THE FUNCTION AND ORGANIZATION
OF A BANK HOLDING COMPANY IN JAPAN

by

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SUBMITTED TO THE ALFRED P. SLOAN SCHOOL OF MANAGEMENT
IN PARTIAL FULFILMENT OF THE REQUIREMENTS
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on May 6, 2002 in partial fulfillment of the requirements for the Degree of
Master of Business Administration

ABSTRACT

From 1999 to 2001, the Japanese financial industries were deregulated on a large
scale in a move referred to as the “Japanese Big Bang”. As a result, commercial banks are
now allowed to establish a bank holding company and to diversify their financial services
through this bank holding company. In 2000 and 2001, Japan’s three major city banks each
established a bank holding company with full-service securities companies as subsidiaries.

In this context, this thesis examines the function and organization of bank holding
companies that have subsidiaries that offer financial services, most of which have proven to
be very effective, and that have maximized the total value of the group.

Chapter One examines the various roles a holding company can play to create value.
It considers research on corporate-level strategy and draws a parallel between the role of
corporate headquarters in a diversified company and the role of the bank holding company
in a diversified financial services company. Chapter Two analyzes the organization and
structure of some of the world’s leading bank holding companies. Chapter Three looks at the
three major Japanese bank holding companies. Finally, Chapter Four compares the different
approaches to creating value that have been observed in the case studies, and draws
implications for value creation strategies in the Japanese bank holding companies in the future.

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Katsuhiko Ishizuka
Wellesley, Massachusetts
May, 2002
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From 1999 to 2001, the Japanese financial industry underwent what is called the “Japanese Big Bang”, an extraordinary restructuring of the entire industry. As a result, commercial banks were allowed to establish a bank holding company and through this bank holding company they were able to diversify the financial services they could offer. A bank holding company can have a commercial bank, a full-service securities company, an asset management company, a life insurance company, and a non-life insurance company—all as subsidiaries.

In 2000, three of Japan’s major city banks each established a bank holding company with full-service securities companies as subsidiaries. In 2001, two more bank holding companies were established. In the future, it is expected that many bank holding companies will be established, and they will undoubtedly establish or acquire one or all of the subsidiary service companies.

If Japanese banks wish to expand their services to provide securities or insurance in Japan and other countries including the U.S., the Japanese banks are required by law to establish a bank holding company and thence to own a bank, and/or a securities company, and/or an insurance company as subsidiaries. The rationale for this requirement is that
have the subsidiaries isolates the banks from the risks that might be incurred by the other subsidiaries. Thus, when banks decide to pursue a diversification strategy, they are required by law to undertake a holding company structure.

In comparison, there are cases, such as Bank One Corp. (a bank holding company), where some banks are subsidiaries of a bank holding company instead of merging into one bank. In either case, the bank holding company assumes the role of the group headquarters, similar to the Executive Committee at Johnson & Johnson or the Strategic Planning Staff at General Electric.

In this thesis, I will take an in-depth look at bank holding companies. I will begin by examining their function and organization, how their subsidiaries offer financial services most effectively, analyze their group-level strategies, and consider how the total group value is or can be maximized in Japan.

Chapter One examines the various roles a holding company can play to create value. It examines research on corporate-level strategy and draws a parallel between the role of corporate headquarters in a diversified company and the role of the bank holding company in a diversified financial services company.

Chapter Two analyzes the organization and structure of some of the world’s leading bank holding companies, including HBSC, Bank One, ING, Citigroup, and Bank of America.
Chapter Three looks at the three major Japanese bank holding companies: Mizuho, Mitsubishi Tokyo Financial Group, and UFJ.

Finally, Chapter Four compares the different approaches to creating value that have been observed in the case studies, and draws implications for value creation strategies in the Japanese bank holding companies in the future.
CHAPTER ONE

The Role of a Bank Holding Company

1.1 STRUCTURE

It is the bank holding company that determines the structure of the bank group, defines budgeting and capital expenditure processes for the entire group, and sets the tone for group values and attitudes. The bank holding company is at the heart of the group’s mission and its strategic decisions (or corporate strategy decisions, if the bank holding company is considered to be a corporate headquarters and its subsidiaries are considered as business divisions). Group strategy defines what the group will do and across what business the group will operate.

The bank holding company has the potential both to create and to destroy significant amounts of value. At the simplest level, the bank holding company incurs costs. If its activities do not justify its costs, value is destroyed. Furthermore, a misguided group strategy can destroy more value than the cost of running the bank holding company. Porter (1987) reported that more than half of the acquisitions made by 33 large American companies between 1950 and 1986 ultimately destroyed the acquisition’s value and they were subsequently resold within five or six years. By contrast, an appropriate group
strategy can create more value than the total costs of the bank holding company. The bank holding company’s role is to require subsidiaries to create more value than if they were standing alone.

This incremental value generated in the subsidiaries by the bank holding company \((Ma^' + Mb^' + Mc^' + Md^')\) has to be more than the present value \((Mh)\) of the bank holding company’s cost plus its book value deducting the book value of subsidiaries’ stocks. Figure 1-1 illustrates this process.

**Fig. 1-1. Book Value to Market Value**

\[
Ma^' + Mb^' + Mc^' + Md^' > Mh + Bh
\]

**Market Value**

- Ma
- Ma, Ba
- Mb, Bb
- Mb'
- Mc, Bc
- Md
- Md, Bd

**Holding company**

**Total Market Value**

\[
M = Ma + Ma^' + Mb + Mb^' + Mc + Mc^' + Md + Md^'
\]

\[
Mh = PV of Holding Company’s cost
\]

**Total Book Value**

\[
B = Ba + Bb + Bc + Bd + Bh
\]

\[
Bh = Asset of Holding Company – Book Value of Subsidiaries’ Stocks
\]

Source: Author, 2002
The holding company’s influence on subsidiary-level plans, aspirations, and investments can provide valuable encouragement, specialist understanding, and tough discipline; or alternatively it can promote choking constraints, crucial delays, or suicidal ambitions. The bank holding company is exhorted to downsize wherever possible but also to intensify the search for synergies and to foster core competencies. It is told to “stick to its knitting” but to do whatever is necessary to ensure the group’s growth and renewal. It is urged to manage strategic alliances, mergers, and acquisitions while empowering individual businesses in the subsidiaries. It is pressed to balance its portfolios while increasing its focus. The bank holding company clearly faces several potentially contradictory demands. To resolve them, the bank holding company must focus on how it can create value, while at the same time reassuring a group of potentially independent businesses that there is great benefit to be gained from being owned by a bank holding company.

1.2 THE QUEST FOR GROUP ADVANTAGE

The subsidiaries of the financial group create value through direct contact with customers. They compete within their markets to satisfy customer needs and to generate revenues and profits. These subsidiaries report to the bank holding company.
In contrast, the bank holding company has no external customers and generates costs but no revenues. It is an intermediary, influencing the decisions and strategies pursued by the subsidiaries, while standing between the subsidiaries and those who provide capital for the subsidiaries’ use.

However, rather than simply creating net value, the bank holding company should aim to assemble the best possible grouping of businesses. Together, the businesses under the bank holding company should perform not only better than they would as stand-alone entities but also better than they would under any other bank holding company. Group strategies should clarify how and where the group can achieve the best advantages. The link between the group advantage and its strategy closely parallels the link between competitive advantage and business strategy. The quest for group advantage underlies every decision of a successful financial group and distinguishes it from its less successful rivals. The essence of the group advantage significantly enhances the possibilities of creating, rather than destroying, value.

1.3 CHARACTERISTICS OF BANK HOLDING COMPANIES AND THEIR SUBSIDIARIES’ BUSINESSES
The essence of successful grouping is to create a fit between the way the bank holding company operates—its characteristics—and the kinds of business done by the subsidiaries—the characteristics of the subsidiaries’ businesses. A superior fit leads to value creation by matching opportunities in the businesses with a bank holding company that can realize them. Fit is sustained by focusing on businesses for which the bank holding company has appropriate knowledge and awareness. By understanding the critical success factors in these subsidiary businesses, the bank holding company reduces the risk of causing inadvertent damage.

Grouping advantage is built on three bases: (a) insight about particular opportunities for the bank holding company to create value, (b) distinctive characteristics that allow the bank holding company to realize this value in a unique or special way, and (c) the identification of a heartland on which to focus the portfolio.

The framework for how the bank holding company creates value is founded on the pursuit of group advantage. It combines inputs about the characteristics of the bank holding company, characteristics of the subsidiaries’ businesses, the nature of rival groups, and future trends (see Fig. 1-2). These form the basis for group and portfolio decisions that will lead to group advantage.
1.4 TYPES OF INFLUENCE IN A BANK HOLDING COMPANY

Using the concepts in Goold, Campbell, and Alexander (1994), bank holding companies can be categorized in terms of four kinds of value created by the holding company and parent company:

- *stand-alone influence*, through which the holding company enhances the stand-alone performance of the business units;

- *corporate development activities*, which create value by altering the composition of the portfolio of business units;

- *linkage influence*, through which the holding company enhances the value of linkages between the business units; and
• *functional and services influence*, through which the holding company provides functional leadership and cost-effective services for the business units.

### 1.4.1 Stand-alone Influence

![Diagram](image)

**Fig. 1-3. Stand-alone Influence**

Source: Goold, Campbell and Alexander, 1994.

Stand-alone influence is about the holding company’s influence on the strategies and performance of each subsidiary in the holding company’s ownership. The holding company agrees with and monitors basic performance targets, raises money from capital markets and provides it to each subsidiary, and selects each subsidiary’s senior managers. These activities are powerful influences on the subsidiaries.

In this category, the likelihood that the holding company will destroy value is relatively high. Why should the managers of the holding company, during some
percentage of their time, improve on decisions being made by competent managers who are giving 100% of their efforts to the business?

1.4.2 Corporate Development Activities

Fig. 1-4. Corporate Development Activities

Source: Goold, Campbell and Alexander, 1994.

In addition to influencing the subsidiaries already in the portfolio, the holding company determines the composition of the portfolio itself. The holding company can buy or sell subsidiaries; it can create new businesses through corporate venturing; it can redefine businesses by merging subsidiaries or by separating them. In these activities, the holding company is doing more than influencing its existing subsidiaries; it is changing the businesses in its portfolio. Its initiatives in these corporate development activities can create or destroy value. This value is, in principle, distinct from the value that may
subsequently be created through ongoing influence of the holding company on subsidiaries that are brought into the portfolio.

However, why should the activities of subsidiaries beat the odds that appear to be stacked so heavily against them? In many cases, however, holding companies tend to overpay for acquisitions, support losing ventures, and redefine businesses poorly.

1.4.3 Linkage Influence

Fig. 1-5. Linkage Influence

Source: Goold, Campbell and Alexander, 1994.

The holding company seeks to create value by enhancing the linkages that exist between their different subsidiaries. Through corporate decision-making processes and structures, policies and guidelines, transfer pricing mechanisms, and personal pressure, holding companies encourage or mandate relationships between their subsidiaries that would not occur if the subsidiaries were independent companies. In this way, the holding
company aims to create value by making the "whole" worth more than the "sum of the parts." Whether all units benefit, or some benefit more than others, the purpose is to release net value for the company by affecting the ways in which the units link with each other. This objective is captured in the familiar notion of synergy.

The difficulty of value creation from linkage influence stems from another paradox. The managers of each subsidiary are free to link with other subsidiaries without involving the holding company, and indeed frequently do so. It is difficult to believe that the managers of the holding company could perceive linkage opportunities that had not already been perceived by energetic and enlightened subsidiary managers, especially those eager to preserve their own self-interests.

1.4.4 Functional and Services Influence

Fig. 1-6. Functional and Services Influence

Source: Goold, Campbell and Alexander, 1994.
A holding company’s primary exercise of influence typically lies with the chief executive and other senior management. However, the holding company also maintains a range of corporate staff functions and services. The holding company with such service functions can create value by providing functional leadership and cost-effective services for the subsidiaries’ businesses, as well as by assisting the management of subsidiaries in exercising stand-alone or linkage influence.

Such functions and services vary based on the size, cost, and influence of corporate staff. The functions of the holding company create value to the extent they bring about or contribute to beneficial influence. Obviously, the benefit to the subsidiaries must more than offset both the costs of maintaining the functions and the knock-on costs that the functions cause to be incurred in the subsidiaries. The staff of the holding company that provide services can also create value if the services are more cost-effective than the subsidiaries could provide for themselves or purchase from outside suppliers.

However, why should an in-house staff department be able to create value if specialist competitors are available to undertake similar tasks and services on a third-party basis? A specialist or external supplier stands or falls by its ability to provide the most responsive and cost-effective expertise in its chosen field, whether it be market research or strategic planning.
1.5 HOLDING COMPANY STYLES

Holding companies can also be categorized in terms of planning influence and control influence, based on concepts developed by Michael Goold and Andrew Campbell in “Strategy and Styles” (1987). Planning influence refers to the approach that the holding company takes to formulate plans, strategies, and budgets for the businesses. It varies from low influence (highly decentralized) to high influence (closely involved and influential).

Control influence refers to the holding company’s approach to the control process. At one extreme, the holding company places strong emphasis on achieving short-term financial targets (tight financial control); at the other extreme, the holding company is primarily concerned with strategic goals and underlying competitive position, and hence is more flexible about short-term financial targets (flexible control); in the middle, the holding company believes in tight control but endeavors to strike a balance between financial targets and strategic targets (tight strategic control).

There are three main holding company styles that are defined by planning and/or control characteristics:

- Strategic Planning Style.
- Strategic Control Style, and
- Financial Control Style.
Fig. 1-7. Style of Functions of a Holding company


1.5.1 Strategic Planning Style

a) Planning influence. Holding companies that implement a Strategic Planning style maintain a planning influence that keeps them closely involved with their businesses in the formulation of plans and decisions. They provide a clear overall sense of direction, within which their subsidiaries can develop strategies and take the lead on selected corporate development initiatives. For major decisions, they expect their subsidiaries to seek consensus with the holding company and other interested subsidiaries.

The holding companies usually have a large or powerful functional staff at the headquarters, including shared resources and service departments such as Marketing, Engineering, R&D. or Personnel. Strategic planning and capital expenditure review
processes are used to check the validity of business plans and as a vehicle for corporate suggestions, and resource allocation is driven by the requirements of agreed long-term strategies.

In most, but not all cases, Strategic Planning-style companies are highly involved in encouraging cooperation and coordination between subsidiaries, and they have structures with overlapping or matrix responsibilities and shared resources. Strategic Planning-style holding companies believe they are essential to helping their subsidiaries arrive at better plans and strategies and for developing new businesses for the group portfolio.

b) *Control influence.* The control process in Strategic Planning-style holding companies place top priority on the long-term health and development of the subsidiaries. Operating plans or budgets are seen as detailed quantifications of the first year of a subsidiary’s strategic plan, and performance against short-term financial targets is regarded as part of a wider overall assessment of performance. Consequently, formal monitoring of monthly financial results is de-emphasized, provided the holding company remains confident that the management of the subsidiaries is pursuing the right strategy. Typically, subsidiary managers are expected to identify with the group as a whole rather than with their specific business, and their rewards and incentives are based as much on group results and contributions as on business-specific performance.
c) *Businesses that Match the Strategic Planning Style.* Strategic Planning-style holding companies typically aim to contribute specialist knowledge and expertise from the holding company and its staff resources. Such companies bring about wide-ranging, more thorough debate about major decisions; encourage coordination and sharing between subsidiaries that might not otherwise occur; create a sense of shared purpose and commitment throughout the organization; and support a tenacious pursuit of long-term goals.

d) *Problems—and Mitigating Them.* Common criticisms of Strategic Planning-style holding companies are that central management interferes in the affairs of the subsidiaries: that decisions get bogged down in costly and time-consuming coordination processes; that control of results is too loose; and that corporate development activities are too ambitious.

Successful Strategic Planning-style holding companies therefore need to provide leadership from the center without interfering with the subsidiaries; to facilitate linkages between their subsidiaries without a costly coordination bureaucracy; to support long-term goals without loose control; and to invest aggressively in developing strong businesses without too much ambitiousness. It is necessary for the holding company and its staff to possess real expertise on the issues that it chooses to influence. It must establish decision processes, linkage mechanisms, and structures that do not lead to inflexible, costly, and
bureaucratic decision making; it should establish a control process that is long-term and strategic in orientation, but one that avoids looseness.

1.5.2 Financial Control Style

a) Planning influence. Financial Control-style holding companies are strongly committed to decentralization of planning. They structure their subsidiaries as stand-alone units with as much autonomy as possible, and with full responsibility for formulating their own strategies and plans. The holding company's primary roles are to insist that all decisions are owned by the subsidiaries and that proposals must meet required financial criteria. There is minimal staff at the holding company, and that is focused on group management support and financial control.

The planning process concentrates on annual budgets, which are seen as vital vehicles for testing and stretching the operating plans, especially the financial targets of each subsidiary. Capital investments, however, are carefully examined, with project-by-project approval dependent on expected financial returns, usually measured in terms of speed of payback. Different subsidiaries work together only if they see mutual benefit in doing so.
This approach to planning stems from the belief that the subsidiaries are in the
best position to make their own plans, and that the holding company should avoid
interfering except to establish required standards of bottom-line performance.

b) *Control influence*. In Financial Control-style holding companies, the control
process concentrates on financial targets and results. Once agreed, the financial targets
represent a vital contract for the subsidiaries, and no excuses are acceptable for
non-delivery. The holding company monitors actual results closely and frequently, and
exerts strong pressure on subsidiaries that are behind budget. The control process,
therefore, emphasizes the responsibility of each subsidiary for delivering the financial
results they have promised.

c) *Businesses that Match the Financial Control Style*. Financial Control-style
holding companies foster high motivation in subsidiaries, which feel strong ownership of
the strategies and results that their businesses achieve. Financial Control-style holding
companies challenge subsidiaries to set themselves higher and clearer standards for
profitability targets and operating effectiveness than they might otherwise propose. A third
important influence is the holding company’s swift reaction to deviations from budget,
which prevents complacency and weeds out weaker subsidiaries quickly. In the best
Financial Control-style holding companies, the subsidiaries are energized by clear success
criteria, by the freedom to do what is necessary to reach their targets, and by constant feedback on their performance.

d) *Problems—and mitigating them.* Critics of Financial Control-style holding companies charge that they focus so much on short-term financial goals that their subsidiaries are unlikely to have any long-term future; that they create an atmosphere of fear that discourages the subsidiaries; and that their group strategies do not provide long-term growth and renewal.

Successful Financial Control-style holding companies agree to targets that are a stretch for their subsidiaries without milking them. They establish a no-excuse culture without discouraging them. The holding companies aim for growth through acquisitions and subsequent restructuring rather than through organic development.

### 1.5.3 Strategic Control Style

a) *Planning influence.* Strategic Control-style holding companies decentralize planning to the subsidiaries but retain a role in checking and assessing what the subsidiaries propose. Subsidiaries are expected to take responsibility for developing strategies, plans, and proposals in a bottom-up fashion, but the holding company may sponsor certain themes, initiatives, or objectives, and will only sanction proposals that meet an appropriate balance of strategic and financial criteria. The strategic planning.
capital expenditure, and budgeting processes allow the holding company to question the assumptions behind the subsidiaries’ plans and to test the quality of thinking and projected financial and strategic objectives they propose. Subsidiaries are usually encouraged to work together to achieve synergy benefits, but within organization structures and responsibilities that stress subsidiary performance. Strategic Control-style holding companies believe in the benefits of decentralization but see their own role as ensuring that the subsidiaries’ plans are sound, and complementing those plans with suitable group development initiatives.

b) *Control Influence*. Strategic Control-style holding companies place high importance on financial objectives in the control process, but they also pay attention to strategic milestones and objectives. Ideally, the planning process includes a strenuous negotiation not only of financial targets but also of explicit strategic performance targets, or milestones, that can be measured with some precision as a basis for subsequent control. Results are regularly monitored, and performance against planned targets is very important. However, if circumstances change significantly after the plan was made, it is accepted that subsidiaries may not be able to deliver fully on their original targets and that a revised forecast may be needed. In this way, Strategic Control-style holding companies seek a balance between financial and strategic targets.
c) \textit{Businesses that match the Financial Control Style}. The Strategic Control style aims to achieve a balance between the features of the Strategic Planning style and the Financial Control style. It decentralizes decision making and encourages subsidiaries to feel responsible for their own businesses, but it also raises penetrating questions about the proposals put up by the subsidiaries and encourages them to work together if there is some benefit in doing so. It allows for long-term decisions without sacrificing a focus on short-term results. It seeks to raise standards and enhance motivation to deliver, both in terms of profitability targets and in terms of strategic goals and milestones.

d) \textit{Problems—and mitigating them}. The problem with the Strategic Control style is the danger of falling “between two stools”. This style may fail to promote close linkage with the Strategic Planning style, and also miss clear subsidiary performances arising from the Financial Control style. It may stress the importance of standing back from subsidiaries’ decisions, but still insist on asking questions about subsidiaries’ strategies that are sometimes not well informed. It lacks an unequivocal commitment either to short-term performance or long-term goals, and thus can confuse subsidiaries.

Therefore, it is important for Strategic Control-style holding companies to encourage some linkages between subsidiaries without losing focus on each subsidiary’s performance; to raise penetrating and constructive questions about subsidiaries’ strategies
that are based on real knowledge of the businesses; and to achieve a balance between strategic and financial objectives that avoids ambiguity.
CHAPTER TWO

Categorizing Bank Holding Companies

To determine the relationship between the characteristics of a bank holding company and the characteristics of the subsidiary businesses, I analyzed the organizations and structures of some bank holding companies.

I sorted the bank holding companies into a matrix defined by "characteristics of a bank holding company" and "characteristics of subsidiaries’ businesses", each consisting of two aspects: “services (businesses)” and “customer bases (markets)” This matrix is shown in Figure 2-1.

Fig. 2-1. Categorizing Bank Holding Companies

<table>
<thead>
<tr>
<th>Customer bases (Market/Location)</th>
<th>Single</th>
<th>Multiple</th>
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<tr>
<td>Single</td>
<td>Brands integration group Bank One, HSBC holding Plc.</td>
<td>(Merger)</td>
</tr>
<tr>
<td>Multiple</td>
<td>Diversified group Citigroup Inc. and ING N.V. Mizuho, MTFG, UFJ</td>
<td>Commercial banking group NB holdings Corp.</td>
</tr>
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Source: Author, 2002
When some banks offer services in the same market, they should not be owned by a bank holding company. They should merge, integrate the commonalities and systems, and reduce the number of employees in order to maximize group value.

2.1 INTEGRATED BRANDS GROUP

I examined two bank holding companies, Bank One and HSBC Holding Plc., and found that these banking holding companies both have banks as subsidiaries. These companies consider the value of the subsidiary banks' local reputations and brand name recognition, and based on that made a decision to maintain the banks as subsidiaries and not have them merge.

The organization structure and function of HSBC Holding Plc. and Bank One Corp. are discussed below.

2.1.1 HSBC Holding Plc.

a) Group Structure

HSBC Holding Plc. was established by Hongkong & Shanghai Banking Corp. in 1991, and thereafter acquired Midland Bank Plc. in 1992. The holding company does banking business in Asia under the name Hongkong & Shanghai Banking Corp. It also does business in England as Midland Bank and since 1999 as HSBC.
HSBC Holding Plc. is one of the largest banking and financial services organizations in the world. Through its global network of more than 5,000 offices in 80 countries and territories, HSBC provides commercial banking products and services to personal, commercial, corporate, and institutional clients. HSBC's principal banking products and services include deposits, lending and related services, treasury and capital markets operations (such as foreign exchange, bullion, primary debt issuance and eurobond trading), trade services, leasing, finance (including installment and invoice finance) and factoring, payments and cash management, insurance and custodial services.

b) Organization of the bank holding company
Board of directors

The board of directors consists of 22 directors of which the inside directors are thirteen. The Group Chairman is also Chairman of HSBC Bank Plc., HSBC USA Inc., and HSBC Bank Middle East. The Group Chief Executive is also Deputy Chairman of HSBC Bank Plc.. The other inside directors are also directors of the major subsidiary banks.

Senior Management
The bank holding company has 23 Group General Managers who are also executive officers of the major subsidiary banks.

Group Executive Committee

The Group Executive Committee meets regularly and operates as a general management committee under the direct authority of the Board. It consists of Group Chairman, Group Chief Executive, six inside directors and six Group General Managers. Six inside directors are also Chief Executive of HSBC Bank Plc., Chairman of Hongkong and Shanghai Banking Corp. and Hang Seng Bank Ltd., Chairman of HSBC Investment Bank Holdings Plc.. Six Group General Managers are also CEO of Hongkong and Shanghai Banking Corp., President & CEO of HSBC USA Inc., and General Managers of Corporate & Institutional Banking, Insurance, e-business and Credit & Risk.

Remuneration Committee

The Remuneration Committee meets regularly to consider human resource issues in the subsidiaries. The Remuneration Committee is comprised of three independent non-executive Directors.

Nomination Committee

The Nomination Committee nominates candidates to fill vacancies on the Board of Directors of the holding company. The members of the Nomination Committee are the Group Chairman and three independent non-executive Directors.
Groups

The bank holding company has 16 groups (divisions) and 600 employees who are sent by subsidiaries work for these divisions.

c) Management and control by the bank holding company

Authority to operate the various subsidiaries is delegated to their respective CEO within limits set by the Board of Directors of HSBC Holdings or by the Group Executive Committee under powers delegated by the Board. The appointment of executives to the most senior positions within HSBC group requires the approval of the Board of Directors of HSBC Holdings. Functional, operating, and financial reporting standards are established by the management of Group Head Office for application across the whole of HSBC. These are supplemented by operating standards set by the local management, as required for the type of business and geographical location of each subsidiary.

A strategic plan is prepared by major operating subsidiaries every three years. A strategic plan for the group is made by the Group Head Office based on the subsidiaries’ plan, and is approved along with the subsidiaries’ plans by the Board of Directors. Comprehensive annual financial plans are prepared by subsidiaries and reviewed and approved at Group Head Office. Results are monitored regularly and reports on progress as compared with the related plan are prepared throughout HSBC each quarter.
Responsibilities for financial performance against plans and for capital expenditure, credit exposures, and market risks exposures are delegated with limits to line management in the subsidiaries. In addition, the Group Head Office is given responsibility to set policies, procedures and standards in the areas of finance, legal and regulatory compliance, internal audit, human resources, credit risk, market risk, computer systems and operations, property management, and for certain global product lines.

Centralized functional control is exercised over all computer system developments and operations. Common systems are employed where possible for similar business processes.

System and procedures are in place in HSBC Holdings Plc. and subsidiaries to identify, control, and report on the major risks including credit, changes in the market prices of financial instruments, liquidity, operational error and fraud. Exposure to these risks is monitored by the Group Executive Committee for HSBC as a whole. Credit and market risks are measured and reported in subsidiaries and aggregated for review of risk concentrations on a group-wide basis.

The internal audit function, which is centrally controlled, complies with policies and standards and the effectiveness of internal control structures across the whole of HSBC. The head of this function reports to the Group Chairman and the Group Audit Committee.
2.1.2 Bank One

a) Group structure

Fig. 2-4. Group Structure of Bank One Corp.

Bank One Corp.

- Bank One, N.A. (Chicago)
- Bank One, N.A. (Columbus)
- Bank One, Michigan
- First USA Bank N.A.

Source: Author, based on annual report of Bank One Corp, 2000

Bank One Corp. is a unique bank holding company that concentrated on retail banking for local communities, making more than 100 bank acquisitions over the past thirty years. In 1998, it merged with First Chicago NBD Corp., to create the nation’s fourth largest banking company.

Bank One Corp. is a multibank holding company that provides domestic retail banking, finance and credit card services, worldwide commercial banking services, and trust and investment management services. Bank One operates banking offices in 14 states of the U.S., and in selected international markets. Bank One also engages in other businesses related to banking and finance, including credit card and merchant processing, consumer and education finance, mortgage lending and servicing, insurance, venture
capital, investment and merchant banking, trust, brokerage, investment management, leasing, community development and data processing.

b) Organization of the bank holding company

Fig. 2-5. Organization Structure of Bank One Corp.

Source: Author, based on annual report of Bank One Corp, 2000
Bank One group has a virtual organization structure beyond the legal structure.

**Board of Directors**

The Board of Directors of the bank holding company consists of 14 directors. Only the Chairman & CEO is an inside director who does not hold the other subsidiaries' directors. The Board of Directors has Executive Committee that consists of Chairman & CEO, and four outside directors; and Audit & Risk Management Committee; Organization, Compensation, & Nominating Committee; Public Responsibility Committee, that consists of only outside directors.

**Planning Group**

Under the Executive Committee, Bank One has a Planning Group that consists of Chairman & CEO, seven Corporate Staff function heads, and four Business Section heads.

**Corporate Staff**

Bank One Group has seven corporate staff functions: Strategy & Development, Finance, Technology & Operations, Human Resources, Corporate Audit, Corporate Risk Management, and Law, Compliance & Government Relations.

**Business Sections**

Bank One Group has four Business Sections: Retail Banking, Commercial Banking, First USA, and Investment Management. The head of First USA is also the legal President & CEO of First USA.
d) Management and control by the bank holding company

In the bank holding company, the Strategy & Development Group makes the group strategy plan. Then, in the Planning Group, Chairman & CEO, functional heads, and division heads discuss the group strategy plan. The Board of Directors of the bank holding company makes a decision about group strategy after discussions with the Executive Committee.

Except for group strategy, each subsidiary makes its own financial plans, marketing strategy, business plan, and product pricing in its local territory based on its previous and expected performance. The Strategy & Development Group aligns the financial plans of subsidiaries and businesses, and makes the group financial plan based on the subsidiaries’ plan. The Board of Directors of the bank holding company makes a decision of the group financial plan through the discussion of the Executive Committee and the Planning Group. The bank holding company focuses on the strategic issues, and subsidiaries focus on their markets and customers.

Overall risk management policies for the group are established by the Corporate Risk & Capital Committee, which reviews the group’s performance relative to these policies. The Corporate Risk & Capital Committee also sets the risk limits of each
business line based on these policies. It monitors and controls the group’s risk profile.

Corporate Risk Management assists Corporate Risk & Capital Committee.

Human Resources is responsible for diffusing best practices between subsidiaries through conferences and Bank One College, which provides high-level instruction to senior management of subsidiaries.

Technology & Operations is responsible for conversions of banking and credit card systems in the subsidiaries, building a single platform system for banking business, standardizing the sales and profitability platform, and for the customer information system.

2.2 DIVERSIFIED GROUP

I found that some bank holding companies, for example, Citigroup Inc. and ING N.V., have a commercial bank, securities company, and insurance company as their subsidiaries. These bank holding companies form a diversified financial services group.

The organization structure and function of ING N.V. and Citigroup Inc. are as follows.
2.2.1 ING Group

a) Group structure

Fig. 2-6. Group Structure of ING N.V.

Source: Author, based on annual report of ING N.V., 2000

In 1991, NMB Postbank Groep N.V. and Nationale Nederlanden (respectively the biggest bank and insurance company in The Netherlands) merged, and the holding company ING N.V. was established with both companies as subsidiaries. The purpose of this merger was to provide comprehensive financial services to customers of the bank and the insurance company. ING Bank N.V. (bank) and ING Verzekeringen (insurance company), which are approximately the same size, provide banking and insurance services to customers of each subsidiary each equal partners.

ING N.V. operates in more than 60 countries worldwide, and is one of the world's largest integrated financial service providers, offering a comprehensive range of life and non-life insurance, commercial and investment banking, asset management and related products and services. In 2000, ING N.V. acquire Aetna Financial Services and Aetna
International, thereby taking on Aetna’s international operations and all its domestic contribution plan businesses, annuities and mutual funds, financial and investment products, and investment advisory services. With this purchase, ING is ranked among the top ten financial services providers in the U.S.

b) Organization

**Fig. 2-7. Organization Structure of ING N.V.**

![Diagram showing the organization structure of ING N.V.]

Source: Author, based on annual report of ING N.V., 2000

**Supervisory Board**
The Supervisory Board of ING N. V. consists of thirteen directors. No more than one former member of the Executive Board can be appointed to the Supervisory Board. Former ING Executive Board members cannot be appointed chairman of the Supervisory Board by law. Under the Board of Directors, Remuneration & Appointment Committee, and Audit Committee are respectively made up with four of the members of the Supervisory Board.

**Executive Board**

The Executive Board consists of six senior managers: Chairman of the Executive Board, Chief Financial Officer, and four Chairmen of the Executive Committee of ING Europe, ING Americas, ING Asia/Pacific and ING Asset Management. The Executive Board is clearly separated from the Supervisory Board.

**Executive Committees**

ING Group’s operating segments relate to the internal business segmentation by four executive centers: ING Europe, ING Americas, ING Asia/Pacific, and ING Asset Management. Each executive center is headed by an Executive Committee, which consists of a member of the Executive Board and general managers of business units belonging to that executive center. The Chairman of the Executive Committee also holds a member of the Executive Committee.

**Corporate staff departments**
Under the Executive Committee, the bank holding company has nine departments as below and about 300 employees as their staff.

d) Management and control by the bank holding company

The Netherlands has a two-board system. Therefore, by law the bank holding company has a Supervisory Board and an Executive Board. The Supervisory Board supervises the policy of the Executive Board and the general course of events in the company, and also provides advice to the Executive Board. The Executive Board is responsible for the day-to-day management of the group and its four major divisions—ING Europe, ING Americas, ING Asia/Pacific, and ING Asset Management—which are called Executive Centers. Certain decisions of the Executive Board affecting ING Group as a whole, such as issuance or acquisition of shares, profit appropriation, major investments and capital expenditures and major changes in the working conditions of a substantial numbers of employees, require the approval of the Supervisory Board.

The Executive Board, supported by corporate staff departments, determines the group’s corporate strategy, prescribes solvency ratios and reserving levels, allocates resources, sets financial performance targets and risk profiles for the Executive Centers, appoints senior management, manages the group’s corporate image, establishes IT strategy, and monitors the realization of the objectives established for the group.
The Executive Committees formulate the strategic, marketing, and financial policy for the Executive Centers in conformity with the strategy and performance targets set by the Executive Board. Each Executive Committee also prepares the annual budget of its Executive Center. This budget is approved and monitored by the Executive Board. Each Executive Committee approves the strategy, marketing policy, and the annual budgets of the business units in its Executive Center and monitors the realization of the policies and budgets of that Executive and its business units.

2.2.2 Citigroup

a) Group structure

![Fig. 2-8. Group Structure of Citigroup Inc.]

Source: Author, based on annual report of Citigroup Inc., 2000

In 1999, Citicorp was one of the largest commercial banks in the world. At the same time, Travelers Group had an investment bank, Salomon Smith Barney, and an insurance company, Travelers. The two merged and the holding company Citigroup Inc.
was established, which now owns Citicorp, Salomon Smith Barney, and Travelers as its subsidiaries. The purpose of this merger was to provide comprehensive financial services to customers of the bank, the investment bank, and the insurance company.

Citigroup Inc. is a bank holding company that provides a broad range of financial services to consumer and corporate customers in over 100 countries and territories. Global Consumer delivers banking, lending and investment services. Global Corporate and Investment Bank provides corporations, governments, institutions and investors with financial products and services. The Global Investment Management and Private Banking is comprised of Citigroup Asset Management and The Citigroup Private Bank.

b) Organization of the bank holding company

Fig. 2-9. Organization Structure of Citigroup Inc.
Citibank group has a virtual organization structure beyond the legal structure.

**Board of Directors**

The Board of Directors of the bank holding company consists of 17 directors of which only two are inside directors: the Chairman & CEO, and his adviser. The inside directors are not directors for any other subsidiaries.

**Management Committee**

Management Committee consists of Chairman & CEO, an inside director from the bank holding company, and 15 senior management including heads of five planning groups.

**Salomon Smith Barney International Advisory Board**

The Salomon Smith Barney International Advisory Board consists of outside top management from global companies and experts who report to and advise the Executive Board.

**Planning Groups**

Citigroup divides its business into five Business Groups – Consumer, Corporate & Investment Bank, Emerging Markets, Global Investment Management & Private Banking, and Insurance – and sets five Planning Groups, respectively. Each Planning
Group consists of the major subsidiaries’ top management and the head of corporate staff from each business group. The head of each Planning Group also holds the top management of a major subsidiary that belong to that business group.

**Senior Corporate Officers**

Citigroup has 26 senior corporate officers as corporate staff. They are responsible for the group’s corporate functions as below.

Corporate Strategy, Operations & Technology, Finance, Controller, Treasury, Tax & Accounting, Global Community Relations, Risk Management, Business Services, Citigroup Mergers & Acquisitions, General Council, Diversity, Audit, Corporate Secretary, Investor Relations, Corporate Affaires & Human Resources, Government Relations & Corporate Services, e-Citi

d) **Management and control by the bank holding company**

In Citigroup, most of the responsibility for the business groups is delegated. Each planning group makes its own strategy and financial plans for its business group. Corporate staff functions other than Risk Management, which is led by Senior Corporate Officers, mainly consolidate financial plans and reports of the business groups and develop group strategy based on the business groups’ strategy.
The risk management functions at the group level establish Citigroup risk management standards for the measurement, approve, report and limit risk, appoint independent risk managers at the business-level, approve business unit risk management policies, approve business risk-taking authority through the allocation of limits and capital, and review, on an ongoing basis, major risk exposures and concentrations across the organization. The Citigroup Senior Risk Officer reviews material group-wide risks, and determines appropriate exposure levels and limits. Risks are regularly reviewed with the Senior Risk Officer, the Management Committee, and as necessary, with the Board of Directors.

2.3 COMMERCIAL BANKING GROUP

I also found that bank holding companies have a large commercial bank, a small securities company, and an insurance company as subsidiaries. The securities company and insurance company sell securities and insurance services to the bank’s customers. Actually, they seem to be subsidiaries of the bank.

2.3.1 Bank of America Corp.

a) Group Structure
Bank of America Corp. is a bank holding company comprised of two banks. Bank of America and Nations Bank, which merged in 1997. From that standpoint, Bank of America Corp. can be considered a brands integration group. However, a subsidiary of Bank of America Corp., NB Holdings Corp., is a holding company that has Nations Bank, Nations Insurance, and Nations Montgomery Holdings (a holding company of a securities company).

Bank of America Corp. is a bank and financial holding company. Through its banking subsidiaries and various non-banking subsidiaries, the company provides a diversified range of banking and non-banking financial services and products, primarily throughout 22 states of the U.S., and in selected international markets.
NB Holdings Corp. also has a large commercial bank, a small securities company, and an insurance company that sells securities and insurance services to the bank’s customers.

b) Functions of NB Holdings Corp

Basically NB Holdings Corp. is a paper (shell) company that does not have actual functions. The directors of Nations Bank are also directors of NB Holdings Corp. and Nations Bank takes over the function of its holding company NB Holdings Corp. Then, the other subsidiaries of NB Holdings Corp. are actually the subsidiaries of Nations Bank. Under the strategy of Nations Bank, they work for selling securities and insurance services to Nations Bank’s customers.
CHAPTER THREE

Japanese Bank Holding Companies

In Japan, three major banking groups established bank holding companies in 2000 and 2001: Mizuho Holdings, Mitsubishi Tokyo Financial Group, and UFJ Holdings. The organizations and functions of each bank holding company are described below.

3.1 MIZUHO HOLDINGS, INC.

3.1.1 Group Structure

Fig. 3-1. Group Structure of Mizuho Holdings

![Diagram of Mizuho Holdings structure]

Source: Author, based on a press release of Mizuho Holdings, Oct. 11, 2001

In 1999, three major banks—The Dai-Ichi Kangyo Bank, The Fuji Bank, and The Industrial Bank of Japan—jointly established a bank holding company called Mizuho
Holdings, and the three banks became subsidiaries to the holding company. In 2002, under Mizuho Holdings, the three banks were consolidated and reorganized into Mizuho Bank, whose customer base consists primarily of individuals and domestic companies, and Mizuho Corporate Bank which primarily serves large corporations. At the same time, Mizuho Trust and Mizuho Securities, which had been subsidiaries of the three banks, also became direct subsidiaries of Mizuho Holdings as a result of the corporate split.

3.1.2 Organization

Fig. 3-2. Organization Structure of Mizuho Holdings

Source: Author, based on a press release of Mizuho Holdings, Oct. 11, 2001
Board of Directors

There are nine directors on the Board of Directors. Four directors are also Executive Officers of the bank holding company, including the President & CEO. The other five directors do not serve as an Executive Officer of the bank holding company, including the President & CEO of Mizuho Bank, the President & CEO of Mizuho Corporate Bank, and three outside directors.

Nominating Committee

The bank holding company has a Nominating Committee as an advisory body for the Board of Directors. It nominates candidates for directors of the bank holding company and its subsidiaries under the management of the bank holding company.

Executive Officers

The Executive Officers are the President & CEO, Deputy Presidents who concurrently serve as directors, and other Executive Officers who are non-directors and are responsible for specific business areas and entrusted with execution of duties. The President & CEO manages the entire group according to fundamental management policies determined by the Board of Directors.

Executive Management Committee

The Executive Management Committee serves as an advisory body for the President & CEO. The Executive Management Committee consists of the President &
CEO, Deputy Presidents, and the Executive Officers in charge of the group that includes Planning and Administration Headquarters, the President & CEO of Mizuho Bank, and the President & CEO of Mizuho Corporate Bank. Where necessary, the President & CEO of Mizuho Securities and Mizuho Trust & Banking also participate in the Committee’s meetings.

**Board of Corporate Auditors**

The Board of Corporate Auditors is comprised of six corporate auditors, including three outside auditors.

**Business Policy Committees**

Business Policy Committees serve as forums for discussion and coordination of company-wide issues of concern to the Executive Officers. The President & CEO vest some of the Committees with decision-making authority.

The Committees include: Planning & Financial Control Committee, Portfolio Management Committee, ALM & Market Risk Committee, IT Strategy Committee, Global Strategy Committee, and MHFG Synergy Promotion Committee.

**Internal Audit & Compliance Committee**

The Internal Audit & Compliance Committee is an internal audit function under the President & CEO. The Committee, which is independent of the business operations.
utilizes its extensive checking and verification functions to ensure that business operations are carried out in an appropriate manner from the standpoint of compliance and audit.

**Planning & Administration Headquarters**

Planning & Administration Headquarters consists of the Strategic Planning Group, Financial Control and Accounting Group, Risk Management Group, Human Resource Group, IT, Systems & Operations Group, and Audit and Compliance Group.

Each group is responsible for planning and supervising group subsidiaries. Specifically, each group develops group strategies for managing the business portfolio, manages group companies through business performances evaluation, risk management and compliance monitoring, and plans, promotes, and coordinates group synergy strategies.

### 3.1.3 Functions of the Bank Holding Company

The functions of the bank holding company are the following:

- Plan and develop group strategies
- Manage the business portfolio
- Manage group companies through business performance evaluation
- Risk management and compliance monitoring
- Raise capital for the group
3.2 MITSUBISHI TOKYO FINANCIAL GROUP

3.2.1 Group Structure

Fig. 3-3. Group Structure of Mitsubishi Tokyo Financial Group

Source: Author, based on a press release of Bank of Tokyo-Mitsubishi, Sep. 13, 2000


In 2003, Mitsubishi Tokyo Financial Group will acquire Kokusai Securities which is the fourth-largest securities company in Japan, and merge it with Tokyo-Mitsubishi Securities, a subsidiary of The Bank of Tokyo-Mitsubishi, which will
establish Mitsubishi Securities as a direct subsidiary of Mitsubishi Tokyo Financial Group.

3.2.2 Organization

Fig. 3-4. Organization Structure of Mitsubishi Tokyo Financial Group

Source: Author, based on a press release of Bank of Tokyo-Mitsubishi, Sep. 13, 2000

Board of Directors

The Board of Directors consists of eleven directors, nine of which are inside directors. The Chairman, President & CEO, and three senior managing directors (Chief Planning Officer, Chief Financial Officer, and Corporate Risk Management Officer) are
the five representative directors. The Chairman of the holding company is also President & CEO of Mitsubishi Trust & Banking Corp., and the President & CEO of the holding company is also President & CEO of Bank of Tokyo-Mitsubishi. The inside directors came from both banks. Five of them are also directors of both banks.

**Executive Committee**

The Chairman, President & CEO, and the above three senior management directors form the Executive Committee under the approval of the Board of Directors.

**Committees**

There are four main committees: Management Planning Committee, Business Planning Committee, Corporate Risk Management Committee, and Audit & Compliance Committee, which report to and advise the Executive Committee. The committees are comprised of the directors and senior managers of the holding company and both banks.

**Compliance Advisory Committee**

The Compliance Advisory Committee is made up of outside professionals, including lawyers and certified public accountants, to ensure the strength and adequacy of the group’s compliance structure.

**Advisory Board**

The Advisory Board, which consists of outside experts, reports to and advises the Executive Board.
Board of Corporate Auditors

The Board of Corporate Auditors consists of five persons including two external corporate auditors.

Divisions

The group’s staff functions are organized into the Corporate Administration Division, Corporate Policy Division, and Financial Policy Division, and its risk management functions into the Corporate Risk Management Division, and Audit & Compliance Division. These divisions have about ninety employees who are sent by the subsidiaries.

3.2.3 Functions of the Bank Holding Company

The functions of the bank holding company are as following:

- Coordinate the corporate strategies of the subsidiaries and develop group strategy

- Accelerate cross-selling between The Bank of Tokyo-Mitsubishi, The Mitsubishi Trust & Banking Corp., and Mitsubishi Securities

- Risk management and compliance monitoring

- Raise capital for the group.
3.3 UFJ GROUP

3.3.1 Group Structure

Fig. 3-5. Group Structure of UFJ Holdings

Source: Author, based on a press release of UFJ Holdings, Oct. 4, 2000


jointly established a bank holding company called UFJ Holding Inc., and thereafter The

Sanwa Bank and The Tokai Bank merged under UFJ Holding Inc.. Sanwa Securities and

Tokai Securities, which were subsidiaries of The Sanwa Bank and The Tokai Bank,

respectively, merged under UFJ Bank and became UFJ Securities.

3.3.2 Organization
Fig. 3-6. Organization Structure of UFJ Holdings


**Board of Directors**

The Board of Directors consists of twelve directors. Three are executive directors and three non-directors are outside directors.

**Committees**
UFJ Holdings has a Nominating Committee, Compensation Committee, and Group Auditing Committee as an advisory body for the Board of Directors.

Executive Officers

There are eleven Executive Officers who are non-directors responsible for specific business areas and entrusted with the execution of duties.

Executive Committee

The Executive Management Committee is an advisory body for the President & CEO. The Executive Committee consists of the President & CEO, two Director & Executive Officers, other Executive Officers (non-directors), the President & CEO of UFJ Bank, and the President & CEO of UFJ Trust Bank.

Board of Corporate Auditors

The Board of Corporate Auditors consists of five corporate auditors, including two outside auditors.

Headquarters

The bank holding company has Planning & Administration Units and Business Units as its headquarters.

The Planning & Administration Units consist of six units: (Group Management, Group Strategy Planning, Risk Management, Compliance, System & Operations, and
Human Resources & General Affairs) which perform the overall planning and business administration for the group.

There are six business planning units: Corporate Banking Business, Retail Banking Business, Global Banking & Trading Business, Trust Business, Asset Management Business, and Securities & Investment Banking Business Unit. These units are responsible for strategic planning and management for the respective businesses.

In the future, the functions of the Corporate Banking Business Unit, Retail Banking Business Unit, Global Banking & Trading Business Unit, and Trust Business Unit will be transferred to the subsidiary banks, and the bank holding company will approve their business plans and evaluate them.

### 3.3.3 Functions of the Bank Holding Company

The functions of the bank holding company are as following:

- Plan and develop group strategies
- Plan, and coordinate group synergy strategies.
- Manage group companies through business performance evaluation
- Risk management and compliance monitoring
- Raise capital for the group
CHAPTER FOUR

Types of Value Creation and Style

4.1. TYPES OF VALUE CREATION AND STYLE IN AMERICAN AND EUROPEAN BANK HOLDING COMPANIES

I have created a matrix which shows the value creation influences together with the style influences, thus enabling me to place each bank in this study in the appropriate position based on weak/strong and centralized/decentralized. The bank holding companies are located in the matrix as follows.

Fig. 4-1. Types of Creating Value and Styles of Functions of Bank Holding Companies

Source: Author, 2002
4.1.1 Single Service/ Multi-Customer Bases

This type of group is useful when a strong brand name is involved. It enables the subsidiary banks to offer commercial banking services to markets where they already have strong brand recognition. Instead of having the subsidiary banks merge, the bank holding company integrates the back offices and systems of the commercial bank, with the result that the group gains far more efficiency than if the subsidiary banks had merged. In addition, the bank holding company supports the subsidiary banks, thereby enabling them to take full advantage of their brands in each market and to exchange best practices that maximize group value.

Example. In the case of HSBC, since the major subsidiaries are located in England and Asia, the holding company allows them to develop their own initial strategic plans based on their respective markets. However, the holding company sets policies, procedures, and limits in the major functional areas, and exercises centralized functional control over all computer system development and operations. The holding company plays a considerably centralized role in the group. HSBC is characterized by the “Strategic Planning” type of holding company and it creates value through “linkage influence” and “functional service influence.”

Example. In the case of Bank One, its subsidiaries focus on their markets and customers, and the holding company focuses on strategic issues. Each subsidiary
develops its own financial plans, marketing strategies, business plan, and product pricing in its local territory based on past and future expected performance. On the other hand, the Strategic & Development Group in the holding company develops strategic plans to align the subsidiaries and their businesses. The holding company concentrates on diffusing best practices between subsidiaries through conferences and Bank One College. It is also developing a common banking system platform. Bank One is characterized as a "Strategic Planning" type holding company and it creates value through "linkage influence" and "functional service influence."

### 4.1.2 Multi-Services / Multi-Customer Bases

This type of group in a bank holding company commonly has a commercial bank, a securities company, and an insurance company, each with their own customer bases and each sells its services to their customers. The bank holding company helps these subsidiaries to exchange customer information, facilitates communication between the subsidiaries, and accelerates cross-selling to exploit each customer base and maximize the group value.

*Example.* ING has a relatively decentralized structure. Although final approval is required from the Executive Board of the holding company, the Executive Committees (which consist of senior management from the subsidiaries) develop strategic, marketing,
and financial policies for their own executive centers and prepare budgets that align with the strategic plans of the holding company. The Executive Centers are generally divided geographically, and include a commercial bank and insurance company in each area. The holding company encourages the subsidiaries to cross-sell to the executive centers, and to create synergies wherever possible. ING is characterized as a “Strategic Control” type of holding company, and it creates value through “linkage influence.”

**Example.** Citi Group has a very decentralized structure. Basically, all the Business Groups are delegated. Each Planning Group makes its own strategy and financial plans for its Business Group. Corporate staff functions (except Risk Management) consolidate financial plans and reports of the business groups, and devise group strategy based on the Business Groups’ strategies. However, the Chairman & CEO, who is the only inside director besides his adviser, has enormous power to appoint and replace directors of subsidiaries as a representative to the holding company and its shareholders. This power acts as a strong constraint on the Business Groups. The Business Groups are divided by customer segments, and include related business functions regardless of which subsidiary the functions belong to. The business functions are encouraged to cross-sell in the customer segments and to create synergy effects. Citi Group is characterized as a “Financial Control” type of holding company, and it creates value through “linkage influence.”
4.1.3 Multi-Services / Single Customer Base

In this type of bank holding company, a large commercial bank is at the center of its subsidiaries and other financial service subsidiaries, which do not have their own customer bases, offer their services to the commercial bank's customers. From the point of view of efficiency, the bank holding company should not have its own functions and staff. Instead, the commercial bank takes over the actual planning of group strategy in order to maximize group value. Alternatively, the commercial bank has other financial service companies as subsidiaries instead of the bank holding company's subsidiaries.

*Example.* In Nations Bank Group, the commercial bank subsidiary also functions as the holding company. The Strategic Planning Group in the commercial bank subsidiary develops strategies for and supports the other subsidiaries. Nations Bank Group is characterized as a "Strategic Planning" type holding company, and it creates value through "functional service influence."
4.2 TYPES OF VALUE CREATION AND STYLE IN JAPANESE BANK HOLDING COMPANIES

4.2.1 Current Situation

The three major Japanese financial groups each have a commercial bank, a trust bank, and a securities company as subsidiaries. They also intend to diversify their financial group. Their customers do not overlap, and they are the Multi Services/Multi Customer Bases type. They have some functions in the bank holding companies to encourage their subsidiaries to cross-sell and to pursue synergy effects. Each is now in the process of reorganizing or merging under a bank holding company, or acquiring a securities company. All are characterized as the “Corporate Development” and “Linkage influence” type.

All three financial groups are ones where a few commercial banks merged and restructured their former groups. Japanese commercial banks tend to have strong strategic planning functions. In addition, since they are reorganizing the group, the strategic planning functions of the holding company will be strengthened.

In UFJ Group, the core strategic planning functions that were formerly in the subsidiaries bank have now been moved to the bank holding company. The holding company actually develops both the group’s strategy and the subsidiaries’ strategy. UFJ Group is a strongly centralized “Strategic Planning” type of holding company.
In Mizuho Group, the strategic planning function within the holding company develops group strategy, then the subsidiaries develop their own strategy which aligns with the group strategy. Mizuho Group is a "Strategic Planning" type holding company.

In Mitsubishi Tokyo Financial Group, the strategic planning function of the bank holding company focuses on coordinating the subsidiaries' strategies and conflicts. Mizuho Group is a "Strategic Control" type holding company.

4.2.2 Suggestions for the Future

a) Autonomy to the Subsidiaries

Each diversified group has subsidiaries with quite different business models, key success factors, cultures, and management structures. Thus, it is harder when the holding company has centralized power and controls the group. In order to maximize value creation, the holding company should delegate as much decision-making power as possible to its subsidiaries. On the other hand, in order to maintain pressure on the subsidiaries, the holding company should retain its strong power to appoint and replace subsidiary directors as representatives to the holding company and its shareholders. To do this, top management should not be subsidiary directors.

The various subsidiaries will work together only if they see mutual benefit in doing so. This approach to planning stems from the belief that the subsidiaries are in the
best position to make their own plans, and that the holding company should avoid interfering except to establish required standards for bottom-line performance.

b) Segmented by Customers

Under the holding company, the business groups should be divided by customer segments, and should include the business functions regardless of which subsidiary the functions belong to. They would naturally encourage the business functions to cross-sell in the various customer segments. People in each subsidiary would be free to link with other subsidiaries without involving the holding company, and indeed frequently do so now. They would set strategies based on mutual self-interest on the part of energetic and enlightened subsidiary managers.
CHAPTER FIVE

Conclusion

This thesis has examined the functions of a bank holding company that has subsidiaries that offer financial services effectively and which maximize the total group value.

First, I examined the various roles a holding company can play to create value: Stand-alone Influence, Corporate Development Activities, Linkage Influence, and Functional Influence. I also examined the role of corporate headquarters using two axes: “strategic control” and “financial control”; and Strategic Planning Style: Strategic Control Style; and Financial Control Style.

Second, I sorted the bank holding companies into a matrix defined by “characteristics of a bank holding company” and “characteristics of subsidiaries’ businesses”, each consisting of two aspects: “services” and “customer bases.” I categorized three types of bank holding companies; Brands integration group (multi-customer base and single service); Diversified group (multi-customer base and multi-service); and Commercial banking group (single customer base and multi-service). Then,
I examined the organization and management structure of some of the world’s leading bank holding companies in each category.

Next, I examined three major Japanese bank holding companies; Mizuho, Mitsubishi Tokyo Financial Group, and UFJ. I showed their group structure; organization structure; and their functions as a bank holding company.

Finally, I created a matrix that shows the value creation influences together with the style influences, thus enabling me to place each bank in this study in the appropriate position based on weak/strong and centralized/decentralized. The Brands integration group is characterized as a “Strategic Planning” type holding company and it creates value through “linkage influence” and “functional service influence.” The Diversified group is characterized as a “Strategic Control” or “Financial Control” type of holding company, and it creates value through “linkage influence.” The Commercial banking group is characterized as a “Strategic Planning” type holding company, and it creates value through “functional service influence.”

The three major Japanese groups are part of the Diversified group. Each is now in the process of reorganizing their own group. All are characterized as the “Corporate Development” and “Linkage influence” type. Japanese bank holding companies have a tendency to be a centralized “Strategic Planning” or “Strategic Control” type. However,
each diversified group has subsidiaries with quite different business models, key success factors, cultures, and management structures.

In order to maximize value creation, the holding company should delegate as much decision-making power as possible to its subsidiaries, and retain its strong power to appoint and replace subsidiary directors. In addition, under the holding company, the business groups should be divided by customer segments, and should include the business functions regardless of the subsidiary to which the functions belong. They would naturally encourage the business functions to cross-sell in the various customer segments.
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