main bank the power to negotiate with the government and sometimes the bank supported the company by assuming some of the risk of rebuilding after the war.

In this system, the nature of the lending by the main bank is like "pseudo capital" rather than a normal credit asset, and this is the main bank's source of power. As a major creditor, the main bank can give important advice to the company's board members as they make decisions. In the event that the company's business does not go well, the main bank might forgive the company's debt to prevent it from going into bankruptcy or to avoid social sacrifices such as layoffs.

Every other non-main bank with which a company has a banking business that monitors the main bank's behavior and makes its credit decision based on the main bank's moves. Hence, if a main bank withdraws its loan from a company, that action has an enormous impact on other banks, and many of them will withdraw their credit as well. That means the company will go into bankruptcy unless it finds a new main bank. Becoming a company's main bank means assuming business risk for the long term. Thus, there is a tacit assumption that the main bank will be given special privileges in the form of more profitable business from the company that it supports (by Mr. Asano).

This main bank system has created considerable "give and take" and long-term relationships because every Japanese bank is the main bank of several companies. There is no bank that performs only as a non-main bank in Japan.

Mr. Enomoto commented on the main bank system:

> *There is argument about the effectiveness of main bank system and some people are saying such system is behind the times. Considering the renewal of corporate law nowadays, it reflects much about the US corporate law and reduces the degrees of security for creditors. It has negative impact on main banks because current bank's general agreement is only the legal stronghold of the banks acting as main banks. I am wondering the measure of this renewal will disrupt the main bank systems because it is introduced by disregarding the current factual situation. Main bank*

system will change, but we are Japanese banks and I am not sure whether we will be the banks like other foreign banks.

4.4.4 Risk Taking

When evaluating risk, Japanese banks have an internal evaluation system and metrics that are similar to those of other foreign banks. It is useful, however, to analyze the way Japanese banks think about taking risk compared with banks in other countries.

Japanese banks are highly risk averse when it comes to conducting banking business. My own experience convinces me of this point, and the interviews substantiate this point. For example, Mr. Enomoto explained:

> *Japanese banks do not take risks. They believe that no loss is allowed. Giving credit is a normal business function, such as taking a mortgage collateral for credit. During the bubble economy, when the value of real estate was continuing to increase, taking mortgage collateral brought no risk to the banks for the credit, assuming that real estate prices would continue to rise. As you know, though, prices crashed after the collapse of the bubble economy. But even today, our bank constantly thinks of ways to hedge risk. There is little room to make bold decision if they involve risk.*

Mr. Suzuki added:

> *Although we conduct investment banking, it differs from investment banking in U.S. and European banks. We try to earn fees without taking risk, but instead based on a longstanding relationship. How can you make profit without risk? Foreign banks take risk and make money. It is simple. Our business is a kind of disguised investment banking.*

Mr. Kogure said:

> *Regarding its systems division, Japanese banks do not allow it to take risk when developing systems. No errors are allowed. People who do not make mistakes because they do not take risks are evaluated much higher than those who try to*

present a proactive proposal that may contain challenging uncertainty.

Mr. Otsubo added:

> *In my experience in Japan and the U.S., I usually am told "No" for new credit applications or developing new products. People who are in the upper layers of the bank's hierarchy and have the power to authorize risk are not willing to take that risk. As a result nothing is approved. The U.S. is different. U.S. banks say "Yes" for new business possibilities and then consider how to resolve the hurdles that stand in the way of getting things done. These cross vectors of thinking undoubtedly cause significant differences in financial results.*

4.4.5 Investment Policies for Systems

Lastly, I considered the system investment policies of three national banks. Banking is part of the general service industry, and can be categorized as an information-intensive industry. In general, people are aware of the visible aspects of banking such as retail, corporate, and investment banking. Banks also demonstrate the kinds of deals they have achieved and how much business they have brought in, which was discussed in Chapter 3.

What drove me to choose this thesis topic was the question about BTM's investment policies for its systems. Few people, including BTM employees and customers, consider a bank's systems because they are invisible. But in fact they are the core infrastructure, and they can determine the success or failure of the banking business.

In BTM's case, its risk-averse attitude is reflected in the system investment policy that has been adopted. There are two reasons why banks undertake such investment behavior: strict banking regulations, and high customer demand for precise operations – neither of which allow a bank to make any errors. Once a visible error occurs, banks will be harshly judged by the public and regulators. Thus, avoiding even a single small error is a bank's first priority when considering system investment. Mr. Kogure explained this point:

> *Most major U.S. banks stress system investment because they recognize the banking business is a service industry. They constantly think about developing new systems for cross selling financial products. They focus on customer demand for their products. By contrast, Japanese banks focus on internal demand in the name of customer demand. Any error causes problems for customers. Therefore a banking system should be error-free.*

Mr. Otsubo, who now works at BTM's leasing subsidiary in the U.S., offered an interesting opinion about the differences between Japanese and U.S. banks.

> *The features of ATMs in the U.S. are very simple compared with those in Japan. U.S. banks do not care about individual customers' demands, and customers do not expect the ATMs to offer complicated operating panels. U.S. banks sometimes make mistakes, but customers do not sue for each tiny mistake. Probably no one expects a high level of service from the bank. Since basic system design is uncomplicated, there are few major errors following a bank merger.*
>
> *On the other hand, Japanese banks incorporate customer demand as much as possible. Therefore, ATMs offer a wide range of functions to meet customer needs, probably to avoid complaints from customers. Consequently the system design is very complex, and each bank has a complicated banking system. Complex systems are more likely to cause errors. Therefore, people have to take better care to keep the systems running without error.*
>
> *When a bank merger happens, integrating the systems is very difficult. As they have to avoid error, they focus on the internal system design.*

The key issue is error avoidance. Since the investment budget is limited, most of the budget goes to developing error-free system features. There is no budget for developing innovative banking systems, only for system maintenance. In this sense, a bank does not need a highly innovative and skillful workforce and in most cases employees in the systems division receive less pay and are less qualified.

A business unit with less-qualified people is ranked among the lowest layers of the organization structure. Banks cannot fire even these less-qualified people because of the tradition of life-time employment, but it needs a business unit where such people have a job. It is the system business unit that is ranked as the lowest level of business unit hierarchy. The less-qualified people flow to the lesser-ranked business unit. As a result, by ranking the business units, the bank maintains life-time employment.

4.5 Summary

Based on the interviews, the Japanese cultural aspects found in Japanese banks, fall into five categories: collectivism, centralization, high power distance, risk-averse, and long-term.

4.5.1 Collectivism

In view of the tight bonding in the typical work group organization structure, the Japanese have a very collectivistic culture, with aspects of egalitarianism. Lifetime employment is one phenomenon of collectivism, and personal evaluation systems encourage the appearance of egalitarianism. Individual merit and goals are minimized in favor of optimizing the bank's goals, and it is believed that such a strategy should ultimately produce better payoffs for employees.

4.5.2 Centralization

The decision-making process is highly centralized, and even a general manager has limited authority to make decisions. It takes time to make final decisions because even a single application must go through several layers. The example of the personal evaluation system illustrates just how centralized is the organization.

4.5.3 High Power distance

In conjunction with centralization, the relationships between people in Japanese banks is based on a hierarchy that creates a "high power distance." In another words, the Japanese prefer group acknowledgement rather than notice of personal achievement. It is expected that subordinates will think and behave so their boss will not lose face rather than trying to persuade their boss with logic.

4.5.4 Risk Averse

Every interviewee mentioned that Japanese banks are highly risk-averse. In conducting its banking business, banks try to minimize risk, and the corporate climate places high value on no risk-taking. Once one makes a mistake, he has little chance to recover. In general, errors are not allowed.

The huge losses incurred by almost every Japanese bank were not the result of taking risk, but a failure to hedge risk. Real estate prices in Japan rose continuously from the end of war to the collapse of the bubble economy. There was a belief that Japanese real estate prices would continue to rise, not decline. In fact, during the bubble economy, real estate prices increased enormously. In this circumstance, the bank lent huge sums of money to companies based on mortgage collaterals. Once the bank set a mortgage collateral for its credit, the bank's credit was believed to be completely secured because the real estate price would go up—or at least not go down. However, the collapse of the bubble economy caused the real estate market to crash. Prices dropped on real estate that the banks had collateralized to cover their credit risk. It generated tremendous amount of uncollateralized credit risk. In reality, many companies became unable to pay back the bank loan and many companies went bankrupt. As the result of using a single collateral, the banks suffered huge write-offs of uncollectible debt.

4.5.5 Long-Term Perspective

Japanese banks are past and present-oriented. Most banks, including the main bank system, emphasize history and tradition as a rich heritage with customers, even when considering future business. They think of business over the long term, emphasize the uncertainty of expected future business, and pursue only short –term benefit. The value of long-term relationships leads the list of qualitative factors that are hard to measure but are used for decision making. This is also apparent in the human resource development system. There are still qualitative goals to be set as a yardstick for individual promotions.

Returning to my initial question—why Japanese banks have similar business and geographical portfolios—it is the result of a set of national cultural factors like those discussed in this chapter. Each factor interacts and reflects the bank's strategy and decision making.

A risk-averse attitude plays an important role. Most banks do not attempt to go beyond regulations in the search for new business. If an employee proposes an innovative idea, it is usually denied on the basis of hedging risk. Even if someone agrees with an innovative idea, the high power distance disturbs the process of considering it positively. As a result, the business strategy of most banks moves in the same direction.

A geographically similar portfolio also results from these cultural issues. Japanese banks do not like to be involved with risky, non-Japanese, corporate business because it is hard to evaluate and hedge the risk. It is also a totally different business model from corporate finance with Japanese firms. The main issue is how to maintain close relationships with the bank's major customers and earn a profit from the relationship. In this sense, although most major Japanese banks have physical overseas branches and subsidiaries, their domestic business comprises the bulk of their business.

CHAPTER 5

A Study of German Banks

In this chapter I will describe the strategies and organizational characteristics of German banks, many of which are similar to Japanese banks. I will also discuss similarities and differences between German and Japanese banks. This analysis is based on interviews with four German bank employees: two from Deutsche Bank and two from Bank of Tokyo-Mitsubishi's (both of whom have work experience at the local German bank branch).

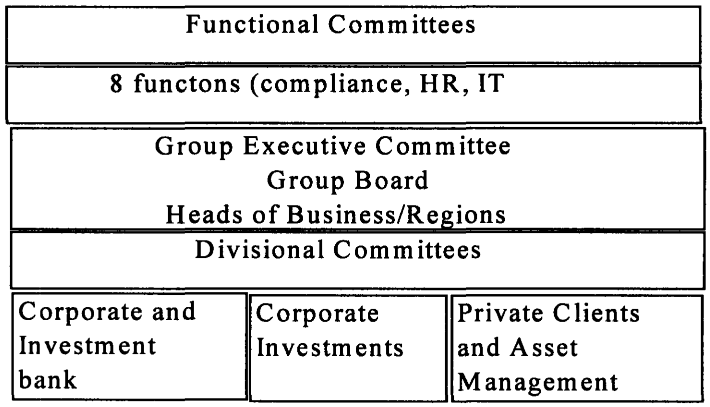
5.1 Organization

5.1.1 Structure

Figures 5-1 and 5-2 show the organizational structure of Deutsche Bank and Dresdner Bank, respectively. Both banks divide the organization by division and function. At Deutsche Bank, the board of managing directors controls the functions through functional committees while simultaneously running the Group Executive Committees, which are responsible for the divisions. At Dresdner Bank, committees like those at Deutsche Bank are not clearly specified, but each division and function is headed and managed by a member of the board of managing directors. Therefore, the basic structural concept is the same for both banks. In two other German banks, HVB and Commerzbank, the structures are also similar.

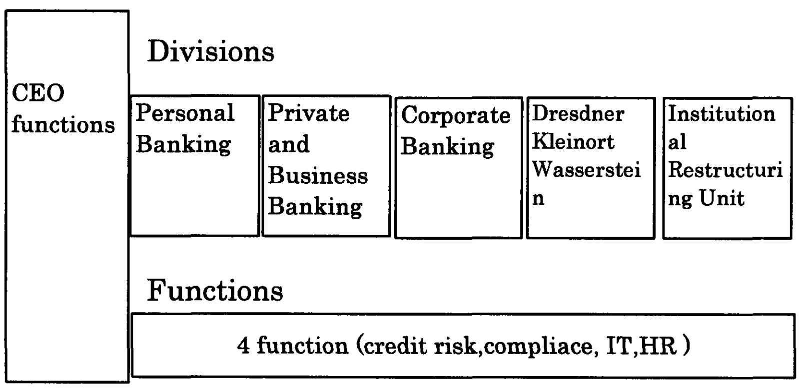
When comparing the structure of German banks to Japanese banks (using BTM as an example of a typical Japanese bank), BTM has a function called the "corporate center," which is clearly distinguished from the business units (divisions). In terms of the organizational structure, there are few meaningful differences even though each bank comes from a different national culture.

Figure 5-1
Deutsche Bank's management structure



Source: Deutsche Bank AG (2005) *Annual Review 2004*

Figure 5-2
Dresdner Bank's organisational model



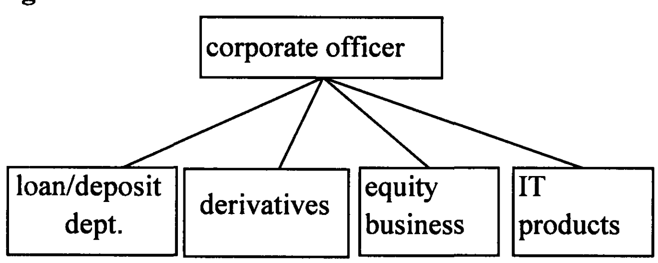
Source: Dresdner Bank AG (2005) *Financial Report Dresdner Bank Group 2004*

5.1.2 Corporate Banking Unit

Corporate banking in German banks means all of the banking business associated with a business or corporation, and therefore includes all aspects of commercial banking and investment banking. Corporate relationship officers from the bank contact and talk with their corporate customers, seeking to identify their specific needs. Then the officers pass these needs to product specialists in the relevant bank division who makes a presentation to the customer about how the bank can meet that need. The function of corporate officers is to identify customer needs and connect them to the appropriate internal divisions. Figure 5-3 illustrates the typical duties of a corporate officer.

In Japanese banks, there are teams that handle the same kinds of functions. The most obvious difference is that in Japanese banks, the division to which corporate officers belong sits at the top of the hierarchy, which is not the case in German banks. There is no hierarchy in German banks. Each job is different and independent. Corporate officers work as the liaison between customers and the products divisions.

Figure 5-3



Mr. Hundt of Deutsche Bank, explains this point:

> *Corporate banking focuses on all aspects of the banking business related to companies. It is so diverse that the corporate officer must analyze and determine the detailed needs of the company's banking business. Then our specialists who back up the corporate officer respond to the customer's needs and help them achieve a satisfactory banking business. It is teamwork and there is no hierarchy up and down among business divisions. Each division hires people with excellent qualifications. I work in the credit administration department in corporate banking and I am a credit specialist. There is little rotation into a different area of the business. It could happen that corporate officers would move from a small branch*

to a larger branch and their clients would change from small companies to larger companies. For the officer, that means a better possibility for a promotion, but they will keep working as a corporate officer and rarely move to another business section.

5.1.3 System Services and Operation Services Business Units

As discussed above, there is no functional hierarchy, so the systems and services business units are also independent and are not compared with the corporate banking units.

Mr. Bockenheimer of Deutsche Bank, told me:

The other divisions and departments do not look down on the systems and operations divisions, nor is there discussion about which division is good and which is not good. Employees in the systems division are IT specialists. Their job content and quality is totally different from employees in other divisions. Therefore performance evaluation measures differ between the business divisions.

Mr. Henrychowski of Bank of Tokyo-Mitsubishi, added:

In the past some employees in German banks viewed the systems division and operating services division as inferior to the front offices, which were directly engaged in earning profits for the bank. Such a notion is different from the hierarchy of business units in Japanese banks. Each division is independent. As far as I know, German banks posted a board member as head of the IT division in the early 1990s. Since then, the IT division is not regarded as inferior to the other business divisions.

5.2 Human Resources

5.2.1 Human Resource Development System

Training

While Japanese banks utilize only internal training, German banks use both internal and external training programs. German banks have an interesting education program—the "dual system"—for training people. This means that in addition to training a new employee, companies also accept several students and train them for a period of time (typically three to six months). This system has advantages for both the companies and the students. For students who would like to work at a financial institution after graduation, there are few opportunities to obtain a basic banking job because they have no prior experience in the banking environment. With the dual system, banks can assess the potential of each student who has worked as a trainee and identify those who have the needed capabilities.

German banks also use external training programs. Prior to the 1990 reunification of Germany, most German banks focused primarily on their domestic markets, and each bank emphasized the dual system and their own internal training program. After reunification, strategies changed, and the banking business expanded as it was necessary for German banks to have employees with diverse knowledge who could compete with other banks. So each business division strengthened its unique training program. Thus, unlike Japanese banks, German banks do not rely solely on a centralized training system.

Hiring

The German hiring system is quite different from Japan but similar to the U.S. Each German business unit hires people who have sufficient qualifications. In general, the typical undergraduate student is relatively older, e.g., upper twenties or thirty, because German universities are public and the tuition is free so students remain in university as long as possible. There is no centralized human resources development system in Germany. Unlike Japanese banks, the hiring policy of German banks is decentralized.

Life-time employment system

Unlike most Japanese banks that traditionally uphold a lifetime employment system, the argument for lifetime employment in Germany is rarely heard, and it can be said that there is no lifetime employment in Germany today. However, prior to the 1970s, Germany had a similar system to Japan. Mr. Henrychowski (Bank of Tokyo-Mitsubishi) mentioned:

> *There was a kind of lifetime employment system in Germany until about 30 years ago, and it was quite similar to the Japanese system. Like Japan, the German economy continued to grow after the war, much like Japan. With a robust economy and few younger laborers, the banks needed younger workers, so they handled labor issues passively in order to keep the employees they had. During this phase, workers were not worried about layoffs, which soon led to the notion of lifetime employment. However, during the 1970s and 1980s people who had an education became the major workers and when recession came, they began moving to other firms for better jobs. During this period, banks tried to acquire people with higher qualifications from outside and they often fired unqualified people.*

I recognize that today in Germany there may be layoffs. In case of Deutsche Bank, the bank had 98,311 employees at the end of 2000, but that number was reduced to 65,417 by the end of 2004. One-third of the bank's employees were laid off during the last four years (Deutsche Bank Annual Review, 2000 and 2004). But there is no lifetime employment system like there is in Japanese banks. From my perspective, the employees are well-protected legally in Germany, more so than in Japan. In Germany, it is customary to create an employment contract that has no expiration. If there are unavoidable reasons, then the company can fire the employee, but in general layoffs in Germany are difficult. Consequently, German employees tend to stay at one firm for a long time, and they do not move even if they are offered better pay or promotions.

An interesting anecdote confirms this point. A manager in a major Japanese electronics manufacturing company told me about his company's decision to move its office from mid-Germany to a new location about 400 miles south. The company offered promotions and better pay to key managers, hoping to persuade them to remain with the company and make the move. But every German manager rejected the offer, instead choosing to stay in his/her hometown and find a new job. Only two managers accepted the offer to move—and they were British and French.

Mr. .Henrychowski (Bank of Tokyo-Mitsubishi) commented on this issue:

> *German labor laws give employees strong rights. But this has nothing to with lifetime employment. When the Social Democratic Party ran the government, it introduced a new social system that favored employees. They did so because Germans had experienced difficult times following the war. A rigid and stable social system was strongly desired by German workers who were just seeking individual welfare and stability. Germany is traditionally a decentralized local culture. People want to stay in their hometowns and enjoy local community life. They don't think of their hometown and job location separately. They do not want to move. When corporate issues conflict with their individual issues, Germans will choose their individual interests first. Therefore Germans tend to stay at the same firm because it fulfills their individual needs. For this reason, Germans tend to work at the same company—like Japanese employees—but for very different reasons.*

Mr. Hundt (Deutsche Bank) said:

> *There are a couple reasons why I would not change jobs. First, I can work in this area and remain in my hometown, and second, the company is well-known for offering excellent social security after retirement. I am not interested in moving to another city over an hour away. I would not take it even if I were offered have a promotion.*

Mr. Bockenheimer (Deutsche Bank) added:

> *I work in the Frankfurt area and I am very happy with my job. I would never consider leaving my city just to change assignments or my post.*

In a similar example, a German officer working as an internal auditor at BTM in Germany quit his job because he was going to be transferred to London due to the closure of the German office. Moving to London represented an excellent opportunity for him: more pay, more opportunities for advancement, and a better career. Yet he decided to go to a German local bank that paid less salary. I asked him why. His answer was that he preferred to stay in Germany with his family even though it was only a one-hour flight between London and Germany and he would be home every weekend.

From the interviews I conducted, it is apparent that German thinking is quite rational and family-and region-centered. Concerns about family have a higher priority over concerns associated with an employee's job in the company. In this sense, autonomy is a typical characteristic of German people.

5.2.2 Performance Evaluation System

Decentralization is reflected in the performance evaluation systems that are the foundation of salary decisions. One's salary in Germany is comprised of two parts: basic salary and a bonus. The basic salary is fixed, and regardless of the bank's performance, one's salary rises based on the result of annual wage negotiations between the employees' union and bank representatives. There is rarely a basic salary cut although the salary level could remain at the same level for some employees. The bonus portion is depends on the individual's performance. If the employee does not achieve certain target goals, he will receive only the minimum bonus.

Mr. Hundt (Deutsche Bank) spoke about the evaluation system:

A person's bonus is entirely linked to his/her performance evaluation. We have a *rigid evaluation system that assesses targets and achievement. Individual results are automatically calculated based on certain metrics and the bonus reflects this. There is no room for assessment based on some qualitative factors. The final evaluation is made by my direct supervisor. On the other hand, my basic salary is fixed. It is automatically fixed during annual spring wage negotiations. I am satisfied with this system. We have both a guaranteed salary and a performance-based bonus, which we can optimize according to our own efforts.*

Again, this comment reflects German autonomy because the evaluation system focuses on each individual and his/her own efforts. In contrast, the Japanese evaluation system is focused on each employee within an entire group.

5.3 Unions

Any discussion of unions in Germany must include the "Co-determination System (*Mitbestimung*)," which is unique and plays an important role in corporate governance in Germany. In the Co-determination System, corporate executives and representatives from the bank's union make joint decisions regarding important corporate issues. This system has two levels: each company's office level, and the overall corporate level.

Each branch organizes its own union to which workers belong. A workers' committee (*Betriebsrat*) can negotiate with the management of the branch about relevant issues that influence the union members—for example, working hours, changes in the organization, or the training program. Branch management must negotiate those issues with the workers committee, and management cannot make decision unilaterally.

At the corporate level, a corporate committee – say, the Auditing Committee—is comprised of executives from the company and union members who are elected from the entire company. The Auditing Committee has the right to make final decisions about corporate issues that are decided by company board committees. In another words, union members join the decision-making process for corporate issues. If the corporate executives do not obtain agreement from the union members, the executives cannot execute a corporate strategy.

Mr. Henrychowski (Bank of Tokyo-Mitsubishi) explained:

> *In Germany, the co-determination system and the worker committee are more important than how the union is organized. Corporate management has to consider how to get along with them. This system was introduced intentionally by England during its occupation of Germany. British people planned to introduce this system in their country, but it did not work. Hence, they let Germany adopt this system after the war in order to democratize former Nazi Germany. And it works, so we still use it.*

Mr. Bockenheimer (Deutsche Bank) added:

> *Deutsche Bank respects the Co-determination System and the CEO and other executives base the bank's corporate strategy on this system. I think it is a good system and it works well. Once corporate management achieves consensus from everyone, including the workers committee, it is easy and comfortable for the CEO to execute a series of strategies that align with the consensus.*

Mr. Hundt (Deutsche Bank) said:

> *As far as I know, there have not been any strikes in the banking industry in Germany. I am also a union member, and I am in total satisfied with Deutsche Bank strategy because union members are well informed of the relevant corporate strategies.*

Clearly, German unions, including banking unions, are deeply involved in the corporate decision process. But in terms of salary negotiation, each union negotiates with corporate representatives every year. The banking industry is categorized as a service industry, and the union representatives negotiate for all service industries including the banking industry.

Does culture have some relevance to these phenomena? As I mention earlier, Germans are independent and autonomous, but they tend to make decisions via consensus as these examples illustrate. They view the relationship between management and employees over the long term. In this sense, the German banking culture includes aspects of past and present national culture.

5.4 Strategy

5.4.1 Target Customers

Prior to reunification, the target customers for German banks were German companies, which was similar to current policies among Japanese banks. For example, Deutsche Bank emphasized corporate and investment banking, similar to major U.S. banks. Today, Deutsche Bank pursues not only German corporate customers but seeks its customers from among all multinational companies. This does not imply that Deutsche Bank no longer seeks German customers; rather, it has expanded its target customers based on changing strategies and a policy that focuses more on global banking. Comments from Mr. Bockenheimer show how Deutsche Bank has changed:

> *Before reunification, competition in the home market was less, and Deutsche Bank achieved profits by pursuing German companies. However, a narrow focus only on the German market is not enough for us to expand the business. Due to the Asian financial crisis in the late 1990s and later the reunification of Germany, we recognized that our current business strategy would limit further expansion. So we changed the strategy drastically, i.e., moving away from a narrow focus on solely German customers. The corporate banking unit was divided into two parts: large multinational companies that have the potential for profitable fee business, and small and medium-size companies that are domestic and can be handled the same*

as private customers. We also acquired Spanish and Italian local banks in order to obtain wider coverage in the European market.

Mr. Hundt (Deutsche Bank) commented:

The CIB unit targets fee business from large and multinational firms. We also provide traditional commercial banking services, but it was clear that we needed to change and expand our strategy from those of ten years ago.

Every interviewee noted that the late 1990s had a dramatic impact on the thinking of German banks. They recognized that change was imperative in order to survive in the increasingly fierce competition. And my interviews with bank officers confirmed that German banks are changing. Deutsche Bank has expanded its business more globally and tried to incorporate aspects of U.S. banking strategies. Dresdner Bank acquired an English investment banking entity to strengthen its fee business. HVB has moved out of Germany and now focuses on the Central and Eastern European market. In contrast, Commerzbank focuses more on the domestic retail market in an effort to differentiate itself. As a result, it recently merged with a domestic mortgage bank.

5.4.2 Customer Relations

The tendency of German people to maintain long-term relationships is also reflected in the relationships between banks and their customers. In this sense German culture is similar to Japanese culture. But the German definition of a long-term relationship is different from Japan, and the German attitude is not as same as in Japan.

In my experience, I often faced hurdles when entering or expanding the banking business with a German company. Even when we made a presentation of a new product and the German company evaluated it, it was not easy for BTM to enter into a business relationship regarding the new product because BTM had only a ten-year business relationship with the company. German firms view their relationships with their banks in much longer timeframes, and they respect past relationships.

A noticeable contrast between Japanese and German banks is that German bankers think about things rationally. In a severe competition, German banks will consider reducing a price to some degree, but when negotiations hit a certain threshold that is regulated by the bank's internal rules, they will step back from further business, however strong the relationship with the company might be.

Mr. Bockenheimer (Deutsche Bank) explained:

> *Take, for instance, customer relationships in pricing. The Customer Relations manager can negotiate the price level internally based on total profit. The Risk Committee plays an important role in checking risk and return. We have around 3,000 employees all over the world. Normally the Risk Committee defines an adequate margin level, say "X", and the Customer Relations managers try to add an "A" margin to "X" as much as possible. But when competition is strong, they can negotiate the margin level with the Risk Committee. Since the committee is totally independent from the front office and their decision is final and absolute, once the committee decides the margin level, there is no chance to negotiate based on customer relationships.*

Mr. Krings of Bank of Tokyo-Mitsubishi said:

> *German banks cherish their customer relationships and try to reflect flexibility with the customers to maintain good relations. But they pay less attention to clients whose historical relationship is not lengthy. I think German banks try to balance their strategy between how to maximize profit in the short term and how to take good care of long-term relationships.*

5.4.3 Main bank system

In considering relationship policies, a comparison with the Japanese main bank system is useful. There was a main bank system in Germany in the past, but such a system no longer exists. Occasionally one might hear the phrase "House Bank," which refers to the old main bank system, but today this phrase usually means the bank that has the largest banking business share based on its anchor products, whose notions have changed from the previous house bank.

Germany has a universal banking system that allows banks to run all kinds of financial businesses, including banking, securities, and insurance. Since there is no regulation to limit cross-share holding, most major German banks hold a large share of blue-chip companies. For example, the proportion of shares of Siemens, Bayer, and Daimler-Benz held by three major German banks in 1986 accounted for 32.5%, 61.7%, and 54.5%, respectively (WSI-Mittteilung 5, 1986). Consequently, as shareholders, German banks had the power to influence these companies, and in fact they did so. However, the situation changed in the late 1990s. Each German company's Form-20 filed to SEC in 2005 shows: in case of Siemens there is no single person that has 5% or more of outstanding shares except for the current chairman (Siemens Family); Bayer's top one shareholder is an institutional investor who has 4.94% of outstanding shares and Allianz Group (major German insurance company) reduced the percentage of its share below 5%; Daimler-Benz's major share holder with over 5% of the company's outstanding shares is a Kuwait investment company and Deutsche Bank has reduced its holding to less than 5% of outstanding shares.

Mr. Bockenheimer (Deutsche Bank) explained:

There was a main bank system ten years ago, but we abolished it. In the 1990s we *dramatically changed our business strategy because of German reunification and the Asian financial crisis. The collapse of the former Soviet bloc brought us a larger market and we were obliged to move beyond Germany in order to grow our business. We suffered huge losses due to the Asian crises, and we learned that changing our strategy was essential. We restructured the organization and business models in order to compete with other global banks. The rationale for measuring figures was implemented, and this conflicted with the former cross-share holding policy; therefore, we sold all shares we held as cross-holding. There were many arguments and some German companies felt very strongly, but we achieved a new strategy. The company shares we now hold are is based on pure investment.*

This comment highlights the fact that Deutsche Bank is pursuing long-term relations in order to make a profit. I can imagine how difficult it would be to negotiate with the companies to sell their shares due to the cross-shareholding policy because I have been in a similar situation in Japan. Cross-shareholding of stock is based on the assumption that the bank and the company trust and support each other. The benefit to the company is to reduce the risk of being taken over by a third party. The bank has more opportunities to expand its banking business. Therefore, moving out of cross-shareholding means ending a trustful relationship.

However, German banks have devoted considerable time to achieving the end result. Along the way, they never ignored their long, close relationships with firms. But Deutsche Bank did persuade its customers to retreat from cross-shareholding in order to survive. Also, the bank believed this was the best way for the company to maintain close relationships with its customers in the long run. This is a definitive difference between German banks and Japanese banks. German banks recognized that they needed to change, and in the last ten years, they have tried to make these needed changes.

5.4.4 Risk taking

It is often said that German people are quite conservative and do not like change. When it comes to individuals and investing, their money is invested either in a savings account or a mortgage (house or apartment) because these are less risky. Because of this conservative approach, the capital market in Germany was small until 1990, and investing in corporate equity was almost out of the question.

Corporations also tend to behave conservatively. They respect rules and try to get things done by the rules. This is true of German banks as well. In this sense, German banks have a risk-averse attitude, like Japanese banks, but the degree of risk aversion is different from Japan. My assessment is that the level of risk tolerance among Germans lies somewhere between highly risk-averse (Japan) and willing to take risks (U.S.).

Mr. Bockenheimer (Deutsche Bank) explained:

> *In reference to the German mentality, we are careful when doing business. Even if there is something new we do not take it immediately. If we see a chance to earn profit by selling something, we may not sell it simply to take short-term profits. Perhaps the hard times we have faced following two defeats in war and the experience of hyper-inflation after the WWI is instilled in German people's minds. However, once we decide to do something risky, we will continue until reaching our initial target. In general, we take less risk. But that does not mean that we do not take risk. It takes a certain amount of time for us to make a decision to take risk.*

Going back to the strategies of the four major German banks, each bank appears to pursue their strategy in a different way. But it also proves that each is taking risks. From this point of view, even if German banks are risk-averse, they are less risk-averse than Japanese banks, but more risk-averse than U.S. banks.

5.4.5 Investment Policies for Systems

This risk-averse attitude is also reflected in investment policies for IT systems in German banks. Mr. Bockenheimer told me that the amount of IT investment is not as large as that of U.S. banks; instead the main target is maintaining the current system. Yet, unlike Japanese banks, this is not because of error avoidance. The IT division is dependent on the front office for its investment budget allocation, which is based on the requirements of the front office. This is a phenomenon of decentralization.

Because German banks emphasize their relationships with major customers, if necessary, they will invest in developing specific features that will enable the bank to meet an important customer's requirements. But they do not tend to invest in innovative ideas in reference to potential customer needs for banking systems.

Mr. Krings (Bank of Tokyo-Mitsubishi) explained:

> *Some large customers have a need to configure their system to the bank system in order to rationalize their work procedure. German banks respond quickly and develop or modify their own banking system to meet the customer's requirement. BTM puts much less priority on such requirements, especially considering the risk of error.*
>
> *In terms of the willingness to invest resources in a system, there is a slight difference between German banks and Japanese banks, based on how they view customers. From my perspective of being able to compare both banks, German banks take more note of their customers needs for IT investment in systems than do Japanese banks. But regarding innovative investment, German banks do much less than U.S. banks.*

Mr. Asano (Bank of Tokyo-Mitsubishi) gave his opinion about the German bank system:

> *I think individual customer demand for a bank system like ATMs is not so high in*

Germany as it is among Japanese customers. ATMs in Germany do not have as many functions as in Japan. While an ATM on- line system is taken for granted in Japan, ATMs in Germany are still off-line. I found it inconvenient when I came here. But people in Germany do not think so. The German ATM system seems to fulfill minimum requirements.

The IT investment policies of German banks seem to be more risk-tolerant than Japan but much less daring than the U.S.

5.5 Summary

5.5.1 Individualism

According to Parsons and Shils (1951), individualism is defined as an orientation primarily toward the self, while collectivism means an orientation primarily toward common goals and objectives. In this sense, Germany has an autonomous and independent culture compared to Japan. As the interviewees indicated, most German people value their individual interests rather than the goals of a group. But it is interesting to note that German people tend to prefer consensus, which is normally recognized as typical of collectivism. As I will discuss in the next chapter, however, individualism in the German culture is weaker that in the U.S.

5.5.2 Decentralization

Compared with Japanese banks, the decision-making process at German banks is quite decentralized. Each business division has the autonomy to make decisions regarding its own business issues. They also have the right to hire necessary personnel. Performance evaluations are based on visible and clearly defined rules for each organizational layer. This contrasts sharply with Japanese organizations.

5.5.3 Power Distance

The hierarchical structure is less in German banks than in Japanese banks, but the structure in each business unit is rigid. The proportion of supervisory personnel in German banks is less than in Japanese banks, and the decision-making process is decentralized. The power of distance in Germany is not as strong as in Japan.

5.5.4 Risk Tolerance

Most Germans tend to avoid risk; at the very least, they do not take risk proactively. In this sense, risk aversion is a cultural phenomenon. However, once German banks identify a problem and recognize that it is necessary to take a risk in order to resolve the problem, they will take the risk and challenge the problem. Thus, it can be said that Germans are not willing take risk, but compared to the Japanese, they are less risk-averse.

5.5.5 Long-Term Perspective

German banks are past and present-oriented. Although the main bank system has disappeared (unlike Japan), German banks still emphasize history and past relationships with customers and they consider such factors when making decision. But there is a threshold beyond which German banks will not go when relying on relationships. The threshold seems to be more rigorous than Japanese banks.

It has been said that Germans have some cultural similarities to the Japanese, and during my eight-year stay in Germany I sometimes saw those similarities. But other times I found them substantially different from the Japanese. Mr. Henrychowski (Bank of Tokyo-Mitsubishi) told me he agreed that there were some similarities of German culture with Japanese culture in terms of emphasizing consensus in society. Mr. Bockenheimer

(Deutsche Bank) explained that German people were very careful, and quite different from U.S. people. If I focus only on these points, I can say that there are many cultural similarities with the Japanese culture.

However, there are many differences that I also felt were valid. Germans are individualists and prefer decentralization. In response to my question about what "German" is, Mr. Henrychowski (Bank of Tokyo-Mitsubishi) answered "independence."

I found that German banks have tried to change themselves and/or their strategies. In the words of Mr. Henrychowski, Germans have given up things they liked in the past. Mr. Bockenheimer (Deutsche Bank) said that German banks are choosing to escape from the narrower German community and step into globalization.

It seems to me that the key issue must be the extent of risk tolerance. Germans are now taking risk, which is sustained by German cultural characteristics such as individualism and decentralization. I think this issue distinguishes Germans from Japanese. German cultural values are changing, while Japanese cultural values remain same.

CHAPTER 6

A Study of U.S. Banks

In this chapter I will discuss the organizational and strategic distinctions of U.S. banks as compared with Japanese and German banks. I will discuss similarities and differences between U.S. banks and their German and Japanese counterparts.[2]

6.1 Organization

6.1.1 Structure

Figure 6-1 depicts the corporate structure of Citigroup, which has four major business groups. Each business unit has its own CEO who is responsible for his business area, and all are members of the Citigroup Management Committee. The CEO and COO of Citigroup (also members of the Citigroup Management Committee) have ultimate responsibility.

Each bank's management structure appears superficially the same. Like Citigroup, Bank of America has a similar management structure. JP Morgan Chase does not have a CEO for each business group, but the business groups are clearly divided and controlled by the board directors. German banks and Japanese banks are the same.

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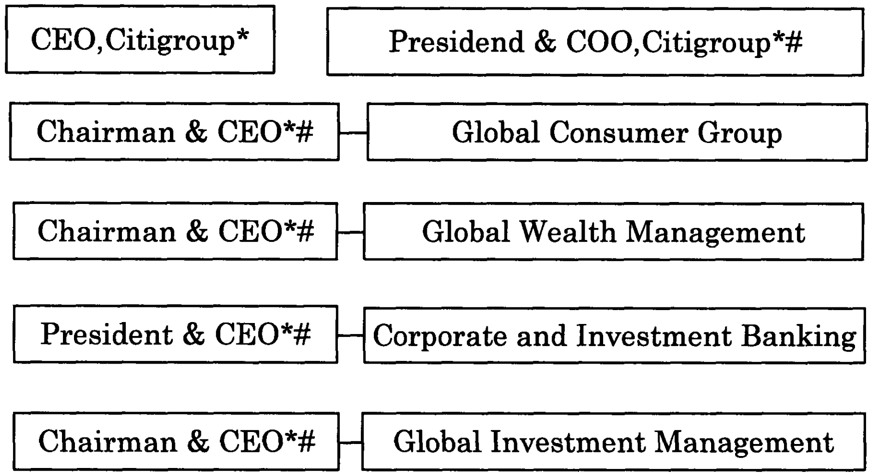
[2] Information for this chapter comes from interviews with four American bank officers, two of whom work at Bank of Tokyo-Mitsubishi in New York City, one with East Cambridge Savings Bank (Cambridge, Massachusetts); and the other with UBS (New York). Because I had no opportunity to contact the three major U.S. banks cited in Chapter Three, I could not interview bank officers from those banks. However, the interviews I conducted were with Americans who have current experience in U.S. banks, so I believe my interview results represent typical characteristics of U.S. banks.

Figure 6-1

Citigroup management structure



*Member of Citigroup Management Committee

Member of Citigroup/Citi Bank N.A. Board of Directors

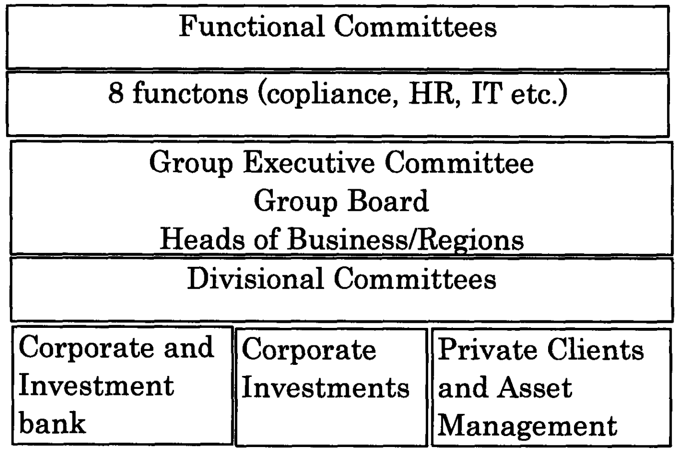
Source: Citigroup Inc. (2005) *2004 Annual Report*

Could one therefore conclude that there are no differences in the organizational structure of these three banks? Superficially, perhaps no. But from the perspective of decision-making procedures, one would have to say yes. Look again at Citigroup's management structure (see Figure 6-1), and it is clear that the business group CEO stands out. The empowerment of each business group CEO seems relatively high after he/she makes decisions, which implies strong decentralization.

Figure 6-2 shows the organization of Deutsche Bank. In this structure, there is a Group Executive Committee because of the co-determination system in Germany. Unlike Citigroup, the Deutsche Bank CEO cannot make decisions by himself, but they must be done in committee with the consensus of all board members. Only then is the business group empowered to execute according to the instructions given. While this is another form of decentralization, its nature is different from Citigroup.

Figure 6-2

Deutsche Bank's management structure

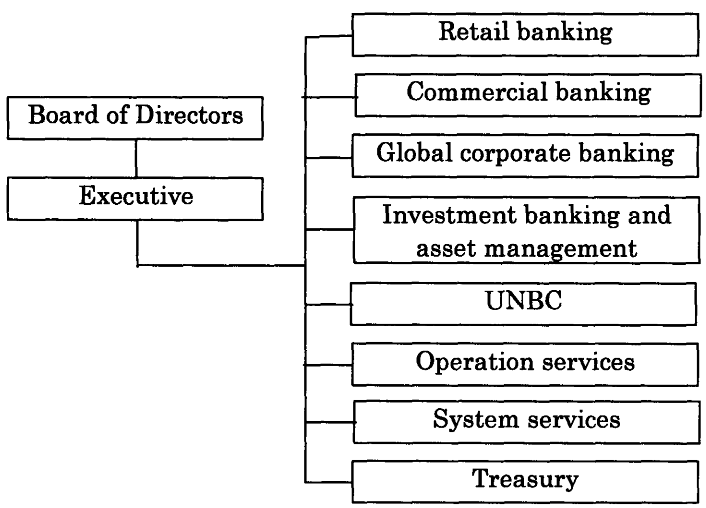


Source: Deutsche Bank AG (2005) *Annual Review 2004*

Figure 6-3 illustrates the organization structure for BTM. Here, the empowerment of each business unit is not obvious, nor is the authority of the CEO clearly specified. There is no hint of the decision-making process, and nothing indicates the emphasis on the traditional consensus-driven culture.

Figure 6-3

Corporate organization of the Bank of Tokyo-Mitsusbishi., Ltd.



Source: Mitsubishi Tokyo Financial Group, Inc. (2005) *Annual Report 2004*

Mr. Jeffers, who works at BTM New York, and has had considerable work experience in American banks said:

> *Citigroup's business function is totally independent and corporate relation managers coordinate relations among business lines as liaison. Each business group is like an independent bank. Therefore, the head of the business group is titled as CEO and if business goes down it usually happens that CEO of a business group is replaced. I have been working at BTM for 25 years, and I know many bank officers at other American banks. The business groups at American banks have much higher independence than Japanese banks.*

Mr. Leffler who joined BTM in May 2005 and worked previously at Dresdner Bank New York, explained:

> *German banks are independent, but U.S. banks are even more independent. Deutsche Bank now looks like a typical U.S. bank. Dresdner is aiming to introduce the U.S. banking business model. However, the acquisition of Kleinwort Wasserstein failed from my perspective.*

Mr. Gershkowitz, who works at UBS in New York and worked previously at Citibank said:

> *In terms of dividing business divisions, there is no difference between Citibank and Deutsche Bank. But Deutsche Bank has a dual board member system based on co-determination, which Citibank does not have. In the dual board member system, corporate decisions are made by consensus, while in Citibank the CEO makes every key decision alone and gives each business unit CEO power of execution. After empowerment, each business CEO can decide the business issue in each business silo, which is a major differentiator from other banks.*

My interview results strongly suggest the independence of U.S. bank business units as part of an overall policy of decentralization.

6.1.2 Corporate Banking Units

According to Mr. Jeffers (BTM-NY), corporate banking in the U.S. is a combination of commercial banking and investment banking, which is much broader than what Japanese banks intend.

Mr. Jeffers added:

> *The relationship between corporate banking and investment banking is like the relation between both sides of a coin. Banks classed as investment banks are consistent with banks that are highly ranked in the CMS [Cash Management System] area. Both banks and companies do not distinguish equity business from the clearing transactions business. It is rare that a company uses a bank only for investment banking business and uses another for transactions business. Therefore we have to provide a wide range of financial products, otherwise we would have few opportunities to handle the banking needs of U.S. companies.*

The notion of corporate banking is same as German bank. Since each business group is independent, there is no hierarchical gap between business groups. In this sense, US banks are close to German banks, but they are far different from Japanese banks.

6.1.3 System Services and Operations Services Business Units

There seems to be far less hierarchy among business units, and the IT and Operations business units are independent. According to Mr. Jeffers (BTM-NY):

> *Many years ago, the position of the IT division was lower than the front office. Nowadays every U.S. bank emphasizes IT investment and hires highly qualified IT specialists. Therefore, the IT business unit is now at the same level as other business unit. Many people now work in the IT division, and they earn more money than people in the corporate and investment banking groups.*

Mr. Gershkowitz (UBS) stated:

At UBS, the IT division is totally independent from other divisions. It never happens that employees working in a business division are transferred to the IT division because of their performance evaluation. Their performance is evaluated based on a rigorous evaluation system that reflects pay. That's it.

Neither U.S. banks nor German banks position their IT divisions as do Japanese banks. In U.S. and German banks, the IT division is completely independent within the organization structure.

6.2 Human Resources

6.2.1 Human Resources Development System

Responsibility for human resources is decentralized within each business group. Since the key issue is independence, each business group hires and develops their people according to their own rules. U.S. banks have less training relations as is legally required in Germany, nor do they have an internal training system like that developed in Japan. Each U.S. bank's unique training system is more systematic with the legal requirement.

Mr. Jeffers noted:

Thirty years ago, U.S. banks had internal training programs and trained their own employees themselves. But now there is no internal training program in the major US banks. Instead, they use external programs. The reason is simple. It is rational, and banks can minimize cost and internal workload. There are specialists outside the banks who maintain specialized and current knowledge about banking issues. It is useful for us to leverage such training programs.

Ms. Lapierre, who works at East Cambridge Savings Bank, added:

Our Human Resource department is responsible for bank-wide training programs *and for initial orientation of all staff because our business scope is focused on private consumer banking in our hometown area. Department-specific training is conducted within each department. Industry education is strongly recommended and valued. Outside specialists are occasionally brought in to conduct training sessions such as sales training, leadership, and other subject matter as necessary.*

Mr. Gershkowitz (UBS) said:

UBS uses an external training program, but it uses more internal programs. I think the situation is the same for most U.S. banks. There are various training programs, depending on the job and individual talent. Due bank mergers, the number of banks has dropped. So it squeezes the number of leadership seminars and it becomes a competitive advantage.

Training programs at U.S. banks differ among the business divisions and depending on employee talent. They are also used to encourage people to compete internally. The key idea is individualism. Unlike Japanese banks, they do not think of skill training for the newest group of employees hired in the same year.

Employment System

There are major differences in the employment systems of Japanese, German, and U.S. banks. Japanese banks generally maintain a lifetime employment system. German banks do not, but German employment rights are strongly protected by contract, and most Germans tend to remain at the same company throughout their careers.

In contrast, there is neither lifetime employment nor do Americans tend to stay at one company for a long time. Moving from one company or bank to another is often done if the goal is to obtain higher salary and better promotions. Americans do not hesitate to move from one location to another.

Mr. Gershkowitz (UBS) said:

There is no lifetime employment in the US. I suppose among the developed countries only Japan uses such a system. Usually there is no contract between U.S. companies and their employees. Those who do sign contracts are usually higher-level executives. You can fire a subordinate not only because of performance but also because you don't like his behavior, and you don't have to disclose the reasons when you give two weeks' notice. However, you cannot fire people for reasons of gender or handicap because you will have big troubles such as lawsuits. Otherwise, people do not sue just because they are fired.

Mr. Leffler (BTM) said:

The corporate culture of U.S. banks is short-term; they change quickly and fire people often due to change. It is common that employees will change banks several times. I came to BTM from Dresdner Bank because I saw more opportunities here than in the previous bank. I worked both in the U.S. and in a couple cities in Europe. I have never worked in Asian countries including Japan, but if I had the opportunity to work in Japan, I would be happy to go. Comparing German people with Americans, German people try to balance the workload with their personal life. For example, Americans will come to the office on the weekend if they have work to get done, but Germans would not do that.

This comment illustrates the different perspectives on individualism between U.S. and German employees. The U.S. has an individualistic culture. U.S. people focus on higher pay, rapid promotions, and visible status more than Germans.

Referring to the case of the German auditor cited in Chapter four, if he were a Japanese employee he would go to London because it was for the benefit of the group; if he were an American employee, he would, off course, go to London because it was meant higher pay and promotions.

6.2.2 Performance Evaluation System

The evaluation system in U.S. banks is performance-oriented. It maintains a short-term perspective (that is, future-oriented). It is individualistic and decentralized. Individual evaluations are linked to the company's goal set at the beginning of the fiscal year. Bonuses are tied to individual achievement. Appraisals are conducted and completed by supervisors.

These characteristics are different in Japanese and German banks. Perhaps the most noticeable is the volatility of the bonus due to performance. Although there are big differences in salary range, there is little difference in terms of changes in monthly salary among the three national banks. In Japan and Germany, basic salary is determined by the annual spring wage negotiations. In the U.S. there are no such negotiations. The basic salary is established at the beginning of employment and remains almost unchanged at a minimum figure. The more critical portion of a U.S. bank employee's pay is the bonus. The proportionate weight of the bonus is so high that an employee either leaves the bank because of dissatisfaction with his bonus, or has to leave due to a poor evaluation resulting from underperformance.

Mr. Gershkowitz (UBS) explained:

> *US banks have a rigid performance evaluation system. An employee's salary is comprised of basic salary and bonus. Bonus is completely dependent on the individual's performance evaluation. It is very much a performance-oriented system, which reinforces individual competition in the bank. Bonuses are not given very often, but basic salary is not reduced. Theoretically you can reduce the basic salary, but giving less bonus is a signal to the employee of underperformance and such people should leave the bank.*

Mr. Jeffers (BTM-NY) said:

> *We set goals every six months and a corporate bank officer's performance in relation*

to the goals decides his salary for the next six months. Bonus is linked to the degree of achievement. In the major U.S. banks, bonus is much higher than at BTM. If you achieve 300% against the goals, you would have a minimum three times multiple amount based on the agreed basis bonus. At BTM we do not have such a high amount even if we could achieve 300%. On the other hand, BTM does not reduce any bonus drastically if someone does not achieve his/her goals. Performance evaluation in U.S. banks is more volatile than in Japanese banks. I am personally satisfied with the Japanese system.

Ms. Lapierre (ECSB) advocates the same notion in a regional bank:

Annual performance appraisals are conducted for everyone—staff and management. This performance is tied to bank goals, and if a bonus is approved, the appraisal determines what percentage of the bonus pool the individual is entitled to receive. Bonuses are paid if the bank meets its annual goals in specific categories, and if it performs equal to or better than its peers.

While Japanese banks try to evaluate their employees' performance equally and minimize the differences among people in order to maintain lifetime employment, U.S. banks evaluate performance differently and dramatically to encourage individual competition. German banks fall somewhere between the practices of Japanese banks and the practices of U.S. banks.

6.3 Unions

Another significantly different phenomenon is unions. Japanese banks and German banks have unions—different systems in each nation's bank—but the unions play an important role in determining the issues associated with bank strategies. However, U.S. banks do not have unions. Mr. Jeffers (BTM-NY) said that there were no union issues in the U.S. as there are in Japan and Germany. In response to my question as to why U.S. banks did not have unions, Mr. Gershkowitz (UBS) answered in a fashion that may be typical of the way bankers in the U.S. think and talk about this issue:

> *The reason is very simple. The average salary in the banking industry is much higher than other industries. Even lower-level employees enjoy a higher salary that other industry workers. There is no advantage for bankers to organize in a union. Historically, industries that have unions are those with a rigorous labor environment and low wages.*

Mr. Leffler (BTM) stated:

> *I think the reason why we do not have a union is a phenomenon of U.S. culture. We don't want to perform and act together; we prefer to negotiate and act individually. I do not see any advantage for us in having a union. Unions have more disadvantages than advantages for individual workers and companies. The word "union" sounds negative, like coming from communism. That is probably one reason why we do not like unions.*

For me, this comment was amazing! In my experience I have always been involved in union issues, both in Japan and Germany. The existence of a union in Germany is so much taken for granted that I have deliberated on the management side about how we could optimize the merits of the bank with respect to the union's interest.

The existence of unions for the banking industry is an indicator of the degree of individualism and collectivism. An individualistic culture values the individual purpose, while a collectivistic culture emphasizes the group purpose. In the U.S., as individualism is highly valued, people do not form a group or association if it is perceived to hinder individual freedom and rights. In the U.S. banking industry, bankers see few advantages for themselves to have unions. There is far less reason for American bankers to organize into unions.

In contrast, Japan has a collective culture where individual purpose is less valued.

People assume that since the union is expected to represent all employees, it "always" performs in favor of employees, In fact, it does perform to some degree. But, in reality, in the Japanese banking industry, union power is very weak. The important thing is that the bank has a union. A union gives meaning to its existence. People are comfortable that they belong to a group. If there were no union, there would be no group to which employee might belong. Even if the union is a facade, it has a meaning.

In Germany, unions substantially represent the employees' interest. Compromise between company management and the unions is much less than in Japan. German unions are not a facade, but is there no option not to form a union. In this sense, the style of German unions seems to be a mixture of Japanese collectivism and American individualism.

6.4 Strategy

6.4.1 Target Customers

As pointed out in Chapter Four, the target customer range gives some implication of the bank's cultural background. Japanese banks mainly target Japanese firms. German banks changed their original policy of targeting German companies and are now trying to broaden their target beyond the domestic market.

What about U.S. banks? With regard to corporate banking, major U.S. banks target all corporate customers, both domestic and foreign, by deploying overseas offices, and they do not draw any boundaries based on nationality. In the retail banking area, the three major banks have different strategies. Citibank's target is individual customers worldwide. JP Morgan Chase targets individual customers in certain areas outside the US. Bank of America targets mainly U.S. private accounts.

It is interesting to note that although the three major U.S. banks' corporate banking ratio differs, each bank aims at multinational companies and not just U.S. companies. In particular, Citibank's worldwide network is incomparable to other banks. When I was working as corporate relationship manager, I competed with Citibank, JP Morgan Chase, and Deutsche Bank in the investment banking business. When I was in private banking for one of the large Japanese companies, my bank faced stiff competition from a Citibank proposal right in our home market.

Regarding targeted customers, Mr. Jeffers (BTM-NY) said:

> *US banks target all kinds of corporate customers all over the world. In order to acquire business in local markets, they construct an entity in each country and hire local employees. Indeed, other global banks are now doing business the same way as does Citibank, but the scale of organization and business is totally different. Also Citibank has brand recognition, which gives it more chance to hire highly qualified people in each country. It is a virtuous circle.*

Citibank's history, as described in its 2004 Annual Report shows how the bank has expanded its global network since its inception. The history of Citibank is a history of expansion and diversification of its business all over the world. Perhaps one reason is a sense of risk taking. U.S. banks are more willing to take risks in order to enhance their business. Risk-taking is sustained by individualism, decentralization, and a short-term perspective – all typical characteristics of U.S. banks.

6.4.2 Customer Relations

U.S. bank officers perceive customer relations much differently from Japanese and German bank officers. While the Japanese and German attitude of customer relations implies long-term and a past/present-oriented perspective, American attitudes tend to favor a short-term and future-oriented perspective. Japanese and German officers make business decisions by emphasizing their past and present relationships with customer. This is especially true for Japanese bank officers. Therefore, they often make decisions based on qualitative circumstances, which does not appear to be as logical for Germans and U.S. bank officers. Germans also value past/present-oriented banking relationships, but German bank officers define a much clearer line between emphasizing the past/present and future relations.

Mr. Jeffers (BTM-NY) explained:

> *US banks emphasize relationships with customers, but as the Japanese do it, it is impossible for U.S. banks to make business decisions based only on a historical relationship with a company. The relationship belongs to the individual person, for example, the CEO of a bank knows the CEO of a company, or the bank relationship manager knows their counterparts. Business moves at different levels. If we find a new company with which we could have profitable business, we move fast to establish a relationship with that company. It is that simple.*

Mr. Gershkowitz (UBS) said:

> *In my experience, U.S. banks are very aggressive and short-sighted toward customers, while European banks are passive and gentle. U.S. banks tend to make presentations to customers and push customers to make deals. In the case of the merger between BellSouth and AT&T, UBS stepped away from this deal because it has a longstanding relationship with Vodafone. In contrast, major U.S. banks entered the deal even though they had business relationships with both AT&T and Vodafone. This is indicative of the idea that European companies think that once a relationship is formed, it lasts forever. However, I think that is not always right anymore. A big Swiss chemical company with which UBS has a long-term relationship entered into an M&A deal, and it did so with other banks without letting UBS know. That caused a panic. I suppose relations between German banks and their customers are in the same situation.*

My experience in a German bank (noted in Chapter 5) contrasts with Mr. Jeffers' comment. I had no opportunity to put together a deal with a German company although we had a ten-year relationship with them.

In Japanese banks this is often the case. It is not easy for a company that does not have a credit business relationship with a Japanese bank because Japanese banks emphasize the company's business history and the relation with the bank. Typically, the company opens an account with a bank, waits for a year, then it can begin talking about establishing a credit business. However, Japanese banks more readily establish business ties with a new company that belongs to a well-known Japanese conglomerate (*Keiretsu*) or one that is founded by someone who worked at a larger company with which the bank has a relationship.

Main Bank System

There is no main bank system in the U.S., which Japanese banks have, and German banks had in the past. Such a system symbolized the lengthy business relations.

Mr. Jeffers (BTM-NY) said:

> *In the U.S. we don't have a main bank system like in Japan. Usually U.S. companies categorize the banks with which they have a relationship into tier one and tier two, and they use the banks for different purposes. Each bank has a specific role that the company is expecting. Tier one banks are those that the company perceives as having higher-quality services and products. Selection is based on the quality of financial products and services provided by the banks. If quality goes down, the bank drops from tier one to tier two. Each bank competes against the others in obtain more business or to get into the higher tier by making deals. Even a new bank could have an appointment with the person in charge of banking in the treasury department of a company and have an opportunity to make a presentation. If the presentation convinces the company to use the new bank, it is good for both the company and the bank because both will benefit.*

This comment illustrates the thinking in U.S. banks—short-term and future- oriented. Mr. Leffler (BTM) added that the most valued thing is achievement in a specified period, such as three months and at longest six months. The reason why he came to BTM from Dresdner Bank was because he saw little potential for earning a profit in the next six months. U.S. companies have a similar philosophy. Making a profit or benefit by dealing with current products to generate visible profit is much more highly valued than the invisible potential in a long-term relationship.

6.4.3 Risk taking

U.S. banks have a proactive attitude for risk taking. Mr. Otsubo of BTM Capital recalled from his work experience in the U.S. that most Americans think of risk and its associated issues from a positive perspective, while the Japanese think about it from a negative view. U.S. banks simply assume that taking some risk is necessary in order to make money and maximize profit. Of course, there are some risks that U.S. banks will not take, but in general they tend to think about how to tolerate the risk. By contrast, Japanese banks are so risk-averse that their starting point is how to hedge the risk, and they tend to take on as little risk as possible. Germans fall somewhere in between, but their attitudes toward risk-taking are changing, moving away from risk-aversion.

Mr. Leffler (BTM) disclosed his opinion about the banks of the three nations:

> *The Japanese try to reach consensus because there are rules, they are absolute, and they have to protect the absolute. Once a credit office says no, it is natural to reach consensus explaining why it is negative.*
>
> *In German banks, even if the credit office answers negatively, discussion ensues through which a final consensus is reached.*
>
> *In U.S. banks, even if the credit office denies an application based on the rules,*

front-office people consider the rules and the situation and try to get things done. U.S. bank officers believe they cannot do business when they must always obey the rules.

Mr. Gershkowitz (UBS) explained:

> *I think the propensity of U.S. banks to take risk is relatively high. But when they take risk, they hedge the risk with every kind of financial engineering means, and as a result, they make it risk free. They try to create risk-hedging methods.*

The perception of risk in the U.S. is totally different. If something has a possibility of enhancing business, U.S. businessmen will think about how to do it. There is always risk; it is almost impossible to entirely eliminate risk. When a project has a 60% possibility of success and a 40% risk of failure, Japanese banks see it as too risky because they might fail with a 40% possibility. The end result is oftentimes doing nothing. But U.S. banks see that there is a 60% possibility of success, so they try to determine every way to hedge the risk. To take risks, they create hedging methods that hopefully will eliminate the risk. The difference of willingness to take risk between U.S. and Japanese banks is enormous.

This attitude sometimes creates a problem when conducting business in another culture. Since 2002, the Financial Services Agency (FSA) in Japan discloses all administrative measures imposed on credit institutions in Japan. Thus, the FSA controls every financial institution that performs financial business in Japan. It monitors each financial institution's behavior, and if any problem arises that violates the rules, the FSA takes appropriate administrative measures, which vary according to the nature of the violation. According to current statistics published in January 2006 (FSA, 2006), the total number of administrative measures is 457, and most of them are business improvement orders resulting from a lack of control over following internal operating procedures, inappropriate and/or insufficient achievement of financial goals reported to the authority. These represent the lightest penalties.

Some credit institutions received severe penalties from the FSA, including an order to suspend business in Japan. Among these are Citibank, Cititrust Bank, Standard Chartered Bank, Banco de Brazil, and Deutsche Trust Bank. No Japanese or Asian banks have received such severe penalties in the last four years. The Citibank case was so sensational that most of the Japanese media reported the case, which included business behavior that violated the Japanese bank act.

Why were those four foreign banks (including two that I discuss in this thesis) the only ones to receive such severe penalties? Perhaps it is related to the attitude of risk- taking compounded by a climate that emphasizes individual performance. Although people in Citibank know about the strict compliance rules, they went over line. It is my feeling that the risk-taking attitude pushed them over the edge.

I need to investigate more precisely before concluding that there is a correlation with the U.S. cultural attitude of risk-taking, but I mention it as an interesting and possible issue for future consideration.

6.4.4 Policies for Systems Investment

U.S. bank policies for investment in systems also reflects the general willingness to take risks. U.S. banks opt to maintain and develop a banking system based on future customer needs. In contrast, Japanese and German banks maintain their systems to meet current customer needs. The IT budgets for major U.S. banks is far larger than those of Japanese and German banks. For instance, Citibank registered $3,566 million for technology and communication expenses in its 2004 consolidated income statement. Deutsche Bank spent $2,105 million (€1,726 million) for IT expenditures in 2004. BTM spent an estimated

$1,450 million in 2004, although BTM does not disclose a breakdown of IT expenditures. The amount of expenditure illustrates each bank's willingness to invest in the IT area to support banking business.

The willingness of U.S. banks to invest in IT is shown in the IT investment policy of Morgan Stanley in Tokyo. Mr. Suzuki's comments in Chapter Three support this point. Morgan Stanley invested enough resources into developing its banking system to acquire Japanese blue-chip companies, even though Morgan Stanley's market position in Japan is quite low. It required a willingness to take risk and invest in the IT area. In contrast, BTM's investments in oversea markets have been passive. BTM invests in IT only when it becomes unavoidable.

German banks have the same tendency, but considering Deutsche Bank's IT expenditure, at least Deutsche Bank is trying to strengthen its IT investment.

Mr. Gershkowitz (UBS) explained:

> *In the banking industry, IT investment is a powerful generator. In particular, investment banking leads IT investment because their business is linked to IT technologies. In order to fulfill compliance requirements, IT investment is especially important. Expenditures for IT are a key driver and necessary essential cost for enhancing business and doing cross-selling. As Deutsche Bank is similar to U.S. banks, it has the same IT policy. In contrast, Dresdner Bank emphasizes M&A deals, such as acquiring Kleinwortwassestein, so it does not need as much IT investment as Deutsche Bank because M&A deals do not require IT technologies. the IT investment policies of U.S. banks rests on selling tools that will reduce the number of personnel. German banks have some constraints to do as the U.S. banks because of the German co-determination system. If German banks utilized IT investment as a way to reduce the workforce, the workers committee would not accept it.*

Mr. Jeffers ((BTM-NY) cited an interesting example about "BlackBerry":

As you know, the "BlackBerry" has become wildly popular in the U.S., with many businessmen using this device daily. For the corporate relationship officer at a U.S. bank, a BlackBerry is a necessary tool, like a cellphone. Every U.S. bank around New York provides a BlackBerry to its officers to facilitate communication with customers and to respond to their needs as quickly as possible. Our customers communicate with us on the assumption that we are using the device just like other U.S. banks. But, in reality, since we do not use BlackBerry, we cannot read customers' e-mail until we return to the office and browse our e-mail site. This causes time loss. We cannot respond to customer inquiries and questions as quickly as our competitors. We have asked to be provided with a BlackBerry, but BTM does not allow bank officers to use such a communication tool. I suppose the reasons are system integration and additional system investment cost. I think the technical issues and risks BTM considers could be solved. The biggest reason is unwillingness to take risk and invest money in this new IT area.

6.5 Summary

6.5.1 Individualism

As the employment and evaluation systems show, U.S. banks promote a culture of individualism. The absence of any banking union is the strongest evidence distinguishing the U.S. bank culture from that in Germany and Japan. There is little evidence to describe a primary orientation toward common goals and objectives for U.S. banks. Both U.S. and German banks are categorized as individualistic, but individualism seems stronger in the U.S. than in Germany because the German people still strive to reach consensus.

6.5.2 Decentralization

U.S. banks are decentralized, as are German banks. A decision is made in each business unit and performance evaluation is handled between superiors and subordinates. Citibank and

JP Morgan Chase deploy their subsidiaries all over the world, and each subsidiary has the authority to make decisions regarding the local business. The head of the local subsidiary has full responsibility. This is totally the opposite of Japanese banks

6.5.3 Low Power Distance

The attitude of U.S. banks is to try to get things done even if strict rules means lower power distance. From a hierarchical point of view, the credit division sits on the upper layer of the front office because it approves business applications. However, a U.S. bank officer might not accept a negative answer because they have higher authority. There is a climate that allows such decision making in U.S. banks. A hierarchy does exist, but it is minimized by decentralization; it is much flatter than Japanese and German banks.

6.5.4 Risk-taking

U.S. banks are more willing to take risks. This is significantly different from the banks in Germany and Japan. The histories of major U.S. banks shows how they have expanded all over the world. If they had not taken risks, how could they have become such worldwide banks? Although this attitude sometimes causes trouble in other countries, it is certainly the engine that drives the growth of the U.S. banking business.

6.5.5 Short-Term Perspective

Unlike Japanese and German banks, U.S. banks tend to regard business in the short term, and this is exemplified in a performance-oriented evaluation system. It could be described as future-oriented. U.S. banks pursue visible and realizable profits rather than considering invisible and potential profits.

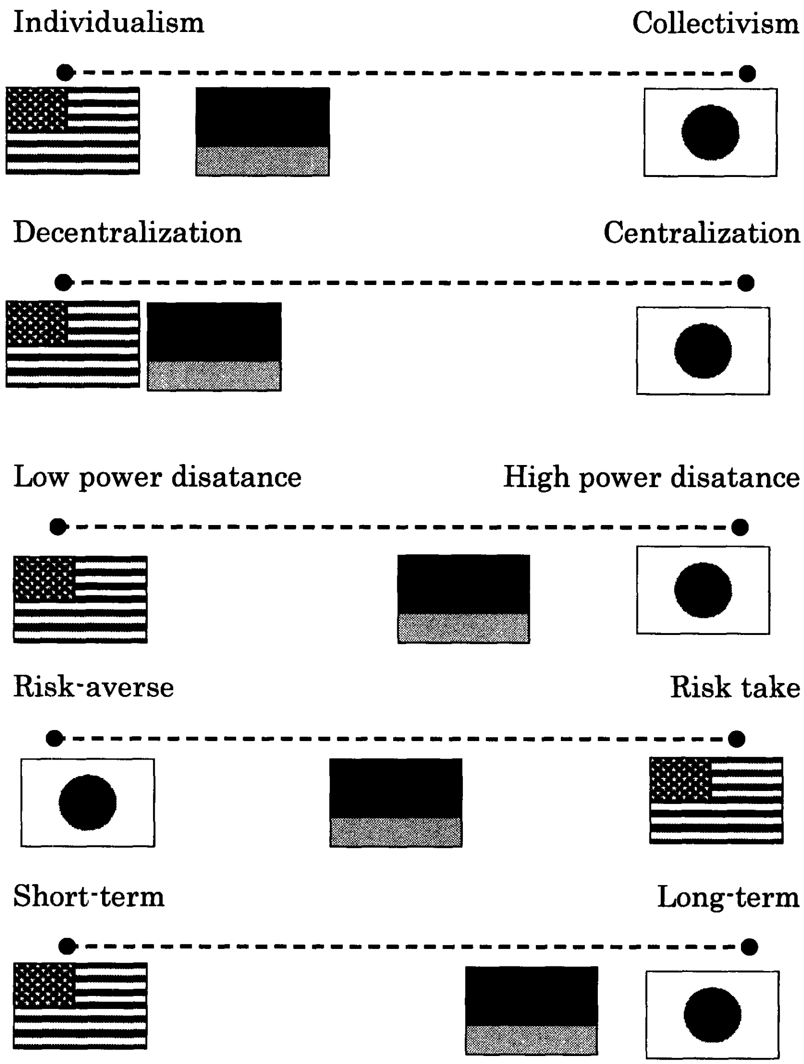
It is not unusual for employees in U.S. banks to change jobs from one bank to another. Many do not hesitate to move for reasons of better pay and promotions.

The willingness to take risks and the short-term perspective play a major role in the growth of U.S. banks. They take risk and seek profit in the short term. If they fail, they change strategies quickly. There are many trials and errors. A risk-taking attitude allows for errors. If one makes a mistake or fails, it is only a waymark toward future success. They are not tied to past legacies.

6.6 Overall Summary

A summary of the three national banks is shown in Figure 6-2 below.

Figure 6-4



JAPAN

All Japanese banks pursue the same strategies, and all of them suffer the same bad debt problems. This stems from a set of cultural factors that includes collectivism, centralization, high power distance, high risk-aversion, and a long-term perspective that is past/present-oriented. These factors interact with one another. It is difficult to define a single factor that dominates all Japanese banks. But I would say risk-aversion is a key factor that dictates the Japanese way. Japanese bankers are afraid of failure and errors. When creating any idea, this notion is apparent in the desire to reach consensus by collectivism, because the collective group has a prime orientation to common goals and objectives (Persons and Shils, 1951). A perspective of long-term relationships also hampers risk-taking. Centralization and a high power distance are organizational characteristics that reinforce the risk-averse decision-making process.

U.S.

Each cultural aspect of U.S. banks positions them diametrically the opposite of Japanese banks. A risk-taking attitude and short-term perspective reflect agile business management. U.S. banks do not fear failure; the view is that even if they fail, there are other opportunities to recover. Such agile management is supported by decentralization and lower power distance in the organization. Individualism allows each worker to achieve incentives, and it encourages people to make their goals. In U.S. banks, the willingness to take risk is key to expanding business internationally and achieving diversity.

GERMANY

German banks fall generally in the middle between Japanese and U.S. banks. In terms of individualism and decentralization, German banks are close to U.S. banks However, three aspects are different from U.S. banks. German banks are more similar to Japan with their horizontal time horizon. Banks in both countries emphasize a long-term perspective. However, when it comes to power distance and risk, German banks fall somewhere in the middle between the U.S. and Japan.

Among German banks, I think the key issue is also the risk-taking attitude. German banks were risk-averse before reunification, but they are now trying to change. Therefore, their position on risk taking and risk-aversion is moving from the left (i.e., the Japan model) to the right (the U.S. model). The strategies among major German banks result from progress with this movement. Deutsche Bank made the move successfully and now is much closer to U.S. banks, while other banks are still struggling.

Cultures may change. In this sense, however, the Japanese and U.S. cultures have remained largely unchanged. These unchanged cultural aspects are reflected in the banking business of both nation's banks. The problem for Japanese banks is that they do not try to change their culture, especially their risk tolerance, whereas German banks recognized the need and have made efforts to change.

CHAPTER 7

Cultural Effects on the Three Nations' Banks

From the results of the interviews, given in the last three chapters, I have identified cultural differences among the three nations' banks. In this chapter I will align my conclusion with several empirical studies in the literature. My goal is to shed light on the values or assumptions of Japanese culture, which I believe stem from the Samurai spirit. In support of this, I will refer to the book *Bushido*, by Inazo Nitobe, and describe how the Samurai spirit remains an integral part of the Japanese mindset as values and assumptions.

7.1 Individualism versus Collectivism

Figure 7-1 compares my conclusions drawn from the interviews with Hofstede's (2005) ranking in terms of individualism and collectivism. My conclusion is consistent with Hofstede's survey, that is, Japanese are highly collectivist, and the U.S. is very individualist among the three countries that are part of this study. Hofstede defines individualism and collectivism this way:

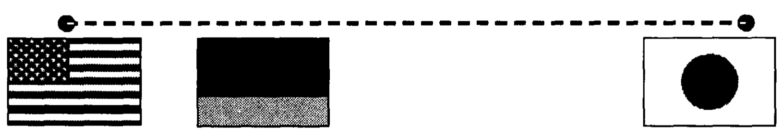
> The vast majority of people in our world live in societies in which the interest of the group prevails over the interest of the individual. We will call these societies collectivist. . . . A minority of people in our world live in societies in which the interest of the individual prevail over the interest of the group, societies that we will call individualist." (pp.,.74,75)

Hofstede's survey was done through questions in which the individualism index is based on a set of fourteen work goals. He asked people in 74 countries and regions to think about how important these questions were for them in an ideal job. Each answer was measured on a scale from 1 (of utmost important) to 5 (of very little or no important). The results found that the U.S. is ranked number one (most individualist) in74 countries; Germany is 18th, and Japan is 33rd.

The relative positions of the three countries in Hofstede's survey are similar to those found in my research. I concluded that Germans are closer to the U.S., while Hofstede shows that Germans are in the middle between the U.S. and Japan. This difference might come from differences of survey means and population to be researched between my survey and Hofstede's.

Figure 7-1

Individualism Collectivism



Individualism Index Values for 74 Countries and Regions

	USA	Germany	Japan
Rank	1	18	33
Score	91	67	46

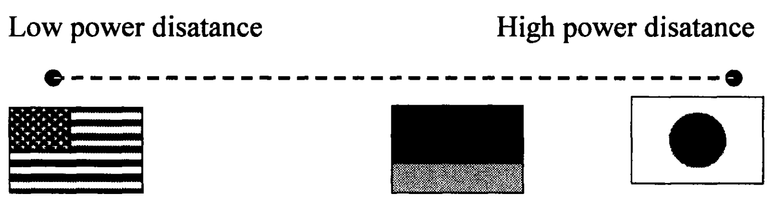
Source: Geert & Gert Jan Hofstede (2005).

Where Hofstede's survey results surprised me was that the degree of collectivism in Japan was not larger. Based on Hofstede's ranking and scores, Japan sits in the middle when compared with the 74 countries. Many Latin American and Asian countries are apparently even more collectivist. Among the three countries in this study, however, Japan is most collectivist. But among Asian countries in general, Japan is one of the most individualistic countries; only India ranked higher than Japan (see Appendix 4).

7.2 Power Distance

According to Hofstede (2005), power distance is defined as the extent to which the less-powerful members of institutions and organizations within a country expect and accept that power is distributed unequally. Hofstede created a power distance index based on his surveys in 74 countries and regions. Three surveys were conducted based on three questions. The first question asked how frequently employees were afraid to express disagreement with their management. The other two questions were about subordinates' perception and preference of their boss's actual decision-making style: autocratic or paternalistic.

Figure 7-2



Power Distance Index Values for 74 Countries and Regions

	USA	Germany	Japan
Rank	57	63	49
Score	40	35	54

Source: Geert & Gert Jan Hofstede (2005).

Figure 7-2 shows my conclusion and Hofstede's survey. Japan has the highest power of distance among three the countries, and my conclusion is aligned with Hofstede's survey. However, I concluded that Germany's power distance is higher than the U.S. Hofstede concluded that the U.S. position is between Japan and Germany, with Germany having the least power distance among the three.

This discrepancy is interesting to me because I concluded that power distance in Germany is higher than the U.S.—and my experience supports this position. But my conclusion might be drawn by extrapolating from a small population of interviews. I recognize this problem, and will continue to analyze and focus on a comparison of the two countries.

Looking at a cluster of Asian countries, Japan has the least power distance among all Asian countries (see Appendix 5). This fact may help BTM reconsider how to behave and conduct business in Asian countries, because while it is often said that Asian countries have the same cultural background geographically and historically, we can also see relatively more differences among Asians in this survey.

7.3 Risk Aversion

I believe the decision about how much risk to tolerate is a key issue with great influence on the three nations' bank strategies, and each national culture shapes the thought processes, the methods for conducting business, and the end results. There is no scale in Hofstede's survey that depicts the degrees of risk aversion and the attitude toward risk-taking. The closest Hofstede comes is "uncertainty avoidance" which is defined by him as the extent to which the members of a culture feel threatened by ambiguous or unknown situations (p.166).

I believe uncertainty avoidance is not a synonym for risk aversion, and these two notions should not be confused. It could happen that even groups with high uncertainty avoidance might take higher risk if they successfully exclude ambiguous and unknown situations by reaching consensus. However, I believe uncertainty avoidance reflects the national bank's risk-taking attitude. For Japanese banks, consensus is reached only by following those existing rules which are the most persuadable for all concerned. As people try to handle issues within the rules they tend to take less risk.

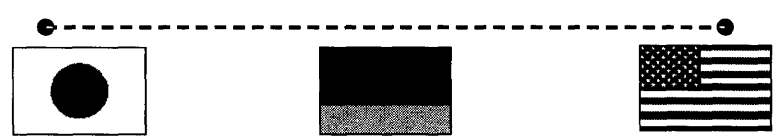
On the other hand, U.S. banks have less uncertainty avoidance, which means they need less consensus. Less consensus leads to more discretion of individual decision making and allows people to often challenge the existing rules. If they can convince all concerned to change rules, it works. Such power drives US banks to take more risk.

The survey on risk aversion was conducted using the same method as for measuring individualism, with several questions regarding job stress.

Figure 7-3 illustrates my conclusion regarding attitudes toward risk of the three nations compared with Hofstede's survey of uncertainty avoidance. The three countries' rankings in both my scale and Hofstede's survey are the same.

Figure 7-3

Risk-averse Risk taker



Uncertainty Avoidance Index Values for 74 Countries and Regions

	Japan	Germany	USA
Rank	11	43	62
Score	92	65	46

Source: Geert & Gert Jan Hofstede (2005).

As my interviews showed, Japanese banks with high uncertainty avoidance scores are fearful of ambiguous situations and unfamiliar risks. They tend to think many things are dangerous. This leads them to start fewer new businesses, to experiment with fewer IT innovations, and to focus on Japanese customers rather than expand internationally. On the contrary, U.S. banks are not uncomfortable in ambiguous situations or with unfamiliar risks. They are curious about things, so they tend to go into new businesses even if it involves risk.

Paradoxically, Japanese banks were, as a result, willing to engage in more risky behavior in order to reduce ambiguity. Why does every Japanese bank suffer from the same problem as a result of the same strategies? I think it is because following the same strategies reduces ambiguity among the banks. During the bubble economy, Japanese banks lent money to companies and took mortgages as collateral to hedge the credit risk. Everyone believed real estate prices would not decline and mortgage collateral was the best method to hedge credit risk based on the banks' past credit evaluation experience. Everyone assumed "Once you take a mortgage as collateral, everything will be safe." Nothing negative occurred in the past, so every bank did same thing.

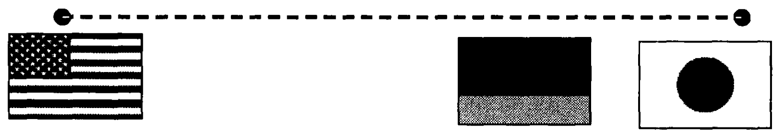
However, there are multiple ways to hedge risk rather than only taking collateral, for example, securitization, loan participation, and financial derivatives. The more diverse the hedging methods, the distributed the risks. U.S. banks take high risks, but they hedge the risk by diverse financial means: in the end, the credit exposed on risk was minimized. Japanese banks hedge credit by only one type of hedging, and the result are that the actual risk exposure is relatively high.

7.4 Long-term versus Short-term

In terms of the time horizon among the nations' three banks, there is no difference between my conclusion and Hofstede's survey. Figure 7-4 shows this comparison.

Figure 7-4

Short-term Long-term



Long-Term Orientation Index Values for 39 Countries and Regions

	USA	Germany	Japan
Rank	31	25	4
Score	29	31	80

Source: Geert & Gert Jan Hofstede (2005).

Hofstede defines long-term orientation as fostering virtues oriented toward future rewards – in particular, perseverance and thrift; he defines short-term orientation as standing for fostering virtues related to the past and present – in particular, respect for tradition, preservation of "face," and fulfilling social obligations.

These definitions are somewhat different from my thoughts, explained in previous chapters. I focused on how banks make decisions in relation to customers, and I believe that a long-term perspective puts more value on past and present relationships when considering future business. In this sense, a past-present orientation is part of the long-term perspective. In my view, the short-term perspective values future issues more rather than past-present relationships. So future orientation was included in the short-term perspective. In the end, I do not see any critical misunderstanding between my conclusion and Hofstede's survey results.

Japanese culture is very long-term-oriented, and U.S. culture is short-term- oriented. I believe the difference between my findings and Hofstede's survey can be found in the German position, which I found to be closer to Japan's culture, while Hofstede's survey showed Germany to be closer to the U.S. culture. I suggested that German banks tend to think of long-term relationships with customers, but they draw a rigid line. Recall Mr.

Gershkowitz's comment that there are no longer any rigid long-term relationships. This might imply that the distance between Germans and the U.S. is much shorter that I think.

7.5 Models of Organization

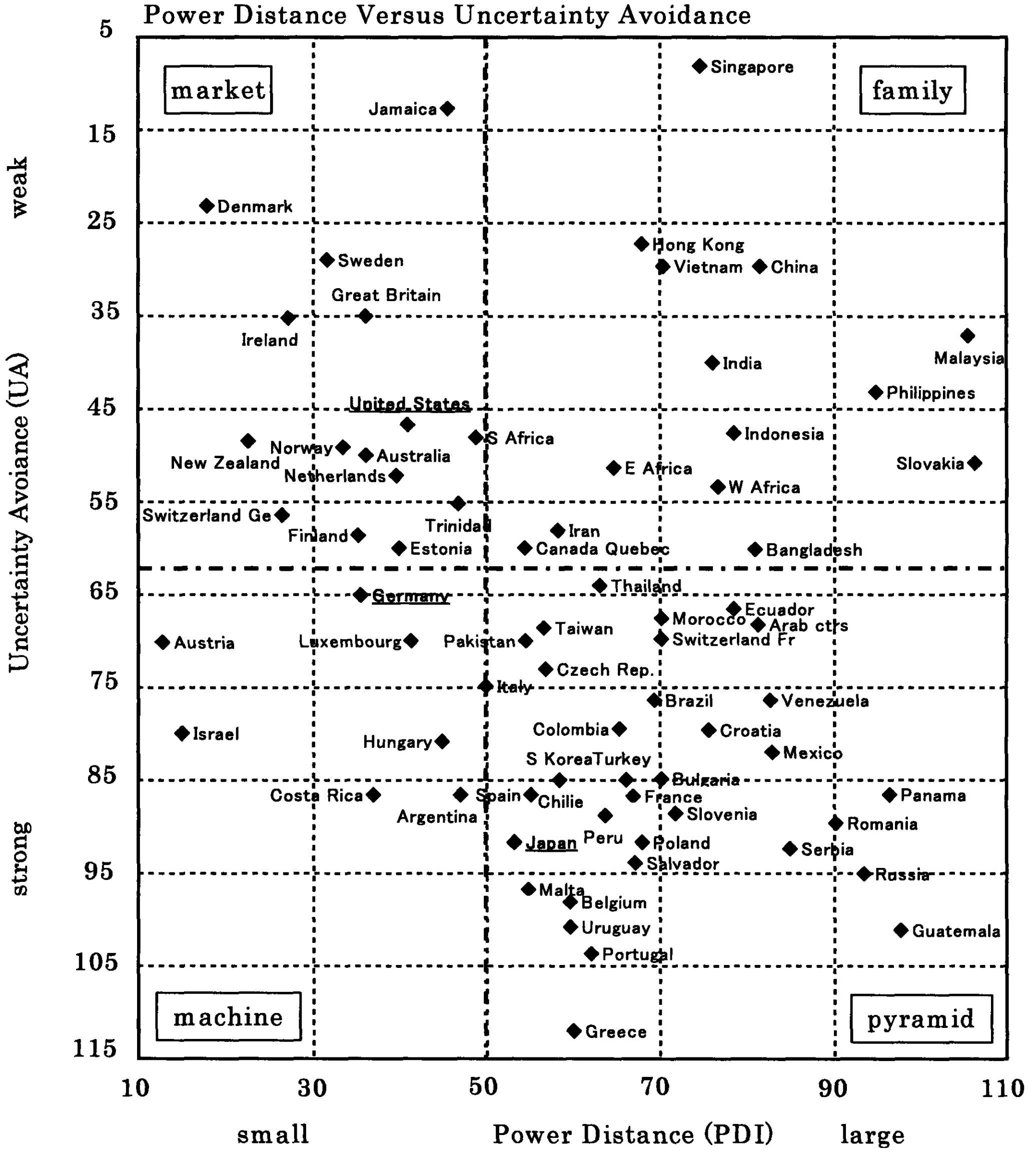
In Chapter Two I established a hypothesis that the power distance and tendency to avoid risk affected a bank's strategy. Hofstede (2005) had this to say about these factors:

> From the four dimensions of national culture . . . power distance and uncertainty avoidance in particular affect our thinking about organizations. Organizing always requires answering two questions: (1) who has the power to decide what? And (2) what rules or procedures will be followed to attain the desired ends? The answer to first question is influenced by cultural norms of power distance; the answer to the second question, by cultural norms about uncertainty avoidance. (p. 242)

Figure 7-5 illustrates each country's position decided by power distance and uncertainty avoidance. Countries that ranked high on both power distance and uncertainty avoidance are generally bureaucratic;

Figure 7-5

Power Distance Versus Uncertainty Avoidance

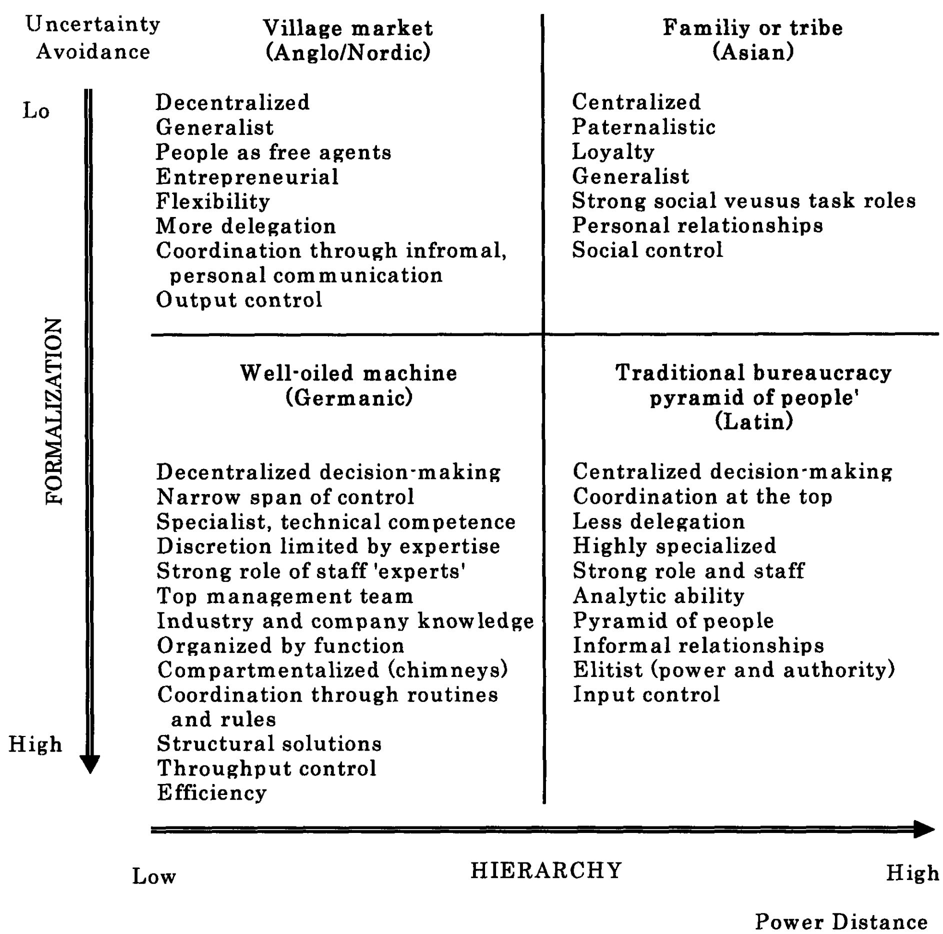


Source: Geert & Gert Jan Hofstede, 2005, p. 243

in the "pyramid" quadrant where most Latin countries can be found, and Japan is part of this group. In the opposite quadrant, countries that rank low on both power distance and uncertainty avoidance are characterized as less hierarchical, more decentralized, and having less formalized rules. This group is called the "market" type, and the United States is part of this group. Germany is not in either pyramid or market, but instead can be found in the group with lower power distance and higher uncertainty avoidance characterized as "machine." In this group, decisions are decentralized, but rules are more formal and responsibility is clearly defined.

Figure 7-6 summarizes the countries that appear in each group. Some cover the characteristics of Japanese banks that I have discussed so far – having a highly hierarchical organization, centralized decision-making system, developing a core of elite employees, and preferring coordination and consensus.

Figure 7-6 Emerging cultural profiles



Source: Schneider & Barsoux 2003, p. 93.

In Chapter Two I asked: if BTM accepted the suggested solutions, could it realize significant improvements to its service? I believe the answer is No. BTM constructs its organization and allocates employees because its way of thinking remains affected by longstanding cultural norms. There were few leaders who are interested in the basic assumptions of society, who understand how much their thinking and actions are linked to these traditional norms. Rather, they are preoccupied with superficial issues. Leaders should pay more attention to these issues when making decisions. Otherwise nothing will substantially change, and things will continue superficially.

7.6 Assumptions about Japanese Culture

The four cultural aspects that I argue are the core values of each country, Schein (2004) defines as "basic assumptions" because they are common characteristics from empirical tests and so taken for granted that one finds little variation. I think centralization and decentralization does not belong to the basic assumption, but are instead artifacts based on the assumptions. It is the formation or procedure of decision making.

Where do these basic Japanese assumptions come from? I have spent considerable time and many pages analyzing comparisons and differences among the three countries in order to clarify cultural differences that lead to differences in the banks' strategies and results. To understand Japanese banks, I believe focusing on the origins of our culture is essential, because it will encourage us to understand the differences and give us an opportunity to consider how and to what degree we must change ourselves.

7.6.1 Samurai Society

I believe the origins of many of today's Japanese organizations go back to the samurai. Samurai, or Japanese warriors, first appeared in the 11^{th} century, and one samurai leader established the first Shogunate in 1192. Since samurai were warriors, their organization was a military institution. In 1603, following a long, war-torn era, the Tokugawa (a samurai family) Shogunate dominated all of Japan, and all feudal samurai lords (*Daimyo*) became subordinates of the Tokugawa samurai family. The government allocated samurai families to each region throughout Japan, which were called domains (*Han*), and there were hundreds of domains. During the Tokugawa government, peace lasted for 260 years, and the samurai domains gradually transformed their military nature into more governmental administrations. Each domain was led by a samurai family (*Han-shu*). A domain was comprised of many samurai family subordinates, and their duties within the domain were allocated to each samurai family according to the family's achievement during the war era. The domain duties were transferred down to the next generation of family members by heredity. The hierarchy at the top was the Han-shu family and hierarchical layers became more detailed.

After the collapse of the Tokugawa Shogunate in 1867, a new Japanese government was formed. It was led by the Japanese emperor, but most officers in the government were former samurai, and they continued to implement the modified domain organization system in the new government.

Samurai society was very family-oriented, with a culture that promoted collectivism and uncertainty avoidance to ensure a sense of belonging. The strict hierarchy had a high power distance, and the subordinate-superior relationship, based on the family and hierarchy, held a long-term perspective.

From an organizational perspective, I think the samurai way of thinking remains engrained in Japanese culture must be better understood in order to recognize how much it affects our current ways thinking and behavior.

7.6.2 Inazo Nitobe

I believe the spirit of the samurai has formed current cultural assumptions in Japan. Although there is considerable literature describing the samurai, I have chosen the book *Bushido*, written by Inazo Nitobe, which describes the samurai spirit. It is the first and most famous book written in English that explains the samurai spirit of 100 years ago. Even today, many Japanese agree with its contents. In his book, Nitobe describes Bushido:

> *Bu-shi-do* means literally Military-Knight-Ways – the ways which fighting nobles should observe in their daily life and as well as in their vocation; in a word, the "Precepts of Knighthood", the noblesse oblige of the warrior class. … [It] is a flower no less indigenous to the soil of Japan than its emblem, the cherry blossom; nor is it a dried-up specimen of an antique virtue preserved in the herbarium of our history. It is still a living object of power and beauty among us; and if it assumes no tangible shape or form, it nevertheless scents the moral atmosphere and makes us aware that we are still under its potent spell.

I use the word *bushido* (samurai's way) instead of "samurai spirit" in the following discussion because it reflects more precisely the cultural nuance.

Inazo Nitobe was born in 1862, a son of a lower-level samurai family in northern Japan. He studied agronomy at Sapporo Agricultural School, well-known because William Smith Clark, a former president of the Massachusetts Agricultural College, was appointed as vice president. After graduation from Sapporo, Nitobe went to the United States where he became a Quaker. He worked in the League of Nations where he established a reputation as an internationally minded person. One day he was asked by a Belgian lawyer how Japan could continue ethical education without religion, and he realized that his standard for deciding whether something was right or wrong was based on *bushido,* which he had learned in his young days in Japan. Nitobe passed away in 1933.

7.6.3 *Bushido*

According to Nitobe, *bushido* is derived from Buddhism, Shintoism, and Confucianism. While he defines several aspects of *bushido* and explains each aspect very precisely by referring to examples and comparing it with Christian concepts, I have generalized the descriptions into three categories.

<u>"Rectitude-or-Justice" *(Gi or Seigi)*</u>

Rectitude-or-Justice refers to the power of making a decision. Once a samurai decides something is right and true, he must keep that principle and must not change his belief, not matter what happens. This is more valuable than individual knowledge or talent. *Bushido* defines it this way: "Rectitude is the power to decide upon a certain course of conduct in accordance with reason, without wavering; to die when it is right to die, to strike when it is right to strike. Without rectitude, neither talent nor learning can make of a human frame a samurai." (p.59)

These phrases are still often used in modern Japanese society, especially among Japanese politicians who describe how willing they are to exemplify rectitude and justice on behalf of the country. We also hear similar announcements from Japanese corporate leaders. This notion touches Japanese minds, and it is easily understood and accepted.

Rectitude-or-justice is not separate from "Courage" (*Yûki*). Unless courage also has rectitude and justice, it has little value. A samurai will die for what is right, but if he dies for an unworthy purpose, it is defined as a "dog's death," which obtains no respect from anyone.

"Benevolence, the Feeling of Distress" (*Jin, Sokuin no Kokoro*)

Confucius emphasized again and again the importance of benevolence, so *bushido* incorporated this virtue. Benevolence is love, sympathy, and compassion, and it is a virtue that helped samurais as warriors to perform as humans with high virtues. According to *Bushido*, "We knew benevolence was a tender virtue and mother-like . . . Benevolence to the weak, the downtrodden or the vanquished, was ever extolled as particularly becoming to a samurai." (p.85,89)

"Politeness" is also a virtue of *bushido,* and it results from benevolence and modesty. It has the appearance of sympathy, in which people try to understand how and what other people are feeling and thinking rather than thinking only of oneself. Nitobe explained, that indeed politeness is one of the virtues of *bushido*, but it does not come first because it exists as part of benevolence. Politeness without benevolence becomes a dead form.

In this regard, I believe personal performance evaluations systems based on collectivism reflect benevolence and a high power distance based on a hierarchical organization, and such systems are sustained by the power of politeness. Most Japanese value seniority and higher rank/position/title because people in those positions are assumed to have the right to respect as a result of their achievements.

"Honor" (*Meiyo*)

Every samurai had to be conscious of his inherent obligation and privileges attached to the samurai family. Each samurai family had long-held traditions, so every samurai felt honored to be born into a samurai family. Honor is an immortal part of a samurai's self. Infringing that honor brings shame, and a samurai cannot abide a sense of shame. Nitobe wrote: "The sense of shame was one of the earliest to be cherished in juvenile education. "'You will be laughed at,' . . . 'It will disgrace you,' . . . 'Are you not ashamed?' were the last appeals to correct behavior on the part of a youthful delinquent" (p. 131,133). This educated behavior remains virtually unchanged in Japanese society today. One can hear parents talking to their children with these phrases everywhere in Japan.

Nitobe continues: "The fear of disgrace was so great that if our literature lacks such eloquence as Shakespeare puts into the mouth of Norfolk, it nevertheless hung like Damocles' sword over the head of every samurai and often assumed a morbid character." (p.135). It means that sometimes, in the name of honor, a samurai fought others whom he thought had infringed his honor, perhaps even taking an innocent life.

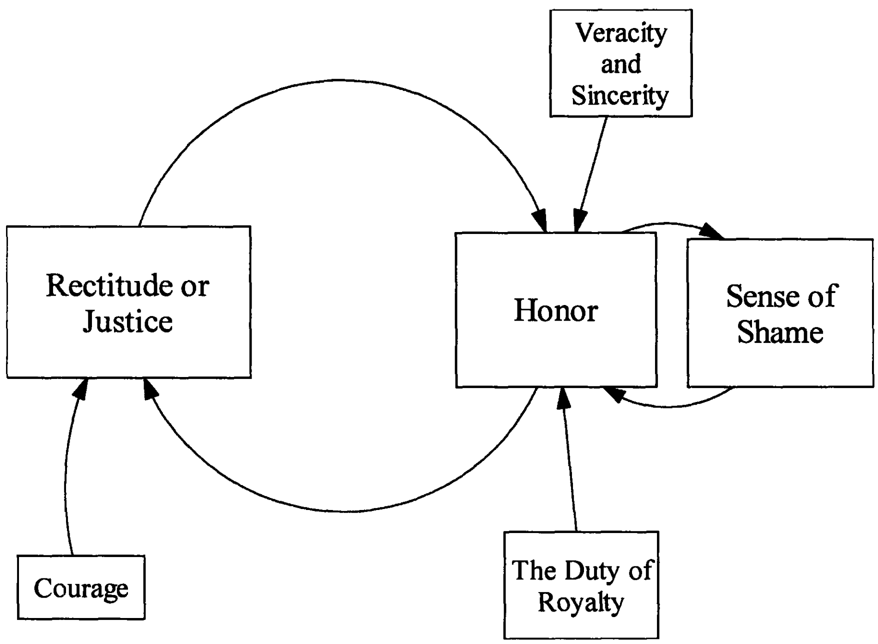
"The Duty of Royalty" is related to Honor. In *bushido* the state comes before individuals, so individuals should be willing to die for the state or representative authority. The infringement of a state's honor is synonymous with staining its honor.

Bushido was formed by samurai and recognized as the group of standards for all samurai. However, Japan had more than just the samurai class. There were three inferior class layers under samurai: farmers, manufacturers, and merchants. The ethical standards of *bushido* were accepted by the those in the other classes because of its purity and high dignity.

7.6.4 Sense of Shame

Figure 7-6 shows the relation of each *bushido* value described in Nitobe's book. Honor and Sense of Shame are two sides of the same coin. A samurai behaves so as not to violate his honor, but he also hates that his honor might be infringed by somebody.

Figure 7-6



Nowadays, most Japanese agree that they value honor and will conduct themselves so that individual honor is not infringed, because if it is, it becomes a sense of shame. In other words, Japanese hate shame, and they focus intently on how to avoid shame. In the samurai era, if a samurai's honor was infringed, it was accepted that he would take brutal action against the one who violated his honor because that was the right way to maintain honor and it was justice. Nowadays, although circumstances have changed significantly, I think honor and a sense of shame are still a strong part of the Japanese mindset. The defeat of World War

II hurt Japanese honor and increased the sense of shame. It also energized the Japanese to devote their energies to reconstructing the country and building economic prosperity.

A sense of shame is closely related to the fear of errors or making mistakes. The Japanese do not like to fail because it is directly linked to shame. This feeling dominates Japanese thinking, and is prevalent in Japanese banks. The collapse of the bubble economy brought huge problems to the economy, and for Japanese banks it meant failure. If one makes mistake, his honor is infringed; therefore people work hard to avoid infringing their honor. Other assumptions, such as collectivism and high power distance, are directly related to this concept.

I believe Japanese cultural values disturb the process of correcting problems. In the example cited in Chapter Two, there were many problems, such as a lack of investigation, poor communication, and a budget shortage. But ultimately, even when someone recognized those problems, he could not take effective steps to correct them because of the sense of shame. People sought ways to preserve both their own honor and that of their boss. Such things have happened in every layer. At the end of day, it was announced that this project had achieved "success." It was said that way, because it was the best way to preserve everyone's honor.

In this sense, I believe the Japanese are, to great degree, influenced by *bushido*. Is such thought consistent with *bushido*? I do not think so. As Figure 7-6 showed, *bushido* values rectitude or justice. Every samurai upheld justice when he found something wrong—even if his thought went against a superior person's opinion. However, obedience without thinking is not justice but shame for a samurai.

Today the Japanese must recall and understand the meaning of *bushido*. For me *bushido* has been distorted until only the sense of shame has become central in our culture.

CHAPTER 8

Conclusion

8.1 Culture Change

People often talk about culture. Culture is a useful word to define something different and then finish up with the phrase "cultural issues." I was one of those people who liked and tended to use the word "culture" in such a manner. Yet, how many people really understand or have an interest in what culture is all about? In my business experience, there are few people who take the time to think about culture or consider its correlation with company dynamics in pragmatic ways.

Schein (2005) said that culture change, in the sense of changing basic assumptions, is difficult, time-consuming, and highly anxiety-provoking. Considering the past 300 years in Japan, the country has changed significantly in terms of social organizations, economics, lifestyle, relations with foreign countries. On the other hand, the norms that govern daily life in Japan have been the same for generations. These are assumptions that were formed in the samurai era and have remained more or less unchanged over the last 300 years.

Bushido is one of those basic assumptions. *Bushido* is a fundamental assumption held by every Japanese person. But at a company level, the assumption has been modified. Since the Japanese banking industry was formed as a result of government initiatives, banks have introduced a hierarchical and bureaucratic organization structure. Yet, the assumptions of the samurai era have remained strong. The banking industry played a critical role during the post-war years of recovery. As the economy continued to improve, banks did not experience problems. However, the collapse of the bubble economy revealed some fundamental problems with the industry. Although the environment changed, banks continued to run their business based on the old assumptions.

In terms of those assumptions, other Japanese companies, such as manufacturers, are no exception—they are also affected by the assumptions. I believe even when people in different industries talk about these Japanese cultural assumptions, all would agree with the arguments associated with *Bushido*. However, it is apparent that the banking industry has a different way of thinking and action than other industries. In my opinion, the difference comes from handling some of the assumptions differently: e.g., how to deal with uncertainty avoidance. Every Japanese company carefully avoids uncertainty, but reaching consensus as to how to avoid ambiguous situations and create alignment with risk-taking is much different.

8.2 Uncertainty Avoidance and Risk Taking

Uncertainty avoidance is a key issue when developing strategies in Japanese banks, but uncertainty avoidance is not the same as a risk-taking attitude. While uncertainty avoidance is a fundamental assumption of the Japanese people, risk-taking differs among Japanese companies. Uncertainty avoidance drives the action to avoid ambiguities by achieving consensus and also confirms one's sense of belonging. In the case of Japanese banks, this consensus based on uncertainty avoidance directs and biases risk aversion.

The reason for this is the tight correlation between fear of failure as a result of taking risk and a sense of honor. The sense of honor is one virtue of *bushido,* and its other side is a sense of shame. This sense of shame is amplified in the banking industry. Japanese banks were developed by the initiative of the Japanese government because banks were the key to expanding the economy. Therefore, banks have a culture similar to that of government officials in terms of organization and thought processes. Government officials were elites and in their culture no failure was allowed. If one made a mistake, there was never another chance to be promoted. One's honor was disgraced and it resulted in enormous shame.

Japanese banks have taken this assumption. People view bank officers as belonging to the elites, and banks tend to hire students who have graduated from prestigious universities. Banks also require freshmen to behave in a manner that is not perceived as shameful by the public. Those people usually have only successful experiences because they do everything to avoid failure. In the banks, failure means demotion, and one is rarely given a second chance. As a result, bank officers seek consensus, take less risk, and avoid uncertainty.

How about other Japanese companies? In my opinion, Toyota, for example, the largest automobile manufacturing company in Japan, also embraces uncertainty avoidance, but that company's method of reaching consensus differs from banks. Toyota takes risk but they analyze the risk and carefully consider hedging solutions. Failure also means shame for them, but the fear of failure drives people to improve and resolve problems. Once a mistake or failure occurs, it does not automatically mean demotion or a poor performance evaluation.

It all goes back to the sense of honor in *bushido*. *Bushido* holds that doing the right thing is genuine honor. If you have a failure, you have to accept it gracefully. If you cannot, that is the real shame.

8.3 Implication for German and U.S. Banks

As the interviews showed, German banks undertake almost the same strategies as Japanese banks did ten years ago. But German banks have been changing, especially in terms of risk-taking. In my experience, Germans are perceived as relatively conservative and they prefer less risk than U.S. banks. They dislike change. The German people also emphasize consensus, which is, to some degrees, the same as in the Japanese culture. Both seek to avoid uncertainty.

One phrase that several German interviewees used was that German banks had lost some of their "German-ness," which was impressive to me. German banks have undoubtedly changed their assumptions, especially since it is now necessary for German banks to compete with foreign banks not only in the domestic market but also in the international market. In this sense, Japanese banks have not and will not lose their "Japanese-ness." Our assumptions remain unchanged.

U.S. banks' assumptions are different from Japanese banks. Since Japan has been greatly influenced by the U.S., Japanese banks tend to introduce and use the useful factors that U.S. banks have undertaken successfully, including the business unit organization structure, achievement-driven personnel evaluation system and an emphasis on investment banking. The OVS case described in Chapter 2 was the decision based on an American consulting firm.

However, there are major differences between the U.S. and Japanese cultures. Even if Japanese banks use the same system that U.S. banks have used successfully, it does not mean that Japanese banks can effectively replicate the success of U.S. banks. The system worked in the U.S. banks because they played within their own rules (assumptions). Japanese banks have other rules (assumptions). The key is to carefully analyze the U.S. banks' useful measures and strategies to see if they fit the Japanese way of thinking and doing. If Japanese banks try to replicate the U.S. banks' processes without careful consideration, it would not work. As described in Chapter 3, U.S. bank profitability, their diverse business portfolios, and wider geographical network prevail over Japanese banks. Hence, Japanese banks are trying to incorporate U.S. strategies into their business plan as soon as possible. But, they also must consider how the essence of U.S. banks' strategies would be sustained by Japanese assumptions.

German banks have tried to replicate U.S. banks' strategies, but they do it carefully and changes take time. Germans do not like to change, but if necessary they are willing to change over the long term. Since the Japanese culture is similar, it might be useful for Japanese banks to analyze how German banks are changing rather than attaching so much importance to the U.S. banks' ways of thinking and doing.

8.4 Implication for Japanese Banks

Japanese banks should look carefully at the way they think and how they do business based on basic cultural assumptions. When they have acquired some insight about the differences, I believe they will evolve more effective strategies that fit the Japanese banks. Germany and the U.S. are foreign countries. They think and act differently than do the Japanese. More important is that Japan needs to understand and recognize the differences rightly. Understanding others and understanding oneself are the two sides of the same coin, and they interact and sustain each other.

We can understand ourselves better if we follow the principles of *bushido* and the culture of the samurai societies. Royalty is one virtue of *bushido*. This does not mean that people should obey their superiors and give up their independence. The samurai were required to deliberate on their inner beliefs and align their convictions with *bushido*. If they were convinced that their master's thinking was incorrect, they had to admonish the master's incorrect thought. This was not for his individual favor, but for the good of the entire domain's prosperity. This was the honor of the samurai. The domain that kept many samurai who did the right things through *bushido* had a strong organization that sustained the domain.

I think the individual independence of the samurai sustained the collectivist samurai culture. The greater question is: Why do Japanese banks lack this spirit of independence?

On the other hand, as long as each samurai insisted on his own opinion based on his belief, it was hard for the samurai leader to control his subordinates and take the organization in the right direction. Without strong leadership, the domain could devolve into chaos. Samurai leaders had to have leadership ability and deep understanding of *bushido* to control the brave and honest samurais. They were the people who aligned their philosophies to *bushido* and persuaded their subordinates to aim for the same goals. In this sense, a samurai leader's beliefs were transformed into assumptions.

Schein (2005) wrote: "The most central issue for leaders, therefore, is how to get at the deeper levels of a culture, how to assess the functionality of the assumptions made at that level, and how to deal with the anxiety that is unleashed when those levels are challenged." (p. 37) I agree with this assertion. What is needed for the leaders of Japanese banks is to deeply understand their culture and reflect it in their organization and strategies. In the process, what should be changed and what should not be changed will become clear.

Japanese banks announced in their 2004 Annual Reports that their goal was to achieve a certain ranking in terms of market value among all international banks. They also mentioned the strong competition in today's wave of globalization. But each bank's goal does not have to be the same. Every major Japanese bank does not have to aim for globalization. The meaning of globalization can be different among them. The leaders of Japanese banks have to develop insight about their strengths and weaknesses and set the bank's goals to incorporate their cultural assumptions. And if needed, the leaders should challenge current assumptions.

BTM merged with UFJ Bank in January 2006 to become the largest bank in the world in terms of asset volume. This is an excellent time for the bank to consider the need for changing its culture in order to make the giant leap toward becoming a genuine global bank.

Appendix 1

Japanese interviewees

Suzuki, Shunsuke: Chief Manager, Corporate Banking Division
Bank of Tokyo-Mitsubishi, Ltd. Tokyo, Japan

Enomoto, Masaki: Chief Manager, Corporate Banking Division
Bank of Tokyo-Mitsubishi, Ltd. Tokyo, Japan

Murakami, Hiroshi: Chief Manager, Japanese Corporate Group, New York Branch
Bank of Tokyo-Mitsubishi, Ltd New York, United States

Kogure, Takeshi: Manager, IT Business Division
Bank of Tokyo-Mitsubishi, Ltd. Tokyo, Japan

Asano, Fumihiro: Chief Manager, Financial Services Department, Düsseldorf Branch
Bank of Tokyo-Mitsubishi, Ltd. Düsseldorf, Germany

Otsubo, Shunichi: Vice President
BTM Capital Corporation, Boston, United States

Takeuchi, Isao: Senior Manager, Corporate Banking Planning Division
Mizuho Bank, Ltd. Tokyo, Japan

German Interviewees

Henrychowski, Detlev: Director, Düsseldorf Branch
Bank of Tokyo-Mitsubishi, Ltd., Düsseldorf, Germany

Krings, Jörg: Manager, Financial Services Department, Düsseldorf Branch
Bank of Tokyo-Mitsubishi, Ltd., Düsseldorf, Germany

Hundt, Stefan: Corporate Analyst
Deutsche Bank AG, Cologne, Germany

Bockenheimer, Heiz-Günter: Vice President, Financial Institutions Asia Pacific/Latin America, Deutsche Bank AG, Frankfurt, Germany

American Interviewees

Jeffers, John: Senior Vice President, Global Relationship Banking
Bank of Tokyo-Mitsubishi Trust Company, New York

Leffler, Michael: Vice President, Global Relationship Banking
Bank of Tokyo-Mitsubishi Trust Company, New York

Lapierrre, Susan: Vice President
East Cambridge Saving Bank, Cambridge, Massachusetts

Gershkowitz, Todd: Group Head of Compensation & Benefits
UBS, New York

Appendix 2

Interview Questionnaire

I appreciate very much your taking time for me. I would like to give you some background. This interview will be used as part of my thesis for a Masters degree at the Massachusetts Institute of Technology in Boston, Massachusetts.

Purpose of this interview

In the corporate banking business, major Japanese banks are increasingly following an international strategy to enhance their business. As a result, they are competing directly with European and US banks

In my career in corporate banking and my work experience in Europe, there seemed to be a large strategic gap between Japanese and European (especially German) banks. However, the strategic differences within each country group seem to be relatively small. My question is: why are there such differences and how do these differences affect the financial results of the banks? Specifically, I want to look at cultural differences that may differentiate the business strategies that European, American, and Japanese banks follow.

My thesis will describe and compare the strategies followed by several major Japanese, European, and American banks. I am planning to collect public information on the banks and review the available literature. Second, I will conduct interviews with selected people who are knowledgeable about banking strategies in three global regions. Third, I may interview representatives of banks in the three areas

With this explanation in mind, I would like to talk to you about the following questions. If some items are confidential and you cannot disclose such information, you do not have to provide details about your organization. However, it would be helpful if you could answer from your personal perspectives as much as possible.

Questions

1. The organization of your corporate banking division

    1-1. What does your bank's organization structure look like (any significant differences from Japanese bank)?
    1-2. What is the organizational responsibility structure?
    1-3. Tell me about employee work contracts and the human resources development system
    1-4. Describe the personal performance evaluation system.
    1-5. How close or far is the relation between employer and the union
    1-6. How about the relation between front office and the systems and operation division?

2. Corporate banking strategy
    2-1. What is the target customer segment?
    2-2. Tell me about the function of a "main bank system"
    2-3. Describe your risk evaluation system
    2-4. How do you think quantitative factors' affect the evaluation of credit risks?
    2-5. What about the system investment policy?

The attached file summarizes the organizational and strategic characteristics of a Japanese bank.

Best regards

Seiichi Kuroiwa
MIT Sloan Fellows Program
In Innovation and Global Leadership

Appendix 3
Interview Methodology

1. **Scope**

The purpose of the interviews is to research each national bank's organizational structure and business strategies—information that cannot be obtained from published data. Since my thesis focuses on how and to what extent the cultural issues effect a bank's process of structuring and running the organization and making business strategies, interviews are necessary in order to obtain information from people who reside in the three countries and are familiar with their country's culture.

My thesis focuses exclusively on the banking industry. Within the industry, I focus on major banks in each country. There are a variety of banks ranging from small size and local business-oriented banks to the international players. However, I will remain within the category of national banks so the comparison is with similar subjects.

For the data analysis, I chose four top Japanese banks including my own employer (BTM), four top German banks, and three top U.S. banks. Because there is no fourth U.S. bank to compare with the other two national banks, I picked only three U.S. banks.

Out of each national bank group, I chose BTM, Deutsche Bank, and Citibank as representative of each country.

2. **Selection**

In terms of selecting interviewees, I focused on people who are working or have worked at the top of each national bank (BTM, Deutsche Bank, and Citibank). I selected bank officers who seemed to have similar careers in the corporate banking business.

I asked each interview candidate for an appointment by e-mail and submitted the questionnaire (see Appendix 2) in advance.

Since it was difficult to access people in Citibank, I conducted interviews with two offices of BTM in New York, one with UBS in New York who had work experience at Citibank, and a local Massachusetts bank in Cambridge. As they were all American banks and have sufficient bank experience in the U.S., I believe they represent typical American bankers for purposes of my interviews.

3. **Place of interview**

All interviews were conducted between January and March 2006. I visited the interviewees in their own country. Most of the Japanese interviewees are current bank officers at BTM, so those interviews were held in the Tokyo area. For the German interviews, I visited each person at their offices located in Düsseldorf and Frankfurt. I interviewed two Americans in New York, one in Cambridge and one in Boston.

4. **<u>Length of interview</u>**

The length of each interview differed. Some interviewees spent more than three hours in conversation with me, but some were too busy to take more than an hour. On average, each interview lasted about 1.5 hours. Since I interviewed 15 people, the total amount of time spent interviewing is estimated to be at least 22.5 hours.

5. **<u>Interview Sequence</u>**

The sequence of interviews went from Japan, to Germany, to the U.S. because it was necessary for me to acquire a comprehensive understanding and fix standards based on the culture of Japanese banks. Since I have worked in Germany for seven years, it was useful to interview Germans at a second national bank to enable comparison with Japanese banks.

The U.S. banks were last because I am less familiar with the U.S. bank business than I am with Japanese and German banks. Therefore I thought I could make the most effective interview with American bank employees by using the information and understanding gained from the two other national banks.

I used two types of interviews. One followed the questionnaire format that I had sent each interviewee beforehand. This method was used mostly for the first and second interviewees. Another type of interview asked selected questions. As I gathered information from the first two or three interviewees, I thought it was unnecessary to repeat the same questions to every interviewee according to the questionnaire.

6. **<u>How I took notes</u>**

I jotted down the main points of the interviews during our conversation. After each interview I made a summary of each interview's content in Japanese and also made a chart to help me compare the three national banks afterward. When something was unclear, I asked the interviewee to confirm my note regarding his interview. This kind of confirmation was conducted primarily via e-mail.

After writing the Japanese summary, I translated my notes into English and included the information in the thesis in Chapters 4, 5, and 6.

Appendix 4

Individualism Index (IDV) Values for 74 Countries and Regions

COUNTRY/REGION	SCORE	RANK	COUNTRY/REGION	SCORE	RANK
United States	**91**	**1**	Russia	39	37-38
Australia	**90**	**2**	**Arab countries**	**38**	**39-40**
Great Britain	**89**	**3**	**Brazil**	**38**	**39-40**
Canada total	**80**	**4-6**	**Turkey**	**37**	**41**
Hungary	80	4-6	**Uruguay**	**36**	**42**
Netherlands	**80**	**4-6**	**Greece**	**35**	**43**
New Zealand	**79**	**7**	**Croatia**	**33**	**44**
Belgium Flemish	**78**	**8**	**Philippines**	**32**	**45**
Italy	**76**	**9**	Bulgaria	30	46-48
Denmark	**74**	**10**	**Mexico**	**30**	**46-48**
Canada Quebec	73	11	Romania	30	46-48
Belgium Walloon	**72**	**12**	**East Africa**	**27**	**49-51**
France	**71**	**13-14**	**Portugal**	**27**	**49-51**
Sweden	**71**	**13-14**	**Slovenia**	**27**	**49-51**
Ireland	**70**	**15**	**Malaysia**	**26**	**52**
Norway	**69**	**16-17**	**Hong Kong**	**25**	**53-54**
Switzerland German	**69**	**16-17**	**Serbia**	**25**	**53-54**
Germany	**67**	**18**	**Chile**	**23**	**55**
South Africa [1]	**65**	**19**	Bangladesh	20	56-61
Switzerland French	**64**	**20**	China	20	56-61
Finland	**63**	**21**	**Singapore**	**20**	**56-61**
Estonia	60	22-24	**Thailand**	**20**	**56-61**
Luxembourg	60	22-24	Vietnam	20	56-61
Poland	60	22-24	**West Africa**	**20**	**56-61**
Malta	59	25	**Salvador**	**19**	**62**
Czech Republic	58	26	**Korea (South)**	**18**	**63**
Austria	**55**	**27**	**Taiwan**	**17**	**64**
Israel	**54**	**28**	**Peru**	**16**	**65-66**
Slovakia	52	29	Trinidad	16	65-66
Spain	**51**	**30**	**Costa Rica**	**15**	**67**
India	**48**	**31**	**Indonesia**	**14**	**68-69**
Suriname	47	32	**Pakistan**	**14**	**68-69**
Argentina	**46**	**33-35**	**Colombia**	**13**	**70**
Japan	**46**	**33-35**	**Venezuela**	**12**	**71**
Morocco	46	33-35	**Panama**	**11**	**72**
Iran	**41**	**36**	**Ecuador**	**8**	**73**
Jamaica	**39**	**37-38**	**Guatemala**	**6**	**74**

Scores for countries or regions in **bold type** were calculated from the IBM database.
Scores for other countries or regions were based on replications or estimates.
1 The data were from whites only.

Source: Geert & Gert Jan Hofstede (2005) *Cultures and Organization*, p.78,79 McGraw-Hill

Appendix 5

Power Distance Index (PDI) Values for 74 Countries and Regions

COUNTRY/REGION	SCORE	RANK	COUNTRY/REGION	SCORE	RANK
Malaysia	**104**	**1-2**	**Portugal**	**63**	**37-38**
Slovakia	104	1-2	**Belgium Flemish**	**61**	**39-40**
Guatemala	**95**	**3-4**	**Uruguay**	**61**	**39-40**
Panama	**95**	**3-4**	**Greece**	**60**	**41-42**
Philippines	**94**	**5**	**Korea (South)**	**60**	**41-42**
Russia	93	6	**Iran**	**58**	**43-44**
Romania	90	7	**Taiwan**	**58**	**43-44**
Serbia	**86**	**8**	Czech Republic	57	45-46
Suriname	85	9	**Spain**	**57**	**45-46**
Mexico	**81**	**10-11**	Malta	56	47
Venezuela	**81**	**10-11**	**Pakistan**	**55**	**48**
Arab countries	**80**	**12-14**	Canada Quebec	54	49-50
Bangladesh	80	12-14	**Japan**	**54**	**49-50**
China	80	12-14	**Italy**	**50**	**51**
Ecuador	**78**	**15-16**	**Argentina**	**49**	**52-53**
Indonesia	**78**	**15-16**	**South Africa** [1]	**49**	**52-53**
India	**77**	**17-18**	Trinidad	47	54
West Africa	**77**	**17-18**	Hungary	46	55
Singapore	**74**	**19**	**Jamaica**	**45**	**56**
Croatia	**73**	**20**	Estonia	40	57-59
Slovenia	**71**	**21**	Luxembourg	40	57-59
Bulgaria	70	22-25	**United States**	**40**	**57-59**
Morocco	70	22-25	**Canada total**	**39**	**60**
Switzerland			**Netherlands**	**38**	**61**
French	**70**	**22-25**	**Australia**	**36**	**62**
Vietnam	70	22-25	**Costa Rica**	**35**	**63-65**
Brazil	**69**	**26**	**Germany**	**35**	**63-65**
France	**68**	**27-29**	**Great Britain**	**35**	**63-65**
Hong Kong	**68**	**27-29**	**Finland**	**33**	**66**
Poland	68	27-29	**Norway**	**31**	**67-68**
Belgium Walloon	**67**	**30-31**	**Sweden**	**31**	**67-68**
Colombia	**67**	**30-31**	**Ireland**	**28**	**69**
Salvador	**66**	**32-33**	**Switzerland**		
Turkey	**66**	**32-33**	**German**	**26**	**70**
East Africa	**64**	**34-36**	**New Zealand**	**22**	**71**
Peru	**64**	**34-36**	**Denmark**	**18**	**72**
Thailand	**64**	**34-36**	**Israel**	**13**	**73**
Chile	**63**	**37-38**	**Austria**	**11**	**74**

Scores for countries or regions in **bold type** were calculated from the IBM database.
Scores for other countries or regions were based on replications or estimates.
1 The data were from whites only.

Source: Geert & Gert Jan Hofstede (2005) *Cultures and Organization*, p.43,44 McGraw-Hill

Appendix 6

Uncertainty Avoidance Index (UAI) Values for 74 Countries and Regions

COUNTRY/REGION	SCORE	RANK	COUNTRY/REGION	SCORE	RANK
Greece	**112**	**1**	**Switzerland French**	**70**	**35-38**
Portugal	**104**	**2**	**Taiwan**	**69**	**39**
Guatemala	**101**	**3**	**Arab countries**	**68**	**40-41**
Uruguay	**100**	**4**	Morocco	68	40-41
Belgium Flemish	**97**	**5**	**Ecuador**	**67**	**42**
Malta	96	6	**Germany**	**65**	**43**
Russia	95	7	**Thailand**	**64**	**44**
Salvador	**94**	**8**	**Bangladesh**	**60**	**45-47**
Belgium Walloon	**93**	**9-10**	Canada Quebec	60	45-47
Poland	93	9-10	Estonia	60	45-47
Japan	**92**	**11-13**	**Finland**	**59**	**48-49**
Serbia	**92**	**11-13**	**Iran**	**59**	**48-49**
Suriname	92	11-13	**Switzerland German**	**56**	**50**
Romania	90	14	Trinidad	55	51
Slovenia	**88**	**15**	**West Africa**	**54**	**52**
Peru	**87**	**16**	**Netherlands**	**53**	**53**
Argentina	**86**	**17-22**	**East Africa**	**52**	**54**
Chile	**86**	**17-22**	**Australia**	**51**	**55-56**
Costa Rica	**86**	**17-22**	Slovakia	51	55-56
France	**86**	**17-22**	**Norway**	**50**	**57**
Panama	**86**	**17-22**	**New Zealand**	**49**	**58-59**
Spain	**86**	**17-22**	**South Africa** [1]	**49**	**58-59**
Bulgaria	85	23-25	**Canada total**	**48**	**60-61**
Korea (South)	**85**	**23-25**	**Indonesia**	**48**	**60-61**
Turkey	**85**	**23-25**	**United States**	**46**	**62**
Hungary	82	26-27	**Philippines**	**44**	**63**
Mexico	**82**	**26-27**	**India**	**40**	**64**
Israel	**81**	**28**	**Malaysia**	**36**	**65**
Colombia	**80**	**29-30**	**Great Britain**	**35**	**66-67**
Croatia	**80**	**29-30**	**Ireland**	**35**	**66-67**
Brazil	**76**	**31-32**	China	30	68-69
Venezuela	**76**	**31-32**	Vietnam	30	68-69
Italy	**75**	**33**	**Hong Kong**	**29**	**70-71**
Czech Republic	74	34	**Sweden**	**29**	**70-71**
Austria	**70**	**35-38**	**Denmark**	**23**	**72**
Luxembourg	70	35-38	**Jamaica**	**13**	**73**
Pakistan	**70**	**35-38**	**Singapore**	**8**	**74**

Scores for countries or regions in **bold type** were calculated from the IBM database.
Scores for other countries or regions were based on replications or estimates.
1 The data were from whites only.

Source: Geert & Gert Jan Hofstede (2005) *Cultures and Organization*, p.168,169 McGraw-Hill

Appendix 6

Long-Term Orientation Index (LTO) Values for 39 Countries and Regions

COUNTRY/REGION	SCORE	RANK	COUNTRY/REGION	SCORE	RANK
China	**118**	**1**	Slovakia	38	20-21
Hong Kong	**96**	**2**	Italy	34	22
Taiwan	**87**	**3**	**Sweden**	**33**	**23**
Japan	**80**	**4-5**	**Poland**	**32**	**24**
Vietnam	80	4-5	Austria	31	25-27
Korea (South)	**75**	**6**	**Australia**	**31**	**25-27**
Brazil	**65**	**7**	**Germany**	**31**	**25-27**
India	**61**	**8**	Canada Quebec	30	28-30
Thailand	**56**	**9**	**New Zealand**	**30**	**28-30**
Hungary	50	10	Portugal	30	28-30
Singapore	**48**	**11**	**United States**	**29**	**31**
Denmark	46	12	**Great Britain**	**25**	**32-33**
Netherlands	**44**	**13-14**	**Zimbabwe**	**25**	**32-33**
Norway	44	13-14	**Canada**	**23**	**34**
Ireland	43	15	**Philippines**	**19**	**35-36**
Finland	41	16	Spain	19	35-36
Bangladesh	**40**	**17-18**	**Nigeria**	**16**	**37**
Switzerland	40	17-18	Czech Republic	13	38
France	39	19	**Pakistan**	**0**	**39**
Belgium total	38	20-21			

Scores for countries or regions in **bold type** were calculated from the original Chinese Value Survey databas
Scores for other countries or regions were based on replications.

Source: Geert & Gert Jan Hofstede (2005) *Cultures and Organization*, p.211 McGraw-Hill

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