# What Contribute to Success and Failure of Diversified Financial Institutions: A Case Study

Li, Yuhua

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# What Contribute to Success and Failure of Diversified Financial Institutions: A Case Study

Yuhua Li



## 1 . Introduction

Due to the technology innovation, macroeconomic development, globalization, picky customers, and deregulation, financial institutions face high competitive pressure (Harker & Zenios, 1998; Rogers, 1993). Especially in the recently decades, under these high competitive pressures, some financial institutions fail, some succeed, and others just survive. Therefore, the question that what contribute to financial institutions' success and failure is very interesting. The research on what contribute to these outcomes can guide other financial institutions avoid failures, provide some suggestions and implications for the government policy maker, and provide a different research perspective for academic researchers on financial institutions.

Therefore, this paper tries to study U.S. financial institutions in the recent decade to explore what account for winners and losers of financial institutions from managerial strategic perspective. Because the financial institutions in America face almost the similar governmental regulation, economy trend, consumers, and other competitive environment, this paper chooses the diversified financial institutions in U.S.

In section 2, this paper describes the interpretive framework, literature review, and initial hypothesis of the case study. Next section is the data collection to describe and compare the performance of the four financial institutions. In section 4, this paper systematically analyzes the four diversified financial institutions. From the analysis of section 4, findings and discussion are given in section 5. In the concluding section, conclusion and further implication of this paper are given.

## 2. Research Design

### 2.1 Interpretive Framework

For many years both researchers and practitioners have attempted to learn why some organizations achieve higher-level of performance than other organizations. Thomson (1967), and Schendel & Hatten (1972) suggest that the success of an enterprise seldom depends upon a single factor. Also, empirical studies generally employ either a single variable or relationships between two variables to explain variations in organizational performance (Lenz, 1980).

There are some frameworks to analyze what contribute to performance. Rogers (1993) employs the McKinsey's organization analysis approach, 7-S framework, which can be best understand in terms of the interaction of their structure, strategy, systems, style, skills, staff, and super ordinate goals. Harker & Zenios (1998) classify the factors which affect the financial institution performance into three abroad classes 1) strategy, 2) execution of strategy, and 3) the environment. Lenz (1980) considers environment, strategy, and organization structure all affect performance. Ireland, Hoskisson, & Hitt (2007) give a framework from strategy process management perspective to earn above-average profit. In their framework, the external environment and internal organization factors would affect mission and vision of a firm, and then affect the strategy formulation and strategy implementation, and finally affect the performance.

In the recent decade, financial institutions in U.S. face similar external environment, how financial institutions' strategies, executive compensation, culture, and leadership adapt the turbulent environment and affect the performance of financial institutions? Therefore, the relationship between strategies, incentive compensation, culture, and leadership and diversified financial institution's performance would be studied in this paper. Especially, how these factors account for their success or failure?

### 2.2 Literature Review

In the existing literatures, many papers study what would affect the performance of financial institutions. The influence of M&A strategy on outcomes of financial institutions is also been studied (Cornett & Tehranian, 1992; DeYoung & Roland, 2001; Rhoades, 1998; Spindt & Tarhan, 1992; Stiroh, 2004; Stiroh & Rumble, 2006). The corporate governance issues on incentive compensation are extensively studied by (Abowd, 1990; Ang & Constand, 1997; Hogan & McPheters, 1980; Kato & Long, 2006; Mehran, 1995). And much empirical research has largely been on the functionalist perspective with impressive evidence on the role of organizational culture for firm outcomes (Denison & Mishra, 1995; Gordon & DiTomaso, 1992; Kotter & Heskett, 1992). And actual influence of leaders on organizational outcomes is studied (Day & Lord, 1988;

Fiedler, 1996; Kaiser et al., 2008; Meindl & Ehrlich, 1987). However, they just study the correlation between one factor and the performance of financial institutions. Few researchers study more than one factor interactively impact financial institutions. One of them, Roger (1993) systematically analyzes four U.S. financial institutions in 1980s to find out what make them winner or loser. But the object of the research is about 1980's financial institutions.

### 2.3 Initial Hypothesis

Based on above literature review, this paper gives some initial hypothesis on what kind of factors affecting the performance of financial institutions.

H1: The results of expanding strategy or M&A strategy on performance are mixed with success and failure.

Research suggests that perhaps 20 percent of all M&A strategies are successful, approximately 60 percent produce disappointing results, and the remaining 20 percent are clear failures[1)].

H2: Incentive compensation in U.S. financial service industry is performance-based.

Compensation in the form of pay, bonuses, stock options and other benefits can be linked to the achievement of targeted goals. Since compensation influences employee attitudes and organization performance, companies have grown increasingly sophisticated about mixing various compensation elements to attain targeted goals. Most of financial institutions use basic salary and bonus, stock bonus or cash bonus, to motive employees. Basically, high compensation means to produce high performance.

H3: Strong corporate culture can create a higher corporate performance.

Many academics and practitioners argue that the performance of an organization is dependent on the degree to which the values of the culture are widely shared, that is, are strong (Deal & Kennedy, 1982; Kotter & Heskett, 1992). If an organizational posses "strong culture" by exhibiting a well-integrated and effective a set of specific values, beliefs, and behavior patterns, then it will perform at a higher level of productivity (Denison, 1984).

H4: Leadership plays an important role in success or failure of a company.

Leadership has been described as the "process of social influence in which one person can enlist the aid and support of others in the accomplishment of a common task"[2)]. Therefore, what the process does relates to the performance of the common task. Fiedler (1996) has provided a recent treatise on the importance of leadership by arguing that the effectiveness of a leader is a major determinant of the success or failure of a group, organization, or even an entire country. And, the link between personality, type, behavior of a leader and the performance of a company

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1) Schmidt J. A. (2002). Business perspective on mergers and acquisitions.
2) Chemers, M. M. (2002). Cognitive, social, and emotional intelligence of transformational leadership: Efficacy and Effectiveness. In R. E. Riggio, S. E. Murphy, F. J. Pirozzolo (Eds.), Multiple Intelligences and Leadership.

has attracted considerable interest from both academics and practitioners.

## 3. Data and Performance Comparison

Some financial indicators in the recent decade and numerous other sources are also used in the case study. These financial indicators include net income, total asset, ROA, ROE, and stock price changes. These other sources include company annual reports, national and major local newspapers, general business periodicals, banking industry periodicals, and industry (and financial) newsletters and reports. These information sources are regarded as particularly important in helping to explain whatever findings emerge from the individual studies. That is, these are the sources that should be useful in making informed judgments as to what contribute to the success and failure of financial institutions.

### 3.1 Why These Four Financial Institutions?

In U.S. there are four diversified financial institutions which are Citigroup Incorporation (Citigroup), Bank of America Corporation (BofA), JPMorgan Chase & Company (JPMorgan), and Wells Fargo & Company (Wells Fargo). Four financial institutions are obviously a small sample of an industry in one country which embraces several kinds of financial institutions: commercial banking, investment banking, asset management, and insurance. But the four are important because they are diversified and include most business of the industry. They have simply begun the process earlier than others, having been affected earlier and more markedly by industry changes. They are highly sensitive to larger industry forces to which they and many other banks have had to adapt through changes in strategy and organization.

### 3.2 Performance

Two profitability or, more precisely, rate-of-return measures are analyzed (Rhoades, 1998). One is the ratio of net income to average asset (ROA), and the other is the ratio of net income to equity (ROE). This is an indicator of profitability and a good overall indicator of a banking organization's performance. This ratio illustrates the ability of a firm to generate profits from the assets at its disposal. The net income to equity ratio is used as an alternative measure of profitability and is designed to reflect the return to owners' investment.

Table 1 and 2 shows the net income and total asset of the 4 financial institutions. Table 3 shows the ratio of ROA and ROE of the four companies. In 2008, net income, ROA, ROE of the four financila institutions all declined greatly. Citigroup is the worst one, and its net income, ROA and ROE are negative in 2008. Obivously, Wells Fargo and JPMorgan perform better in the four, and Citigroup and BofA perform worse in the four.

Table 1 Net income of financial institutions

| | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 |
|---|---|---|---|---|---|---|
| Citigroup | 17,046 | 24,589 | 21,538 | 3,617 | (27,684) | (1,606) |
| BofA | 14,143 | 16,465 | 21,133 | 14,982 | 4,008 | 6,276 |
| JPMorgan | 4,466 | 8,483 | 14,444 | 15,365 | 5,605 | 11,728 |
| Wells Fargo | 7,014 | 7,671 | 8,420 | 8,057 | 2,655 | 12,275 |

Note: All the data is measured by million dollars.
Source: The data is from the each company's annual report and financial release.

Table 2 Total asset of financial institutions

| | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 |
|---|---|---|---|---|---|---|
| Citigroup | 1,484,101 | 1,494,037 | 1,884,318 | 2,187,480 | 1,938,470 | 196,000 |
| BofA | 1,110,457 | 1,291,803 | 1,459,737 | 1,715,746 | 1,817,943 | 2,223,299 |
| JPMorgan | 1,157,248 | 1,198,942 | 1,351,520 | 1,562,147 | 2,175,052 | 2,031,989 |
| Wells Fargo | 427,849 | 481,741 | 481,996 | 575,442 | 1,309,639 | 1,243,646 |

Note: All the data is measured by million dollars.
Source: The data is from the each company's annual report and quarter financial release.

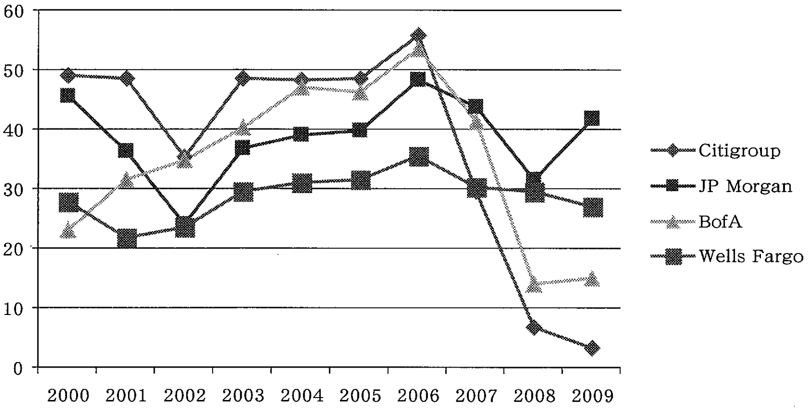
Table 3 Comparision of ROA and ROE

| Company | ROA (%) | | | | | | ROE (%) | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 |
| Citigroup | 1.20 | 1.64 | 1.28 | 0.17 | (1.44) | 0.96 | 17.0 | 22.4 | 18.8 | 2.9 | (28.8) | --- |
| BofA | 1.34 | 1.30 | 1.44 | 0.94 | 0.22 | 0.26 | 16.47 | 16.51 | 16.27 | 11.08 | 1.80 | --- |
| JPMorgan | 0.46 | 0.72 | 1.04 | 1.06 | 0.21 | 0.58 | 6 | 8 | 12 | 13 | 2 | 6 |
| Wells Fargo | 1.71 | 1.72 | 1.75 | 1.55 | 0.44 | --- | 19.56 | 19.59 | 19.65 | 17.12 | 4.79 | --- |

Note: "---" is not released now.
Source: The data is from each company's annual report and quarter financial release.

Citigroup and BofA's stock price declined greatly during the Subprime Crisis which is shown in Figure 1. However, JPMorgan increased a lot in 2009. Citigroup went on decling. BofA and Wells Fargo keep almost the same level in 2009. The four companies all have the subprime related business, real estate mortgage, but stock price of Citigroup declines much, but Wells Fargo doesn't decline so much. Why the performance of the four distinguishes greatly?

Figure 1　Stock price of four financial institutions from 2000-2009




Note: Stock price is the year end data and it is from each company's official website.
Source: This study.

### 3.3 Troubled Asset Relief Program

The Troubled Asset Relief Program, commonly referred to as TARP, is a program of the United States government to purchase assets and equity from financial institutions to strengthen its financial sector. It is the largest component of the government's measures in 2008 to address the subprime mortgage crisis. The main stipulation in TARP was to help troubled assets related to residential mortgages and all obligations as such. The U.S. Treasury Department respectively transferred $45 billion, $25 billion, $45 billion, and $25 billion of U.S. funds to Citigroup, JP Morgan, BofA, and Wells Fargo through the TARP[3]. On June 17, 2009, JPMorgan repaid the whole bailout funds. Bank of America finished repaying the $45 billion it had borrowed under TARP in December 2009 using a mix of cash from its corporate coffers and money raised as part of a $19.29 billion securities offering. In December 14, 2009, Wells Fargo returned entire $25 billion and some of the money from a $10.4 billion stock sale. However, Citigroup just have repaid $20 billion on December 23, 2009.

Based on the financial performance data in the recent 5 years, a fairly clear pattern emerges in comparing these four financial institutions. There are two winners, one loser, and one mixed. The winners, on the basis of a series of financial indicators as well as their reputations are JPMorgan and Wells Fargo. Citigroup is a loser and Bank of America is mixed.

3) Source: Kiel, Paul. "Show me the TARP money". *ProPublica*. Retrieved. 2009-02-09.

## 4. Case Study: Why There Are Winners and Losers

### 4.1 M&A Strategy

Successful M&A generally involve employing an effective integration process, historic development of institutionalized integration capabilities on the part of acquiring firm, firm leadership, and cultural issues. There are some problems for companies to achieve success, which is integration difficulties, inadequate evaluation of target, large or extraordinary debt, inability to achieve synergy, too much diversification, managers overly focused on acquisitions, and too large[4]. In this study, the four companies all take the M&A strategy, but the results are greatly different.

(1) Citigroup's from financial supermarket strategy to clean-up strategy

In 1998, the Travelers Group and Citicorp merged to create Citigroup Inc., considered the first true global financial supermarket. In 2005, Chuck Prince and his board of directors decided to push even more aggressively into trading and other business that would allow Citigroup to continue expanding the bank internally. However, on January 16 2009, Citigroup announced a realignment of its business into two businesses: Citicorp primarily comprised of the Company's Global Institutional Bank and the Company's international regional consumer banks; and Citi Holdings, primarily comprised of the Company's brokerage and asset management business, local consumer finance business, and a special asset pool. On September 2009, Citigroup split off Smith Barney into a joint venture with Morgan Stanley to raise capital.

After 1998's merger, the company is too much diversified, too large, and difficult to manage, and then it's difficult to survive in the subprime crisis. And the recently clean-up strategy aims to optimize the company's global businesses for future profitable growth and opportunities and assist in the company's ongoing efforts to reduce its balance sheet and simplify its organization. Whether these activities would produce a better result? This question does need time to be explored.

(2) Bank of America's M&A strategy

Over the last decade, Bank of America transformed itself from a regional institution into the nation's largest brokerage house and consumer banking franchise. But during the financial crisis it was sapped by huge losses and a deal turned sour. BofA's recent difficulties are a startling change from what had been a successful run of growth by purchase. In 2003, it paid $48 billion for FleetBoston Financial, which gave it the most branches, customers and checking accounts of any United States bank. In 2005, Bank of America became the biggest credit card issuer when

4) Ireland R. D., Hoskisson R. E., & Hitt M. A. (2007). The management of strategy: Concepts (8th ed.): South-Western Cengage Learning, pp191.

it bought MBNA for $35 billion. And when the mortgage meltdown came, BofA acquired two troubled giants: Countrywide Financial and Merrill Lynch. The deal for Merrill Lynch cost more than $50 billion and improved its market power in wealth management. The $4 billion deal for Countrywide had already significantly bolstered Bank of America's position in the mortgage market. The Countrywide and Merrill Lynch acquisitions turned Bank of America into the type of financial supermarket model.

Although the assets and resources of these companies are complementary to BofA, culture clash is serious and effect of integration is not as well as expected. After these M&As, BofA is too large to manage well. It's hard to say the M&A strategy of BofA succeed or fail. Several years later, the results would be shown.

(3) JPMorgan's M&A strategy

In 2004, the JPMorgan merged with Bank One Corp. which united the investment and commercial banking skills of JPMorgan with the consumer banking strengths of Bank One. In 2008, JPMorgan acquired The Bear Stearns Companies Inc., strengthening its capabilities across a broad range of businesses, including prime brokerage, cash clearing and energy trading globally. Also in 2008, JPMorgan acquired the deposits, assets and certain liabilities of Washington Mutual's banking operations. This acquisition expanded JPMorgan's consumer branch network into California, Florida and Washington State and created the nation's second-largest branch network. In February 2009, the company acquired UBS Commodities Canada Ltd. and UBS AG' s global agricultural business.

These acquired firms have assets or resources that are complementary to the JPMorgan's core business. And it has a strong diversity culture, so the JPMorgan manages these changes well and is adaptable. Therefore, the integration of these merged companies is managed well, and JPMorgan perform better than most of its competitors.

(4) Wells Fargo's expanding strategy

From 2000, Wells Fargo acquires First Security Corporation, H.D. Vest Financial Services (2001), CIT Construction (2007), Placer Sierra Bank (2007), Greater Bay Bancorp (2007), Century Bank (2008), Wachovia Corporation (2008), and North Coast Surety Insurance Services (2009). Although it acquires many companies, it emphasizes strategy execution, cross-selling, diversity, and culture integration. And the company is not as large as Citigroup and BofA, so it would be easier for it to manage and integrate well.

JPMorgan and Wells Fargo manage change well and are flexible and adaptable, so their M&A strategies are more successful than Citigroup and BofA. Citigroup are too large to manage well and didn't integrate well after M&A, so the strategy seems not successful, and BofA needs time to see.

## 4.2 Compensation

Many financial institutions think that executive compensation is important as a key incentive mechanism for top management and consider it a vital component of enterprise. From Table 4 and 5, the compensation of their whole employee and top five executives are very high during the financial crisis. When the company did well, their employees were paid well. When they did poorly, their employees were paid well, especially the top executives. In 2008, Citigroup's net income loss is $27684 million, but it paid out $32440 million in compensation. Not only the common employee, but also the executive compensation is higher too. The previous explanation from bank executives that bonus are tied to performance in a manner designed to promote such growth does not appear to be accurate. However, when the performance is not better, the compensation should be higher? In other words, financial institutions compensation structure lacked consistent principles and tended to result in a compensation system that was all upside[5].

Table 4 Compensation of the four financial institutions

| Company | 2004 | | 2005 | | 2006 | | 2007 | | 2008 | |
|---|---|---|---|---|---|---|---|---|---|---|
| | comp. ($ Mil) | comp. %/net income | comp. ($ Mil) | comp. %/net income | comp. ($ Mil) | comp. %/net income | comp. ($ Mil) | comp. %/net income | comp. ($ Mil) | comp. %/net income |
| Citigroup | 22934 | 134.54 | 25772 | 104.81 | 30277 | 140.57 | 34435 | 952.03 | 32440 | N/A |
| BofA | 13435 | 96.33 | 15054 | 91.43 | 18211 | 86.17 | 18753 | 125.17 | 18371 | 458.36 |
| JPMorgan | 14506 | 324.81 | 18065 | 212.96 | 21191 | 146.71 | 22689 | 147.67 | 22746 | 405.81 |
| Wells Fargo | 8446 | 120.42 | 10455 | 136.29 | 12027 | 142.84 | 13368 | 165.92 | 12940 | 487.38 |

Note: N/A: not available.
Source: Andrew Cuomo, 2009. Bonus Report. He is the New York's Attorney General.

Table 5 Executives Compensation of 4 financial institutions

| Company | CEO | 2006 | | 2007 | | 2008 | |
|---|---|---|---|---|---|---|---|
| | | Comp. of CEO | Comp. of top 5 executives | Comp. of CEO | Comp. of top 5 executives | Comp. of CEO | Comp. of top 5 executives |
| Citigroup | Chares Prince | 24.87 | 77.48 | 25.47 | 96.21 | – | – |
| | Vikram Pandit | – | – | – | – | 38.24 | 93.71 |
| BofA | Kenneth D. Lewis | 22.85 | 59.09 | 20.40 | 59.24 | 9.00 | 36.47 |
| JPMorgan | Jamie Dimon | 27.49 | 102.80 | 28.86 | 82.15 | 35.72 | 76.09 |
| Wells Fargo | Richard M. Kovacevich | 26.86 | 60.62 | – | – | – | – |
| | John G. Stumpf | – | – | 11.45 | 46.13 | 9.04 | 32.10 |

Note: All the compensation is in $ million. "-": no meaning.
Source: America's bailout barons. 16th Annual executive compensation survey.

5) Andrew M. Cuomo. 2009. No rhyme or reason: "The heads I win. Tails you lose" bank bonus culture.

### 4.3 Culture

(1) Citigroup

Due to its long history, size, and complexity, Citigroup has several different cultures, which can be described by aggressive, risk taking, competition, balkanized culture. More specifically, the culture of the company supported managers functioning as their own idea champions, providing them with lots of resources with which to work on new products, and setting up several managers in a competitive situation. Because of its long history and tradition, it values entrepreneurs and talent and a high tolerance for mistakes. Even as the first shock waves of the subprime mortgage crisis hit Bear Stearns in June 2007, Citigroup's top executives expressed few concerns about their bank's exposure to mortgage-linked securities[6]. Its aggressive risk on securitized mortgage market resulted big mortgage loss and credit card loss. Furthermore, due to previous several M&As, it doesn't have a united and strong culture to guide the whole company.

(2) BofA

BofA doesn't have strong culture that binds that talent and bring success[7]. It experiences several M&As, and it's difficult for it to unite its employee, strategy, and brands. For example, a culture clash between the investment bankers and the troops of BofA's commercial bankers engaged in the more conservative business of lending has been widely anticipated, especially considering the bank's historic chilly relations between the two sides[8]. The cultural integration issues could be a huge "poison pill" on top of the necessary acquisition premium. After with Merrill Lynch and Countrywide's marks weighing on BofA's books, the company is facing tons of near term pressure. This is not only a discussion of capital injections, overpayment for Merrill Lynch, lack of real due diligence, asset correlations or bad hedging, but also culture and the long term issues that can result from culture clash.

(3) JPMorgan

Diversity is a cornerstone of its corporate culture and remains a priority with its initiative. And the company especially emphasizes the importance of diversity which is the combination of unique qualities, abilities, traits, background and style that each person brings to the world[9]. And the company thinks that it is the basis for a workplace culture where employees respect one another as individuals and value the different perspectives each person brings to the table. Furthermore, it value communications through employee networking groups, annual forums, open discussions with senior leaders, seeking input on multicultural marketing efforts, and partnering

6) Eric Dash and Julie Creswell. Citigroup saw no red flags even as it made bolder bets. The New York Times. November 23, 2008. "Former colleagues said Mr. Rubin also encouraged Chuck Prince to broaden the bank's appetite for risk, provided that it also upgraded oversight — though the Federal Reserve later would conclude that the bank's oversight remained inadequate".

7) Tom Shohfi. Bank of America has a culture crisis. Seeking Alpha. January 22, 2009.

8) Heidi Moore. BofA: A new era in investment banking? The Wall Street Journal. February 20, 2009.

9) See JPMorgan's official website.

on community activities.

(4) Wells Fargo

Wells Fargo's culture can be identified by collaboration, sales, and diversity. The company values collaboration and team spirit, which can be seen in the website. Wells Fargo has a very high pressured sales culture which can be got from their performance measurement system, such as, stores' performance measurement, employee performance measurement. Furthermore, it especially emphasizes diversity in its business, strategy, product, employee, and career recruitment.

In its official website, Wells Fargo introduces its visions, missions, history, and the importance of diversity. The history, culture, and insights can be found in the website of JPMorgan. For Wells Fargo and JPMorgan, not only from the official website, but also other official releases and report, the stress of culture can be seen. Citigroup and BofA just mention their history in the official website and couldn't find description of culture, mission, and vision. Wells Fargo and JPMorgan have a stronger culture than Citigroup and BofA.

### 4.4 Leadership

(1) Chuck Prince

Chuck Prince succeeded Sandy Weill as the CEO of the firm in 2003 and as the Chairman of the Board in 2006. On November 4, 2007 he retired from both his CEO and chairman duties due to unexpectedly poor 3rd quarter performance, mainly due to CDO and MBS related losses. He was replaced by Vikram Pandit as the current CEO of Citigroup[10], and by Robert Rubin as its Chairman. Since taking over in October 2003, Chuck Prince has touted an ambitious strategy that called for expansion overseas and internal growth. But he had been dealt a tough hand from the start, inheriting a company from Sandy Weill that was reeling from years of under-investment. Citigroup insiders and analysts say that Chuck Prince played pivotal roles in the bank's current woes, by drafting and blessing a strategy that involved taking greater trading risks to expand its business and reap higher profits[11]. In terms of his capability, Chuck Prince is smart and hard-working, but never had experience managing the banks operations before he was chosen for the top job.

(2) Kenneth Lewis

In 2001, Kenneth Lewis became CEO of Bank of America and he continued strategy of his predecessor, Hugh L. McColl, which is growing through acquisitions, making Bank of America the biggest bank in the country by assets. The purchase of Countrywide and Merrill Lynch

10) Shake up at Citigroup. International Herald Tribune. Retrieved. 2007-12-11.

11) Eric Dash and Julie Creswell. Citigroup saw no red flags even as it made bolder bets. The New York Times. November 23, 2008.

appeared to burnish the reputation of Kenneth Lewis because of no disclosure on the crucial information which is details of Merrill Lynch's bonuses, losses, and write-downs to shareholders. Finally, the swarm of legal and political troubles and shareholder ire prompts Kenneth Lewis to resign from his position. In terms of his ability, his capability is in the operations level and he is aloof and arrogant, furthermore, he brutally fired many of the firm's most talented executives, seemingly afraid to be surrounded by potential successors[12]. Despite the size of his company, his board had almost no one with big-time banking experience[13]. And at a time when many companies were dividing the jobs of chairman of the board and chief executive, Kenneth Lewis declined to go along, keeping both titles.

(3) Jamie Dimon

Jamie Dimon has been CEO and President since December 31, 2005 and became Chairman of the Board on December 31, 2006. He was accredited with steering JPMorgan Chase through turbulent times in the financial services industry. Analysts attributed Dimon for his inspirational leadership style and his comprehensive turnaround plan that led to the spectacular turnaround of JPMorgan Chase[14]. Not only in JPMorgan, Dimon was also credited in the financial services industry for turning around several beleaguered companies including Commercial Credit Corporation and Bank One Corporation. Jamie Dimon is a man of extraordinary talent and has rock solid philosophy of life and boundless energy[15].

(4) John Stumpf

John Stumpf was named CEO in June 2007, elected to Wells Fargo's Board of Directors in June 2006, and has been President since August 2005. He became Chairman for Wells Fargo & Company in January 2010. In December 2008, he led one of the largest mergers in history with the purchase of Wachovia. He has worked more than 20 years in the company, and he has much experience in management before he was named the CEO of Wells Fargo.

## 5. Findings and Discussion

This section tries to give some findings based on the above analysis. These findings are gained from testifying the initial hypothesis in section 2.

### 5.1 M&A Strategy

Initial hypothesis on M&A strategy is consistent with the finding. Most acquisitions create a

12) Joe Nocera. October 3, 2009. Incompetent? No, just not a leader. The New York Times.
13) The same as note 12.
14) Jamie Dimon: The Turnaround Specialist. Case studies and management resources.
15) Warren L. Batts is Adjunct Professor of Strategic Management, University of Chicago School of Business, former CEO of Tupperware Corp., Premark International, Mead Corp., and Triangle Corp.

larger firm, which should help increase its economies of scale and potential market power, and then lead to more efficient operations. However, the additional costs required to manage the larger firm will exceed the benefits of the economies scale and additional market power[16]. It will be harder for leaders to manage because of the complexities generated by the larger size. Citigroup was once the world's largest financial services company, but it has been pressured to sell some of its assets to reduce the complexity associated with managing so many different financial service businesses[17]. With complementary assets, the integration has a higher probability of creating synergy. Flexibility and adaptability are also important for successful acquisition. When executives of the acquiring firm have experience in managing change and learning from acquisitions, they will be more skilled at adapting their capabilities to new environments.

### 5.2 Incentive Compensation

Many of today's senior executives name pay-for-performance as the most critical tool in achieving the greatest financial results at their companies. But it doesn't necessarily produce expected results. This is a problematic and complex area in which common sense solutions do not work. In the performance-pay based U.S. financial service industry, high compensation didn't always result high performance. Cuomo (2009) examines the compensation data and finds that in these challenging economic times, compensation for bank employees has become unmoored from the banks' financial performance. There is no clear reason to the way banks compensate and reward their employees. The existing compensation principle in financial service industry is not working well and should be changed to satisfy the need of financial institution development. Therefore, what kind of incentive in the financial institutions is effective? The question is very useful and worth to study.

### 5.3 Culture

Initial hypothesis on culture is consistent with the finding in the case. Corporate culture can make employees committed to the vision and the strategy of the organization, and possessing the will and the means to make these a reality. An effective culture also aligns with the business strategy to ensure the organization meets its long-term goals and improves the performance. The four financial institutions all experienced M&A and integration of merged company can be quite difficult, especially the culture integration. It's very important for these financial institutions to develop the right and strong corporate culture. Strong corporate cultures can help firms

16) Ireland R. D., Hoskisson R. E., & Hitt M. A. 2007. The management of strategy: Concepts (8th ed.): South-Western Cengage Learning. P. 196.

17) Enrich D. 2007. Moving the market: Will chorus grow at Citi?; Lampert may join calls for shake-up after buying stake, Wall Street Journal, May 17, C3.

operate like well-oiled machines, cruising along with outstanding execution and perhaps minor tweaking of existing procedures here and there[18] and create excellent business. JPMorgan and Wells Fargo both have a strong culture and one of the cultures is diversity, so their M&A strategies perform better. Citigroup and BofA are too large and lack of strong culture realization, so it's difficult to have a strong culture.

### 5.4 Leadership

Initial hypothesis on leadership is consistent with the finding in the case. Leadership has an impact on the performance of a company. From analysis of the four companies, a leader can create a success company and also can destroy a company. Chuck Prince never had experience managing the banks operations before he was chosen for the top job, and he has not enough capability to manage Citigroup. Kenneth Lewis, his capability is just in the operations level, and he can't make BofA perform well too. Jamie Dimon is a man of extraordinary talent and born leader, so he has capability to make JPMorgan perform well. Excellent and capable leader can make the company achieve higher performance, and non-capable leader can't contribute to the success of a company, but failure. Therefore, choosing an appropriate and talented CEO is very important for the success and failure of one company.

## 6. Conclusion

### 6.1 Conclusion

In this study, it is possible to state that M&A strategy, compensation, culture, and leadership have a link with the performance of financial institutions. From analyzing the four diversified financial institutions, this study examines the initial hypothesis. The results of M&A strategy are mixed with success and failure. Compensation incentive in financial service industry is not working well and should be changed. The company which has strong culture is easier to get the company united and produce a better performance. Excellent leadership plays a key role in the success of a company.

However, this paper has some limitations. Firstly, the data of the analysis is just from collecting information from magazine, literature, company's annual report, and some information in their website. Secondly, these factors are not alone affecting company performance and their interaction impact performance too. For example, leadership will affect culture and culture will affect leadership too. Thirdly, this study just considers four factors, and the factors which affect the performance of financial institutions are not only the four. Fourthly, four diversified U.S.

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18) Dean Mcfarlin. Strong culture can be 'double-edged sword'. October 11, 2002. Dayton Business Journal.

financial institutions are just considered in the study, but it can't explain the whole situation in financial service industry and the research object should be enlarged.

### 6.2 Further Implication

*Data collection.* The study should add more data which is from interview, questionnaire, or field investigation, etc. to make the analysis more convincing.

*Analysis framework.* This paper just considers M&A strategy, compensation, culture, and leadership. However, the causes of financial institutions' success and failure are not only what this paper gives, and there must are some other factors, for example, the failures of the credit rating agencies, the role of government regulators, the flaws of the credit default swap market, and the effects of over-leverage and fraud in the mortgage markets[19]. Therefore, this study should systematically analyze all these factors and give a convincing interpretive framework for the analysis.

*Research object.* This study just focuses on U.S. diversified financial institutions. However, the research on other types of financial institutions, such as insurance, commercial banking, investment banking, and others, should be considered. Not only the types, but also the geographically locations should be considered, such as financial institutions in Europe, Japan, and China. Exploring the other type financial institutions in the other country and comparing factors which contribute to success and failure of financial institutions are very interesting. These promising studies would provide suggestions not only for financial institutions to avoid failure again, but also for policy makers and researchers.

*Research method.* Quantitative analysis and qualitative analysis can be used to explore the relationship between factors and performance of financial institutions. Qualitative analysis may provide insights into firm behavior and performance that cannot be captured in a quantitative study because it may use a wide range of data and institutional detail from sources that may be unique to a firm, or industry. However, because of the limited number of observations these studies do not permit statistically valid generalizations. Quantitative analysis typically includes a relatively larger number of financial institutions and the use of a statistical model. It permits statistical tests that control for various other influences on performance and, as a result, statistically valid generalizations may be made. However, it can't be adequately capture firm-specific idiosyncrasies (Rhoades, 1998). Therefore, the research on what contribute to financial institutions performance can be studied through the two type analysis.

19) Andrew M. Cuomo. 2009. No rhyme or reason: The 'heads I win, tails you lose' bank bonus culture. Attorney General State of New York.

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