

# Conquering the American market



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ABN AMRO, Rabobank and Nationale-Nederlanden working in a different  
business environment, 1965-2005

De verovering van de Amerikaanse markt  
ABN AMRO, Rabobank en Nationale-Nederlanden opererend in een  
andere bedrijfsomgeving, 1965-2005

(met een samenvatting in het Nederlands)

Proefschrift

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Gerarda Kunny Westerhuis  
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Promotoren: Prof.dr. J.L. van Zanden  
Prof.dr. K.E. Sluyterman

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# Introduction

## The Dutch financial sector

In the Netherlands, a relatively small country, the banking scene is dominated by some large insurance companies and banks. These Dutch financials have also become important players outside their home market. Since 1972, the Dutch banking sector has consisted mainly of four large banks, ABN, AMRO, NMB and Rabobank. The development of these large financial companies is partly due to the many mergers that took place in the 1960s and late 1980s / early 1990s. Growth was further stimulated by international expansion especially during the last quarter of the 20th century.

In 1964, the four largest banks in the Netherlands merged into two banks. Twentsche Bank and Nederlandsche Handel-Maatschappij formed ABN Bank; Amsterdamsche Bank and Rotterdamsche Bank merged into AMRO Bank. Then in 1972, Rabobank was formed by the merger between two cooperatives: Raiffeisenbank and Boerenleenbank. Also in the insurance sector mergers took place. In 1963, the merger between 'De Nederlanden van 1845' and the Nationale Levensverzekering-Bank created Nationale-Nederlanden. Other large players at that time were AGO and ENNIA, each the product of a merger in 1968 and 1969 respectively, and AMEV. In 1983 AGO and ENNIA merged into AEGON. In the early 1990s, a new merger wave swept the Dutch financial sector. In 1989 NMB merged with Postbank to form NMB Postbank Group. One year later, the two large banks ABN and AMRO merged into ABN AMRO. After the regulatory regime had been liberalized and mergers between insurance companies and banks were allowed for the first time, some combined bank/insurance companies emerged. For example, insurer AMEV and vsb (bank) started to integrate their operations, followed by a merger with Belgian insurer AG Group into Fortis in 1991. In the same year, insurer Nationale-Nederlanden merged with NMB Postbank Group to form ING Group. As a result, in the 1990s the largest financial companies in the Netherlands were ABN AMRO, ING Group, Rabobank, AEGON and Fortis.

Table 1: *Some important mergers in the Dutch financial sector*

	1960s	1980s	1990s
Banking	ABN Bank (1964) AMRO Bank (1964) Rabobank (1972)	NMB Postbank Group (1989)	ABN AMRO (1990)
Insurance	Nationale-Nederlanden (1963) AGO (1968) ENNIA (1969)	AEGON (1983)	
Insurance and Banking		AMEV-VSB (1989)	AMEV-VSB-AG Group: Fortis (1991)  Nationale-Nederlan- den-NMB Postbank Group: ING Group (1991)

In business histories of financial companies, mergers have been analyzed in more detail. Motives behind the merger waves have been given. For example Dutch banks wanted to be able to service business enterprises that had themselves matured into large multinationals. Some books have focused on this merger theme, of which the well-known ones are on the creation of ABN and AMRO in 1964 and of ABN AMRO in 1990.<sup>1</sup>

However, there are other ways to expand besides mergers, one of them being internationalization. In the business histories of for example ABN AMRO, Rabobank, Nationale-Nederlanden, AMEV and AEGON, the authors paid attention to the internationalization process of the companies.<sup>2</sup> We see that the predecessors of Dutch financial companies like ABN Bank, Nationale-Nederlanden and AEGON had a high level of international operations. At first, they expanded foremost to Dutch colonies and/ or migration countries, such as Canada and Australia.

An important feature of the internationalization process of Dutch banks has been the banking consortia, which became an important and relatively safe way to be active in foreign countries in the 1960s and 1970s. NMB participated in the Inter-Alpha Banking Group. In 1970, cooperation between four European banks, among others AMRO, was formalized by the creation of European Banks' International Company (EBIC). One of the objectives was to build up an international network of EBIC branches. However, as early as the mid 1970s members started expanding autonomously and the EBIC slowly lost its importance.<sup>3</sup> ABN Bank

became a member of ABECOR in 1973, whose objectives were less ambitious than EBIC's. For instance, ABECOR has never opened foreign branches as EBIC did. Since 1977, an important banking consortium for Rabobank has been the Unico Banking Group, consisting of European cooperative banks. While consortia like EBIC and ABECOR experienced difficulties and fell apart during the 1980s, Unico Banking Group still exists.<sup>4</sup>

In the late 1960s and 1970s, the internationalization process started to accelerate, in which other Dutch insurance companies and banks began to expand their activities outside the country and the United States became an important investment location. Dutch foreign direct investment (FDI) into the US in general has always been very high, while FDI in the services sector has developed substantially since the 1970s and especially during the 1990s.<sup>5</sup> In 1950 the Netherlands ranked fourth and in 1999 third with a FDI of US \$130,703 millions.<sup>6</sup> The Dutch financial sector has an important share in this last figure.

### Central research question

When I started the research project in 2002, I wanted to know why Dutch financial companies had built up such a relatively strong position in the American market. Wilkins showed in brief that especially ABN Bank (ABN AMRO since 1990), Nationale-Nederlanden (ING Verzekeringen NV since 1991) and AEGON have expanded their activities in the American market.<sup>7</sup> However, while the research proceeded, reality has been catching up. The Dutch companies have sold parts of their American businesses. In 1998, ING Group sold its non-life business in the US, followed in 2001 by its investment banking activities. That same year ABN AMRO sold European American Bank to Citigroup. ABN AMRO put part of its securities business on the market in 2002 and more recently it sold its mortgage business. In 2004, Rabobank did not succeed in taking over Farm Credit Services of America. Against this background I formulated the following central research question: *Which activities were Dutch financial companies able to exploit successfully in the American market, and in which activities did they fail? How can we explain the differences in success in the American market between parts of the same company and between different companies?*

### Research on multinational enterprises

The internationalization of Dutch banks and insurance companies forms part of the theory of multinational enterprises (MNEs). Within international business studies, multinational theories deal with motives (why), organization (how) and success (impact) of multinationals. Often the origins of multinational theory are traced back to the dissertation of Stephen Hymer. The main argument of his dissertation was that in order to be able to compete with local firms, which possess strengths because of their knowledge of the local market, business conditions,

culture and so on, foreign entrants must have an advantage to compensate for this. In other words: firms doing business abroad face costs, which arise from unfamiliarity due to cultural, political and economic differences. Costs also appear from the need to coordinate across geographic distance.<sup>8</sup> Apart from geographic distance, Pankaj Ghemawat distinguished three other types of distance, namely cultural, administrative and economic distance.<sup>9</sup> The liability of foreignness has been the starting point of many theories of multinationals.

One of them is the internalization theory, which is a theory that tries to explain the existence of multinationals and departs from the transaction cost theory. Internalization of a market means that an at arm's length contractual relation (market) is replaced by internal hierarchies (firm). In this way firms extend their control over the foreign operations. Because of transaction costs, the firm prefers ownership of the assets instead of bearing the costs of contracting with the market. By internalizing the market, the firm decreases its transaction costs. A few of these advantages are better control over and coordination of activities and avoidance of uncertainties in the transfer of knowledge.<sup>10</sup>

By now, a well-known and frequently used framework for explaining the existence of multinational enterprises is John H. Dunning's eclectic or OLI paradigm.<sup>11</sup> The paradigm starts from the idea that local firms possess superior knowledge of markets, language, culture and the political and legal system. Therefore, a firm that wants to operate in a foreign market must have certain unique advantages to compensate for this information handicap. Dunning divided the advantages by which companies are able to be active outside their own borders into three types: ownership, location and internalizing advantages. Ownership advantages are the advantages of the investing company vis-à-vis the local ones in the host country; in other words: the characteristics and qualities of a company, like management skills, certain products or technology, and specific marketing knowledge. Secondly, Dunning distinguished locational advantages of the host country that favor FDI. Numerous locational-specific factors can be of importance like transport and communication infrastructure, market size, language, business culture, political stability and governmental attitude towards foreign companies. Lastly, internalization advantages arise when a foreign company incorporates local activities and markets within the organization. Then, because of market imperfections, a wholly owned subsidiary with full control is preferable to joint ventures, licensing or export. Arguments in favor of full control by FDI include protection of marketing expertise, greater control over quality of product/service, and influencing or avoiding measures by the government.

The OLI paradigm combines industrial organization theory, location theory and internalization theory. The industrial organization theory of the firm gives explanations why foreign owned subsidiaries might have advantages over their local competitors. The location theory forms the starting point for answering the question where the multinational activities are situated. And the internalization theory explains the existence of multinationals. In other words, it tries to give

answers to the question why firms prefer to engage in FDI rather than sell their advantageous assets to foreign firms.<sup>12</sup> Some authors suggest that the theories are interchangeable, while Dunning argues that they are complementary.<sup>13</sup> He stated ‘...I accept that some O-specific advantages are directly the result of firms internalizing the market for its intermediate products across national borders. However, since this very act of internalization puts the internalizing firms at an advantage relative to non-internalizing firms, I think it’s appropriate to refer to this benefit as an advantage and to internalization as the modality by which this advantage is realized’.<sup>14</sup>

Dunning has also demonstrated that the eclectic paradigm of international production is usable in explaining the internationalization of the service sector.<sup>15</sup> He gave some illustrations of ownership, location and internalization advantages relevant to certain service activities. Most of the advantages mentioned in table 2 are influenced by the specific characteristics of services compared to products. Contrary to goods, services are intangible, heterogeneous and highly personal. Most of the time production and consumption take place simultaneously and building up of stocks is not possible. For example, because of the human factor and as production and consumption go together, quality control is very important. Consequently, service companies prefer to internalize the market.

Internationalization is not a static but a dynamic process. A company can obtain, extend or lose ownership advantages and locational advantages can change over time and even disappear, for example when a country’s legislation changes. However, in Dunning’s eclectic paradigm, developments over time remain unclear. The model is of limited value in analyzing and understanding the dynamic process after the first decision of a company to expand abroad. A model for understanding the internationalization process has been the Uppsala Internationalization Process model, which deals with knowledge and learning and how it affects the decision-making process of a company.<sup>16</sup> Jan Johanson and Jan-Erik Vahlne presented the model in 1977. The basic assumption of the behavioral model is that the lack of knowledge about foreign markets is a major obstacle to international operations. This lack of market information due to differences between countries (physical distance) leads to uncertainty, which makes the decision-making process more difficult. However, such knowledge can be acquired by experimental learning. Incrementalism is the key concept which means that the more a foreign company knows about a host market, the lower the perceived market risk will be, and the higher the level of foreign investment in that market. Johanson and Vahlne believed that ‘...internationalization is the product of a series of incremental decisions’.<sup>17</sup>

One important point of criticism has been the fact that the interpretation of organizational learning was too narrow. The concept of learning has several dimensions of which the Uppsala model only uses one, i.e. learning through own experience. Mats Forsgren argued that not only learning through own experience, but also learning through imitation, through incorporating people or organiza-

Table 2: *OLI Paradigm and financial service*

	Ownership	Location	Internalization
Commercial banking	Access to multinational clients, foreigners abroad Professional expertise Access to capital Effective distribution networks	Person-to-person contact required Government regulations Lower costs of foreign operations	Quality control Economies of scope Economies of coordinating capital flows
Investment banking	Reputation and professional skills (IB is an experience service) Substantial capital base Knowledge of and interaction with international capital markets Financial innovations	Need to be close to clients Need to be close to international capital/finance markets, and also main competitors Availability of skilled labor	Complex and organic character of services provided Protection against exchange / political risks Need to pursue global investment strategy Quality control
Insurance	Reputation of insurer, image Economies of scale and scope and sometimes specialized expertise Access to multinational clients	Need to be in close touch with insured Government prohibit direct imports	Economies of portfolio risk spreading Tacit knowledge

Source: John H. Dunning, 'Multinational enterprises and the growth of services: some conceptual and theoretical issues', *The Service Industries Journal* 9 (1989): 5-39, p. 28-29.

tions, or through searching for information about new alternatives could have impact on the way firms internationalize.<sup>18</sup> Firms imitate actions taken by a large number of other firms, especially in a competing environment, because their success is taken for granted. Firms then invest in markets in which they don't have any experience. Consequently, international investment behavior can be less incremental and less risk aware than the Uppsala model suggests. Besides, by incorporating local firms that possess the necessary knowledge, the slow process of learning by their own experiences can be avoided. As a result the possible paths to internationalization are more diverse than the Uppsala model has demonstrated. Adrian Tschoegl<sup>19</sup> and Gino Cattani concluded similarly in their paper on the internationalization of Chase Manhattan Bank by stating that the Uppsala model was incomplete and needed widening in its scope.<sup>20</sup> They were of the opinion

that the model was directed only at organic adaptation. The external environment, companies actively searching for new opportunities and knowledge building by foreign acquisitions had to be incorporated into the model.

Another interesting point of criticism has been made by Bruce Kogut and Harbir Singh.<sup>21</sup> They argued that the Uppsala model indeed acknowledges cultural differences between host and home countries and that it affects the entry mode of a firm. However, they stated that the model does not explain *how* the differences influence entry choices. In the article, Kogut and Singh looked at three entry modes: acquisitions, joint ventures and greenfield investments. They were of the opinion that the larger the cultural differences between home and host country, the more likely a firm will prefer a greenfield or joint venture to an acquisition. The investing firm will also choose a joint venture or greenfield over an acquisition when the culture of the firm is typified as uncertainty avoiding. The last statement especially can be seen as an addition to the Uppsala model, which perceived all firms as uncertainty avoiding to the same extent. Kogut and Singh on the other hand distinguished differences between countries and firms by their degree of uncertainty avoidance.

It should be noted that in 2006 Johanson and Vahlne stressed in an article that the model as described in 1977 was not intended to be 'the establishment chain'. Many researchers have used the model as such '...going from exports to the establishment of manufacturing subsidiaries'.<sup>22</sup> By this recent article they acknowledged that there are more routes to internationalization. Moreover, they emphasized that learning and commitment is important for opportunity development. Thus, uncertainty avoidance (passive), which had been so important in the article of 1977, had been replaced by opportunity development (active).

### **Business systems**

Most theories on multinationals start from the assumption that companies experience problems in foreign countries due to differences in legal, political, economic, and cultural systems. But, how large are these differences in practice? How can we review the differences? Or in other words, how can we make these differences operational for the purpose of this study? In the 1990s, a large body of literature started focusing on these questions.

The sociologist Richard Whitley introduced the concept of 'business system', meaning the organization of business at a national level. He stated that national business systems differ in (1) the nature of dominant economic actors controlling economic activities and resources, (2) the structure of market relations, and (3) the nature of authoritative coordination and control systems within firms. These three components vary between institutional environments. Whitley divided the social institutions, that influenced which type of business system was established, into background social institutions (like the degree of trust, loyalty and cooperation) and proximate social institutions (like the state, financial markets, education

and training system).<sup>23</sup> The main point of the above-mentioned framework is that it seems that the Netherlands and the US differ from each other in their historically developed institutions and therefore in the way companies do business. The Dutch financial companies that expanded in the American market had to deal with these differences. However, the model is rather static, meaning that national business systems are seen as stable constellations, which because of path dependency are difficult to change.

Whitley's rather static business system framework became more dynamic with the contribution of P.A. Hall and D. Soskice in their book *Varieties of capitalism*.<sup>24</sup> Moreover, they gave individual companies a place in their model of market economies. They distinguished two ideal types at the poles of a spectrum. One of them being liberal market economies (LMEs), the other being coordinated market economies (CMEs). In LMEs, companies coordinate their activities primarily via hierarchies and markets, whereas in CMEs firms depend on non-market coordination or networks. The US is usually seen as a LME and Germany as a CME. Hall and Soskice stated that the institutional context facilitated or restricted firms' behavior. For example, they argue that because of the institutional framework, firms in CMEs will more likely focus on incremental innovation, while firms in LMEs will engage in radical innovation.<sup>25</sup> Hall & Soskice distinguished five spheres, which companies have to coordinate via the market and hierarchy or via networks.

- (1) Industrial relations: relation between companies and trade unions and state in dealing with industrial relations.
- (2) The extent to which companies invest in vocational training and education for their employees.
- (3) The financial system and market for corporate governance.
- (4) Inter-firm relations: degree of networks between companies for cooperation or the transfer of information.
- (5) Employees: how involved are employees in the decision-making process? Do companies develop involved and motivated employees or are they not attached to the company and will they easily be attracted away by competitors?

Ad van Iterson and Rene Olie made a first attempt to describe the Dutch business system.<sup>26</sup> They typified the Dutch system as internationally oriented with a focus on trade and services. Furthermore, management in large Dutch firms enjoyed a relatively large 'freedom'. The shareholders had minor influence and the relationship between Supervisory and Managing Board was based on trust. The firm was seen as a nexus of stakeholders and the boards had to act according the interest of the firm as a whole. Within Dutch firms a sphere of compromise and consensus building prevailed, reinforced by consensual decision-making and non-authoritarian leadership.<sup>27</sup> They dated the characteristics back to the seventeenth century.

However, it seems as if during the last twenty years, Dutch business is heading towards a more liberal market economy. Jeroen Touwen has contributed to the

discussion by an article on the position of the Dutch economy within the framework of the 'varieties of capitalism' model.<sup>28</sup> According to Touwen we can characterize the Dutch economy as coordinated in the period 1950-1980, after which it transformed into a hybrid form with a combination of liberal and coordinated elements. During the 1980s and 1990s, some institutional sub-contexts have changed into a more liberal one. He concluded that (1) industrial relations, (3) the financial system, and (4) inter-firm relations had become more liberal, while (2) vocational training and education and (5) employees remained coordinated.<sup>29</sup> Lastly, Touwen argued that the varieties of capitalism model is a useful framework for analyzing institutional characteristics but that it needed more dimensions and dynamics.<sup>30</sup>

Previously, firms were seen by Whitley and others as 'responding to competitive pressures in similar ways, such that outcomes were substantially structured by institutional arrangements'. However, in a study of 2005 they recognized that firms are not a passive group of actors that respond to a set of institutions at the national level, but that they can develop new capacities and are able to learn new ways of doing things.<sup>31</sup> They see models of business systems or varieties of capitalism not as the reality but as a tool by which research questions can be formulated: 'Our models are logical constructions about how 'things' (institutions) fit together; our research is about how things actually do fit or do not fit together in a messy empirical reality'.<sup>32</sup> Consequently, there is more room left for diversity and change, as Touwen suggested. Glenn Morgan ends the introduction of the book by suggesting that empirical and historical research has to be done to find out how institutions and firms actually interrelate.<sup>33</sup>

Business historians can contribute to these needs by analyzing long-term changes in business systems and the role of firms within the business systems. For example, the BINT project, a Dutch research program, has the changing characteristics of Dutch business in the 20th century as its focus. Its main goal is to analyze the major developments in Dutch business and to gain insight in change and continuity of the organization of business at the national level or national business system.<sup>34</sup> The project consists of seven sub-projects, of which the theme 'Internationalization: the Netherlands as host and home country for multinational companies'. My research, which focuses on Dutch banks and insurance companies expanding into the American market, is part of this sub-project on internationalization. By studying multinationals, I am able to compare institutions and firms of different business systems since multinationals operate in different countries. In this way I will gain a better insight in the Dutch business system. Although I am not able to generalize on the national business system, I will deal with changes which have taken place within three Dutch companies, that in turn say something about Dutch institutions and thus the Dutch business system.

### Research on internationalization of banks and insurance companies

The Netherlands has a long tradition of writing on the topic of banking. In 1999, Johan van der Lugt wrote a historiographic overview of the Dutch banking sector.<sup>35</sup> Among other things, he outlined the development from jubilee books that were not so academic in aspects of independency and objectivity of the author, to the recent business histories, which have a more academic character. The overview shows that individual banks as well as the banking sector have received attention. As we saw in the first section some authors have chosen a thematic approach, such as explaining banking mergers. It becomes also clear that the second half of the twentieth century is still underexposed in Dutch banking literature. Besides that, Van der Lugt does not mention any study on the thematic issue of the internationalization process of Dutch banks.

The business histories of ABN AMRO, Rabobank, Nationale-Nederlanden, AEGON and AMEV all tell the internationalization process of the companies (or predecessors). The most important steps are described and motives are given. For example, banks needed to follow their clients abroad and the over-banked Dutch market pushed them or, in the case of insurance companies, they wanted to spread their risks. The internationalization theme is often mentioned in business histories within the context of the developments of a particular company. The business histories do not analyze it more generally or with respect to certain foreign countries.<sup>36</sup> So, the theme is still underexposed, especially compared to the literature on the internationalization of Dutch manufacturing companies. Obviously, there are some exceptions. The economist Pieter Jagersma used the insights from the strategy-structure debate as he tried to give reasons behind the internationalization process of Dutch service firms, including banks and insurance companies.<sup>37</sup> His study covers changing organizational structures as a result of internationalization. He concluded that new strategies are followed by new structures, just like Alfred Chandler's famous conclusion: structure follows strategy.<sup>38</sup> Jagersma's analysis though has been based mainly on annual reports.

This is in contrast with the input of some foreign business historians, of whom Geoffrey Jones who has contributed to the field. In the early 1990s, he edited two important books, *Banks as multinationals* and *Multinational and international banking*.<sup>39</sup> One of the selected articles in the latter was written by J.M. Gray and H.P. Gray and was originally published in the *Journal of Banking and Finance* in 1981.<sup>40</sup> They used the eclectic paradigm of Dunning to explain international banking in general. They concluded that the theory of non-financial multinationals, as the Dunning paradigm, is a useful base for explaining multinational banking. However, they neglected the ownership advantages of multinational banking, focusing on internalization and locational advantages only. In general, it remains a rather abstract analysis without empirical support.

In the same book an article by Adrian Tschoegl has been included, which was first published in the *Journal of International Business Studies* in 1987.<sup>41</sup> He applied

Dunning's theory to the retail banking aspect of international banking. He did so by reviewing existing literature on banks from many different countries; his findings are not based on in-depth empirical analysis. Consequently, his conclusion that international retail banking is a result of many factors is not surprising. However, he touched upon themes that are interesting to study in more detail. His suggestion that firms in the US, which has a heterogeneous population, developed formal and explicit methods of control (accounting, targets, and objectives) is very interesting. He claims that these firms (or banks) have a managerial advantage over firms that developed in environments with more cultural homogeneity. In these environments, institutions have developed informal and implicit control systems and managers were appointed on the basis of shared values.<sup>42</sup> Thus US banks have less difficulty hiring foreigners at senior positions than many non-US firms. It remains to be seen if this is actually the case, but anyhow it shows the importance of studying the national institutions of the host and home country for explaining success. The book *Multinational and international banking* edited by Jones in general shows that more research has to be done on the motives for banks to become multinationals. He also suggested that research on multinational banks of continental Europe (and thus the Netherlands) had to be undertaken.<sup>43</sup> In Jones' contribution to the book *Business history around the world* published in 2003, it becomes apparent that so far most literature on multinational banking touched upon the period before the 1960s.<sup>44</sup> British multinational banking has been analyzed by Jones as well. However, these British banks were foremost freestanding companies with little or no activities in their home country. In addition, there were hardly relations between the branches in different countries. As a result the study provides only marginal insight in multinational banks.<sup>45</sup>

One of the factors of the institutional environment that is of vital importance to banks and insurance companies is regulation by the host as well as the home country. In 1997, Tschoegl wrote a paper on the internationalization of Norwegian banks together with Siv Fagerland Jacobsen. Interesting is its focus on banking regulation and the limiting or encouraging role it played in internationalization.<sup>46</sup> Most literature until then dealt with the role of host country's regulation and its restrictions on international banking only. Jacobsen and Tschoegl also incorporated banking regulation of the home country. In Norway, regulations had restricted both Norwegian banks expanding abroad (until 1985 Norwegian banks were not allowed to open branches abroad) and foreign banks establishing themselves in Norway (Norway did not permit foreign subsidiaries until 1985 and foreign branches until 1994). This latter prohibition limited the Norwegian banks' operations, for example in New York State or Japan, where the host governments insisted on reciprocity.<sup>47</sup>

Apart from studying banks as companies, it is possible to analyze banks as financiers. Part of the 'business system debate' deals with the question whether a country has a capital market-based or bank-based financial system. In a capital market-based system companies rely on well-developed capital markets for the

financing of activities, whereas in a bank-based system the banks fulfill this role. Related to this issue is the matter of interlocking directorates. Did bankers participate in close networks (for example through Supervisory Boards)? Were they able to influence business in this way? An interesting study on this subject has recently been published by Eelke Heemskerk.<sup>48</sup> In his dissertation he describes the decline of the Dutch old-boys network. Although these are important questions, it has not been explicitly part of my study. It will however be covered by another sub-project of the BINT project called: The corporate governance of Dutch business during the 20th century: structural change and performance.

Of the internationalization of Dutch insurance companies even less is known, apart from discussions in the company histories of AMEV, AEGON and Nationale-Nederlanden. There is one notable exception. In 1999, Ton van Rietbergen wrote his dissertation on the international expansion of European insurance groups.<sup>49</sup> He addressed the question why one country is more successful than another in creating successful insurance companies. He based his answer mainly on the Swiss success: reputation of neutrality, experience with cultural diversity in the home market, and long tradition of financial services. He also linked the presence of multinationals in a country to the existence of internationally successful insurance companies.<sup>50</sup> The other central research question was how and in which geographic direction the insurance companies developed. Among other things he concluded that insurance companies prefer to expand by mergers and acquisitions and that, as opposed to banks, insurance companies follow a multi-domestic internationalization strategy rather than a global strategy. Insurance companies in countries like France and Italy are more European oriented, while the UK and the Netherlands are the most US oriented.<sup>51</sup> Van Rietbergen does not give an explanation for this phenomenon.

### Foreign companies in the American market

Successful expansion in the American market has not been so self-evident. This assumption has been reinforced by reading *Foreign multinationals in the United States* edited by Geoffrey Jones and Lina Gálvez-Muñoz.<sup>52</sup> After WWII and especially since the 1970s, many foreign companies invested in the US, but they found the market difficult to operate in. In the book, examples are given of multinationals that experienced success as well as failure, which sometimes led to divestments. The problems were caused by numerous factors, like the large scale of the market, the competitive nature of Americans, and the difficulties of finding good companies.<sup>53</sup> The book focuses on management problems as one of the reasons for the difficulties the companies experienced. They gave three reasons why foreign companies found it difficult to control American investments. First, the fear of antitrust law made companies decide to control their American affiliates at arm's length. Second, the American market was seen as a distinctive case, isolated from the rest of the world. It is stated however, that since the 1980s the American

market has become more integrated with the rest of the world. The third reason has to do with the culture of American management (autonomy, independence) and the perception foreign companies have of that management. Foreign companies did not want to control too tightly the, in their eyes, superior American managers.<sup>54</sup> The book suggests that since the late 1970s most foreign companies started exercising more control over their American organization. In an article on Unilever by Jones, it becomes apparent how the company at first hardly integrated the American subsidiaries, giving it large autonomy without the presence of Dutch or English executives or expatriates. Performance of the American subsidiaries decreased and only recovered after 1978, when a senior executive was sent to the US to head the organization.<sup>55</sup> Dutch banks and insurance companies only started expanding in the American market on a large scale in the 1970s. It remains to be seen how they controlled their American subsidiaries and branches. Had they learnt from other foreign companies, which at that time began to intervene more in their American activities? Or did they start managing the American organization at arm's length as well?

In the banking sector, foreign companies encountered difficulties as well. Tschoegl for example demonstrated that after WWII and especially since the mid-1960s foreign banks entered the American market, but that around the year 2000 the growth and importance of foreign banks had declined. Interesting to notice is that some home countries were no longer present in the US. According to Tschoegl, who made a list of ten largest American acquisitions by foreign banks, British banks withdrew after they had experienced poor performance.<sup>56</sup> In 1999, only British based HSBC owned one of the ten largest acquisitions. Banks from Germany and Switzerland were not on the list either, except for Deutsche Bank that owned investment bank Bankers Trust. In that period, ABN AMRO on the other hand still owned two of the ten largest American banking acquisitions: LaSalle National Bank and European American Bank.<sup>57</sup> How can we explain this presence?

Keetie Sluyterman and Ben Gales have given a survey on Dutch multinationals in the twentieth century, which gave a clear overview of Dutch companies like Royal Dutch Shell, Unilever, AKU and Philips and banks and insurance companies. They analyzed motives for companies to expand abroad and which foreign locations they chose.<sup>58</sup> Mira Wilkins gave a similar overview of Dutch multinationals, including banks and insurance companies, and their presence in the American market.<sup>59</sup> Although it is a useful first list of detailed information of the companies' involvement in the American market, it remains rather descriptive. In-depth knowledge of the reasons for success or failure of the Dutch financial companies in the American market has not been gathered yet.

Based on the above outlines, many questions remain to be answered. Why did the American market become so important in the expansion strategies of Dutch banks and insurance companies? How were they able to compete with the local banks and insurance companies? Besides that, little is known of the process after

the opening of a branch or acquisition in a host country. How was their relation with the Dutch parent? How did the Dutch financial companies ensure they had qualified personnel to manage their American organization? Lastly, we know little on the performance of foreign activities of Dutch companies and the impact they might have on the parent companies.

### The composition of the study

#### *Central research question and sub-questions*

The objective of this dissertation is to explain the expansion of Dutch banks and insurance companies in the American market. As stated above, the central research question is: *Which activities were the Dutch companies able to exploit successfully in the American market, and in which activities did they fail? How can we explain the differences in success in the American market between parts of the same company and between Dutch financial companies?* Based on the relevant literature and theories on multinationals, I divided the central question into three sub-questions:

1. Which competitive advantages did the Dutch banking and insurance sector possess (push) and which attractive location advantages did it hope to find in the United States (pull)? (*Motives*)
2. What form of FDI did they choose (acquisition, greenfield operation, joint venture or participation)? How did Dutch banks and insurance companies cope with differences in nationality and business when structuring their international organization? (*Integration process*)
3. Which developments did the banks and insurance companies experience under the influence of internationalization to the United States? Can we speak of an “Americanization” of the Dutch parent companies? (*Impact*)

This dissertation on the international expansion of Dutch financial companies in the American market contributes in three ways to existing literature. First, instead of only explaining companies’ motives to expand abroad, the research goes one-step further in searching for success factors. It does so by looking at the process after the acquisition of a foreign company or opening of a branch. It has already been acknowledged that for analyzing success or failure, the post-merger process is of vital importance as for example Rene Olie has shown in his dissertation.<sup>60</sup> I think that the post-acquisition process is of equal importance, as has been demonstrated by Jones and Gálvez-Muñoz in *Foreign multinationals in the United States: management and performance*.<sup>61</sup> Therefore, I wanted to gain more insight in how Dutch parent companies managed and organized their American organizations, how they made sure they had qualified executives and how they dealt with differences in work-related culture.

Secondly, most studies focused on the motives for companies to internationalize in general, without making a distinction between different regions in the world. However, because of institutional differences between countries / regions, it might be expected that companies have to approach foreign markets differently. By extracting the American market as the only investment location, experienced by many non-financial companies as difficult, I wanted to give a better insight into factors that might contribute to a successful or unsuccessful entrance.

Thirdly, and the most important contribution of this dissertation to the knowledge of internationalization of financial service companies, will be its in-depth, qualitative research of three case studies and of five activities. The case studies examined over a period from the late 1960s until recent times add detailed long-term understanding to knowledge of the internationalization strategies of financial companies. In other words, the access to company archives gave me the opportunity to get a long-term, historical view of the companies themselves, which not only contributes to business historical literature, but also to the economic studies that explain quantitative developments of internationalization.

*Case studies: three companies and five activities*

Research has focused on the activity level, company level and on the level of the institutional context in which companies operate. I have chosen to analyze three financial companies: ABN Bank, Rabobank and Nationale-Nederlanden. The three companies cover a great part of the Dutch financial sector, as can be seen in table 1. AMRO and NMB Postbank Group have not been case studies. They have been examined only after they merged with one of the three case studies: AMRO with ABN Bank in 1990 and NMB Postbank Group with Nationale-Nederlanden in 1991 respectively, and only when relevant for the entire research. It is important to note here that I used different names for the predecessors of ING Group, due to mergers. The insurance company Nationale-Nederlanden changed into ING Verzekeringen NV in 1991. The NMB Bank changed into NMB Postbank Group in 1989 and into ING Bank NV in 1991. Rabobank, which is a cooperative bank, has often been neglected as a case study when analyzing the internationalization of Dutch banks. It is a very interesting one however, since it adopted a relative late and different path to foreign markets. Additionally, because of its cooperative character the bank formulated different expansion strategies and objectives than for example ABN Bank. AEGON is a large Dutch insurance company with a notable presence in the American market. I had no access to the company archives of AEGON so that I was not able to make an in-depth comparison with the case study Nationale-Nederlanden.

Apart from three companies as a level of analysis, another level of analysis has been defined by activity. I have made a distinction between retail, corporate and investment banking, and between life and non-life insurance activities. Each activity has different characteristics and therefore requires other internationaliza-

tion strategies. Consequently the expansion of each activity across borders might be more or less successful for a company. In banking the difference between *investment banking* and *commercial banking* is most important. Commercial banks accept deposits, provide loans and offer related services (that is the traditional function of a bank). In contrast, investment banks are seen as intermediaries that perform a variety of services, of which the following three are the most important: acting as an intermediary between issuer of securities and the investing public, facilitating mergers and acquisitions and assisting in market introductions. *Universal banking* is a combination of both commercial and investment banking. The difference between investment and commercial banking is important, because a combination of the two (universal banking) was forbidden by law in the US until 1999, which has had implications for the development of the banking sector.

The term *merchant banking* is often confused with investment banking. They are not the same however. As said in a Banker's article, the description 'merchant bank' has a cachet and authority which goes well beyond the apparent meaning of the phrase or its origins in the British trading houses of the eighteenth and nineteenth centuries.<sup>62</sup> Most interesting were the elite merchant banks, which were the 17 members of the Accepting Houses Committee (AHC). Well-known merchant banks were for example Kleinwort Benson, Morgan Grenfell, NM Rothschild and Baring Brothers.<sup>63</sup> Within the group, there were significant differences in size and scope of activities. However, the article stressed that the merchant bankers were not typified by the business they were in, but more by the way they operated. The merchant banks had small funds of their own and instead relied on '...their ability to mobilize resources from other institutions to meet the needs of their clients'.<sup>64</sup>

Commercial bank activities can be divided into *retail and corporate banking*. Most banks develop both activities separated in so-called business lines. Retail banking is a typical mass-market banking activity, which includes services like savings and checking accounts, mortgages, personal loans, debit cards, credit cards, and so on. Customers are local households and small and medium sized enterprises. Corporate banking deals mostly in international finance and long-term loans to large companies and other financial institutions. Because of their knowledge of international finance these banks (or business lines) are specialists in dealing with multinational corporations. Because of the distinctions between corporate and retail banking, different expansion strategies might be needed. Corporate banks that seek to follow their (well-known) corporate clients or to finance trade will prefer opening branches or agencies abroad. On the other hand, banks will make use of foreign subsidiaries and their local knowledge when engaging in general retail banking, because it requires face-to-face contact (trust) with the local client. Corporate banking is also known as wholesale banking. Lately there has been confusion around the term wholesale banking as ABN AMRO used the term wholesale banking for its combined investment and corporate banking activities.

Insurance companies are usually divided into life and non-life insurance. Life insurance covers risks that are linked to the duration of life (long term). Non-life insurance is the same as health, casualty, injury and accident insurance. Different risks-involving classes can be distinguished for non-life insurance: 1) motor (vehicle), 2) accident and health, 3) marine, aviation and transport, 4) building and contents, 5) professional liability and 6) other classes like legal assistance and travel insurance.<sup>65</sup> Because of the long term period of life insurance the risks are often more predictable than of non-life insurance. For example, a hurricane cannot be predicted, and will bring enormous damage to houses, infrastructure and so on. This will go hand in hand with large payments to clients with a non-life insurance policy. A combination of life and non-life insurance in one company has been forbidden for a long time in many countries, among them the Netherlands. However, many companies combine the two in a holding structure. Lastly, it is important to mention *reinsurance* activities. 'Reinsurance means that an underwriter or insurance company lays part of its risks with another company or syndicate. It is in fact a form of insurance that insurance companies buy for their own protection'.<sup>66</sup> Reinsurance can be operated by specialist reinsurance like Swiss Re, or by general insurance companies. I have not included reinsurance activities in the analysis.

### *Institutional environment*

I have researched the case studies in their institutional environment. I have focused on four of the five institutional sub-contexts formulated by Hall & Soskice, namely (2) vocational training and education, (3) the financial system or market for corporate governance, (4) inter-firm relations and (5) employees. Only the sub-context (1) industrial relations has not been included. The role of government has not been mentioned explicitly by Hall & Soskice as a separate institution. It influences the five sub-contexts to a larger or lesser extent. Tschoegl has demonstrated that the role of government has been very important in the development of the banking sector and to a lesser extent in the development of the insurance sector. For that reason, I have included the role of the Dutch as well as American state and their legislation in my research.

The institutional sub-contexts have been described by making generalizations concerning the liberal market economy (LME) versus the coordinated market economy (CME). Hall and Soskice considered the US as an LME and Germany as a CME. I wanted to find out where the Netherlands fits in between these two ideal types. Each chapter starts with institutional generalizations after which the case studies, based on empirical findings, show where the Dutch financial companies are located between the two extremes. Did the Dutch companies coordinate things via the market and hierarchy or via networks? Did the companies use different approaches in coordinating these activities in the American organization? In other words, did they transfer Dutch elements to the American organization, and can

that be seen as an explanation for success? Or did they adapt to the American way of doing business and did the Dutch companies become successful for that reason?

### *Time period*

Research has been done for the period 1965 to 2005. Some Dutch financial companies have always been highly international, but expansion to the United States on a large scale began only in the 1960s. I have chosen 1965 as starting point, after the important national mergers of 1963 into Nationale-Nederlanden and of 1964 into ABN Bank. My intention was to end the research in 2000. However, since many developments that are important for the research question have taken place after 2000, I decided to end the research period in 2005.

### *Measuring success*

Being successful is relative. Success is hard to define and hard to compare. I have measured success by calculating whether companies reached their formulated objectives. Companies may have different goals in their expansion in the American market. For example, the cooperative Rabobank has other principles than ABN AMRO, which results in the formulation of other objectives in its expansion strategies. As can be seen in chapter 4, Rabobank is not as large as ABN AMRO in the US, but it does not necessarily mean the bank has not been successful.

Jones and Gálvez-Muñoz suggested that foreign-owned non-financial companies in the US performed less well than domestically owned ones. One consideration they made was that the US was seen as such a large and important market, foreign companies just wanted to have a presence even if they did not perform well.<sup>67</sup> In that case, there are more factors than just financial performance that have to be considered. Strategic factors might play a role as well. For example, multinationals used strategic asset-seeking activities. By strategic asset-seeking activities we mean 'activities which affect the long-term product-market positioning of firms such that they improve the firm's value without necessarily reducing net costs in the short term'.<sup>68</sup>

The distinction between profit-seeking and asset-seeking companies can also be found in the literature on business systems. Two generalizations between companies in CMES and LMES have often been made. It starts with the assumption that differences in institutions between CME and LME generate differences in companies' strategies. In CMES like Germany and the Netherlands, managing and supervisory boards act in the general interest of the company. In decision-making they have to consider the interests of all stakeholders, like management, employees, consumers, shareholders and state. Shareholders and employees have the same influence.<sup>69</sup> In contrast, in LMES such as the US, companies typically act on behalf of the shareholders, which is among other things the result of the importance of the capital markets in this country. Because of the differences companies in CMES

will focus on the long-term, on the continuity of their organizations, on market shares, while companies in LMEs will try to satisfy their shareholders by focusing on the short-term and on profitability.<sup>70</sup> So, when measuring success of Dutch companies in the American market, it is important to bear in mind that growth can be an important objective apart from making profits. The significance of different stakeholders on the decision-making process plays a decisive role on the outcome of the company's objectives. Therefore, I have included in the analysis other stakeholders besides shareholders, such as management, employees and state. In determining whether the Dutch companies were successful or not, I have studied the objective of safeguarding the continuity of the organization by enlarging market share. It has to be seen whether the Dutch companies started resembling more the ideal type named LME and adopted short-term and profit-oriented objectives by the influence of more demanding shareholders.

### *Business archives*

Nationale-Nederlanden, Rabobank and ABN AMRO gave full access to the company archives until 1996, which made an in-depth study of the companies possible. I have studied Board minutes, policy reports, visiting reports, correspondence, annual reports and social reports. For the period 1997-2005, I made use of secondary literature, annual reports, press releases, newspapers and magazines. Besides that, I have interviewed executives who have been directly or indirectly involved in the expansion in the American market (see p. 273 for list of interviewees). Lastly, I have visited New York where I was able to speak with executives directly involved. It gave me also the opportunity to visit the New York branch of Rabobank.

### Chapters

After the introduction, the expansion of ABN Bank (ABN AMRO), Rabobank and Nationale-Nederlanden (ING Verzekeringen NV) in the American market are analyzed. Every chapter starts with generalizations of the Dutch and American business system. It describes two ideal types based on the business system literature. The ideal types function as a setting in which the Dutch companies had to operate. Then, in each chapter I have analyzed the three case studies, which end each with a short summary. Generalizations of two extremes together with the empirical findings of case studies give insight as to where the Dutch financial companies are located between a LME and a CME (see the above section on Institutional environment). All chapters conclude by comparing the case studies, which results in the formulation of success factors.

In the first chapter, the focus is on the expansion of commercial banking (corporate and retail) and life and non-life insurance activities in the American market. The chapter starts with a comparison between the Dutch and American state and banking legislation. Apart from motives to expand, the chapter analyzes

the moment, the location and type of expansion. The chapter gives insight in the locational advantages of the American and Dutch market for the financial companies.

In chapter 2 and 3, I have looked at the processes after the acquisitions, which made ownership advantages of the Dutch companies apparent. In chapter 2, I have analyzed the way the Dutch companies integrated, structured and managed their American organizations. Here I answer the question whether the American organization was managed at arm's length or by integrating it into the organization. I have looked at organizational structures at corporate level in general and at the relation between the American organization and the Dutch parent in particular. Management positions, reporting lines and various control mechanisms have been examined. The chapter gives a better understanding of possible managerial difficulties the Dutch head offices encountered.

Chapter 3 analyzes the human factor and corporate culture. In service-related business, the human factor is of vital importance, especially if companies are knowledge driven. I wanted to find out which changes took place in the management of the American organization. I have looked at the actual executives of the American organization. Moreover, the chapter analyzes how the Dutch parent tried to motivate foreign talent by looking at the hiring, promotion and training policies of the companies. For head office, it is important to inspire its foreign employees by giving them responsibilities and at the same time to make sure they feel familiar with the Dutch company they work for by introducing common targets, branding and corporate culture. Given the differences in work-related culture between the Netherlands and the us, it is interesting to see how the Dutch financials dealt with these issues.

In chapter 4, the financing and performance of American acquisitions have been analyzed. The dissertation has foremost a qualitative approach by trying to give a detailed description of developments. It shows part of the success of the Dutch financial companies, since I defined success as being more than making profits. Naturally, when measuring success it is important to include a quantitative approach as well. I have measured success of the American expansion in two ways, first by calculating growth of assets and second by calculating profitability. I wanted to find out two related things. First, how large was the American organization as compared to the rest of the company. In other words, how important have the American activities become? Second, how did the American organizations perform as compared with the parent or others? Obviously, for a company to be able to expand it needs capital. The chapter shows whether the Dutch banks and insurance companies were able to find a balance between expansion and solvency.

Lastly, chapter 5 examines the expansion of investment banking with a focus on the 1990s. Instead of ING Verzekeringen NV, I analyzed ING Bank NV as a case study, apart from ABN AMRO and Rabobank. The reason investment banking has been separated from commercial banking had to do with the different characteristics of the activities and therefore in companies' strategies. The expansion of

commercial banking and insurance activities in the American market can be explored in isolation from the rest of the internationalization strategy of the companies. However, investment banking was seen as a worldwide activity, which needed a global presence, of which the American market was a very important part. The chapter reveals that the Dutch companies have not been so successful in the investment banking business, as opposed to commercial banking and insurance. The locational and ownership advantages were quite the opposite of the ones that were inherent to commercial banking and insurance as described in the chapters 2-4. Therefore, the findings of chapter 5 strengthen my arguments of these chapters.

The conclusion of the dissertation summarizes in which activities the Dutch financial companies have been successful and in which they have not. I give a detailed survey of all supporting and restraining factors for successful expansion in the American market. The role of the Dutch business system in the internationalization process is explicitly mentioned. Finally, the chapter concludes on the extent to which the Dutch business system is changing, and in which direction.



## Commercial banking and insurance

### Introduction

This chapter analyzes the expansion of commercial banking and insurance activities in the American market by ABN Bank (ABN AMRO since 1990), Rabobank, and Nationale-Nederlanden (ING Verzekeringen NV since 1991). The chapter examines what motivated them to expand abroad and why they went to the US. Local companies tend to have better knowledge of the local market, products and culture than foreign ones. Nonetheless, the Dutch financial companies expanded in the American market on a large scale. The chapter discusses which locational advantages the US offered them and which locational factors in the Netherlands pushed and stimulated them. Moreover, this chapter gives an overview on when and how the companies expanded into the American market. It offers a survey of the most important acquisitions, participations and branches. The three Dutch companies followed an incremental expansion process related to learning from their own experience, by incorporating people and other companies, and by actively searching for information (Uppsala Internationalization Process model). The ownership advantages of the Dutch companies are not discussed in full, because these are covered in the following chapters. In effect, chapter 1 can be seen as the starting point, in which the expansion of the three Dutch case studies is described in a chronological way and in which some important issues are raised that are then discussed in more detail in chapters 2, 3 and 4.

The chapter has been structured as follows. First, a comparison is made between American and Dutch legislation. State and legislation have been an important part of the bank's environment. Banks have to take government policies and banking acts into account when formulating their international strategies. Next, the expansion of ABN Bank to the US is analyzed with a focus on legislation as a possible locational advantage. The expansion of Rabobank is dealt with in the following section. Here the focus is on the American agricultural market as a locational advantage. Rabobank experienced difficulties at first, but managed to formulate a rather unique strategy in the end. Then, Nationale-Nederlanden and its motives for expanding in the American market are discussed. Finally, the chapter concludes with a comparison between the three case studies.

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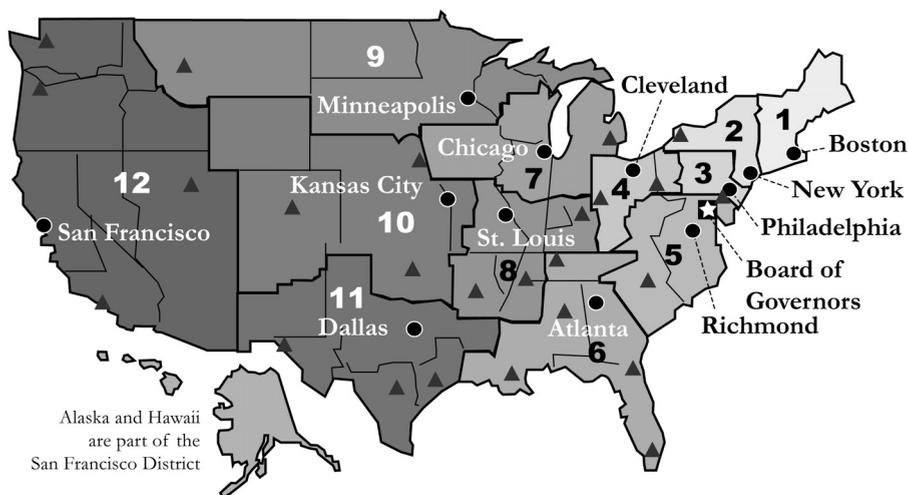
## Banking legislation in the United States and the Netherlands: a comparison

As early as 1814, King William founded De Nederlandsche Bank (DNB), which at that time had no responsibility for monetary or financial stability. It could be characterized as a commercial bank, which was permitted to issue bank notes.<sup>1</sup> From 1850 on, economic prosperity led to an increase in the demand for credit. As a result, DNB increasingly became a finance company, strengthened by the Bank Act of 1863, which stimulated DNB to open offices in the entire country. With the rise of private banks, this function of financier became less important, and DNB found new clients in the private banks themselves. This meant that the function changed from a finance company for business to a finance company for private banks. Under the influence of the economic crisis in 1920s, the Dutch government erected a state commission to investigate the advisability of formal supervision on private banks. Unfortunately, its work was ended in 1940 because of World War II. After the war, in 1948, the Dutch Parliament adopted a Bank Act, which led to the nationalization of DNB. It gave DNB responsibility for both macroeconomic stability and stability of the financial system. In 1952, a separate act was passed that provided a more detailed legal basis for the regulation and supervision of the banking sector, called Act on the Supervision of the Credit System (*Wet Toezicht Kredietwezen, Wtk*).<sup>2</sup>

The US has a dual banking system consisting of a federal and a state level. Authority over financial regulation is partly divided and partly shared between these two levels. On 23 December 1913, the Federal Reserve Act created the Federal Reserve System (Fed), which serves as the American central bank. It consists of a seven-member Board of Governors with head office in Washington D.C. and of twelve Reserve Banks located throughout the US. Twenty-five Branches of these Banks serve particular areas within each District.<sup>3</sup> A severe economic crisis in 1907 formed the reason to pass the Act. The Fed was erected to provide a more stable monetary and financial system.

Gradually, DNB had developed as a lender of last resort, giving liquidity support to individual banks. In addition, its supervision activities had developed gradually, from an informal nature to a legal one in 1952. In contrast, the American central bank was established from scratch in 1913, instead of steadily developed. One more example will illustrate a difference that relates to the one mentioned above. In 1946, DNB agreed on the provision of monthly statistics, with 42 commercial banks and two central organizations of the agricultural banks although DNB did not have formal responsibility for banking regulation and supervision at that time. The cooperation was formalized in a Gentlemen's Agreement. DNB used these figures only for monetary policies. In the US, this kind of cooperation with and support of commercial banks did not exist when the Fed was created. Supervision in the Netherlands in general was based on the principle of consulting the Dutch

Graph 1: *Twelve Federal Reserve Districts of the US*



- ☐ Board of Governors of the Federal Reserve System, Washington D.C.
- Federal Reserve Bank city
- ▲ Federal Reserve Branch city, by District

Source: <http://www.federalreserve.gov>

representative organizations before any general instruction was given. The Minister of Finance designated the Dutch Bankers' Association (*Nederlandse Bankiersvereniging*) as the representative organization for commercial banks, of which among others ABN Bank and predecessors were members.<sup>4</sup>

In the WtK of 1952, three forms of supervision were distinguished, i.e. monetary, prudential and structural supervision. Monetary policy deals with stable currencies, whereas prudential supervision has to do with protecting the banks' creditors by securing stable, solvent and well-managed banks.<sup>5</sup> DNB set rules for required liquidity (1954) and capital-asset ratios (1958), or in other words liquidity and solvency requirements. The monetary and prudential supervision functions of the Fed were quite similar and involved conducting the nation's monetary policy, supervising, and regulating banking institutions.<sup>6</sup>

The Fed and DNB's third function of structural supervision was carried out differently. This function involved maintaining the stability of the financial system and containing systemic risks. Structural supervision dealt foremost with preventing financial conglomerates from becoming too dominant and powerful.<sup>7</sup> In the US, the most important federal law for structural supervision was the Glass Steagall Act (1933). It placed limits on commercial banking and enforced the separation of commercial and investment banking. Three types of banking institutions

evolved that were not allowed to enter the market segment of the other: investment banks, commercial banks and saving banks. In the Netherlands, structure policy only came into existence when the WtK was enacted in 1952.<sup>8</sup> The purpose of the structure policy was to prevent a concentration of power. First, banks were not allowed to invest in non-banks by share ownership (*banques d'affaires*). Second, it prohibited the participation of banks in insurance companies and vice versa. In other words, they were not allowed to hold significant amounts of each other's shares. Lastly, DNB had to approve banking mergers. It had the power to refuse a declaration of no-objection if in its opinion a merger would lead to an undesirable development of the credit system. However, as opposed to the situation in the US, there was no restriction on universal banking. This meant that Dutch commercial banks were allowed to exploit activities in securities business. Moreover, despite the purpose of the structure policy, DNB often reacted in a pragmatic way. The central bank approved two bank mergers in 1964 (Amsterdamsche and Rotterdamsche Bank into Amro Bank; Nederlandsche Handel-Maatschappij and Twentsche Bank into ABN Bank). One of the reasons for DNB's decision was the need for the banking system to strengthen its position in the international financial playing field.<sup>9</sup>

Apart from segmentation by type of banking institution, another act in the US led to segmentation along geographical lines. The federal McFadden Act (1927) gave states the right to limit interstate banking and intrastate branching. Despite these acts in the US, a few US banks had established multi-state operations or had expanded into non-banking activities by setting up a bank holding. That was why The Bank Holding Company Act of 1956 was passed. The new act was designed to achieve two objectives: First, the act limited the interstate operations of bank holding companies by preventing them from acquiring a bank in a second state unless the second state specifically authorized the acquisition (limits on interstate banking). Second, it restricted the activities of bank holding companies to banking and closely related activities.<sup>10</sup> After 1956, there remained six multi-state bank holding companies in operation due to a grandfather clause.

The differences in supervision led to different developments of the banking sector in the US and the Netherlands. In the US, it seems that the overall policy of keeping a balance in the financial system was the higher goal and everything had to be done to make sure that banks did not gain too much power and would be able to undermine the balance. Structural supervision in the US, which had been the outcome of economic crises in the 1920s, led to sharp distinctions between activity and geographical lines, and therefore had major impact on the banking sector in the long run. Although it was known that the banking system did not function efficiently, nothing changed until the late 1990s due to political pressures. As Charles Calomiris stated: 'Limits placed on banks (...) are artifacts of specific historical events and associated political battles in which facts and economic logic often took a back seat to special interest politics, and occasionally, to populist passions'.<sup>11</sup> DNB had a more informal relation with the banking sector. At least

Dutch banks had their say through banking associations when changes did occur. Naturally, in the Netherlands, fear of the emergence of dominant players existed as well. However, structural supervision was more used in a pragmatic way. DNB's approval of the two major mergers in 1964 is an example of this. DNB understood that banks had to be able to compete with foreign banks, maybe because of the small size of the Dutch home market.

Restrictions in the US on the ability of domestic banks to expand geographically or to diversify into other activities, led to an American banking system which was highly fragmented consisting of many small banks. In 1977, there were almost 14,000 banks in the US that as compared to Dutch banks had remained small, owning only a few branches. The number of branches per bank averaged 2.1 in the 1970s. Most important aspect for this study was the fact that American branches and agencies of foreign banks were not subject to federal supervision or regulation until 1978. This meant that prior to this date foreign banks were able to exploit locational advantages in the US in contrast to American banks.

A general American policy concerning foreign banks did not exist, as it was often in the jurisdiction of the states. This meant that each state determined whether it wanted to open up to foreign banks. Georgia and Pennsylvania amended state banking policies in 1976 inviting foreign banking organizations to locate an office in these states. As a result, foreign banks were able to be active in different states by means of opening up full-service offices. Because of the ban on interstate banking (McFadden Act) domestic banks were not allowed to do so. Secondly, foreign banks were free to acquire banks in different states (multi-state activities of foreign banks). Such foreign acquisitions were possible because in-state banks were prohibited to acquire another local bank on anti-trust grounds and out-of-state banks could not acquire them because of the Bank Holding Company Act.<sup>12</sup> So, major opportunities in American banking were 'reserved' for foreign banks only. Thirdly, the Glass Steagall act did not apply to foreign banks and their subsidiaries operating in the US. Therefore, foreign banks were able to employ securities activities by means of starting or participating in Securities Corporations. Lastly, the lending limit of offices of a foreign bank was determined by the net assets of the parent bank in its entirety, which gave these offices a strong position in the American market.<sup>13</sup>

In short, the US banking system was highly fragmented and banks remained relatively small due to federal restrictions on expanding. Foreign banks could quite easily penetrate the US market because these restrictions did not apply to them. The local banks soon noticed this competitive advantage of foreign banks vis-à-vis US banks. By the beginning of the 1970s, American banks opposed the growing presence and competition of foreign banks in the US. Therefore, the Fed started investigating the activities of foreign banks in the US and, in 1974, asked Congress for a new International Banking Act, to protect domestic banks from the unfair competition of foreign banks.

Many of the interested parties pleaded for equal treatment for all banks, for the extension of federal authority at the expense of the states, and for the protectionist restraints on foreign banks in the US. As we have seen, single states were able to attract foreign banks by allowing them to open an agency or branch. The proposed International Banking Act would substantially restrict the rights of states to determine their own policies with respect to foreign banking activities within their borders. This led to the fear of some states that with the enactment of the International Banking Act, by which foreign banks would be limited to a single state for their operations, banks would base their activities in the existing financial centers of New York, California and Illinois. A discussion did also take place among US banks. Small US banks hoped for the same restrictions on foreign banks as on domestic banks, whereas large US banks were hoping that the foreign invasion would wear away the barriers to interstate banking and would break down the barrier between commercial and investment banking. They hoped that by liberating the banking regulation at large, the possibilities of expansion for them would improve as well. After long debates the International Banking Act of 1978 was enacted. Its purpose was to eliminate the advantage of foreign banks over US banks. This meant that foreign banks were subjected to the same restrictions as domestic banks and that the barriers to interstate banking and universal banking remained in force. It required foreign banks to select a home state and prohibited them from opening any new full service branches or forming/acquiring any state or national bank subsidiary outside the home state.

In the 1990s, the barriers due to American legislation have gradually disappeared. Most important has been the Riegle-Neal Interstate Banking and Branching Efficiency Act (1994), which repealed the McFadden act and allowed interstate banking. The second important act has been the Gramm-Leach-Bliley Act (1999), which replaced the Glass Steagall act. The new act allowed securities firms and insurance companies to purchase banks. It also allowed banks to underwrite insurance policies and securities. As a result of these acts, the number of branches per bank increased to 8.4 in 2002. Also the number of banks declined because of a consolidation process aided by deregulation. In the Netherlands, the structure policy had already been liberalized in 1990. Insurance companies and banks were allowed to merge. It led to a merger wave in the Dutch financial sector. ABN and Amro merged in 1990 to ABN AMRO. In 1989, NMB Bank and state-owned Postbank merged, and in 1991, the combined banking organization merged with the insurer Nationale-Nederlanden into ING Group. AMEV and VSB Bank combined their activities into Fortis. Rabobank took advantage as well by a merger with the insurance company Interpolis and a strategic alliance with Robeco Group, an asset manager.<sup>14</sup>

In the Netherlands, DNB's approval of the mergers in 1964 and 1972 led to an oligopolistic market. Concentration led to a relatively small number of banks, all of which had built up a large branch network. At the end of 1976, the number

of registered credit institutions was 71, of which 31 were offices of foreign banks. Especially the three major Dutch banks ABN Bank, Amro Bank and Rabobank had been able to build up a large network. In table 1, we see that for example in 1980 ABN Bank had 718 branches in the Netherlands, and Amro Bank even had 873 branches.

**Table 1: *Number of branches of ABN Bank and Amro Bank in the Netherlands***

Year	ABN Bank	Amro Bank	Total
1965	359	544	903
1970	528	673	1,201
1980	718	873	1,591
1990	708	762	1,470

Source: Zanden, Jan Luiten van and Roland Uittenbogaard, 'Expansion, internationalisation and concentration, 1950-1990', in: *Worldwide banking. ABN AMRO Bank 1824-1999*, edited by Joh. de Vries, Wim Vroom, et al. Amsterdam, 1999, p 344.

In table 2, we see that in 1964 the three largest banks had a 50% market share and in 1980 this percentage had climbed to 65%. In an article by Adrian Tschoegl, in which he asked himself the question what characteristics the ten foreign banks that owned the twelve largest US subsidiaries had in common, he concluded that the parent banks were large and moreover tended to be from English speaking countries.<sup>15</sup> More notable however was the conclusion that the parent banks were not only large, but often *the* largest bank in their home country. Since the 1970s ABN Bank had been the largest bank on the Dutch market.

**Table 2: *Market shares\* of ABN Bank, Amro Bank and Rabobank in the Netherlands***

Year	ABN Bank	Amro Bank	Cooperative agricultural banks	Total
1964	13.8	14.4	21.0	49.2
1970	21.0	17.6	20.8	59.4
1980	23.8	20.6	20.6	65.0

\* Market share in cumulative assets total of all banks (%)

Source: Zanden, Jan Luiten van and Roland Uittenboogaard, 'Expansion, internationalisation and concentration 1950-1990', in: *Worldwide banking. ABN AMRO Bank 1824-1999* edited by Joh. de Vries, Wim Vroom et al. Amsterdam 1999, p. 346.

The fact that the three largest banks possessed around 65% of the market means that the Dutch banking sector was oligopolistic. Knickerbocker showed that rivalry of oligopolistic firms on the domestic market is often a reason for companies to follow each other into foreign markets.<sup>16</sup> This follow-the-leader expansion strategy is a defensive one and played a role as well, as we will see when discussing Rabobank and ING. More in general, all three banks were confronted with a saturated home market with few opportunities for growth. In order to survive and to secure the continuity of the company they looked for possibilities abroad. This confirms the suggestion that domestic limits on growth are a (push) factor in FDI decision.

In the Dutch market, the development of just a few large banks was in sharp contrast with the US where a large number of small banks had developed. The oligopolistic and saturated home market pushed the Dutch banks to foreign countries, including the US. The Dutch companies did not have equal success in doing so, due to characteristics of the US market and of differences between the companies themselves.

### **ABN Bank**

The predecessors of ABN Bank had traditionally been highly international. One of them, Nederlandsche Handel-Maatschappij (NHM), was active in the former Dutch colony of Indonesia. Independence for this country led to fewer possibilities for NHM. That is why it shifted its focus to Africa, but political instability in this continent made it difficult to pursue banking activities. In 1968, ABN Bank acquired Hollandsche Bank-Unie (HBU), which had a strong network in Latin-America and an agency in Istanbul. However, also in Latin America political problems made it very difficult for banks to function. The vulnerability of ABN Bank's international strategy became even more apparent with the reduction of its investments to a minority share in Saudi-Arabia and Suriname. Because of these setbacks, the bank formulated a new strategy in the early 1970s.<sup>17</sup> This was directed towards expansion in countries with political and economic stability, or more precisely in Western Europe and the US. The bank was of the opinion that foreign expansion was of great importance for its entire continuity. The Managing Board thought that if the bank wanted to survive as an independent bank, it had to become one of the largest banks in the world. Since there were limited opportunities left in the Dutch market, expansion had to take place outside the Netherlands.<sup>18</sup> Apart from the fact that the US was an economically and politically stable country, other motives for expanding to the US played important roles as well. The US was seen as a country with a strong and convertible currency, a well-developed capital and money market and a liberal market economy. Preference for the US was also prompted by the desire of ABN Bank to have a dollar reservoir at its disposal.<sup>19</sup> Furthermore, expansion was needed because of increasing efforts by Dutch companies to establish themselves in the US (follow-the-client strategy).<sup>20</sup>

The new philosophy was soon followed by discussions on the difference between developing corporate and retail banking activities. The Managing Board agreed that for corporate banking the opening of new offices was required, whereas for the development of retail banking a local bank had to be taken over. The Managing Board argued for the development of corporate as well as retail banks in the US. In the opinion of the Managing Board, especially as expressed by R. Hazelhoff, who was the member responsible for international activities at the time, it would be hazardous to build up corporate banking activities only. ABN Bank could become structurally unbalanced, since it would become too dependent on the money market, which made funding expensive. If the bank also expanded into retail banking, it would be able to finance a part of the debt with third party money.<sup>21</sup> The debate resulted in the setting of two main objectives. One objective was to expand the ABN Bank's activities in the US by means of new branches, agencies and representative offices under the ABN Bank name, with the aim of reinforcing the asset side of the US business. The other one was the acquisition of (or majority participation in) a retail bank with third party money and its roots in the local community, with the aim of reinforcing the liability side of the balance. A combination of both objectives would lead to a strong American division well balanced in structure, which was able to serve international clients, the local middle market and retail clients.<sup>22</sup>

At that moment ABN Bank only possessed an office in NY, which had started in 1941 and at first was active in the import and export business between Indonesia and the US. After WW I New York has become the financial centre of the world.<sup>23</sup> Increasingly the branch developed commercial arrangements with large American companies as well.<sup>24</sup> Within five years from 1975, ABN Bank had increased the number of American offices to seven, located in the major cities of different states: Chicago, Los Angeles, Houston, Atlanta, San Francisco and Pittsburgh. As a result, in 1980, the bank had spread throughout the US in corporate banking, serving the large international clients. Apart from this multi-state expansion, ABN Bank also expanded to non-banking segments of the market. Through its participation in the ABD Securities Corporation in New York, ABN Bank exploited activities in securities.

With this network of branches in some of the major cities of the US, ABN Bank had achieved one of its objectives. The other one, starting retail banking activities, was more complicated. The bank had three options to build up its retail banking activities. The first alternative was expanding under the company name ABN Bank, but the major disadvantage of this option was that the average American was not familiar with the Dutch brand name. The second option was to set up an entire new bank, which was expected to be very costly, and the third option was the acquisition of a small bank.<sup>25</sup> It was decided to buy a local retail bank, preferably in the states of New York or California. However, the number of available banks on the east and west coast was limited and prices were high. The reason for this

Table 3: *ABN Bank's network in the US by 1980*

Year	State	City	Type*
1941	New York	New York	Branch
1975	Illinois	Chicago	Branch
1975	California	Los Angeles	Agency
1977	Texas	Houston	Representative office
1978	Georgia	Atlanta	Agency
1978	California	San Francisco	Agency
1978	Pennsylvania	Pittsburgh	Branch
1979	Illinois	Chicago	Subsidiary

\* *Branch*: Is an integral part of the parent; when the parent goes bankrupt so will the branch. A branch makes loans and takes deposits and has its own books. Banks generally use foreign branches for corporate banking.

\* *Agency*: Is an integral part of the parent; when the parent goes bankrupt so will the agency. An agency makes loans and has its own books, but does not take deposits (Atlanta). Sometimes allowed to take deposits from non-residents of the US (Los Angeles and San Francisco)

\* *Representative office*: It performs liaison activities for the parent. Has no separate legal identity and cannot make loans or take deposits. Banks may use representative offices to source loans or deposits that a bank then books in a branch elsewhere (Houston: clients are booked in New York)

\* *Subsidiary*: is a separate legal identity incorporated in the host country, in which the foreign parent has majority ownership. A subsidiary may fail even though the parent is solvent, and vice versa.

Source: Minutes of Supervisory Board and Managing Board.

was the fact that every international bank was trying to establish in these regions.<sup>26</sup> In 1978, ABN's board considered the acquisition of LaSalle National Bank (LaSalle). It was a small, but efficient and well-managed bank.<sup>27</sup> The bank was not located in New York or California but in Chicago, located in the state of Illinois. It was one of the largest industrial areas of the US with a great number of large companies. Moreover, the Midwestern region was not over-banked yet. On 14 August 1979, ABN Bank bought LaSalle. Since US regulation was very complicated, with lengthy procedures and negotiations with the American authorities, it had taken almost a year to close the deal.<sup>28</sup> The new subsidiary operated as an entity on its own, separate from the other ABN Bank offices and it continued to operate under its own name. These two different approaches to internationalization suggest that ABN Bank was well aware of what was the best way to approach their clients and prospects. It was recognized that the acquisition of a local retail bank had to be

seen separately from opening specialized offices in major cities: 'a complete different approach is needed'.<sup>29</sup>

Not only did ABN Bank learn by its own experience, but also American employees in the ABN branches and agencies did bring knowledge of the American market. More than once Dutch top managers paid visits to the ABN Bank offices to check and control them, but also to learn from them. The acquisition of a company like LaSalle increased the learning process even faster. In this way the bank did not only get access to American employees, but also to American management, products and market knowledge. Lastly, ABN Bank was informed by outsiders, like lawyers, who proactively searched for information about new alternatives. More than once Mr. Orr, lawyer of investment company Lazard Frères & Co, was consulted on banking legislation and its consequences for the banking sector. Also for the difficult and long procedures which ABN Bank had to undertake for acquiring LaSalle, Mr. Orr was consulted. He was asked to undertake an overview of all the transactions to be done and an intensive correspondence followed during the year prior to the closing deal. Occasionally Mr. Orr sent articles on interesting topics, including changing legislation, to ABN Bank's head office in the Netherlands.

In the 1970s ABN Bank faced some locational advantages, which were a result of the specific characteristics of the American banking system. First, the relatively small American banks often did not have an extensive international department. ABN Bank on the other hand had already built up an impressive international branch network. The most important advantage however was the fact that American branches and agencies of foreign banks were not subject to federal supervision or regulation until 1978. The question is whether ABN Bank took advantage of the opportunities created by American banking legislation, when it expanded into the American market in the 1970s.

As early as 1973, the Managing Board and Foreign Directorate of ABN Bank were informed by a research report, drawn up by the bank's internal fiscal department in cooperation with an American fiscal adviser, on the rumors of changing American banking legislation.<sup>30</sup> The report attempted to predict the implications for foreign banks, if new banking laws were enacted. Most important were the predictions that in the future the authorization of foreign banks would be a matter for the Fed and that the same restrictions would apply to foreign banks as to domestic banks. We can conclude that ABN Bank knew about the possible changes in American banking law at an early stage. It decided to react quickly before the competitive advantage of legislation might disappear. ABN Bank's rather abrupt decision to start offices in major cities in a relatively short period can be seen in the light of this impending legislation. It was stressed that immediate action was necessary.<sup>31</sup>

It was for individual states to determine whether a foreign bank could enter at all and if so what kind of office it was allowed to open: a branch, an agency or

only a representative office. Naturally, ABN Bank preferred states where it could open branches, that were permitted to exploit all banking activities, rather than just agencies and/or representative offices, which had limited business possibilities.<sup>32</sup> At first, many states did not allow foreign banks to enter at all, but on a case-by-case basis they lifted their restrictions. In 1973, for example, the two options for establishing a branch without restriction were in the state of Illinois and, with limitations, in California. ABN Bank soon exploited these opportunities that were available to foreign banks. Already in 1975, as a result, it established a branch in Chicago (Illinois) and an agency in Los Angeles (California).

In 1977, Florida, Georgia and Pennsylvania also amended state banking policies to invite foreign banks to locate there.<sup>33</sup> These states wanted to acquire the status of centres with an international role, just like New York and California. This suggests that states competed for international financial activities. Georgia and Pennsylvania lowered the restrictions on the location of foreign banks. Again ABN Bank took advantage of this liberalisation. In 1977 ABN Bank proposed the establishment of agencies in Atlanta (Georgia) and San Francisco (California) and in 1978 the establishment of a branch in Pittsburgh (Pennsylvania). In Pennsylvania, it was necessary to act fast, because in this state it was possible for a foreign bank to open a full branch. In accordance with the proposed International Banking Act, the choice of a home state was limited to the states where ABN Bank had deposit taking branches. At that time, these were only the states of New York and Illinois, so the addition of Pennsylvania would increase the prospects of acquiring a local bank in the future.

The following example illustrates that ABN Bank considered its opportunities and did not take unnecessary risks. It weighed the advantages and disadvantages of every possible branch or agency very well. Although the new state law of 1977 in Florida also permitted the entry of foreign banks, for ABN Bank the prospects here were still insufficient. Under the new law, foreign banks were allowed to open an agency. However, an agency in Florida was not allowed to accept deposits from residents, or from non-residents. It meant that ABN Bank would not be able to take advantage of indications from Latin-America that Florida might be a suitable investment location. Furthermore, there still existed restrictions on granting loans. Normally, an agency was able to grant all kinds of loans, but in Florida local loans were excluded.<sup>34</sup> In practice, an agency in Florida was only authorized to be active in lending that was related to international and foreign business. This meant that an ABN Bank agency in practice would be no more than a representative office. ABN Bank was of the opinion that existing and prospective clients in Florida could be served equally well from another financial centre of the bank. A physical presence of ABN Bank in Florida under these circumstances was seen as increasing costs with little to compensate for this. For that reason, the bank decided not to open an office in Miami (Florida).

Not only did states differ in their openness to foreign banks, they also differed in their rules on interstate and intrastate branch networks, as a result of the federal

McFadden Act. In some states branches were completely forbidden and in some domestic banks were allowed to open branches in contiguous counties only (area branching). Because of the legislation on branch networking ABN Bank had to choose, just like domestic banks, in which city to locate. For example, in Pennsylvania a choice had to be made between Pittsburgh and Philadelphia. Criteria for this choice were especially the presence of large companies (Fortune's 1000 companies)<sup>35</sup>, degree of competition, market size, future developments of the area, and tax legislation.<sup>36</sup>

In conclusion, prior to 1978 federal law did not restrict foreign banks in contrast to domestic banks. ABN Bank took advantage of this opportunity by building up a network of offices before the law changed. This pointed to the fact that the bank was indeed quite well informed about the situation in the US and the different state legislation. Legislation at state level determined in which states ABN Bank located its offices. Moreover, ABN Bank had always been one of the first to establish an office in a newly opened state. In Pittsburgh ABN Bank's application was the first one together with a Canadian, British, German and Japanese bank.<sup>37</sup> In addition, in Atlanta foreign competition was small at start; only Barclays possessed an agency at the moment of ABN Bank's application.<sup>38</sup> Crucial in ABN Bank's strategy was the hope of a so-called grandfather clause, whereby offices that had already opened before the new International Banking Act, were permitted to remain active. There were some risks involved because this grandfather clause was hoped for but it was not guaranteed. To reduce this risk the offices in for example San Francisco and Atlanta were only set up in a modest way, without much capital involved and with a small staff.

The enactment of the International Banking Act of 1978 obviously had consequences for ABN Bank. Fortunately for the bank, it was permitted to continue full service branches or bank subsidiaries outside the home state if already established prior to 27th July 1978, due to a grandfather clause. ABN Bank's offices in New York, Chicago, Pittsburgh, Houston, Los Angeles and San Francisco remained active. However, the deposit taking powers of ABN Bank's agencies in Los Angeles and San Francisco continued to be limited by state law. In addition, non-banking activities that existed before 25 May 1977 were grandfathered. This meant that ABN Bank was allowed to retain its participation in ABD Securities Corporation in New York. When ABN Bank acquired LaSalle in 1979, the bank had to be registered as a bank holding company, which meant that the Bank Holding Company Act of 1956 came into practice. Illinois became its home state as long as it owned a national bank headquartered in that state. The network of branches and agencies in different states was an advantage for ABN Bank, because by now the only way to expand outside the home state was by means of Edge Act branches. Edge Act corporations had fewer opportunities than the branches that ABN Bank already possessed. These kinds of branches were originally meant for US banks. Through Edge Act corporations, US banks had been able to conduct deposit and loan

business in the American markets outside their home states, only if the operations of these corporations were related to international transactions. One advantage of the Edge Act corporations was that this kind of federally chartered banking institution could not be excluded by states that otherwise prohibited foreign banks. In 1982, ABN Bank opened two Edge Act branches, one in Seattle and one in Miami.<sup>39</sup> So, not only was ABN Bank's existing network an advantage vis-à-vis American banks, but also vis-à-vis foreign banks that entered the American market after 1978 or that had not yet built up such a network of branches and agencies.

ABN Bank had taken a smart decision with the acquisition of a local bank LaSalle in the state of Illinois. Illinois was the third financial centre after New York and California, but foreign banks had not yet rushed to enter it. With the enactment of the International Banking Act, the wishes of the large American banks had not been fulfilled. Instead of overthrowing the barriers to expansion into non-banking activities and to other states, the act had equated foreign banks with domestic banks, which still imposed many restrictions on expansion. This meant that if a hypothetical middle-sized bank in Illinois wanted to be taken over after 1978, there were only a few possibilities, actually even fewer than before the International Banking Act was enacted. The bank could not be taken over by out-of-state banks, because that was still unlawful, neither by the larger banks of Illinois, because of anti-trust legislation, and neither by foreign banks with another home state, because that by now was unlawful as well. There was a possibility that a foreign bank that had not yet entered the US market and therefore had not made its home state selection, could be interested in taking over the bank. However, it was unlikely that such a bank would take a large first step into this (to them unknown) market by immediately taking over a local bank. The only option for this hypothetical bank was to be bought by a foreign bank with Illinois as its home state. Because Illinois was not over-banked yet, there were only two banks in this category: Credit Agricole of France and ABN Bank. Credit Agricole had opened a branch in Chicago in 1979 and had stated they would pursue only agri-banking business<sup>40</sup>, which left many opportunities for ABN Bank. Moreover, in 1984 Credit Agricole opened a New York branch, whereupon New York became its home state. That same year Bank of Montreal (Canada) bought Harris Bank, after which Illinois became its home state. Until today ABN AMRO and Bank of Montreal are the only foreign banks with Illinois as their home state. As a result, competition on the banking acquisition market was low and ABN Bank had the opportunity to expand relatively easily by means of buying other local banks.

Indeed ABN Bank again took advantage of the opportunities. The Dutch bank increased its market share in order to remain competitive. In 1980 Hartford Plaza Bank, which was no more than a bank office, was taken over and fully integrated with LaSalle.<sup>41</sup> Six years later, in 1986, Bank of Lisle was acquired and merged with LaSalle. Bank of Lisle was the only bank in the town of Lisle, which meant that LaSalle obtained a monopoly position there.<sup>42</sup> In 1988, a bigger transaction occurred with the acquisition of Lane Financial Inc. It was a bank holding

consisting of four banks with 9 branches in Chicago and surroundings.<sup>43</sup> LaSalle, Bank of Lisle and Lane Financial were all three placed in a bank holding company, named LaSalle National Corporation. By this time, ABN Bank possessed one of the biggest banks in the state of Illinois. In 1990, Exchange Bancorp Inc, a holding consisting of four banks of which Exchange National Bank of Chicago was the most important, was taken over and integrated with LaSalle.<sup>44</sup> The share of LaSalle National Corp. in the middle market, which focused on the medium sized companies, rose from 6% to 12%.

In 1990 ABN Bank merged with Amro Bank. The presence in the American market of the latter had been modest. Most important was its participation in the European American Bank located on Long Island, New York.<sup>45</sup> Before the merger with ABN Bank, Amro Bank, as a member of the EBIC consortium, had a share in the European American Bank. In 1989, the bank enlarged its share to 66.33%. The American bank had experienced many difficulties. One of the reasons had been the fact that before 1989 none of the consortium partners felt responsible. Moreover, it was hard to carry through policy changes since not one partner had a majority. Therefore, after the merger, ABN AMRO increased ownership to 100%. The merger with Amro Bank to form ABN AMRO was a good moment to reconsider the expansion strategies on the American market. Due to the merger, ABN AMRO had the necessary capital to expand. It had been one of the reasons for the ABN Bank to merge with Amro Bank in the first place. One of the new goals was to develop a second home market in Europe or the US. However, in spite of the development of a common market, European countries were still very protectionist and nationalistic. It was very hard for financial companies to acquire a bank in for example France, Spain or Italy. On the American market, ABN AMRO was confronted with the problem that assets and liabilities were not in balance.<sup>46</sup> For funding, the bank had to turn to the money market, which was a very expensive way. The acquisition of a retail bank that had a broad basis of cheaper third party money, like savings accounts and deposits, could be a solution to the problem. Such a bank was found in 1992 in Talman Home Federal Savings and Loan Association of Illinois. Talman had 45 offices and 2,015 employees. Two years later, in 1994 another savings bank was taken over, Cragin Federal Bank for Savings.<sup>47</sup> Cragin was a comparable bank to Talman, but, with 27 offices and 630 employees, a little smaller. In 1995, the two companies merged into LaSalle Bank FSB. Finally, after the ban on interstate banking was lifted, two banks were taken over in the state of Michigan: Standard Federal (1997) and Michigan National Corp. (2001). The two merged and at first kept the name StanFed, which was a strong brand name in this region, so that the organisation in the US consisted of two labels: LaSalle and StanFed. ABN AMRO has built up a strong banking organization in the Midwest. One of the factors that had made this possible was the rigid legislation of the state of Illinois. Since banking legislation has been liberalised, banks have consolidated which has led to more competition. As will be seen in chapter 4 on performance, in 2006 ABN AMRO became the largest foreign bank in the US.

Table 4: *ABN AMRO's network in the US by 2000*

Year	State	City	Type*	Name
1941	New York	New York	Branch	
1975	Illinois	Chicago	Branch	
1975	California	Los Angeles	Agency	
1977	Texas	Houston	Representative office	
1978	Georgia	Atlanta	Agency	
1978	California	San Francisco	Agency	
1978	Pennsylvania	Pittsburgh	Branch	
1979	Illinois	Chicago	Subsidiary	LaSalle National Bank
1980	Illinois	Chicago	Integrated with LaSalle	Hartford Plaza Bank
1982	Washington	Seattle	Edge Act branch	
1982	Florida	Miami	Edge Act branch	
1986	Illinois	Chicago	Subsidiary of LaSalle	Bank of Lisle
1988	Illinois	Chicago	Subsidiary of LaSalle	Lane Financial Inc.
1990	Illinois	Chicago	Subsidiary of LaSalle	Exchange Bancorp. Inc.
1992	Illinois	Chicago	Subsidiary of LaSalle	Talman Home Federal Savings and Loan Ass.
1994	Illinois	Chicago	Subsidiary of LaSalle	Cragin Federal Bankcorporation Inc.
1997	Michigan	Troy	Subsidiary	Standard Federal
2001	Michigan		Merged with StanFed	Michigan National Corp.

\* See table 3.

Source: Minutes of Supervisory Board and Managing Board.

### *Summary*

This section has focused on the expansion of ABN Bank in the American market. It showed that until 1978 there had been a favorable government policy towards foreign banks in the US of which ABN Bank took advantage. Banking regulation influenced ABN Bank's strategy in the choice of location (where), in the timing (when) and in the type of organization (how). First, the American banking acts had their impact on the *choice of location*, at national level and at state level. The relatively high involvement of the American government in the banking sector, which was fed by fear of power concentration, had led to a fragmented banking sector. The large number of small banks was less competitive, which was favorable for ABN Bank. In the 1970s federal supervision and regulation in the US did not exist for foreign banks, in contrast to domestic banks. This made the US an interesting country to invest in as well. Some states opened up to foreign banks and therefore became attractive locations for ABN Bank. In most of the states, ABN Bank was one of the first to open an office and the choice of Illinois as its home state turned out to be a good alternative to New York or California. The advantage

that ABN Bank possessed as opposed to American banks, thanks to differences in legislation, was fully exploited by the bank.

In addition, legislation had an impact on the *timing* of the internationalization process of ABN Bank. In the early 1970s, Dutch legislation created favorable conditions for ABN Bank to expand to the US. Thanks to the merger of 1964, the bank had been able to become the largest bank in the Netherlands; the essential strong home basis was provided for. The merger in 1990 to ABN AMRO reinforced that dominant position once more. Secondly, the Dutch market was saturated with just a few large banks that owned many branches, which functioned as a push factor. American legislation had an impact on the timing of expansion as well. The expansion process of ABN Bank was executed faster than usually. The bank wanted to take advantage of the opportunities that were left to foreign banks as opposed to domestic banks. Branches and agencies were opened as soon as states permitted it. This strategy involved some risks for ABN Bank, which it probably otherwise would not have taken. ABN did not know for sure that the branches and agencies would be allowed to continue their activities after a new law had been enacted (grandfather clause). The bank took risks but in a reasonable way, which can be illustrated by the fact that it opened offices in a modest way with low capital costs. Because of this limited risk taking, ABN Bank had been able to build up a network of offices in the US, which was usable as a basis for further expansion. Thirdly, legislation had an impact on the *type of organization* that was opened up. State laws determined whether ABN Bank was able to start a branch or that it had to be satisfied with an agency or even a representative office. Before the International Banking Act was enacted, ABN Bank was involved with securities, which after 1978 was prohibited. Also after 1978, legislation played a favorable role in the expansion of ABN Bank. Due to the restrictions, which kept fierce competition outside the home state of Illinois, ABN Bank had enough time to build up a strong banking organization in the Midwest.

Legislation had a positive impact on the expansion strategy of ABN Bank. However, this would not have been the case if the bank did not have complete insight into the American legislation. Without full understanding, without the correct interpretation, and without knowing future implications, ABN Bank would not have been able to exploit the advantages in the way it did. In general, the years of ABN Bank's experience in other countries and continents contributed to this success. The international experience of ABN Bank and as a result, access to management with international expertise, has certainly been an important ownership advantage for the bank, as we will see in more detail in the following chapters. Apart from past experiences, ABN Bank learnt through experiences in the US itself. Internationalization of the bank into the US developed gradually. It has been shown that ABN Bank started with an office in New York that was active only in trade finance. New York was the financial centre of the world after WWI, which made it possible for ABN Bank to keep up with the latest developments. Soon the New York office expanded its services to large American companies,

whose employees' knowledge was important to ABN Bank as well. By the 1970s, several more branches and agencies were opened, first in order to service their clients abroad but soon to facilitate large American firms as well. After this network had been built up throughout the country, ABN Bank acquired LaSalle, a local bank with local knowledge, which was seen by ABN Bank as a basis for further expansion. Besides this incremental learning process, another important source of getting and interpreting information were American consultants and lawyers, with whom ABN Bank had solid relations. In brief, the internationalization process of ABN Bank developed in an incremental way. The bank learnt not only by own experience, but also by incorporating people and organizations and by searching for information.

### **Rabobank**

We have seen that in the 1960s ABN Bank focused its strategies increasingly on internationalization. This was not the case with the Dutch cooperative agricultural banks. Only in 1972, after the merger between the two central organizations into Rabobank, was the importance of foreign business recognized. One of the reasons for Rabobank's relatively late international expansion was the cooperative character of the bank. Instead of shareholders, a cooperative bank has members and they did not see any need for expanding into other countries. Therefore, internationalization of the bank's activities was not so self-evident. The most important reason for Rabobank to eventually look abroad was a defensive one. In the 1970s, internationalization of agricultural trade was progressing. In order to keep its clients, Rabobank had to be able to offer services to clients that were active in exporting their products. For example, the bank needed to be able to settle foreign money transfers easily and achieve international financing of clients. In addition, a strong international department would be able to play a role in liquidity management and generate another source of income. In order to preserve the cooperative character of the bank it was always stressed in the international strategy that the foreign business had to serve the local banking offices at home. Within the bank this principle was known as 'International serves National'.

Table 5 gives an overview of the number of branches and employees worldwide of Rabobank and ABN Bank. It shows the relatively late expansion of Rabobank as compared to ABN Bank. Rabobank opened its first office in Curacao in 1980, while a branch in New York followed in 1981. In 1990 ABN AMRO had an enormous international network consisting of 458 foreign offices and almost 18,000 people working abroad. Rabobank on the other hand only had 35 foreign branches with nearly 1,000 employees. The relative late start had a number of consequences, including access to experienced executives as we will see in the next chapter.

**Table 5: Rabobank and ABN Bank: Number of foreign branches and employees working outside the Netherlands**

	Rabobank*		ABN Bank**	
	<i>Branches</i>	<i>Employees</i>	<i>Branches</i>	<i>Employees</i>
1964	0	0	36	1,760
1970	0	0	97	4,450
1975	0	0	178	5,780
1980	1	2	201	8,409
1985	16	477	247	9,151
1990	35	915	458	17,912
1995	77	1,861	620	29,107
2000	142	4,979	2,709	76,140
2005	267	7,428	1,902	71,138

\* Since 1997 including Robeco

\*\* Since 1990 ABN AMRO

Source: Rabobank: Sluiterman e.a., *Het coöperatieve alternatief. Honderd jaar Rabobank 1898-1998*, (Den Haag: SDU, 1998) and annual reports; ABN Bank: annual reports.

Instead of building up its own foreign business, Rabobank started internationalization by cooperative agreements with similar banks in other countries. Cooperation was preferred, because the bank had little experience due to its relatively late entry. This showed itself in a shortage of management with international experience. In 1973, Rabobank, together with nine other cooperative banks and a British banking house, established London and Continental Bank.<sup>48</sup> The aim of the joint venture was to gain a foothold in the money and foreign currency market. Rabobank saw this participation as a first step to the development of internationalization.<sup>49</sup> In 1977, Rabobank and five European banks established Unico Banking Group. The aim of the consortium was to support the expansion of the partners' international operations.<sup>50</sup>

Apart from these European consortia, Rabobank established a joint venture with Bank of America in Amsterdam in 1974: Rabomerica International Bank NV. It was Rabobank's first contact with the American market and people. Bank of America had built up experience in the agricultural sector and had a completely developed international department. Rabobank hoped for a quick development of its international operations with the assistance of the capable Bank of America and its worldwide network. Bank of America for its part wanted to tighten the relations with the European cooperative banks. In 1975, it was noticed that Rabomerica competed with Rabobank Nederland as well as the Dutch branches

of Bank of America. In April 1976, the two agreed that Rabomerica would function as an intermediary for the acquisition of clients for Rabobank and for Bank of America.<sup>51</sup> A few months later, Rabobank increased its stake to 95 per cent, which in practice meant Bank of America's withdrawal.<sup>52</sup> Bank of America argued for a quick liquidation of Rabomerica. Rabobank, however, was fearful of a negative effect on the Rabobank organization and the social implications of liquidation. Therefore, the bank decided to acquire 95% of the shares, which enabled it to reconsider the future of Rabomerica in peace and quiet.<sup>53</sup> The qualified employees of Rabomerica would be offered a position within the Rabobank organization.<sup>54</sup> The case of Rabomerica shows the social character of Rabobank. The bank held the opinion that the employees of Rabomerica were its most important asset. Bank of America on the other hand did not mind dismissing its employees and liquidating the joint venture as soon as possible.

After Rabomerica was established in 1974, Dutch managers paid visits to the headquarters of Bank of America in San Francisco. The aim of these visits was to learn how the American bank extended loans to companies and also how it prepared and formulated policies. The Dutch managers however concluded that Rabobank could not simply adopt certain procedures and organizational roles. The structure of the two companies was rather different and at some points Bank of America was already in an advanced stage of development. Nevertheless, the managers recommended that Rabobank looked outside its own organization to obtain relevant knowledge.<sup>55</sup> So, because of its lack of foreign experience, Rabobank sought foreign cooperation and joint ventures. Among other things, knowledge was acquired and experience was gained by visiting a bank like Bank of America. Besides learning from other banks, Rabobank incorporated knowledge by hiring experienced people. At the end of 1978, the bank hired P. Liefstinck as an advisor for a one-year period.<sup>56</sup> He had to advise the Executive Board in the field of international expansion. He started researching the desirability and possibilities of expansion in the US.<sup>57</sup>

It was only in 1978 that a first report on foreign operations was drawn up in which the most important objectives were formulated.<sup>58</sup> In 1979 the foreign policy report was followed by a note on establishing banking offices in foreign countries. The offices had to be located in countries with which the Netherlands had important agricultural trade relations; countries that were suppliers or buyers of agricultural products. The US and Germany were the two most important agricultural trading partners of the Netherlands at the time. Rabobank decided to establish an office in New York and one in Frankfurt as soon as possible. The bank expected help and support from Bank of America.

Rabobank was aware of the possible changes in American banking law. The Supervisory Board said that rapid decision-making was needed because the American government was becoming more reserved in approving offices, acquisitions and participation by foreign banks.<sup>59</sup> However, at that time the International Banking Act already had been passed. Therefore, Rabobank could not take

advantage of American legislation as ABN Bank had done in the 1970s by building up an extensive network in the US. For Rabobank however there were other locational advantages in the US. Cooperatives were an important factor in the American agricultural sector. In 1976, there were approximately 6.800 farmer cooperatives.<sup>60</sup> In the 1970s, these cooperatives became more and more aware of the world economy and international trade. The activities of the American cooperative banking sector were concentrated on the domestic market however.<sup>61</sup> These banks hardly facilitated the export transactions of the agricultural sector financially. The reason was that the Farm Credit System (FCS), which did not have an international business of its own, financed the agricultural sector in the US.<sup>62</sup> In 1916, the FCS was established as the American organization of cooperative farm banks. By the 1980s, the organization was almost autonomous. The FCS was a complex organization consisting of 37 institutions located in 12 geographical districts. The Federal Farm Credit Board, located in Washington DC, headed the FCS and outlined policies. The Board consisted of 13 members: 12 representatives from the districts plus the Minister of Agriculture.<sup>63</sup> The FCS, as mentioned above, did not have international business. Moreover, during the 1980s, failures had weighed heavily on the Farm Credit System. Did Rabobank take advantage of the possibilities on the American market in the 1980s?

After Rabobank opened a branch in New York in 1981, the state of New York became the home state of Rabobank due to the new International Banking Act of 1978. Rabobank was of the opinion that after New York other centers in the US could follow. Furthermore, the Executive Board stated the bank did not preclude a future acquisition of or participation in a local bank, which depended on possible changes in banking legislation.<sup>64</sup> Because legislation in the US was different and changing and because American institutional relations were different from the ones in Europe, Rabobank held the opinion that the step to the US had a chance of succeeding only if the highest echelon dedicated itself to it over some years. The primary objective of the New York office, which had been operational since 9 April 1981, was to service the large international clients of Rabobank, particularly by offering import and export financing and by taking care of money transfers. In other words the bank followed its Dutch clients. Another function of New York was to attract relatively cheap dollars on the American market. Moreover, the branch had to make a positive contribution to the results of the Rabobank organization in one or two years.<sup>65</sup> However, against all expectations the Rabobank clients did not make use of the services of the New York branch. At its own initiative, the branch started focusing on providing loans to American companies, particularly those active in agribusiness.<sup>66</sup>

The New York office built up relationships with the federal Farm Credit System (FCS). The Rabobank office had also contacts with the Central Bank of Cooperatives. Each district of the FCS had different types of banks. Federal Land Banks for example had been established for real estate credits. The Banks for Cooperatives, also located in each district, were meant for agricultural production companies,

farmer cooperatives and utility companies. The Banks for Cooperatives in turn were headed by the Central Bank of Cooperatives, located in Denver. Rabobank had close contact with this central bank. H. Steensma and G.J.M.Vlak, who headed the New York branch, visited the Central Bank in 1980, before the official opening of the branch. They informed the Bank that the New York branch, apart from servicing Dutch clients, also intended to provide loans to the agricultural sector in the US especially in the export field.<sup>67</sup> Moreover, it was decided to participate in the MASI-project, in which 140 local farm-banks were engaged. The New York branch had to take over a certain percentage of the loans granted by local farm-banks.<sup>68</sup> In exchange, New York hoped to get a better insight in the American primary production companies. The positive effect on the development of the office in New York seems however modest. In 1987, the MASI-project was stopped and the portfolio was reduced.

In 1988, Rabobank studied the possibility of opening two more offices in the US. Because of the size of the American market, an office in New York (east coast) did not have sufficient expertise of the local market in California (west coast). Rabobank held the opinion that local knowledge was an essential factor in order to service its clients. Offices that were located close to the agribusiness centers were better and more efficient in approaching the market and in credit management. Apart from this reason, lower levels of salary and rents outside New York played a role, in order to save costs. Lastly, there were better prospects for recruiting qualified account managers outside New York. In 1988, the bank started an agency in Dallas and a loan production office (LPO) in San Francisco. The cities were most suitable because they were located centrally and had good infrastructure connections within their respective states. Both offices became branches or extensions of New York and the most important objectives were the acquisition of new clients and the maintenance of existing ones. The state of New York was more liberal than the state of Illinois with regard to banking legislation. By 1988, it had already lifted some barriers on interstate branch networks, which made the expansion to Dallas and San Francisco possible.

Rabobank's presence in the American market by the end of the 1980s remained very small, in spite of the advantage that only a few banks financed the international, American farmer. In this period, Rabobank tried to learn by making contact with interested institutions like the Farm Credit System and by acquiring experienced people. It is important to note that the objectives of Rabobank were very different from those of ABN Bank. Expansion on the foreign markets had to be accounted for to the local Dutch banks. The cooperative principle 'International serves National' reflected the fact that Rabobank did not want to become a global player. To serve large clients (corporate clients) it was deemed sufficient to open an office in New York only. At that time Rabobank did not find it necessary to acquire a retail bank, which served local farmers, since this did not contribute to its strategy. When results remained below expectations, the New York office started financing

American companies in agribusiness at its own initiative. Below, we will see that Rabobank copied this strategy in 1989.

The cautious expansion into the foreign markets, among other things, resulted in something positive, with which Rabobank generated an ownership advantage. The bank asked for an evaluation by the American rating institutes. The bank received a triple-A rating, the highest credit rating, from the rating institute Standard & Poors in 1981. In addition, Moody's gave a triple-A rating as well. With this rating Rabobank was able to borrow money on the international market relatively cheaply and place it with attractive margins.<sup>69</sup> By 1997, Rabobank was the only private bank with a triple-A rating, when Standard & Poors revised the rating of Union Bank of Switzerland and Moody's announced that Deutsche Bank had to give up the Aaa-rating for an AAI-rating.<sup>70</sup>

In the strategic plan of 1989 Rabobank again expressed the basic principle of its foreign policies: the foreign operations had to serve the local member banks. A new stipulation was that foreign branches had to be profitable. In addition, the principle was extended somewhat: Rabobank was seen as an international bank for its Dutch clients *and* as a worldwide operating bank for the international agribusiness sector.<sup>71</sup> Apart from being an international bank for Dutch clients, Rabobank wanted to be a global banking specialist in the agribusiness sector.<sup>72</sup> This last objective was not of immediate of value for the domestic clients. Another difference with previous strategy plans was the fact that the foreign operations had to be integrated into the total set of products and policy plans of the organization. With the newly formulated objectives, foreign operations became an integrated instead of an isolated part of the entire Rabobank organization. The competition in the worldwide banking sector was great and became fiercer every day. Rabobank had been relatively late in international expansion and the bank had been a slow starter. It could not catch up with banks like ABN AMRO, which had a long history of international expansion and still wanted to become a global player active in all products and segments of the market. Rabobank's decision to develop into a global specialist seems to be the right one. The agribusiness niche fitted well with the core business of Rabobank. In the Dutch market, the bank had built up great knowledge and expertise in this sector. The new strategic goal meant that Rabobank tried to exploit its specific knowledge of agricultural finance, which has been an important ownership advantage.

One of the objectives formulated in 1989 was to become one of the leading agribusiness banks in the us. The agribusiness was an enormous market sector worldwide and certainly in the us. This size of the agribusiness sector formed a locational advantage. Secondly, in the us the originally local-oriented business, which was served by local banks, had become more international. The local banks had not internationalized along with their clients. Lastly, there were not many international banks that focused on the agribusiness niche. In the 1989 policy plan it was said that only three banks were present at a recent international agribusiness

seminar at the Harvard Business School: investment bank Lazard Frères, CNCA and Rabobank. Sir Peter Mostyn (president of BP Nutrition Inc) said in his speech titled 'Foreign investment: a role in US agriculture' (November 1987) the following: '...major US banks have reduced or eliminated their food and agriculture departments. Conversely, two experienced European agricultural banks, the Dutch Rabobank and Credit Agricole of France are establishing a growing business in agricultural finance in the US'.

In spite of the locational advantages that existed in the US and of the objective formulated by Rabobank to become a leading farm bank in the US, it seems as if Rabobank hardly expanded geographically on the American market in the 1990s. Only in 1994 was a Loan Production Office opened in Chicago. Moreover, since 1993 new products had been introduced as well. Not only credit related products but also services in foreign exchange, derivatives, treasury products and credit advice were now available.<sup>73</sup> While the New York branch consolidated its activities, the office network in the rest of the world was enlarged, for example in South America and the Far East. In addition, in the policy plan of 1991 Rabobank gave priority to extending its office network in Europe.<sup>74</sup> The focus on Europe was prompted by competitive considerations, especially by the merger between ABN Bank and Amro Bank in 1990. Moreover, like ABN AMRO and ING, the creation of a single European market was a motive for Rabobank to examine expansion possibilities in European countries in the early 1990s. Rabobank tried to find a form of cooperation with European banks that each had a large network in its home country. In this light, we can see the strategic alliances with banks in Spain, Belgium, France and England.<sup>75</sup> The advantage of this kind of expansion was the fact that the bank achieved results relatively quickly with relatively small investments. The most important disadvantage was that Rabobank did not have any control over the services provided by this type of European alliances. The success of these alliances varied.

The strategy of 1991 was not revised considerably except for an update in 1993. In 1996 Rabobank International was established, a separate division in which the international activities of Rabobank were organized (see also chapter 2). A Customer-Focus-Strategy was formulated with the aim of becoming a *focused international wholesale* bank. The niche strategy cautiously formulated for the first time in 1989 became more apparent and was written down more explicitly. It was stressed that the bank did not want to be a global player. It did not fit the Rabobank's philosophy in which the needs of its customers were central. According to the newly formulated Customer-Focus-Strategy, Rabobank International focused on three activities, namely corporate, investment and private banking with three sector specializations: food and agribusiness and health care. The only activity left out was retail banking, which corresponded with the aim of becoming an international *wholesale* bank. The activities had to take place in three geographical regions: Europe (including Middle East and Africa), North and South America and Asia (including Australia).<sup>76</sup>

It was hard for Rabobank to implement the strategy despite the formulated agribusiness focus. Rabobank International put all its time and energy in investment banking in the second half of the 1990s, with disappointing results, as we will see in chapter 5. This fact plus a failed attempt to merge with the German cooperative DG Bank in 2000 placed Rabobank International in a rather unfavorable light. Rabobank enjoyed positive developments in its international expansion as well. In 1994, Rabobank bought PIBA, a local retail bank in Australia, which turned out to be successful. It led to an additional objective in the bank's strategy. Rabobank started to focus on exporting its specific expertise in agricultural banking to developed markets, called country banking. The main difference compared with the strategy formulated before 2000, was the fact that Rabobank now wanted to serve local farmers as well, which meant that it started developing retail banking in foreign countries. Apart from Australia, the American market was an interesting one for Rabobank. California was the largest agricultural region in the world. Besides, the American market for agricultural financing still was very fragmented. No private bank owned more than 10% of market share. Even banks like Bank of America and Wells Fargo did not have more than a small percentage share.<sup>77</sup> Therefore, apart from the offices in New York, Dallas, San Francisco and Chicago, which were focusing on corporate and investment banking, Rabobank International now entered the retail agribusiness sector by acquisitions. In 2002, Rabobank bought its first bank, Valley Independent Bank, which was renamed Rabobank N.A. Community Bank and Mid-State Bank were bought in 2006 and 2007 and integrated with Rabobank N.A. It is interesting to see that the bank used the same strategy as ABN Bank, which bought American banks in one state to subsequently integrate them into its existing banking organization. In 2004, Rabobank tried to acquire Farm Credit Services of America, which was part of the US Farm Credit System. However, the take-over did not succeed, since the Board of Farm Credit Services did not agree.

**Table 6: Rabobank's acquisitions in the US**

Year	Name of acquisition	
2002	Valley Independent Bank, nowadays known as Rabobank NA	Office network in south and middle California
2003	Lend Lease Agribusiness	National agricultural financier of mortgages, California
2003	Ag Services of America	Financier of harvest with large network
2006	Community Bank of Central California	Merged into Rabobank NA
2007	Mid-State Bank & Trust	Merged into Rabobank NA

Source: Annual reports Rabobank and *Het Financieele Dagblad*.

*Summary*

In the section, we have seen when, where and how Rabobank expanded to the us and which motives the company had. Rabobank was relatively late in its international expansion, because the bank had members (inherent in cooperatives) who saw little value in expanding abroad. In the 1970s, however, international expansion became inevitable since the bank did not want to lose its (exporting) agricultural clients. Rabobank, as one of the three largest national banks, had a relatively powerful position at the home market, which gave it a strong basis. It was shown that ABN bank had the same ownership advantage. Moreover, Rabobank had a large share in the Dutch saving market, which resulted in access to cheap funding. However, the home market was saturated resulting in few opportunities for growth in the Netherlands.

In the us, Rabobank was not able to take advantage of the opportunities that foreign banks had prior to 1978, simply because at that time the bank was not ready to expand to the us. However, there were also other locational advantages in the us in addition to legislation, which were soon recognized by Rabobank. First, the us was an important agricultural trade partner of the Netherlands. Although the size of the agribusiness market was enormous, there were only a few national agribusiness banks in the us due to the fragmented market. Moreover, the regional banks did not focus on export financing. The bank did not exploit these advantages directly. Rabobank followed an incremental path and expanded slowly. First, in the 1970s, the bank cooperated with European banks, and a joint venture was established with Bank of America. Rabobank learnt from these banks and from acquiring people with particular knowledge. The first office in 1981 in New York was only followed in 1988 by an agency in Dallas, a LPO in San Francisco and in 1994 by a LPO in Chicago. As with ABN Bank, legislation played a role in the form of expansion. After Rabobank had opened a full branch in New York, the bank was allowed to start only agencies and LPOs in other states. At that time, also the product range was extended to one with products that were more complex. Since 2002, agricultural banks have been acquired in the us (California) and growth speeded up. Like ABN Bank, the bank used a strategy of integrating acquisitions (or stringing beads). The strategy of buying banking organizations and integrating them is a relatively slow way of expanding. As ABN AMRO has shown it can certainly be an effective strategy.

The slow expansion of Rabobank in the us can not be seen as a failure. Because of its cooperative character, Rabobank had simply formulated a different strategy than for example ABN Bank. It is interesting to see that the New York office decided to focus on American companies as well, which necessated opening offices in other cities. At the end of the 1980s, Rabobank Nederland copied this New York focus into the agribusiness industry worldwide. The bank distinguished itself from the large global players by trying to exploit the ownership advantage of its specific agricultural knowledge, which it had developed on the home market

over decades. Nevertheless, formulating a strategy was one thing, implementing it quite another. The bank formulated the niche strategy more than once, for example in the Customer Focus Strategy of 1996. However, again Rabobank lost focus and started concentrating on the development of an investment bank in London. Around 2000, Rabobank extended its strategy with the objective of exporting the concept of country banking. The bank acquired small agricultural banks directed at serving the local farmers in well-developed parts of the world, including the US. In retail banking, Rabobank was able to use even more its 100 years of experience acquired in its Dutch home market. The formulation of a niche strategy on agribusiness determined in which parts of the world Rabobank wanted to be active. Apart from the US other agricultural countries, like Australia, New Zealand and Ireland became important locations for country banking. The strategy of Rabobank over the last 30 years had always been focused on agribusiness, but it has been difficult to find a sustainable set of activities to bring this concept into a practical and performing formula. Probably due to lack of experience, it needed time to learn and to focus on agribusiness. Today, Rabobank is recognized in the US as one of the top banks in the agribusiness (see chapter 4).

### Nationale-Nederlanden

In 1963, the two largest insurance companies in the Netherlands, Nationale Levensverzekering Bank and De Nederlanden van 1845, merged into Nationale-Nederlanden. In the field of life insurance both predecessors had focused exclusively on the Dutch market, but De Nederlanden had already built up a large international non-life business. De Zutphense, which was one of the predecessors of De Nederlanden, had been active in foreign countries, just like NHM, one of the predecessors of ABN Bank. In fact, Zutphense insured NHM's products from the Dutch East Indies.<sup>78</sup> Since 1857 the company had agents in Batavia, Padang (Sumatra), Surabaya, Makassar, Semarang and Singapore. At the end of the 19th century, there were agents in London, Antwerp, Paris, Marseille, Oslo, Buenos Aires, Rangoon, Chili, Shanghai and Yokohama.<sup>79</sup> In 1888, De Zutphense had integrated into De Nederlanden van 1845 and it employed 114 foreign agents in 1900. In 1938, De Nederlanden opened offices in the Netherlands Antilles and in Surinam. In these regions the insurance business was conducted by agents. The West as this region was called was the most profitable for De Nederlanden. In the 1950s and 1960s, the focus was directed especially on English-speaking migration countries, like Australia, Canada and South Africa and some countries closer to home like England and Norway. Also in these countries, business was done through agents. More and more however the Dutch insurance company wanted to build a foreign network of its own. From the 1950s onwards, De Nederlanden started local companies or acquired them. In Canada, life insurance company, Commercial Life, was taken over in 1956 and non-life insurance company Halifax in 1959. In Australia a local non-life company ANIC was started in 1954, that also

became active in life insurance from 1960 onwards. In South Africa in 1960 an office was transformed into a local company, NISCA, active in both life and non-life insurance. In England, Nationale-Nederlanden acquired 25% in 1963 and later 45% of the shares of Orion. This development in the world points at an incremental growth of the international business. First, the Dutch company expanded to colonies and later to, often English-speaking, migration countries. Furthermore, it was shown that a transition in strategy took place from expansion by agencies to the acquisition of foreign companies. De Nederlanden was not so unique in changing its strategy, because other insurance companies, like AEGON, show the same development in their expansion strategies. Until 1960, they appointed agents and opened foreign branches and after 1960, they preferred starting new companies or acquiring one.<sup>80</sup>

An important reason for Nationale-Nederlanden (and its predecessor De Nederlanden) to internationalize its activities was to spread risks geographically. These were not only insurance risks, but also financial, monetary, political and investment risks. When Nationale-Nederlanden determined its foreign policy and decided where to invest its capital, it always tried to find the desirable balance between life and non-life and between international and national insurance business. Secondly, it was expected that foreign activities would enlarge profits. Thirdly, since Nationale-Nederlanden was market leader at home, it had to expand abroad for further growth. The home market was saturated and opportunities for growth were limited. Just as we have seen with the banking sector, this was a result of some major mergers in the 1960s, one of which created Nationale-Nederlanden (oligopolistic market). Finally, having an international image was seen as beneficial for business at home as well as abroad.<sup>81</sup>

After World War II, the focus of De Nederlanden had been on emigration countries, like Australia and Canada, and in the 1970s this shifted to include the US as well. It was seen as an attractive investment country. The presence of De Nederlanden on the American market, at first small, dated back to 1897 with a non-life branch.<sup>82</sup> Later on, activities were expanded by means of a pool with the Calodonian, which however left the US in 1956. In 1957, the US branch of De Nederlanden made an agreement with Peerless, which gave De Nederlanden 10% of the business profits. In exchange, it was agreed that Peerless managed the US branch. In 1964, the Mutual Fire Insurance Association of England acquired the majority of Peerless' shares.<sup>83</sup> At that time, Nationale-Nederlanden did not want to build a non-life insurance business by itself. The insurer thought the financial sacrifices would be too great to build up its own activities. The American presence had always been small, and this, said Nationale-Nederlanden around 1966, was in accordance with a marginally profitable American non-life sector in general.<sup>84</sup> The reason that the Dutch company wanted to be in the American market nonetheless was due to fiscal advantages. In the period 1948 to 1966 annual returns of US \$ 1.2 million were increased to US \$ 12.7 million.<sup>85</sup> In addition, insurance companies have to

evaluate profits in the long run, because of the volatile character of non-life insurance. This was reflected in the fact that in 1968 the American non-life market showed poor results, which were compensated for by large profits in the following years. In 1974 and 1975, the market showed poor results again.<sup>86</sup> In the early 1970s, Nationale-Nederlanden decided to enlarge its non-life activities after all. In 1974, Nationale-Nederlanden took the opportunity to increase its stake in Peerless to 62%, so that the Dutch insurer had control of its own us branch. This was made possible because of Peerless' need to expand its capital (capitalization of reserves).

At the time, Nationale-Nederlanden was not active in the American life insurance market. The life insurance market was a very large one however and from the mid 1960s it increasingly became an interesting option. The us was an important market for growth in life business because almost 50% of the world total life premium income was generated here. Secondly, life insurance in the us was very profitable. The life insurance companies paid out less profit to the policyholders (low profit sharing), so that more was left for the shareholders. Finally, the us was seen as an important investment country because of its liberal market and entrepreneurship. Not until the mid 1970s did Nationale-Nederlanden start building up life insurance business in the us. First, the focus was on the Midwest of the us, which was seen as an attractive market. Nationale-Nederlanden acquired 97.4% of the shares of Wisconsin National Life Insurance Company (WNL) in 1975.<sup>87</sup> The take-over of WNL was soon followed by the acquisition of Midwestern United Life Insurance Company (MULIC) in 1976 and of Security Life of Denver in 1977. After the acquisition of Life Insurance Company of Georgia in 1979, Nationale-Nederlanden's life expansion stopped for the time being. With this acquisition, the American share in Nationale-Nederlanden's total life premium income rose from 9% to 20%.<sup>88</sup>

At the end of the 1970s, Nationale-Nederlanden had built up a network of life insurance companies in the us. In 1979, the us Branch was domesticated and its name was changed into The Netherlands Insurance Company. Nationale-Nederlanden succeeded in acquiring the rest of the shares of Peerless in 1982. Non-life business needed a minimum scale to be able to bear the costs of for example automation. Acquisitions in the us had to be done in order to improve the quality of the existing companies. In 1981, First of Georgia was taken over. It was intended that First of Georgia would work closely with Life of Georgia, for instance in sales organization. This acquisition was followed by the small acquisition of Excelsior in 1983, which was integrated in the Peerless Insurance Group. From 1985 onwards, Nationale-Nederlanden decided that besides reinforcement of the existing companies, it was also necessary to enlarge the non-life business in the us through a large acquisition. In this light, we can see the acquisition of the non-life insurance company Indiana Insurance Group in 1985. With this acquisition, Nationale-Nederlanden enlarged its premium income from American non-life insurance by 50%.<sup>89</sup> Indiana operated primarily in the Midwest, which complemented Nationale-Nederlanden's existing non-life operations which were mainly centered in the eastern

part of the us. In 1986, a small company was taken over: Associated Doctors Health and Life Insurance Company. Only in 1989, did attention again shift to life insurance business, with the acquisition of Southland Life Insurance Company. After this acquisition, Nationale-Nederlanden's acquisition activities turned quiet since all energy was shifted to the national merger with NMB Postbank Group in 1991.

**Table 7: *Nationale-Nederlanden: acquisitions and participations in the US until 1990***

	Life insurance companies	Non-life insurance companies
		us Branch
1957		Peerless (10% participation)
1974		Peerless (62% participation)
1975	Wisconsin National Life	
1976	Midwestern United Life	
1977	Security Life of Denver	
1979	Life Insurance Company of Georgia	
1979		us Branch = The Netherlands Insurance Company
1981		First of Georgia Insurance Company
1982		Peerless (100% participation)
1983		Excelsior Insurance Company
1985		Indiana Insurance Group
1986		Associated Doctors
1989	Southland Life Insurance Company	

Source: Minutes of Executive and Supervisory Boards.

In 1990, Nationale-Nederlanden owned eleven companies in the us. For decades, the insurer had been present in the us, but only on a small scale. In the 1970s, Nationale-Nederlanden enlarged its presence on the American market significantly. It preferred expansion through acquisitions. The minority participation in Peerless was extended to majority participation as soon as possible. In the 1970s, the focus had been on the acquisition of life insurance companies, whereas in the 1980s policy in the us was aimed at increasing the non-life insurance business. The 1980s were closed with two large acquisitions, one in the non-life and one in the life sector. It is difficult to understand why Nationale-Nederlanden also expanded its non-life activities. Around 1965 the company had already expressed the negative side of non-life insurance in the us: it was barely profitable and besides that it was subject to fluctuations caused by hurricanes among other things. Probably the strategy of spreading risks was of greater importance. Before the

national merger in 1991, the Nationale-Nederlanden companies in the US were well diversified, both geographically and by lines of business.

Before Nationale-Nederlanden merged with NMB Postbank Group in 1991, the insurer had been discussing a merger with ABN Bank in 1989.<sup>90</sup> Both were the largest companies in their respective market sectors, so a merger would have created a financial conglomerate. In the Netherlands, the boundaries between banks and insurers had disappeared. Dutch legislation was being liberalized so that a merger between a bank and an insurer had become possible. The government allowed Dutch financial companies to merge in order to be able to compete in the European market of 1992. American legislation had not changed yet. It is interesting to notice that its influence was felt not only in the US, but also in the Netherlands. Both Dutch companies had built up substantial interests in the US. As described above, the Bank Holding Company Act stated that a bank holding company could not control any other institutions other than banks. Thus a merger between an insurance company and a bank was not permitted. This meant that in the case of a merger between ABN Bank and Nationale-Nederlanden, one of them had to divest its activities in the US. It figured that neither ABN Bank nor Nationale-Nederlanden wanted to withdraw from their business in the US. Both companies had to look for other candidates to merge with. The case of Nationale-Nederlanden and its search for a suitable Dutch merger candidate shows that American legislation not only played a role in the international strategies of Dutch companies, but also in the national strategies at home. In this case, American legislation had prevented the merger between the largest Dutch bank and insurer.

Soon Nationale-Nederlanden started merger negotiations with NMB Postbank Group. NMB Postbank Group was also subject to the Bank Holding Company Act by virtue of NMB Bank's branch in New York. However, the interests of NMB Bank in the US were not so large as compared to ABN Bank. The new Dutch combination agreed to the imposition of a period during which it could not take over American banking companies. With this concession, American legislation allowed the merger. Consequently, the new company ING Group could only expand its insurance activities in the US. In November 1993 ING Group decided to hand in the commercial banking license for its New York branch, which was renamed ING (US) Capital.<sup>91</sup> The NMB Postbank Group branch developed into an investment bank under the supervision of the Securities Exchange Commission (SEC).

In the 1990s, the Executive Board questioned the future of the non-life insurance in the US. The quality of the companies was doubted and they were seriously thinking of selling the non-life business in 1993.<sup>92</sup> The Netherlands Insurance Company (TNIC), consisting of Peerless Insurance Company and Indiana Insurance Company received a mandate to improve its performance. In 1998, again the issue was raised. It was concluded that the company had not been able to improve its profitability structurally. One of the reasons was that it did not have sufficient scale and did not have significant market share to be able to compete effectively

in the American market.<sup>93</sup> Moreover, in the US a claim culture emerged. The high insurance claims led to great losses for non-life insurance.<sup>94</sup> It was decided to divest.<sup>95</sup> The focus was directed to the acquisition of a life insurance company to strengthen the position in the American market. In 1997, a candidate was found with Equitable of Iowa Companies. In the light of ING becoming an Allfinanz company, the acquisition of ReliaStar, Aetna Financial Services and Aetna International in 2000 can be seen. ING did not acquire Aetna Health, a third part of Aetna. They were active in life insurance and asset management. These large acquisitions doubled the size of ING's American business.<sup>96</sup> With Aetna International the Dutch company became one of the largest international insurance companies in Latin America and Asia as well. In addition, both acquisitions were inspired by the fact that AEGON, its greatest competitor, had acquired Provident in 1996 and Transamerica Corporation in 1999. The size of AEGON's business had doubled and became larger than that of ING Verzekeringen NV.<sup>97</sup> Afraid of falling behind, ING wanted to enlarge its American activities as well. Thus, not only in banking but also in the insurance sector, oligopolistic rivalry led to international expansion.

**Table 8: ING's expansion in the American market, 1991-2000**

	Insurance activities	Banking activities
1997	Equitable of Iowa Companies	
2000	ReliaStar	
2000	Aetna Financial Services and International	
2000		ING Direct (retail banking)

Source: Minutes Supervisory Board ING Verzekeringen NV.

### The case of ING Direct

The merger between Nationale-Nederlanden and NMB Postbank Group meant that the latter was able to use the international network, contacts and expertise of the insurer. Its international network, together with the existing Postbank-concept, gave ING a unique export product called ING Direct. ING Direct sells savings accounts (and mortgages later on) to retail clients in mature markets via internet, call center and direct mail. In 1997, Hans Verkoren, also called Mister Postbank, started a trial in Canada and it was hoped that it would soon start in the US as well.<sup>98</sup> Arkadi Kuhlmann, born in Toronto, was responsible for ING Direct in Canada. *The Canadian Business* wrote that he saw himself as a pariah, 'a fighter for change in the dull world of banking'.<sup>99</sup> After Canada, he became responsible for ING Direct in the US. Starting in the American market took considerable time. Again, this had to do with American legislation, which forbade mergers between

insurance and banking activities. Only in September 2000, after legislation had been eased and the strict boundaries between insurance and banking were lifted, did ING Direct proceed. In the US, ING Direct focused on the regions New York, Philadelphia and Delaware, which were soon followed by Boston (2002) and California (2003). In the meantime, the concept had already started in Australia, Spain and France. In 2001 and 2003, Italy and the UK followed. In Germany, ING did not build ING Direct from scratch, but it took a share in Allgemeine Deutsche Direktbank (DiBa). Since March 1998, ING owned 49% of its shares and since February 2002 70%. In 2003, ING acquired the remaining 30% of the shares. The concept was the same in every country. First, a savings account was put on the market, the so-called orange savings account. This starting product paid a high interest, without additional costs and required no minimum balance. These favorable conditions were possible because ING did not have the high costs of a banking network, which enabled the company to pay relative high interest rates to the customers. As soon as the customer base had grown to a certain volume, ING started to offer selected other financial products like mortgages. Special ING Cafes were opened, first in Toronto (Canada), because people wanted to make sure that ING Direct really existed. They needed to see something tangible. 'More than 20% of the customers first drop in before they open an account', as said Bert Derksen, head marketing.<sup>100</sup> Besides, the ING label was rather unknown at the time because the acquisitions of Nationale-Nederlanden had kept their local names. In the US, cafés have been opened in New York, Philadelphia, Los Angeles and Wilmington. In addition, intermediaries and agents of other ING companies were used to sell the more complex products. Thus, besides call centers and internet, ING Direct used a third distribution channel, namely a network of intermediaries.

The introduction of the concept on the American market involved greater risks than on the Canadian market. After all the American market possessed other characteristics. In Canada, six large banks dominated the market, a mature market where customers were confronted with high service costs and low interest rates.<sup>101</sup> The Canadian consumer was soon attracted to the new concept with low costs and high interest. In the US, on the other hand, the banking sector was fragmented so that customers were able to choose between many banks. As a result, the difference in interest rates between ING Direct and American banks was much smaller. Moreover, it was known that the average American was not used to putting his money into a savings account. He preferred to take more risks by investing in securities related investment products. ING called in an advertising agency to convince the American people that saving was a good investment. Bartle Bogle Hegarty created the advertisements and television commercials, which won prizes in 2003. The message of the commercials was that it was a waste to have money sitting there just doing nothing. It was better to open a savings account. The executive creative director of the advertising agency, Kevin McKoen said the following: 'We wanted the ads to be about people's relationship to money. We wanted to put the bank into the current cultural context of spending, to reposition

saving as an exciting, positive opportunity'.<sup>102</sup> This example points to the fact that marketing has become very important to ING Direct's success. The fact that one third of the budget is spent on marketing illustrates this. Although the concept of ING Direct was the same in every country, the marketing differed: it adapted to cultural differences between countries. For example, in Spain ING Direct positioned itself as 'tu otro banco' (your other bank), because the patriotic Spaniard did not want to switch to another bank. With ING Direct he was able to save at his 'otro banco' without leaving his own bank.

With the concept of ING Direct, ING has positioned itself as an innovative company. The export of retail banking has always been considered very difficult. Due to the importance of trust and personal contact, banks preferred buying local retail banks in the US. In this way, a company was able to incorporate expertise, a well-known label and good management (internalization advantage). ABN Bank and its acquisitions in the Midwest are a good example of this strategy. NMB Postbank Group had never built up an extensive share in the US, let alone acquired a local bank. Due to the merger with Nationale-Nederlanden and American restrictions, this option had disappeared completely. When finally American legislation changed in 2000, ING was well behind ABN AMRO in the American retail banking market. Instead of buying a large and expensive bank, ING started its own retail activities. The costs would be minimal because of standardization of products and the use of direct distribution channels instead of expensive banking offices. As a result, ING was able to offer higher interest rates. Ewald Kist, chairman of ING, said the following in *The New York Times*: 'We could have bought a bricks-and-mortar bank, but that would be nothing new for the US market. We are not in competition with hundreds of thousands of banks. We're doing a new trick'.<sup>103</sup> Together with very good marketing campaigns, ING Direct became a successful concept. The fact that Hans Verkoren, the person who came up with the idea and was director of ING Direct, was appointed a member of the Executive Board once more illustrates this success. In 2006, ING Direct became one of the six business lines of ING Group.<sup>104</sup>

### *Summary*

Just like in the banking market, the insurance market in the Netherlands was mature, with little room left for a company to grow. In fact, Nationale-Nederlanden shared some characteristics with ABN Bank. Both were the largest company in their Dutch market segment. In addition, the insurer's international experiences dated back to the 1850s when one of its predecessors had many agencies over the world. As a result, Nationale-Nederlanden possessed management with international expertise. One of the predecessors of AEGON had also been internationally active at an early stage. The rapid expansion of Dutch competitor AEGON in the American market had been one of the reasons behind the large acquisitions of Aetna and ReliaStar by ING.

Apart from the large size of the life insurance market in the US, it is hard to distinguish specific locational advantages. The most important reason for expansion was probably the spread of risks. That was also the reason why Nationale-Nederlanden acquired companies within the US that were geographically spread. Besides, the strategy of spreading risks can explain why the company extended its non-life activities in a market where profits were volatile and relatively low. On the other hand, life insurance was very profitable in the US, it being a large and growing market. Another reason was the fact that American companies were up for sale, in contrast to European companies, which were often protected because of nationalistic policies. It made expansion in the American much easier than in the European market.

On a worldwide basis, it can be concluded that Nationale-Nederlanden followed an incremental path of expansion. Its predecessors were first active in Dutch colonies, followed by migration countries. After building up experience in Canada, the insurer took the step to the US. The development of strategy from agencies to acquisition had also been visible in other insurers. After the 1960s, all Dutch insurers built up their own operations through acquisitions. Nationale-Nederlanden expanded solely through acquisitions in the US. It is interesting to notice that the insurer did not participate in consortiums like Dutch banks, nor did it open its own offices in the US like ABN Bank and Rabobank. Apparently, insurance was a local activity, and its products were often interwoven with the local legal system (taxes).

### Conclusions

Rabobank, ABN Bank and Nationale-Nederlanden were all three large companies in their home country. ABN Bank and Nationale-Nederlanden were even the largest in their respective sectors. All three did research to see how far advanced others were in their expansion strategies. In both sectors, there was an oligopolistic market where just a few companies together owned more than half of the market share. Knickerbocker's thesis that oligopolistic rivalry would lead to expansion was illustrated by the case of Nationale-Nederlanden and AEGON. The boards of the companies were of the opinion they were confronted with a saturated home market. In a competitive market, the companies had to grow in order not to be taken over. Opportunities for growth at home were small, so the only way to guarantee continuity of the company was to expand abroad.

Broadly speaking, the home situation of the companies was more or less the same. However, this did not result in them achieving similar success in the American market. There were other factors involved. Until the 1950s, there had been little activity by foreign banks in the American market. In the 1970s this changed dramatically, as the result of the rise of an integrated international money and capital market. The collapse of the Bretton Woods system of fixed exchange rates in 1973 permitted an explosion in international financial markets. In general, the world economy became more global. The banks and insurers had to follow

companies abroad in order to keep them as customers. The Dutch companies were attracted by the American market because of its stable political and economic climate, a free market economy and entrepreneurship and access to the dollar. The nature of the American market in general played a role as well. Its size was large, income level was high, and the market was well developed. In the case of the banking sector, the market was fragmented consisting of many small banks without an international department. As a result, competition was not so fierce. For Rabobank also the large size of the agricultural market played a role. The life insurance market was also attractive because of its size. In contrast, for non-life insurance it was not so clear if the US was an attractive market to invest in at all. Rather there were disadvantages as the heavy losses caused by for example hurricanes and an ongoing claim culture.

Legislation played a major role in the strategies of banks that wanted to expand to the US. The case of ABN Bank illustrates this quite well. The bank did take advantage of the favorable conditions prior to 1978 and was able to build up a banking network throughout the US, in contrast to Rabobank that only opened its first office in New York in 1981. The time and choice of location turned out to be decisive. In most cases, foreign banks wanted to locate in New York, the international financial centre. However, because of banking legislation it can be questioned if New York was a good location choice. The case of Rabobank illustrates the negative side. The bank settled there after the International Banking Act of 1978 was enacted, so that New York, in which competition was fierce and prices and salaries high, became its home state. The bank was only able to locate in other states by opening LPO's or agencies. ABN Bank on the other hand acquired LaSalle in 1979, so the state of Illinois became its home state. Here competition was less and prices were not yet as high as in New York. Because of American legislation, foreign and American banks with other states as their home state could not enter Illinois. As a result, ABN Bank was able to build up a relatively strong position in the Midwest of the US.

Another important conclusion is that banks and insurance companies chose to expand by means of a form of FDI rather than by exporting intangible financial services. It has been shown that the Uppsala model applied to the process of internationalization one way or the other. First, the Dutch companies expanded through agencies and branches and later through acquisition. This development certainly had to do with learning and the fact that the more a company knows the more it will invest. I think it was also a result of a company's choice of which business it wanted to be active in internationally. It turned out that for wholesale activities directed at large, international companies, an office under the company's own label was sufficient. In case of retail banking, the acquisition of a bank was necessary. In fact, by buying an American bank or insurance company, the Dutch companies gained access to the ownership advantages of the local companies. Local knowledge of the market, a strong local brand name, and capable and reliable management were seen essential for servicing local households and small and

medium sized companies. Thus, the foreign companies internalized the American ones to guarantee quality of the service (internalization advantage). ING Direct showed that that does not have to be the case any more. Probably because society became more individualized and because of the new internet technology a less personal contact with the customer has been made possible. Spending much on marketing can then resolve the problem of an unknown brand, as the case of ING Direct has shown as well.

National legislation has a great impact on the internationalization process of financial firms. In addition, as the attempted merger of Nationale-Nederlanden and ABN Bank has shown, the national legislation of one country can have an impact on the strategies of companies in other countries, which reflects progressing globalization. In this chapter, it has also become apparent that, the other way around, internationalization can change national legislation as well. In the US, the inflow of foreign banks caused dissatisfaction amongst domestic banks with the existing laws that favored foreign banks. The discussion they started led to the revision of the banking legislation, so that from then on foreign and domestic banks were treated equally.

Finally, it turned out that international experience of the Dutch companies has been essential in explaining success. The predecessors of ABN Bank as well as Nationale-Nederlanden (and AEGON) had been internationally active for a long time. They had built up knowledge of other countries through their offices and/or agencies, but even more importantly the companies were better organized to expand abroad. For example ABN Bank possessed a pool of managers with international experience and also a foreign division. In the introduction to this chapter, it was stated that a company was able to buy ownership advantages. Rabobank did buy experience and knowledge by acquiring people and by developing contacts with other banks and companies (networking). In the following chapters, I will discuss these ownership advantages in more detail.



## Managing across borders

### Introduction

As early as 1968, Nationale-Nederlanden addressed the problem of how to control its foreign activities. It was argued that ‘companies that expand abroad have to find a balance between local autonomy and central control’ and that ‘finding the right balance between tasks delegated to the local management and tasks reserved to the central management can be hampered by distance’.<sup>1</sup> Problems that may arise because of distance are related to differences between countries in the way of doing business, in communication, in language, in mentality. Following the expansion process in the American market described in the previous chapter, this chapter examines the process after the acquisitions and opening of branches. I was interested whether the parent companies were able to find a balance between local autonomy and central control. Therefore, I have analyzed how the Dutch companies integrated and controlled their foreign subsidiaries and branches.

This chapter starts with an overview of differences in organizational structures between liberal market economies (LME) and coordinated market economies (CME), followed by the three case studies. In each case study, the organizational structure has been considered at corporate level first. Concerning organizational structure, all three cases showed a clear break around 1990 and ABN AMRO and ING again around 2000. Next, the relationship between the Dutch parent and the American organization is analyzed. A closer look has been taken at changes in management positions and in financial procedures and other control mechanisms. The chapter shows where in the organization strategic decisions were being made and how and to whom American subsidiaries and branches had to report. The chapter gives a better insight in ownership advantages and if and how the Dutch companies used them. In this way, it will shed more light on the reason for success or failure of the Dutch companies. I will conclude by comparing the three Dutch companies and by extracting important ownership advantages for the companies.

### A loosely connected or an integrated organization

According to Richard Whitley the organization and management of business does not just refer to decentralization versus centralization of an organization. It also

focuses on the cohesion and integration of activities within the company as opposed to companies being run as portfolios of weakly connected business units.<sup>2</sup> An example he gives will clarify this difference: many companies from liberal market economies (LME) control their operations through financial procedures and reporting systems and treat each business unit as a separate profit centre, whereas companies from coordinated market economies (CME) follow a more centralized and integrated form of planning and direction.<sup>3</sup>

The American economy is usually seen as an example of a business environment at an arm's length. Many American corporations decentralized authority to operating divisions and developed market-like relationships between the different parts of their organization. According to Alfred D. Chandler, this was the outcome of diversification strategy, which was reflected in the use of the multidivisional structure by many American companies, also known as the M-form.<sup>4</sup> Apart from multidivisional structures, these American companies had other characteristics. Corporate management headed by a strong CEO tended to be small and had strategic planning tasks (planning, coordination and control), whereas all operational responsibility was being delegated to the business units (holding structure). The decomposition of large companies into profit centers was made possible by another characteristic of the American company. That is the reliance on formal procedures instead of trust and informal control, which is characteristic of companies in CMEs. Consequently, managers in American companies were used to working with a clear company strategy and well-defined goals and with formal control and financial reporting systems. Employees were used to line organizations wherein short hierarchical reporting lines prevail. Therefore, in Anglo-Saxon countries the chairman of the board is seen as the one and only boss who decides, which is reflected in the fact that in the US until recently it has been quite common that the position of chairman and CEO is combined in one person.<sup>5</sup> In coordinated market countries on the other hand the chairman acts as *primus inter pares* and decision-making happens on the basis of consensus. Companies in CMEs are more integrated with various reporting and communication lines. Often the company has created steering committees in which important business matters are being discussed. Management is used to a pragmatic way of coordinating and controlling, in other words, its control is based on trust and "blue eyes" instead of formal rules and procedures.

However, discussions about the American business environment usually refer to large industrial companies like General Motors. Already in the 1920s the American capital intensive industries used the multidivisional form in which local autonomy and decentralized operational decision-making prevailed.<sup>6</sup> Alfred P. Sloan, Jr., of General Motors used the term federal decentralization, which means organized on the basis of decentralized decision-making combined with centralized control. In the 1940s and 1950s General Motors had become the model of this form.<sup>7</sup> In 1949, 20 of the 100 largest corporations in the US had adopted the M-form; in 1969 the number had grown to 73.<sup>8</sup> Chandler predicted that worldwide

growing companies would diversify and adopt the multidivisional structure, irrespective of differences in national culture and institutions.<sup>9</sup> From the 1950s the M-form also spread through European countries, adopted in many variations. Geoffrey Jones in describing the evolution of organizational forms of manufacturing companies, concluded that diversity was the norm and that organizational forms varied widely between industries, and within industries.<sup>10</sup>

We are not so sure what things look like in the world of financial service companies. To gain a better understanding I wanted to know how Dutch banks and insurance companies have structured their growing organizations. We will then see whether expanding financial service companies behaved according to Chandler's theory. Did they expand by diversification, whereupon they adopted the multidivisional structure? Related to that question: how did the Dutch companies manage subsidiaries and branches across borders? Were the American subsidiaries managed at arm's length (LME) or were they fully integrated into the parent company (CME)?

Apart from the fact that I have studied companies active in financial services, two other factors might suggest that the companies behaved differently than expected by Chandler. First, for Dutch banks and insurance companies internationalization has been an important expansion strategy, among other things, because of the small home market. Chandler underplayed internationalization as a form of expansion strategy, since the American companies he studied were mostly directed towards the domestic market. Second, Chandler did not include differences in the cultural and institutional environment in his analysis. According to him the pressures for efficiency (market pressures) drive companies to adopt the multidivisional structure in a common way irrespective of national differences. Michael Mayer and Richard Whittington concluded likewise when they stated that '...it seems that the pressures for convergence have dominated the idiosyncrasies of national cultures and institutions. British, French and German firms have amended their corporate profiles in a common and 'American' direction'.<sup>11</sup> Although the focus of this chapter is not on the discussion on Chandler's generalizations, it contributes to the more general debate about strategy and structure.

Organizational changes take place very frequently. Managers change places, positions are created, combined or even removed and hierarchical layers are introduced or removed. Therefore, only major changes and developments that are relevant for the argumentation will be discussed in this chapter. The terms centralization versus decentralization have been used in many different ways. Here the terms are related to authority, or in other words they reflect where decision-making power lies in the organization. Henry Mintzberg said the following: 'When all the power for decision-making rests at a single point in the organization, we shall call the structure centralized, to the extent that the power is dispersed among many people, we shall call the structure decentralized'.<sup>12</sup> Hierarchical is another term with a different usage. With a hierarchical organization, we mean actually a line organization. In a hierarchical organization, reporting lines are simple and

top-down. In a matrix organization reporting lines are not so clear, since an individual reports to both a functional and a hierarchical manager. This dual authority system (two-bosses) might be a problem especially for Americans. Thus, I emphasize again that American companies usually are seen as companies with a decentralized organization structure, but hierarchical in delegation with short reporting lines. Companies in coordinated economies are more centralized and integrated, and decision making happens by consensus.

**Table 1: *Generalizations of companies' organizational structures in LMEs and CMEs***

	LME	CME
<b>Organizational structure</b>	Loosely connected: profit responsible business units; Decentralized For example: line organization	Integrated and centralized  For example: matrix organization
<b>Managing or Executive Board</b>		
– Size	Small	Large
– Responsibilities	Strategic tasks only: delegated operational tasks to business units	Strategic and operational tasks
<b>Leadership</b>	One strong authoritarian leader/ CEO	Collegial. Shared responsibilities. Chairman is primus inter pares
<b>Reporting lines</b>	Few and direct reporting lines	Many reporting and communications lines; steering committees
<b>Decision-making</b>	By executive	By consensus
<b>Control</b>	Formal: financial reporting system (budgets and targets)	Informal: personal, pragmatic, based on trust

### ABN Bank

#### *ABN Bank structured by Directorates: 1973-1990*

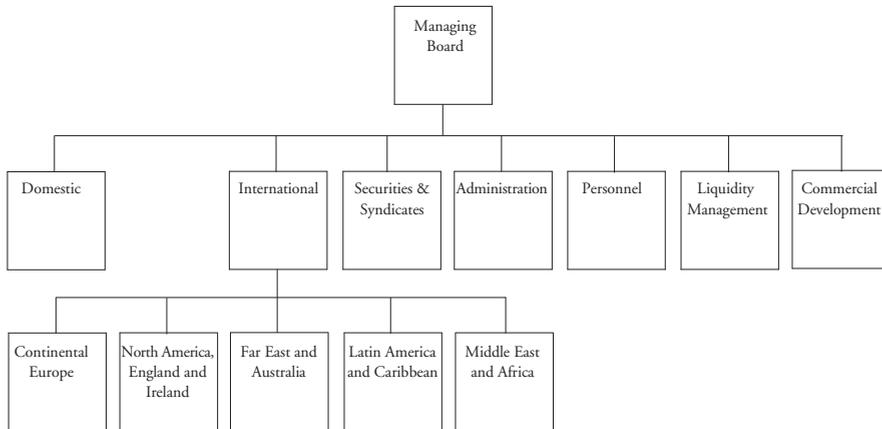
ABN Bank and its predecessors have traditionally been highly international. Before 1964, NHM already possessed an extensive international network. This characteristic determined the organizational structure of the bank at that time to a large extent. The organization was divided into a domestic and an international division.<sup>13</sup> In 1973, ABN Bank added a hierarchical layer of senior executive vice presidents (SEVP) directly below the Managing Board.<sup>14</sup> The decision was made in close consultation

with Arthur D. Little.<sup>15</sup> It had to reduce the tasks of the Managing Board. The Board had become overloaded with work and information because of the growing (international) organization. The SEVPS became responsible for operational management and for the results of the banking activities. In this way, the Managing Board secured more time for long term planning and strategy. However, it was clearly stated that the Directorates were not considered separate profit-centers.<sup>16</sup> The members of the Managing Board (around 7 members) and the SEVPS met on a regular basis, forming the executive committee of the bank.<sup>17</sup> In 1974 an advisory body was created to advice the Managing Board. As a result of the merger in 1964, the Supervisory Board of ABN Bank was quite large, consisting of around 27 members which was reduced to around 20 in the late 1970s. In the 1980s, this number was reduced again and fluctuated between 14 and 18.

The foreign branches of ABN Bank formed an integrated part of the organization. International Directorate was responsible for their management and its first SEVP, to whom all foreign offices had to report, was P.T.A. van Gelder, who was succeeded by E.O. Langelaar in 1979. Reporting lines were rather simple and were structured top down. In the organization chart, we can see for example that the country manager of Continental Europe reported to the SEVP of the International Directorate. He again reported to the responsible member of the Managing Board.<sup>18</sup>

After the introduction of a hierarchical level of SEVPS to relieve the Managing Board, the organization structure did not change much until the merger with Amro Bank in 1990.

Organization chart 1: *ABN Bank 1973-1990, Directorates*



Source: AAHA, ABN, inv. nr. 4492, Policy document International Directorate, April 1975 and for second echelon: AAHA, ABN, inv. nr. 2980, Note on credit control foreign countries, September 1981.

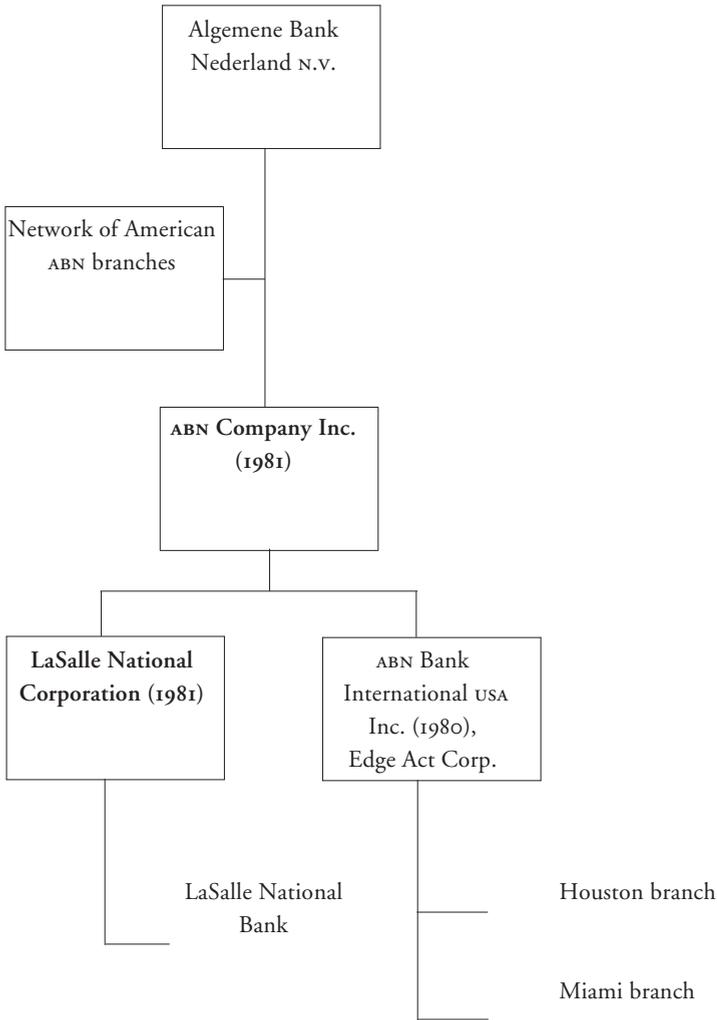
*American organization and management in the 1980s*

After the acquisition of LaSalle in 1979, ABN Bank had built up an American organization resting on two pillars. On the one hand, it possessed a network of offices operating under ABN Bank label with a decentralized management. The offices were a fully integrated extension of the head office in Amsterdam and they reported directly to the International Directorate. Often the branch manager was a Dutch expatriate. On the other, ABN Bank owned LaSalle, which had its roots in the local community and therefore kept its own brand name and its American management. LaSalle had to report to the International SEVP. In brief, we can say that ABN Bank used both ways of management: the ABN branches were fully integrated into the organization whereas LaSalle as a subsidiary was managed at arm's length. However, this oversimplification needs more consideration. I want to know how LaSalle's organization was managed and controlled and what changes took place over time.

First, in 1981 ABN Bank created a holding company, named ABN Company Inc. It became the owner of a second holding company, LaSalle National Corporation. This holding was used for the expansion of LaSalle in Chicago and surroundings. LaSalle National Corporation managed the acquisition of Lisle (1986), Lane (1988) and Exchange (1990), all three of which merged with LaSalle National Bank into one banking organization. The holding structure did not incorporate the American ABN Bank branches, since due to American legislation it was forbidden to legally merge these branches with the commercial bank LaSalle.

After the acquisition by ABN Bank, not much changed for LaSalle. Evidently, its major shareholder changed from the American GATX to the Dutch ABN Bank, but LaSalle kept its name and ABN Bank intended to keep management in place. However, the serving chairman, Harrison I. Steans, and president, James G. Costakis, resigned after the acquisition of LaSalle. Edward R. Grant and Thomas J. Wageman succeeded them as Chairman/CEO and President respectively. They were two executives already working for LaSalle and represented in the management team. ABN Bank controlled the relatively great autonomy of LaSalle in a couple of ways. First, four Dutch ABN Bank representatives were appointed in the Board of Directors that consisted of around 18 people in total.<sup>19</sup> One of the four men, H.J. Hielkema, resided in the US and was appointed Regional Manager as well.<sup>20</sup> The other three were members of ABN's Managing Board and attended the monthly meetings in rotation. Hielkema knew the American market quite well. After studying at the University of Nyenrode, he earned a BA in marketing from the University of Oregon and an MBA from Texas Tech. Secondly, apart from Dutch officials in the Board, another Dutchman, an expatriate A.J.M. de Boer, became a member of the management team of LaSalle as Executive Vice President (EVP). The management team consisted of six members in total. With the regional

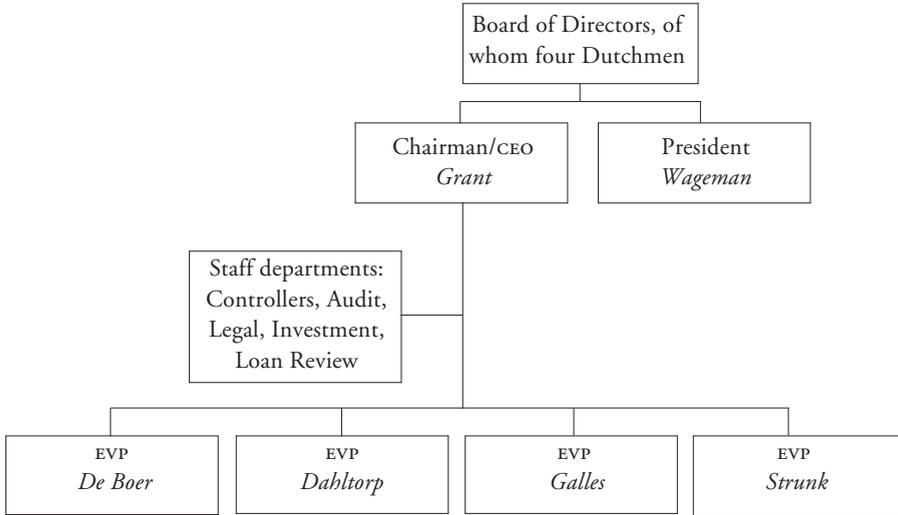
Organization chart 2: *Legal structure of ABN Bank in the United States, 1981*



Source: AAHA, ABN, inv.nr. 3198: Memorandum 'Forming of a Domestic Holding Company in the us', November 13, 1980.

manager and the EVP, ABN Bank had located two Dutch employees in the US close to the American organization. Finally, credits of more than five million dollar had to be approved by the Managing Board and/or by the Credit Committee in the Netherlands. Credit risk management was one of the main functions of a retail bank like LaSalle which ABN Bank did not delegate completely.

Organization chart 3: *LaSalle National Bank, October 1979*



EVP = Executive Vice President

Source: AAHA, ABN, inv. nr. 2624, LaSalle National Bank, Chicago, September 4, 1979.

LaSalle experienced disappointing results in the early 1980s, and these were foremost caused by the economic recession.<sup>21</sup> However, Grant and Wageman were not capable of reversing this negative development. They complained that ABN Bank did not have a clear strategy for the American organization.<sup>22</sup> They were of the opinion that ABN Bank, as shareholder of LaSalle had to tell them exactly what to do and give them a budget to realize it. ABN Bank for its part was of the opinion that Grant and Wageman, being local Americans and the managers of the bank, knew what was best for LaSalle.<sup>23</sup> Since ABN Bank was not satisfied with the two, control by the parent company increased at the beginning of the 1980s. The Dutch regional manager Hielkema received more authority. Instead of only supervising the ABN branches, he became involved in daily management, in decision-making and in the results of LaSalle. Besides, Hielkema became the only communication line between LaSalle and the various Dutch Directorates. Lastly, LaSalle's management had to report monthly results and forecasts to head office in Amsterdam. In this way head office hoped to get more insight into LaSalle. It was a temporary solution until new management was found.

In the US, it was quite normal that non-bankers managed a bank like LaSalle, for ABN Bank however it was not. The case of Grant, who had made a career as a sales manager within IBM, confirmed to ABN Bank that it was right in its preference

that LaSalle should be managed by experienced bankers. In 1982, Robert K. Wilmouth replaced Grant and became non-executive Chairman. Wilmouth was an outside banker but nonetheless knew LaSalle quite well since he had been member of the Board of Directors since 1979. President of the company, Wageman, was offered the position of CEO. However, he did not accept the proposal and resigned.

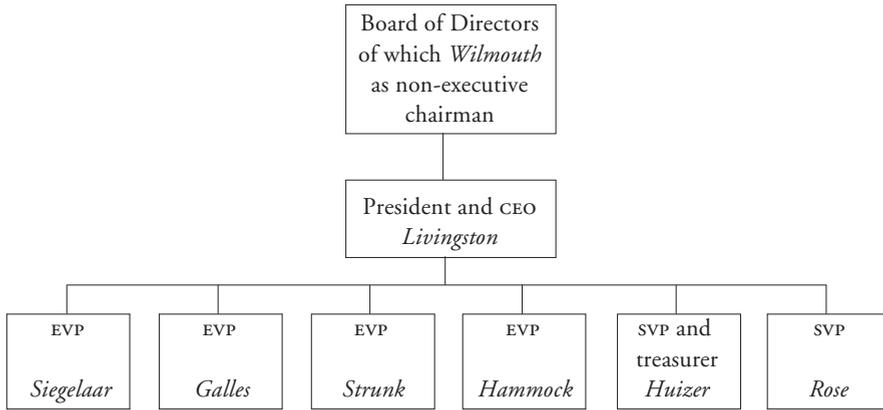
Since Wageman had resigned after Grant had been fired, ABN Bank had to find a new CEO. There were no qualified candidates available within the LaSalle organization. With headhunter Russel Reynolds Associates, the search for a new CEO started. At the end of 1983, Homer J. Livingston, Jr. was hired, an all-round banker combining a law degree with international and domestic banking experience. He had also made career as an investment banker. Wilmouth and Livingston had known each other for almost twenty years. Both men had been working for the First National Bank of Chicago in the 1960s. It was expected that he would be an aggressive CEO and that he would constantly pressure ABN Bank for action on his proposals. He had ambitious plans for the expansion of LaSalle, especially by acquiring additional banks in the Chicago area.<sup>24</sup> Accordingly, Livingston had a more autonomous point of view and method of working than ABN Bank was used to. Moreover, his financial conditions were high. Besides a high salary, he demanded a share in future profits.<sup>25</sup> Despite his demands, ABN Bank saw him as the right man for the necessary expansion of LaSalle. The advantages outweighed the obstacles and the Managing Board decided to hire Livingston.

The management of LaSalle consisted of Wilmouth as non-executive Chairman and Livingston as CEO. It is interesting that ABN Bank had separated the role of Chairman and CEO, which were often combined in one person in the US. It seems to be an example of ABN Bank trying to reduce the authority of the CEO of the American management organization. However, this outcome reflected Wilmouth's wishes as well. He had just been appointed president and CEO of the National Futures Association after a 27-year career in banking. He did not have time to become CEO of LaSalle as ABN Bank had suggested. That is why he proposed to become a consultant to LaSalle. He stated it as follows: 'In short, my objective would be to provide dynamic, aggressive American style leadership and management that would result in significant prestige and profits for ABN and LaSalle'.<sup>26</sup> ABN Bank for its part did not want Wilmouth as a consultant. If he did not want to become CEO, the bank preferred him as non-executive chairman.

With the appointment of Livingston, ABN Bank had delegated more authority to LaSalle. Control of the American organization by Amsterdam however remained. First, as described above the positions of CEO and Chairman were separated. Second, some management changes were carried through. In 1983, F.H. van Veenendaal succeeded the regional manager Hielkema and became responsible only for the ABN branches again. Van Veenendaal had been manager of the New York branch since 1973. ABN Bank wanted Hielkema in the Netherlands to be able to communicate with someone at head office that knew and understood the

American organization and people. He became General Manager North America, to whom Livingston had to report.<sup>27</sup> Other changes occurred in LaSalle's management team. Two Dutchmen occupied vital positions at LaSalle. H. Siegelaar, one of ABN Bank's expatriates, who had been working in Brazil and at the Central Risk Department in Amsterdam, became, as EVP, a member of the management team. Another expatriate, the Dutchman M.R. Huizer, became Senior Vice President and LaSalle's treasurer.<sup>28</sup>

#### Organization chart 4: *LaSalle National Bank, 1984*



EVP = Executive Vice President

SVP = Senior Vice President

Source: Annual report LaSalle National Bank, 1984.

Because of the economic recession in the 1980s and increasing competition, a Steering Committee consisting of Hielkema, Van Veenendaal and Livingston developed a new strategy for the American organization. The American organization had to become more profitable. ABN Bank preferred integrating the two organizations that had developed in the US, but it was still forbidden to create one legal identity due to limits on interstate banking.<sup>29</sup> The Committee concluded that the two organizations had to work more closely together in order to save costs. However, cooperation turned out to be difficult since the two organizations were quite different. On the one hand, ABN Bank had developed a network of offices in the US. Multinational and international corporations accounted for approximately 90% of the clients. On the other, the bank owned LaSalle in Chicago. About 90% of LaSalle's clients were domestic and the bank had an important retail component, which was non-existent at the ABN offices.<sup>30</sup> Another obstacle to integrating the two organizations was the fact that they were managed

by two different people. The Dutch regional manager Van Veenendaal based in New York headed the ABN offices. LaSalle was managed by the American CEO Livingston located in Chicago.

In line with the cooperation between the branches and LaSalle, it was decided in 1984 to create an American Credit Committee for the ABN branches that could authorize up to five million dollars. Apart from the Committee, the individual authorizations of the branches remained.<sup>31</sup> Members of the Committee were Livingston, Van Veenendaal, Casey and Siegelaar. Every member had the right of veto and the quorum had to be three. If there was no quorum, the credit application had to be forwarded to Amsterdam.<sup>32</sup> The creation of a Financial Service Group was another part of the newly formulated strategy. It was important for improving the results as well as for enhancing the position of ABN Bank in the us. The Group provided non-credit products, mainly to large American corporations. Consequently, the American organization could increase fee and commission income so that it did not have to depend on interest income only.

As early as 1983 when the new strategy was formulated, ABN Bank stated its intention to head the American organization with one strong American. In January 1986, the policy of cooperation was replaced by a formal management structure. To this end the domestic holding company ABN Company Inc was activated and renamed ABN/LaSalle North America Inc. and tasks and responsibilities were formulated. Livingston became Chairman/CEO and De Boer (he succeeded Van Veenendaal in 1986) was appointed President/Vice Chairman.<sup>33</sup> Together they formed the daily management of the American operations and both received the title Regional Manager. Thus the American organization was now headed by one American who was in charge. The Dutch Vice Chairman had to represent the voice of the shareholder ABN Bank. At least that was the intention. Evidently, in practice the Vice Chairman had a difficult position standing between the American CEO and the Dutch Managing Board. Up to this point, in the philosophy of ABN Bank's Managing Board, there had been no place for a parallel management in a foreign country, whereby one or more managers received enough space to be able to determine their own policies. However, ABN bank was of the opinion that without giving some autonomy the bank would not be able to grow and develop its American organization. Besides, as we have seen, some key positions were still held by Dutchmen and LaSalle's credit limit remained five million dollars.

Livingston wanted to expand LaSalle quickly through acquisitions. In the 1980s, he made more than one proposal for acquisitions (American National Bank (1983), Lake Shore National Bank (1984) and Smithbank (1986)). However, Dutch Managing Board did not approve a single one. The board made use of strict requirements that possible acquisitions had to meet. Livingston held the opinion that LaSalle should have more autonomy and that head office should interfere less with LaSalle's business.<sup>34</sup> His complaints were also reflected in the fact that he thought the Dutch credit committee disapproved too many credit applications that were important for the American organization. In addition, Livingston found

it difficult to operate in the joint-management. That probably had to do with a different way of managing a company. H. Langman, a member of ABN Bank's Managing Board, said the following: 'An American expected complete freedom within the stated targets and budgets, whereas a Dutchman employed a pragmatic approach with control from above from time to time'.<sup>35</sup> In other words, Livingston was more used to strict regulations whereby both parties knew exactly what to expect. The ABN employees were more used working on the basis of trust without too much consultation in advance. Another thing Livingston had problems with was the reporting lines to Amsterdam. Since Hielkema had left the bank in 1986, Livingston had to report to the SEVP J.J. Oyevaar in Amsterdam who in his turn had to discuss matters with P.J. Kalff, the responsible member of the Dutch Managing Board. Americans in general prefer short hierarchical lines by which they report to only one boss. In other words, Livingston wanted to speak to the person that made the final decisions. Consequently, in practice, Livingston often turned directly to Kalff.

ABN Bank for its part started writing down clear rules for American management. Kalff and Oyevaar decided that the management company should receive annual targets from the International Directorate on which it had to base a policy plan. This plan had to deal with commercial activities, branch network policy, personnel policy, automation activities and credit policy. The International Directorate had to approve the plan. After approval, the American management was free to operate within the frame of the business plan. Head office approval then was only needed for major decisions on acquisitions, opening/closing of branches, appointment of branch managers and Executive Vice Presidents (EVPs), and transfers of expatriate staff, budgets and major changes in products. The credit limit increased from the previous five million to ten million dollars.<sup>36</sup>

The case of Livingston has shown that ABN Bank delegated authority to the US in order to be able to grow in the American market. The CEO became head of the entire American organization and budgets and targets were formulated. However, apart from formal procedures, informal control from Amsterdam remained. Dutch expatriates held key positions in the American organization for example. As a result, Livingston still felt restricted with head office interfering too often. In the beginning Hielkema, who had been located in Amsterdam and who knew and understood the American organization, was the right representative for Livingston. However, when he left the bank in 1986, Livingston found it even harder to cooperate with head office; rather he did things on his own. At the end of 1987, Livingston resigned as CEO of LaSalle. In the meantime, Wilmouth became CEO for the time being and in Amsterdam, a general manager North America was installed again, a position that had not yet been filled after Hielkema's departure. In 1988, Harrison F. Tempest succeeded Livingston as CEO, an all-round banker well known in the Chicago community. He remained at LaSalle in different positions until 2003 when he retired.

*ABN AMRO's matrix organization: the 1990s*

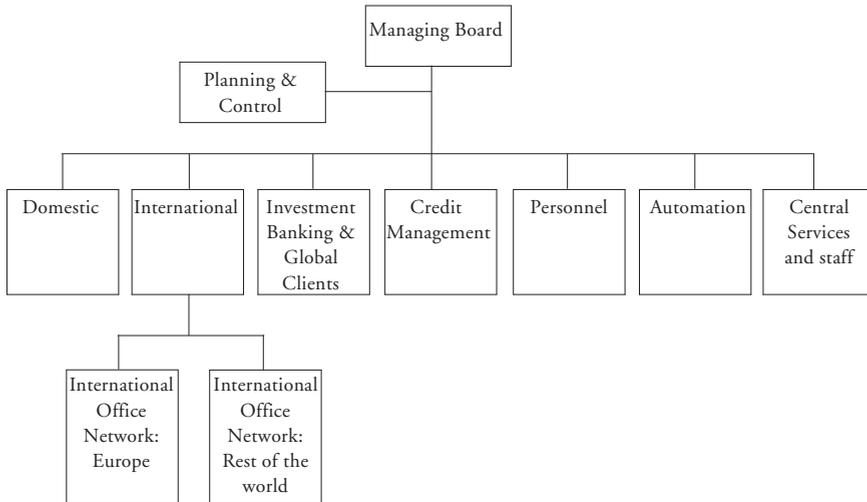
Only after the merger with Amro Bank in 1990 did the organization structure of ABN Bank change. The change was a result of the newly formulated corporate strategy. ABN AMRO wanted to become a universal bank. In other words, it wanted to integrate commercial and investment banking into one organization, with the Netherlands as its home market. Apart from gradual expansion in the United States, the bank strived for a strong presence in one or more European countries. Notably the intention was to increase income of non-balance activities. Because of increasing competition, the interest margins had decreased resulting in pressure on profits. In foreign countries, commercial banking activities had to be extended with investment banking activities.<sup>37</sup>

The new divisional structure was chosen in accordance with the integrated universal banking philosophy. The most significant change for ABN Bank was the importance given to the division Investment Banking & Global Clients (IB&GC) in the organizational structure, which before had been Directorate Securities. The newly created division served client groups that needed specialized knowledge on merger & acquisitions, issue activities, aerospace finance, project finance & leasing, securities, trade finance and private banking. IB&GC had to cooperate with the Domestic and International Division, which remained profit responsible. Functional activities like credit management, personnel and automation were still centralized at head office. The management of each division consisted of members of the Managing Board and of the SEVP's of the division. For example, in 1991 the management of the International Division consisted of two members of the Managing Board, Kalff and R.W.F. van Tets, and two SEVPs, M.H. Reuchlin responsible for Europe, and Oyevaar responsible for the rest of the world. The importance ABN AMRO attached to investment banking becomes clear if we look at the daily management of the division Investment Banking & Global Clients. In 1992, the daily management consisted of no less than three members of the Managing Board and three SEVPs.

The daily management tasks of a division were policy formulation (which countries, markets and products), responsibility for profits, allocation of resources (people, capital and investments), planning and control, managing the matrix organization at head office and supporting the regions.<sup>38</sup> The SEVPs had delegated responsibility for results and operations, whereas the Managing Board remained responsible.

In the 1990s, discussions took place in the Managing Board of ABN AMRO. It was argued that many companies such as Royal Dutch Shell had an Anglo-Saxon holding structure, whereby the Managing Board consisted of just a few members and only had strategic tasks. The board concluded that ABN AMRO's divisional structure resembled these companies' structures, but that there still was a major difference with industrial companies. For a bank like ABN AMRO, it was not advisable

Organization chart 5: *ABN AMRO 1990-2000, Divisions*



Source: Annual reports 1990 and 1991.

to completely decentralize the management of risks. The board remained of the opinion that some operational tasks had such an impact on the solvency of the bank and thus on the continuity of the company, that it wanted to keep control. Therefore, the Managing Board retained operational control over the largest credits, issues, relation management with major clients and control of dealing room activities.<sup>39</sup> Accordingly, the bank did not introduce a holding structure with a small Managing Board that only had strategic and managerial tasks and with operating companies that were treated as separate profit centers. In contrast, the organization stayed relatively integrated. Instead of a decreased number of members, the Managing Board was enlarged to thirteen, as the result of the merger between ABN Bank and Amro Bank. None of the members were forced to leave the newly formed bank, which was a good example of how the Dutch operated. It was in sharp contrast with American companies where after a merger the boards usually were cut in half. The number of members decreased to nine in 1994 and to eight in 1999. In the 1990s, the Supervisory Board of ABN AMRO consisted of around fifteen members, which was comparable to what ABN Bank had been used.

#### *The American organization after the Dutch merger*

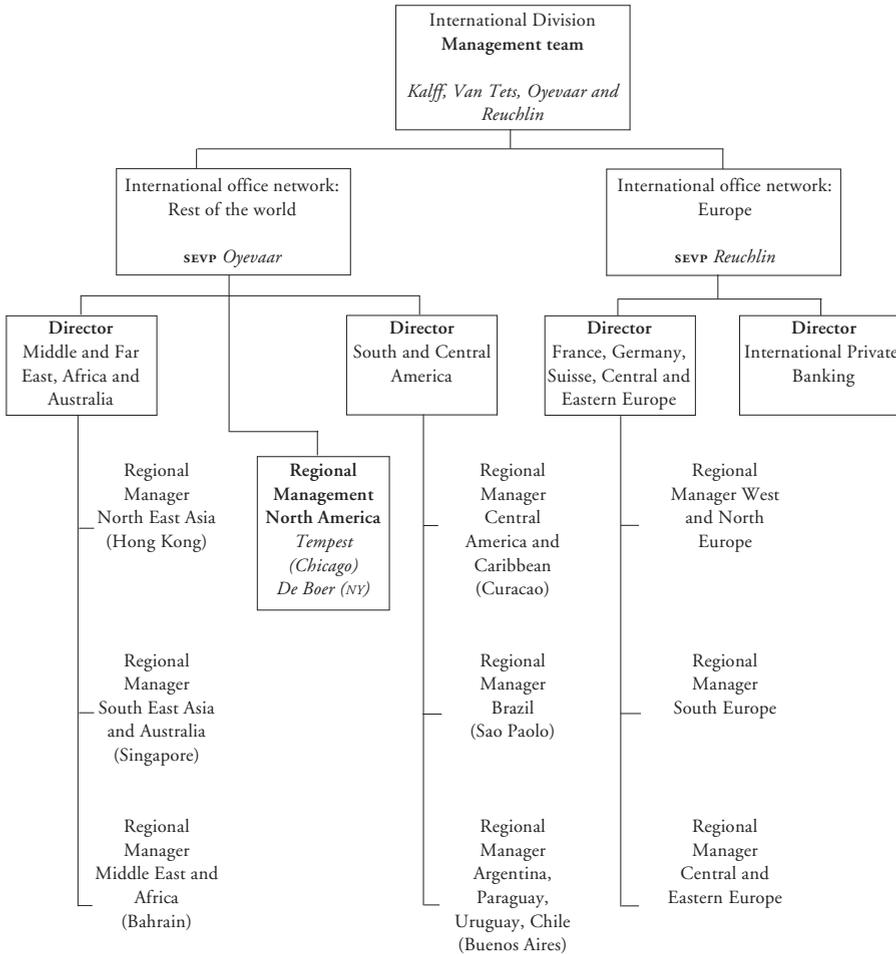
If we take a closer look at the structure of the International Division, we notice that the American organization within ABN AMRO had a unique position. Responsibility was delegated top down. The position of director had been created between the SEVP in Amsterdam and regional manager abroad, except for the North America

region. Consequently, regional management North America reported directly to the SEVP, without the intercession of a director. In 1994, a few years after the merger when the new organizational structure had taken shape, some improvements were carried out. To make the organization more flexible and decisive it was decided to decrease the number of hierarchical layers.<sup>40</sup> Consequently, the four directors were removed for all regions. The workload of the four directors was allocated among three (Europe, Western Hemisphere and Eastern Hemisphere) instead of two SEVPS.<sup>41</sup> Again, North America received special status, since its CEO Tempest had been made equal to SEVP.<sup>42</sup> He reported directly to Dutch Managing Board, which reflected the short lines philosophy. The special treatment of the American region had much to do with the region's importance to the bank. The American organization had become large and made considerable profits.

As we have seen in the previous chapter, the American organization had become very large due to various acquisitions. One third of total profits came from the US. In order not to create a bank organization within a bank, ABN AMRO introduced a matrix structure for the American organization in 1993. Moreover, the bank was of the opinion that, for the creation of a universal bank, a matrix organization was the best organizational structure. The regional manager Tempest had *hierarchical* responsibility for the complete American organization. However, the organization was divided into regional banking (retail) and other activities (wholesale activities or activities of Investment Banking & Global Clients). The IB&GC division had supervision of these wholesale activities at the highest level of the organization.<sup>43</sup> Consequently, while the relatively decentralized nature of the American organization remained, it became more integrated with the Dutch parent company. This was illustrated by the fact that Tempest no longer had just one contact at head office. From now on, he had to report to Oyevaar and Kalff for retail activities and to Van Tets (since 1994 the member of the Managing Board responsible for investment banking) for investment banking activities.<sup>44</sup> Not only Tempest but also all employees had more than one boss, some of them from the Netherlands. In general, Americans are not enchanted by matrix structures. They prefer hierarchical lines and just one contact in the line organization to which they have to report. The fact that the American organization had to report to different people in the Netherlands and consequently received different orders was not found desirable.

Besides the fact that the American organization did not like the introduction of the matrix organization because of the many reporting lines, there was another reason for the emergence of some friction. To become one of the world investment banks, ABN AMRO had to build up an investment banking position in the US.<sup>45</sup> Tempest did not agree with ABN AMRO's aim of competing with the large investment banks in the US. Probably even more important, he had to achieve results in order to meet his targets, but investment banking activities were not so profitable at that point in time.<sup>46</sup> In order to minimize difficulties in the US because of the

Organization chart 6: *ABN AMRO's International Division, 1992*



Source: Annual report 1992.

introduction of the matrix organization, De Boer was appointed vice chairman again and in practice functioned as the communication line with Amsterdam for investment banking activities. In 1995, another Dutch expatriate R.C. van Paridon was appointed in this position. The problems arising because of the matrix organization were thus solved by separating the management of investment and retail banking. However, Tempest remained the CEO of the American organization and De Boer hierarchically stood below Tempest.

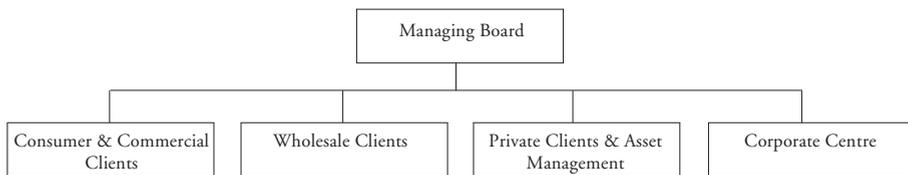
ABN Bank had historically developed into a more decentralized organization divided into regions. Delegation of authority and reporting lines had been organized top down. The American organization had a rather unique position, which

was reflected in short lines to head office. The changes resulting from the introduction of the matrix organization therefore were great. The fact that in 1996 the Managing Board intended to introduce a matrix organization in Asia as well, following the American example, proves that the directors in the Netherlands were of the opinion that the matrix form was the right organization structure in order to control foreign operations and become a universal bank.<sup>47</sup>

*The introduction of Strategic Business Units, 2000-2005*

The next significant change in the organization structure of ABN AMRO took place in 2000, when Kalff was succeeded by R.W.J. Groenink as chairman of the Board. The universal banking concept was abandoned and replaced by a client-focused organization. According to the annual report in 2000, the important aims of the reorganization were ‘to focus the activities more precisely, to improve service to clients, and to increase transparency of and accountability for value creation or destruction’.<sup>48</sup> The creation of shareholder value was the central objective of the new strategy. To this end the company was divided into three Strategic Business Units (SBUs) and one Corporate Centre. The three worldwide and largely independent Business Units replaced the old matrix structure and regional divisions lost their dominance. So the SBU Consumer & Commercial Clients was directed at private households and the middle market. Three regions formed the core of this business unit: the Netherlands, North America and Brazil. The other two business units had operations worldwide. The Wholesale unit combined the former IB&GC Division with global corporate banking, which had been part of the former International Division. The third business unit focused on private banking and asset management worldwide.

**Organization chart 7: ABN AMRO 2000-2005, Strategic Business Units**



Source: Annual report 2000.

It is important to note that the Managing Board delegated complete operational responsibilities to the business units (holding structure), which was thought impossible in the 1990s because of the bank’s solvency requirements. The Managing Board was only responsible for strategy development at Business Unit level. The Board did not interfere in the daily routine of the business units, including credit management. This was also reflected in the reduced size of the board: from ten

members in 2000 to six in 2002. Each business unit had its own executive committee, in which two or three members of the Managing Board were seated together with the SEVPS of that unit. To illustrate this, Business Unit Consumer & Commercial Clients has been worked out in detail.

**Organization chart 8: SBU Consumer & Commercial Clients, 2000**



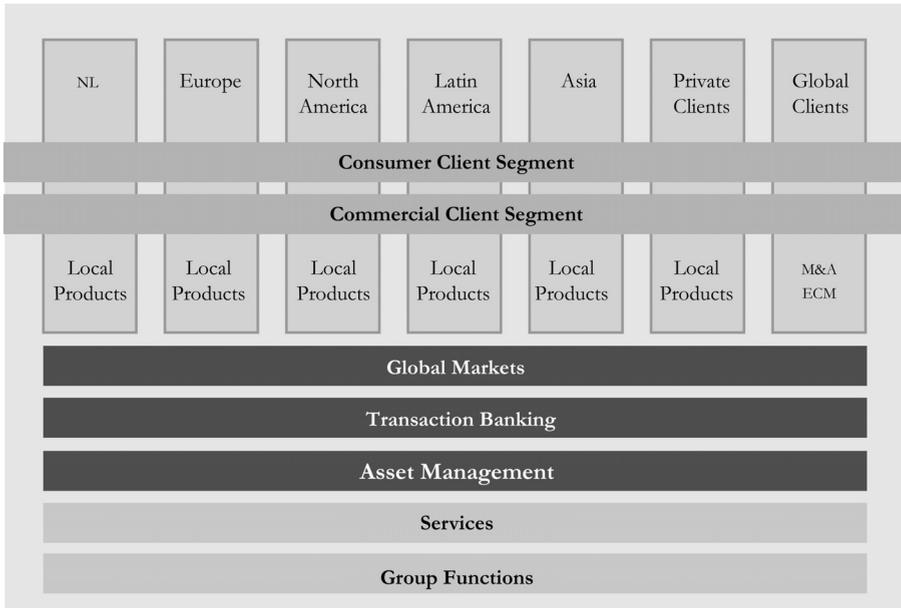
\* Members of the Executive Committee in 2000 were: of the Management Board De Jong, Kuiper and Collee and furthermore Oyevaar (Projects), Lion (CFO), Hartsink (Operations), Tempest, Barbosa, Deckers and Schmittmann.

Source: Annual report 2000.

Because of the introduction of business units, the American organization no longer was one organization with one boss. The largest part of the American organization, that is retail banking, formed part of the SBU Consumer & Commercial Clients. The American corporate clients and investment banking activities were separated and placed in SBU Wholesale Clients, which was first headed by Van Paridon, who in 2001 was succeeded by N.W.A. Bannister, an Englishman who had been Global Head of Securities. The Wholesale Clients Country Representative, as the position was called, was located in Chicago.

As we will see in chapter 5 on investment banking, ABN AMRO did not succeed in becoming one of the global investment banks. Already in 2005, the Managing Board decided that the strategy and organizational structure as introduced in 2000, with a focus on wholesale/investment banking, was not the right one. Corporate strategy was reformulated in which the middle market became most important again. The organization changed into a structure in which regional divisions prevailed once more.<sup>49</sup> The structure increased to five business units divided into regions: Asia, Europe, Latin America, Netherlands and North America. Two business units, Global Clients and Private Clients, remained for globally active clients. Focus was on the former Consumer & Commercial Client business unit of which North America had been part. The BU was divided into consumer

Organization chart 9: *ABN AMRO, as of January, 2006*



Source: speech by Rijkman Groenink, Chairman of the Managing Board, ABN AMRO Investor Day, Duin and Kruidberg, December 14, 2005.

and commercial client segments and both supported the seven business units. Lastly, there came three product oriented business units: Global Markets, Transaction Banking and Asset Management. They had to provide new products for the rest of the organization.

*Summary*

ABN Bank was transformed from a centralized and integrated organization, in which the Managing Board was occupied with day-to-day activities, to a more decentralized one in 2000. One of the developments to this end was for example the introduction of Directorates in 1973, which decreased the Managing Board’s operational task load. Because of solvency requirements, the bank’s Managing Board hesitated to delegate all operational responsibilities. It wanted to be able to control some important aspects of banking such as credit risks, which was the reason that the company had an integrated organization for a relatively long period. However, decentralization and delegation was necessary in order to be able to expand (span of control). Moreover, because of pressure due to growing competition, ABN AMRO wanted to know where in the company value was created and lost and it wanted to be able to reward business and employees accordingly. It

seems as if a new CEO was necessary to make these kinds of decisions. After 30 years, when Groenink became chairman of the Managing Board, all operational tasks including management of risks were delegated to three business units. The reorganization made ABN AMRO a less integrated company.

The relation between parent company and American subsidiaries and branches changed from a relative integrated relation into a more loosely connected one. The American branches formed an integrated part of the parent and had various communicating lines with Directorates in the Netherlands. This did not change significantly. In general, the relation between head office and LaSalle was a good one. However, this had evolved over time. Head office had to learn that formulating goals, budget and targets was important for the Americans. Moreover, the bank became aware of the fact that Americans preferred one boss and short reporting lines. Whenever ABN Bank deviated from these principles, we saw some resistance within the American organization. In particular, the 1980s can be seen as a decade of trial and error in which ABN Bank learnt and explored the possibilities. This also had to do with Livingston's strong character, while Tempest probably fitted somewhat better into ABN Bank's mentality of personal contacts and trust.

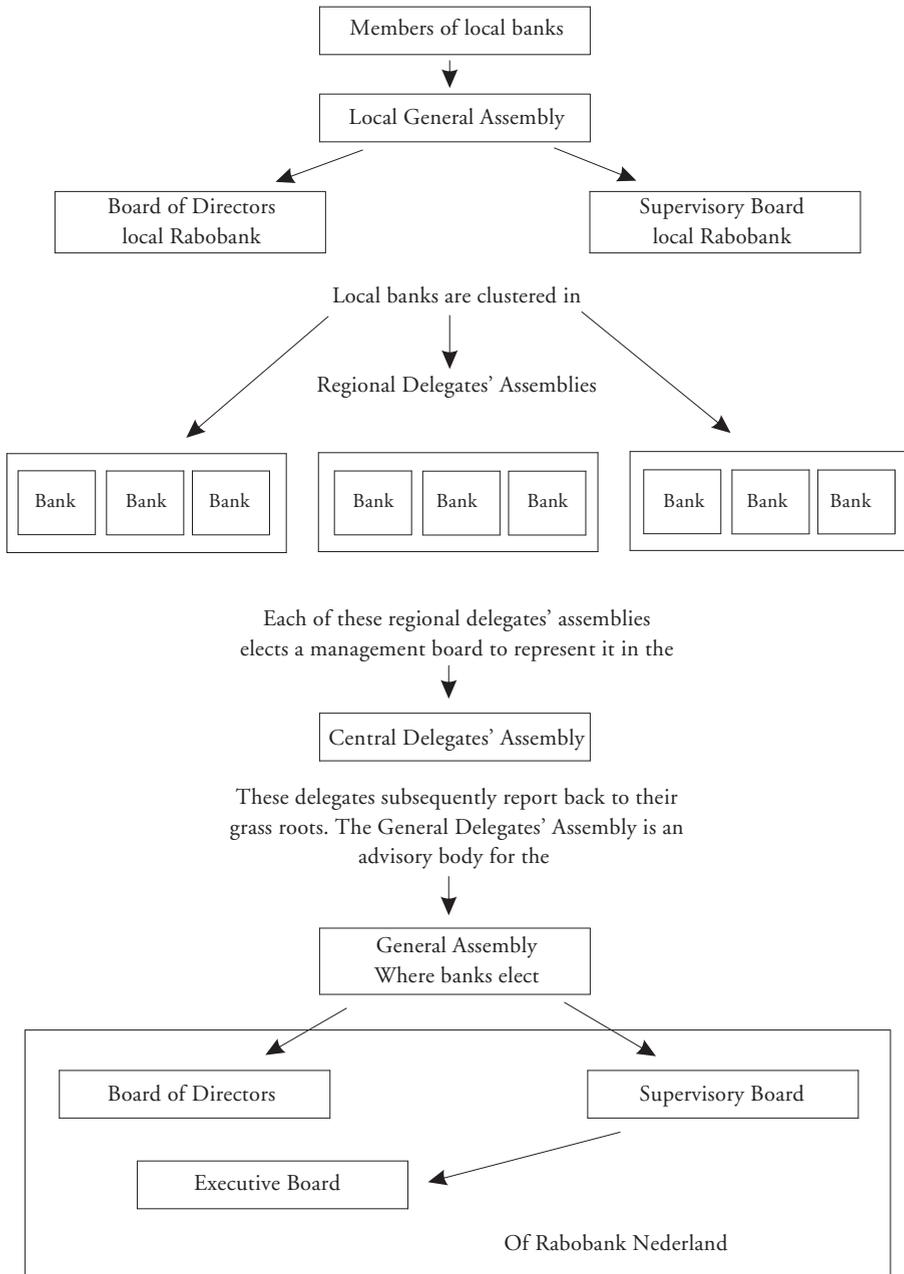
Decentralization of the organization did not mean that the American organization was managed completely at arm's length. Apart from introducing formal financial procedures, there were other control mechanisms. During the period, due to different factors the American organization remained integrated with the Dutch organization. First, Dutch expatriates occupied key positions in the American organization. In this way, Managing Board tried to keep an eye on the American organization. The introduction of the matrix organization in the United States in 1993 was another factor. This was a means to integrate the large American organization, and manifested itself in the appearance of more reporting lines, hierarchical as well as functional, with head office. The combination of formal financial procedures with informal ones like personal contacts and trust, which were transferred by expatriates and visits from the Managing Board, was important for the development of the American organization. In this way, the Americans were able to decide on important things, but kept the necessary feeling with and support of the Netherlands.

## **Rabobank**

### *Organizational structure and decision-making process at Rabobank Nederland*

In contrast to the early expansion of ABN Bank and Nationale-Nederlanden, Rabobank looked across the Dutch borders no earlier than the 1970s. Consequently, the bank did not have an international department or employees with international experience. Secondly, because of its cooperative character, Rabobank differed from the other banks in its organizational structure, which consisted of many layers and a decision-making process based on mutual agreement at all levels

Organization chart 10: *Managerial structure of Rabobank until 2002*



Source: Anne Lavelle, *The art of cooperation. The Netherlands and its Rabobank* (Wormer, 1998), p. 71.

within the organization. Finally, another outcome of the cooperative character was that the main condition for international expansion was that foreign branches in the short term had to be supportive of the Dutch member banks and their clients and of the Central bank. Because of these features, one might expect that Rabobank differed in the way it managed and controlled its foreign operations.

Rabobank Nederland as well as its members (the local banks) are cooperatives. The main difference between them is that Rabobank Nederland is a closed cooperative; only local banks with a cooperative structure and whose Articles of Association have been approved can become members. Furthermore, member banks are shareholders as well as members of Rabobank (inverted pyramid). Each local member bank had the same structure consisting of a Board of Directors and a Supervisory Board. The Executive Board (*Hoofddirectie*) of Rabobank Nederland was responsible for the banking business and the Board of Directors (*Raad van Beheer*) for cooperative matters. The Supervisory Board (*Raad van Toezicht*) controlled both the Executive Board and the Board of Directors.

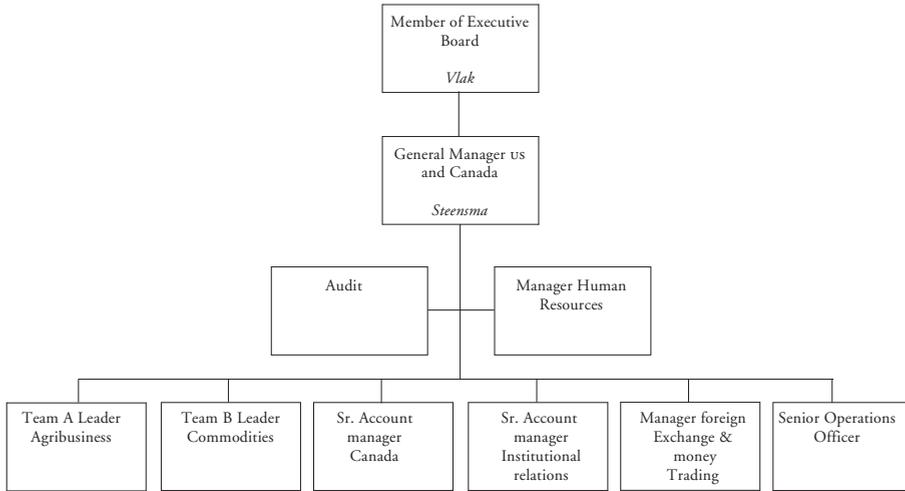
Rabobank only made important decisions after consulting the member banks. The decision-making process at Rabobank was characterized by consensus. A lot of consultation took place, which was time consuming. The advantage according to Rabobank was that as a result the decisions taken were highly democratic and a broad basis was assured. This democratic character of the cooperative was noticeable in the fact that various consultative and advisory bodies existed, most important of which was the Central Delegates' Assembly (*Centrale Kringvergadering*). The Central Delegates' Assembly foremostly ensured the influence of the local banks. Here, it was possible to discuss matters with the Executive Board of Rabobank Nederland. Although the assembly only had advisory powers its advice was hardly ever disregarded due to the bank's striving for consensus. For example, when Rabobank decided to open a branch in New York, it had to be discussed by the Executive Board, the Board of Directors, the Supervisory Board and last but not least the Central Delegates' Assembly.

The tasks of the Executive Board were divided between two bodies: Member Banks Sector and Banking Sector. The latter consisted among other things of the International Directorate. Area managers were appointed to ensure involvement of the Rabobank in the different parts of the world; each of them coordinated all activities in a region.<sup>50</sup>

### *Organization, management and control of the American operations*

With the opening of the New York branch, which was the second foreign branch after Curacao, the bank stressed that only officers must be appointed who had experience within the Rabobank organization and were familiar with the goals the bank had formulated for international expansion. It was important for the

Organization chart II: *New York branch, November 1981*



Source: HA Rabobank, Policy plan 1982 New York branch.

bank that management of foreign branches was able to transfer the cooperative character. This ambition also meant that expansion through acquisitions created disadvantages for the bank. In the policy paper of 1979, Rabobank said the following on this subject: ‘The difficulty (of an acquisition or major participation) is that the transfer of one’s own philosophy is more difficult than with one’s own branch.’<sup>51</sup> Another important principle was that to achieve the goals of the New York branch it was agreed that they formed an integral part of the goals of the entire Rabobank organization and that consultation, support and cooperation between all people involved at the New York branch as well as at the Central Bank was of essential importance.<sup>52</sup> For this reason, G.J.M. Vlak, the member of the Executive Board responsible for the Banking Sector, moved to New York for two years. In this way, the Executive Board was able to keep an eye on the development of the branch. In 1981, H. Steensma was appointed manager of the New York branch. He had been working for Bank of America in San Francisco<sup>53</sup> and therefore had knowledge of the American market. He had also been the director of Rabomerica. He knew the cooperative character and international aspirations of Rabobank. After Vlak returned to the Netherlands again, where he remained responsible for the American organization, Baron Van Lynden was appointed deputy manager. Accordingly, the American branch consisted mainly of American employees, but was headed by Dutch managers.

The objectives formulated for New York were derived from the cooperative character of Rabobank. The two most important ones were first to provide high

quality support to clients of the Rabobank organization, the member banks and the central bank ('International serves National'). The second objective was to develop a complete range of international and domestic wholesale activities in the United States and Canada, with the aim of contributing a profit to the Rabobank organization within one or two years.<sup>54</sup> However, after two years it became evident that the New York branch did not contribute positively to the results of the Rabobank organization.

In the first policy paper of 1979 on foreign expansion, it was stated that, besides strong management, the branches had to be controlled well. The bank aimed at a control system used by American banks. According to Rabobank, American banks made use of two traveling control teams; one specialized in evaluating credit portfolios and the other in checking whether branches met the external and internal requirements. These requirements however still had to be formulated by Rabobank at the time. Manuals of the operational procedures had to be written down and forms had to be prepared. Furthermore, it was said that for the foreign operations special decision-making procedures had to be developed. Especially speed in decision-making was seen as necessary to satisfy foreign debtors. In the policy document an example was given: '...for American companies it is normal to receive within 24 hours, with a maximum of 48 hours, a decision on a credit application'.<sup>55</sup>

Although intentions were there, no clear control mechanisms and lines with head office existed during the first years after the establishment of the New York branch. For example, at the time of the opening of New York in 1981, the branch had 44 employees, five of which were Dutch: Vlak, Steensma, one account manager, one head of department internal control and one arbitrageant. It is striking that after the opening, terms of employment for local employees of foreign branches still had to be formulated by Rabobank. In a meeting in May 1981, the Executive Board determined some guidelines. The terms of employment for local employees had to be developed by the local management in cooperation with the Dutch HR department and had to reflect the local market situation. Most important was that the terms of employment had to be competitive in order for the foreign branches to be able to recruit qualified employees. Rather progressive was the addition that the development had to be based on the principle of management by objectives, and that if justified by local circumstances, performance could be prescriptive.<sup>56</sup>

In 1981 during a meeting of the Executive Board in which Steensma was present, it was stated that they had the impression that communication and cooperation between New York and the Banking Sector, in particular the International Directorate, were not sufficient.<sup>57</sup> Since Vlak was located in the US and was a member of the Executive Board, in practice New York did not report to the International Directorate.<sup>58</sup> The fact that Executive Board held the opinion that New York was in a developing stage, also became clear when it rejected the suggestion of the New York branch to open an office in Canada. The Executive

Board gave priority to operational tasks, such as formulation of decision and reporting procedures, development of management tools, reinforcement of the quality of operations and administration, and lastly quality improvement of the work force.<sup>59</sup> These examples illustrate that the Rabobank organization and management had not yet been structured for international expansion. One of the solutions was found in the creation of a small department called Directorate Foreign Branches and Participations, that became responsible for coordination and maintenance of the operational relations between Utrecht and foreign branches. First priority was the development of liaison with the New York branch.<sup>60</sup> The creation of the Directorate Foreign Branches shows the fact that the company had to build an international department from scratch. A year later in November 1982, an agreement was reached concerning the management of foreign branches. The instructions were formulated based on experiences with the foreign branches and functioned as an outline for the branches and Rabobank Nederland. It was only then that the bank formulated procedures. For example, the New York branch received authority up to five million dollars with regard to credit applications. Applications exceeding this amount were to be submitted for approval to the Credit Committee in Utrecht and the Executive Board.

In the first years of the New York branch's existence, there had not been any guidelines formulated by Rabobank Nederland. The bank still had to create and implement procedures for its foreign branches. As a result, Rabobank Nederland had given the branch large autonomy. P.M. Burghouts (member of the Executive Board), who paid a visit to New York in 1983, together with H.J.A.E.M. Klarenbeek (vice-chairman of the Executive Board) and W.M. van den Goorbergh (Foreign branches and participations), held the opinion that the branch formed no integral part of the Rabobank organization at all. The Executive Board had not dedicated sufficient attention to the branch. The Banking Sector had not given the necessary priority to the branch. Moreover, Burghouts thought Rabobank had to reconsider whether the assumption 'International serves National' based on being a cooperative bank, matched the aim of contributing to the results of Rabobank. Finally, he found the expectations aimed at the short-term naive. According to him, a foreign branch needed three to five years to reach break-even point and in the difficult New York and American market rather five than three.<sup>61</sup> McKinsey & Company came to the same conclusion in 1983, when they wrote a report on the NY branch: 'clear procedures were necessary to make the New York branch profitable'.<sup>62</sup> When support and control were limited to only some critical remarks this would reduce motivation and decisiveness in New York, according to McKinsey. Most important was that from the Netherlands total support, material as well as personal, was needed. Furthermore, Rabobank had to check regularly and consult New York management on progress. The consultant suggested evaluation every six months, so that New York was able to embark on a new line if necessary. To be able to evaluate developments twice a year, detailed commercial, operational and financial objectives had to be formulated by Rabobank. Thus, the relation in

the early 1980s between New York and Utrecht might be typified as at arm's length, without the necessary checks and balances.

Two alternative scenarios followed from the first report by McKinsey. One of them was the 'base case scenario', the other the 'representative office option'. Rabobank decided to apply the base case scenario. This scenario implied that the New York branch was considered a bank, of which credit loans was the most important activity, in particular credits to the American agribusiness sector. In this way, the branch would contribute to the development of Rabobank Nederland as an international agribusiness bank. The bank departed from the idea that the branch mainly had an additional function on behalf of the Rabobank organization focused at servicing domestic clients (the representative office option).<sup>65</sup> Rabobank's decision can be seen as a great change in strategy. Hitherto, the opening of a branch in New York was justified by the principle 'International serves national'. This principle was given up for a new one: focus on agribusiness.

In spite of the recommendations made by McKinsey in 1983, it was only in 1987 that the NY branch reached break-even point. The modest profits made in the last years had no more than compensated for initial costs. After seven years, the NY branch was finally able to contribute positively to the organization results. Since the NY branch was the first foreign office, Rabobank had to learn by trial and error. Although experienced Dutchmen managed the NY branch, at home there was only limited international banking experience. It was complicated for a Dutchman, especially one that knew so much of the modern American banking market, to communicate with the Executive Board at home. Procedures had to be created and realistic goals to be formulated. The change of strategy to become an agribusiness bank in the US was relatively quick and remarkable.

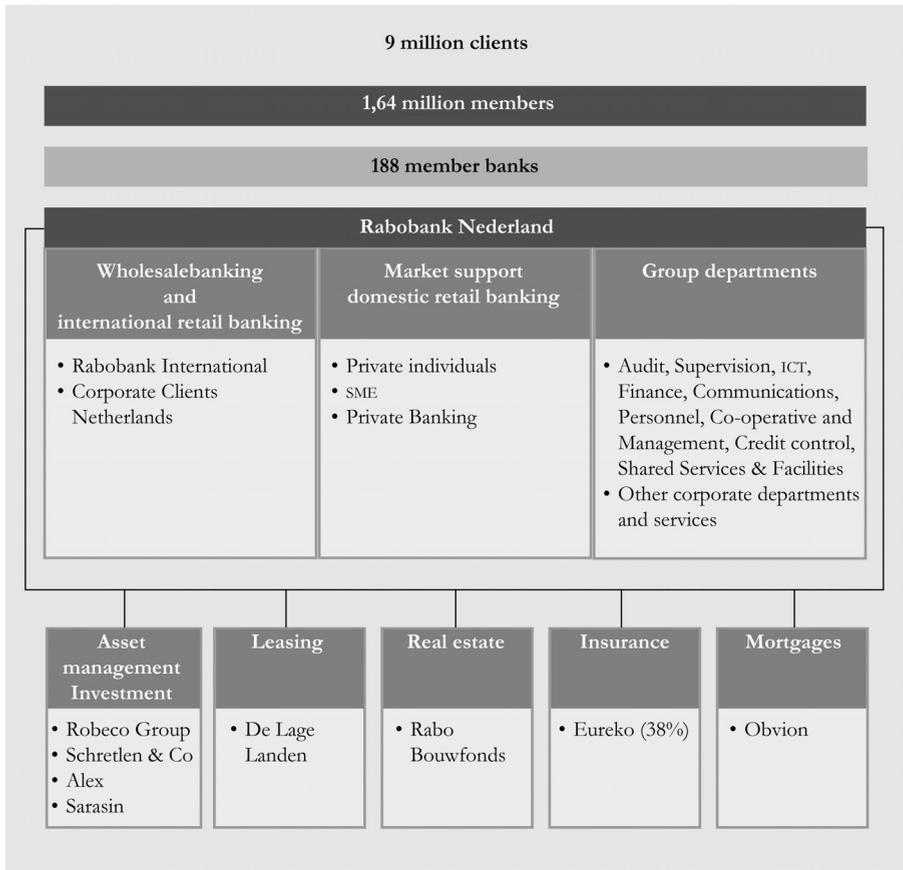
In the mid 1980s, Rabobank believed that the lines and procedures with foreign branches had been formulated. As a result, in 1986, the International Directorate and Directorate Foreign branches and participations were integrated under the supervision of Van den Goorbergh (head of Directorate Foreign branches and participations, 1983-1986). The general managers of the branches (these were New York, Singapore, London, Antwerp, Paris, and Curacao) and German ADCA bank from now on reported directly to the head of the International Directorate, H. Visser. Because the number of foreign branches had increased, it was not sufficient to report directly to the Executive Board any longer. Moreover, the organization was better equipped by now.

### *Organizational changes at home*

The year 1990 can be seen as a turning point for Rabobank. Since then, the bank headed by H.H.F. Wijffels, (Chairman of Executive Board since 1986), diversified into many activities by the acquisition of or cooperation with Dutch companies, like Robeco Group, Gilde Investments, De Lage Landen (factoring and leasing), and Interpolis insurance company. Consequently, during the 1990s the bank's

character changed and became more diversified. Rabobank Nederland became a holding company apart from being a cooperative. In the organization chart below, we see that Rabobank adopted a multidivisional structure, consisting of banking, insurance, asset management, leasing and real estate. The divisions had large autonomy and operational responsibility, while the Executive Board focused on its strategic tasks. The local banks had a less dominant position within the organization.<sup>64</sup> The organizational chart below shows the situation in August 2007. The number of clients, members and member banks obviously is not static and changes over the years. The same goes for the underlying companies, some have been sold and some are only recently been acquired or set up. The structure however remains the same and shows the diversified character of Rabobank.

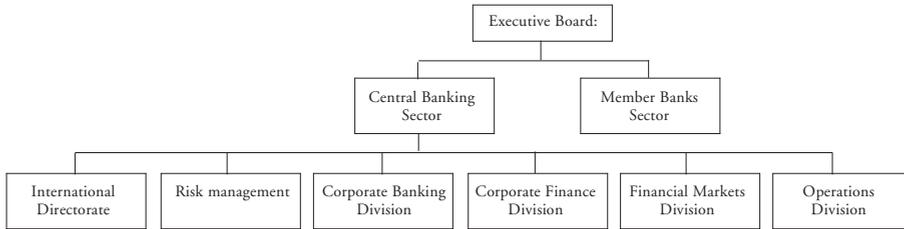
Organizational chart 12: *Rabobank Group*



Source: Corporate website Rabobank Group, [www.rabobank.com](http://www.rabobank.com), August 17, 2007.

The change was also visible in the Banking Sector, which changed its name into Central Banking Sector (*Centrale Bankbedrijf*) in 1989. The organization structure of the Central Banking Sector in 1990 reflected its tasks. For the foreign branches, including New York, not much changed. They still had to report to the International Directorate, now headed by D.J.M.G. van Slingelandt. In the organization chart we see the many hierarchical layers of Rabobank. In contrast to ABN Bank, where North America reported directly to Managing Board, in the Rabobank organization two other layers were placed between the US and the Executive Board: International Directorate and Central Banking Sector. Although Rabobank adopted a multidivisional structure, reporting and communication lines were still long and did not resemble the short lines Americans were used to.

**Organization chart 13: Rabobank and Central Banking Sector, 1990**



Source: HA Rabobank, Organization guide, June 1990.

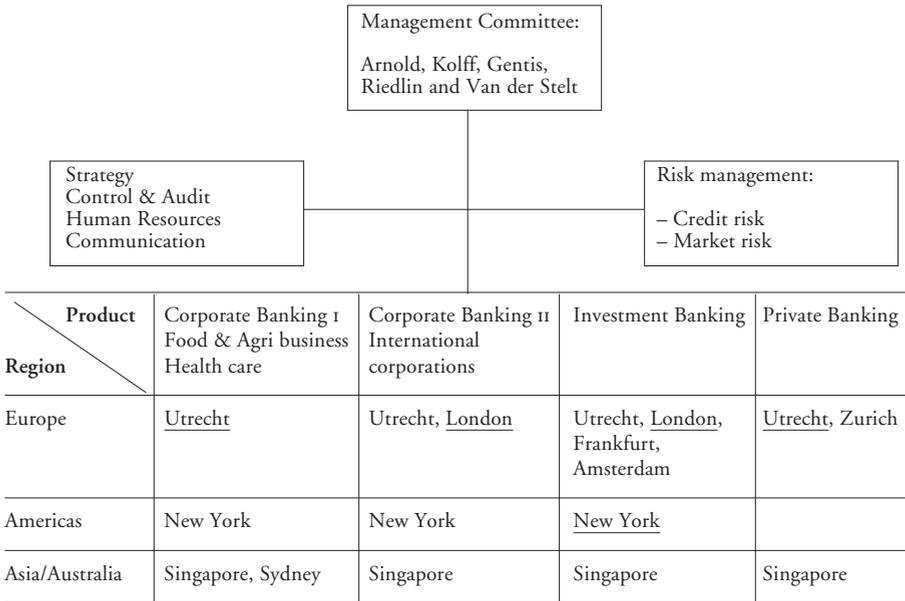
A Strategic Action Plan 1992-1995 formulated in 1991 accompanied the name change. The aim, according to the newly formulated Rabobank strategy, was to become the second Dutch wholesale bank qua market share (after ABN AMRO) and realize a profitable worldwide position in food and agribusiness. Like ABN AMRO and ING, in the early 1990s the focus was on Europe, because of the integration of the European market. Outside Europe, and thus in North America as well, the focus was on the development of a branch network that was able to service the food and agribusiness companies. As we saw above, the New York branch had already adopted this strategy in the 1980s. To become a worldwide food and agribusiness bank, knowledge, which was particularly concentrated in a small group of employees in the Netherlands and the United States, had to be broadened and deepened. This group had to increase in order that more people were able to support Rabobank's objectives. From 1980 to 1995, Central Banking Sector changed from a department focused at financing cooperatives into a department that was engaged in total financial services for large companies, institutions and institutional investors at home and abroad. In other words, the division had become a wholesale bank, however, still in an early stage of development. The relation between the foreign branches and Central Banking Sector was an integrated one. The six divisions as shown in the above organizational chart had many communication

lines and steering groups. Moreover, the Managing Board of Central Banking Sector discussed marketing, human resources, and automation of foreign branches. The New York branch had a rather unique position, because of its size and importance, and was able to decide on these business aspects itself. However, when for example New York wanted to introduce a new product, which involved new risks, or to open a new loan production office (LPO), it needed the approval of Central Banking Sector.

In 1996, Central Banking Sector changed its name into Rabobank International. With Rabobank International the international activities received their own identity. Rabobank International had its responsibilities delegated from the Executive Board. In 1996, it was also time to reconsider the Strategic Action Plan of 1991 and to make decisions due to growing competition in the market and decreasing interest margins. It was thought that the bank would not survive with commercial banking alone. It was necessary to diversify into other activities that were more profitable. The aim was to become an international wholesale bank focused on certain groups and products. Rabobank did not want to become a global investment bank, like ABN AMRO, but a focused wholesale bank, offering specialized financial services to selected groups of customers in the market. Three business lines were chosen: Corporate Banking, Investment Banking and Private Banking. The division of Central Banking Sector into foreign and domestic was abandoned. Henceforth, the world was seen as one international market consisting of regions of which the Netherlands was only part. The regions were Europe, Americas, and Asia & Australia. This new focus was reflected in a new organizational structure.

With the introduction of the so-called Customer Focus Strategy, a matrix structure followed, as we can see in the organization chart. The tasks of Rabobank International's Management Board in relation to the business lines were limited to overall management and worldwide support like risk management, human resources, control, audit, communications, IT. The foreign branches were seen as distribution channels for servicing wholesale banking clients. The most important ones became member of the management team of the respective directorate and are listed in the organization chart. For example the management team of Directorate Corporate Banking I was formed by Utrecht (chairman), New York, Singapore and Sydney. New York was represented in every management team except for the team of Private Banking and was, together with the London branch, chairman of the investment banking activities. The main difference for the general manager of a large foreign branch as New York was that he had to change from an entrepreneur into an organizer and a *primus inter pares* of a management team that for its part had to direct a specialized team. The matrix organization did not meet much resistance. The American organization was not as large as for example the one of ABN AMRO. The NY branch has been an integrated part of Rabobank and has always been headed by a Dutchman, in contrast to a subsidiary, which is seen as a separate legal identity, which in the case of ABN AMRO was headed by

Organization chart 14: *Rabobank International, matrix structure, 1996*



Only the branches that were represented in the management teams are mentioned in the organization chart.

The branches underlined were chairman of the management teams.

Source: HA Rabobank, Presentation ‘Rabo Wholesale Bank, a 3x3 Focus Strategy’, January 1996 and, Board of Directors, Presentation: ‘Organization structure for the Customer Focus Strategy of Rabobank International’, May 24, 1996.

an American. The organizational structure of Rabobank International has not changed, except that after disappointing results in the 1990s, less focus has been placed on investment banking. By now, regions have become the dominant unit, which is reflected in the composition of its Managing Board. Apart from the positions of chairman, vice chairman, Chief Financial and Risk Officer (CFRO) and Chief Operating Officer (COO), the team consisted of positions for Europe, Americas, Netherlands and Global Financial Markets. The use of centers of excellence worldwide, in which knowledge of food and agribusiness are collected and spread, seems a good instrument in order to become a knowledge bank, which specializes in the agribusiness niche.

*Summary*

Rabobank has had an organizational structure consisting of many decision-making layers. There were two important parts. Member Banks Sector dealt with the local member banks and Banking Sector was involved with international business and company wide activities. Since 1990 Rabobank Group has expanded into other activities like leasing and asset management, which resulted in the adoption of a multidivisional structure. For a successful international expansion it has been very important that at the same time and especially since 1996, Banking Sector has become more autonomous, which was reflected among other things in its name change into Rabobank International. Because of these developments the principle of 'International serves National' has become less important, which made it possible for Rabobank International to develop a niche strategy. The independence of the Banking Sector thus has been very important in becoming an international food & agribusiness bank.

Since the American organization reported to International Directorate, which was in its turn part of Central Banking Sector, I have looked at developments in the relationship between these three identities as well. The Executive Board of Rabobank lacked international experience and the organization lacked a structure directed towards international expansion. The Board was used to little involvement in the policies of Dutch member banks. This decentralized entrepreneurship has been one of the important aspects of the cooperative culture and was adopted for essential activities as well. Thus, decentralization was also adopted towards the NY branch, in spite of the fact that the inexperienced Board had stressed its full dedication to making the NY office successful. The necessary directions, control mechanisms and communication lines were missing. In the 1980s, the difficulties were dealt with by trail and error, resulting in an American organization with local autonomy headed by a Dutchman. In these years, procedures had been formulated concerning risk management. The Executive Board held the last say when it concerned large credit applications. After five years, the American organization no longer reported to the Executive Board, but to the International Directorate.

Finally, we conclude that although the Rabobank Group adopted a multidivisional structure in the 1990s, the Central Banking Sector (Rabobank International) formed an integrated organization on its own. The directorates of the Central Banking Sector had many communication lines between them and at central level the Managing Board made operational decisions, including decisions on marketing, human resources, and automation. In 1996, when Central Banking Sector changed its name into Rabobank International, a matrix organization was introduced to be able to manage the growing organization and more importantly to be able to spread the specific knowledge of agribusiness that existed within the organization. Local autonomy of the American organization remained the spear-

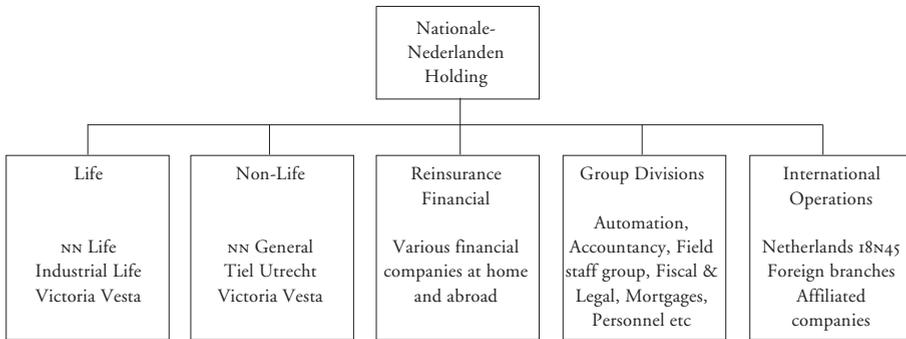
head of policy, however with better control mechanisms and communication lines than during the first years of the New York branch.

## Nationale-Nederlanden

### *Local autonomy at home*

Because of international expansion, Nationale-Nederlanden changed its organization structure in 1969 into a hybrid form consisting of activities by region (domestic and international) and by product (life, non-life and reinsurance).<sup>65</sup> The company had developed into a holding with Dutch subsidiaries that had a large degree of autonomy.

**Organization chart 15: *Nationale-Nederlanden, 1969, hybrid structure***



Source: HA NN, Nationale-Nederlanden, present structure, 1969.

The Executive Board focused on strategy, planning and control.<sup>66</sup> The Dutch subsidiaries had a so-called freedom in restraint and had operational responsibility. This was reflected in the fact that they had their own management teams for the day-to-day business. The Board as a collectivity was directly responsible for the continuity of the company in the interests of all stakeholders and more distantly responsible for its subsidiaries. The individual members of the Board had more influence on the operational activities of their own portfolios. The division of tasks between management teams and Executive Board was reflected in Midterm Plans formalized since the mid 1970s.<sup>67</sup> Every year the Dutch subsidiaries drew up a three-year plan and budget, which had to support the central group objectives of the Board. After the Board's approval, the Midterm Plans became the guideline for individual companies. Coordination and unity between the entities was safeguarded by diagonal connections formalized in steering committees and

working groups in the Netherlands, and by the International Division for the foreign operations.

Already in the 1970s and 1980s, Nationale-Nederlanden had a decentralized organization with short communication lines between the Board and the companies. However, although the holding structure reflected an open Anglo-Saxon system, in practice decision-making happened by consensus. The Executive Board gave its ideas and opinions, which were expressed in mutual discussions with the local managements. The discussions ended with decisions everyone agreed on. Thus, the insurance company reached consensus by means of constant dialogue between Board and local managements. After the mid 1980s, it was recognized that the Executive Board's members had become overloaded since the various management teams reported directly to them. This led to the creation of a General Management for the Netherlands (*Hoofddirectie Nederland*) in 1986. The body had to relieve the Board and enable it to focus on broad strategic issues again. The direct involvement in daily operations decreased.

#### *Local autonomy abroad*

Nationale-Nederlanden had traditionally been a loosely connected organization in which not only the domestic subsidiaries but also the foreign ones had room to operate. Each subsidiary was seen as a separate profit centre. It was thought that this long-embraced concept created an atmosphere in which motivation for management to seek innovation and development could exist along with the support of a large parent organization. Already in 1960, predecessor De Nederlanden created an International Division. After the merger into Nationale-Nederlanden, it became a department operating from The Hague, which assisted the Executive Board in implementing its corporate strategies.<sup>68</sup> The Division was seen as the centre of communication to and from affiliated companies worldwide.<sup>69</sup> It had no hierarchical tasks, since the foreign companies and branches reported directly to the Executive Board.

The philosophy of maintaining local autonomy was also reflected in the American operations. After the acquisition of a company, its American management was not removed, or as O. Hattink, member of the Executive Board, stated: '...that its name, image and management will be left intact and we were interested solely in supporting and assisting the growth and development of the companies which join our Group'.<sup>70</sup> Nationale-Nederlanden introduced some control mechanisms to manage its American operations. It created a separate post of the International Division in the us. In 1980, Nationale-Nederlanden had interests in two Canadian life insurance companies and six American life and non-life insurance companies. Especially after the relatively large acquisition of Life of Georgia a separate post was felt necessary. A small office was located in Washington and was headed by the Dutchman G.F. Jonckheer. The appointment of a Dutchman was another way to keep a grip on the growing American activities.

An important aim of the post was to take care of communication between the management teams of the American companies and the International Division in The Hague, to ensure 'they both marched to the same drumbeat'.<sup>71</sup> The management of the local companies reported directly to the Executive Board but at the same time remained in contact with the principal shareholder in their continent. The Washington Office was easily accessible and supported their activities constructively. The office for example encouraged the sharing of resources and information on products, automation and marketing.<sup>72</sup> The office made use of the following methods to direct the American companies. It had contact with the American companies by means of periodical and ad hoc visits. A more formal involvement of the Washington office was its formulation of strategies and objectives for the next years in cooperation with the management teams of the subsidiaries, by means of the Mid-term Plan (3 years) and Short-term Plans (1 year). In addition, a specific budget for the coming year was determined. During the year, progress regarding the budget was controlled quarterly. Local autonomy was also reflected in the fact that the American subsidiaries each had their own audit committee. However, Jonckheer, in a speech to the Supervisory Board, stressed that 'we remain responsible and at times have to draw the line with regard to for example the quality of management'.<sup>73</sup> Apart from Jonckheer, H. Huizinga, and Hattink, E. den Bakker, who was the chairman of the Executive Board, had a seat on the Boards of Directors of the American companies. It was a formality, since the Americans wanted the highest boss of Nationale-Nederlanden represented.<sup>74</sup>

In 1988, the Washington Office was formalized into General Management North America (*Hoofddirectie Noord Amerika; GMNA*). All American subsidiaries had to report to this new hierarchical level. The objective of the reorganization was to integrate the different companies, geographically and by activity to create synergy advantages. It also showed the relative importance of the North America operations, since no other region in the world, except for the Netherlands itself, had its own general management with delegated authority. The Dutchman E. Kist succeeded Jonckheer and became the regional manager of the American insurance operations.

### *American integration and consolidation*

The American organization consisted of relatively small companies that were spread geographically. Nationale-Nederlanden expanded by acquisitions of relatively small companies because of the fact that it involved lower management and financial risks. Moreover, the regional companies were more flexible and they were known in their local territory, which was important for a service company like insurance.<sup>75</sup> Besides, the smaller American companies preferred being acquired by a foreign insurance company instead of a large American one, in which case they would lose their own identity.<sup>76</sup> In a meeting of the Supervisory Board, Den

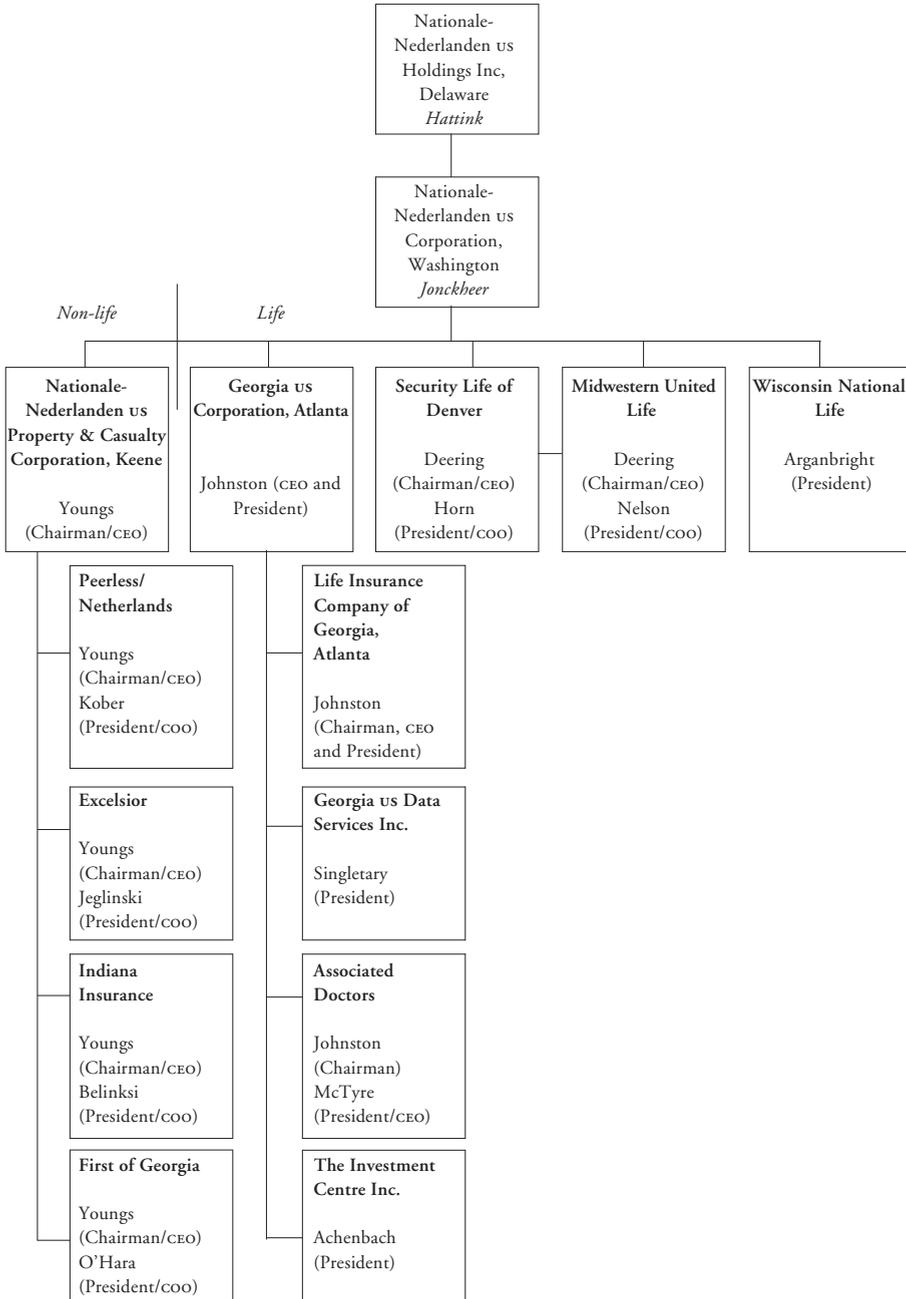
Bakker, chairman of the Executive Board, also mentioned that the pressure on the profit per share would be less when the company expanded gradually instead of through buying one large company. He attached importance to the fact that the Nationale-Nederlanden shares kept their growth image.

The disadvantage of local autonomy and a loosely connected structure was the low responsibility each company gave to cooperation in order to generate economies of scale. As a result, the different companies located throughout the United States demanded more management attention than one larger company did. Apart from the creation of one umbrella holding for fiscal reasons, holdings were created to coordinate and manage activities. The holding company Georgia US was created simultaneously with the acquisition of Life of Georgia in 1979. Georgia US Data Services, a computer service company, and The Investment Centre, an investment management service company, also became part of the holding. Associated Doctors and Southland Life joined them in 1986 and 1989 respectively.

For the American non-life sector of Nationale-Nederlanden a holding was created in 1985 named NN US Property & Casualty Corporation. The holding managed the regional non-life insurance companies Peerless/Netherlands Insurance Companies, Excelsior, First of Georgia and Indiana Insurance Group. It had to coordinate and streamline their activities. Chairman and CEO of the holding as well as of the underlying companies was Joseph H. Youngs. Each company had its own President/Chief Operating Officer (COO) who was responsible for policymaking and implementation. The operating companies thus had decision-making authority and at the same time benefited from group coordination, shared experiences and mutual exchange of expertise. Examples of cooperation were the introduction of a uniform administration system and the concentration of automation activities, which were executed by a corporate staff. In addition, the managements of Security Life and Midwestern United Life were integrated at top level. Fred A. Deering became chairman and CEO of both companies. In 1988, the activities of Midwestern were completely consolidated with Security Life of Denver. The office staffs, systems, procedures, sales representatives and a complete product line were integrated. Only a regional office remained in Fort Wayne to service agents and policyholders in this region.

A side effect of local autonomy which Nationale-Nederlanden adhered to so strongly in the 1970s and 1980s, was the struggle for necessary synergies. In spite of efforts, it turned out difficult to realize them. The American companies rather kept to their own identities and found it hard to execute joint activities. In the mid 1990s, the selling of non-performing subsidiaries became less uncommon in the culture of ING, as we will see in chapter 3. By then some subsidiaries were still too small to achieve synergy advantages. ING chose another path to economies of scale. The company sold its non-life companies (1998) and bought market share by the acquisition of two large companies, Aetna and ReliaStar in 2000.<sup>77</sup>

Organizational chart 16: *American organization Nationale-Nederlanden, mid 1980s*



Source: Annual reports for North America, 1984, 1985 and 1986.

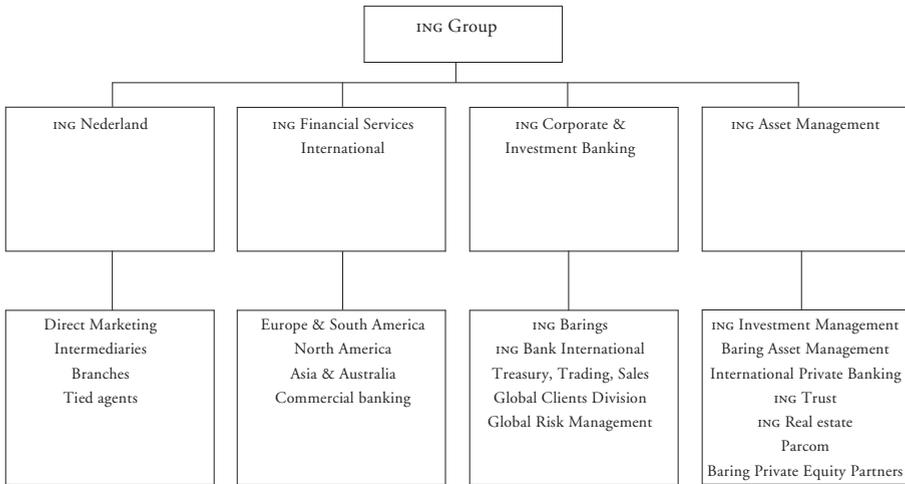
*Turning point 1991*

In 1991, the merger of Nationale-Nederlanden and the NMB Postbank Group created Internationale Nederlanden Group (ING). After discussions with McKinsey, a new organization structure was introduced, in which products instead of regions predominated.<sup>78</sup> One of the reasons for a new structure according to the board was the rapidly growing international expansion in general and the fact that international investment banking had to receive increasingly more attention in particular. Directly below the Executive Board, four business units were placed. ING Nederland coordinated Dutch banking and insurance companies. For the foreign retail banking and insurance activities, ING Financial Services International (FSI) was created. Customers were mostly private individuals and the middle market companies. ING Corporate & Capital Markets (CCM) coordinated all activities for large business clients. After the acquisition of Barings in 1995, it changed its name into ING Corporate & Investment Banking (CIB). The executive centre of this division was partly located in London. Fourth, ING Asset Management serviced institutional investors in Europe, the US and emerging markets as well as ING itself.

The business units had to develop their own professional organization geared to their own markets. For example, the organization of ING CCM functioned substantially differently from the one of ING FSI. Consequently, tasks such as risk management, research, human resource management and information systems were decentralized to business unit level. The number of Executive Board members decreased from nine after the merger to six in 2000. However, it was stressed that the Executive Board did not wish to restrict itself to the role of large shareholder only. The Board still had collective responsibility for all activities of the Group. The Board had strategic tasks, for example taking care of an optimal financing structure and rotating top management<sup>79</sup> as well as operational tasks. In the executive committee of each business units, at least one member of the Executive Board of ING was represented as linchpin. In addition, once again, it was stressed that the chairman of the Board functioned as a *primus inter pares*.<sup>80</sup>

After the merger into ING, the General Management North America (GMNA) in consultation with the Executive Board formulated a new strategy and structure for the years to come.<sup>81</sup> The United States and Canada each received a CEO for non-life and a CEO for life activities. The objective was further integration of the companies. The consolidation and integration objective was a continuation of the strategy, which had started with Nationale-Nederlanden. The four CEOs (plus the CEO of the Investment Centre) reported to the CEO of the GMNA. In this way, the central management was able to manage the American organization more effectively. In 1993, Kist who was appointed in the Executive Board, returned to the Netherlands. Two Americans succeeded him and became CEO/Chairman and President of the GMNA, Youngs responsible for non-life insurance and Lynn H.

**Organization chart 17: ING Group, early 1990s, product divisions**



Source: Annual reports ING 1992-1995.

Johnston responsible for life insurance respectively. However, comparable to ABN Bank, a two-headed management in the US was hard to maintain, so that after some time it was decided that Youngs would head the American organization alone. In 1994, R.G. Hilliard succeeded Youngs as CEO of the American organization. Thus, in the 1990s, the Dutch pulled back and the American organization was managed by Americans only.

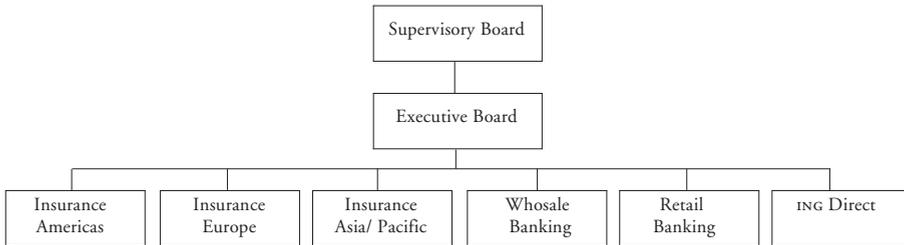
The former Nationale-Nederlanden activities in the United States became part of the business unit ING FSI. The management team of this business unit was composed of H. Huizinga, J.H. Holsboer, H.K. Verkoren and the American R.G. Hilliard and the Australian P.R. Shirriff. The commercial banking activities were managed from Amsterdam. The insurance activities were divided geographically and were coordinated from regional offices: Amsterdam, Atlanta and Hong Kong. The regional management of the US had moved from Washington to Atlanta. The trend of decentralization, started by Nationale-Nederlanden, was enforced after 1991 by ING, which meant that the American organization as a whole received a high degree of local autonomy.

*Epilogue: 2000-2005*

In 2000, after Kist had become chairman of the board, ING dismantled its organization structure and returned more or less to the 'old' geographical structure, due to disappointments in investment banking. Consequently three new executive regional centers were created in 2000: Europe, Americas and Asia/Pacific. One

year later the business unit ING CIB disappeared. ING Barings, the most important part, was integrated into executive centre ING Europe ‘to build a single wholesale and financial markets organization that offers a comprehensive range of services to its European and international clients’.<sup>82</sup> All these changes mainly resulted from the disappointing performance of ING CIB. In 2004, when the Belgian M.J. Tilmant succeeded Kist as chairman of the board, the structure was reorganized again. ING organized its activities into six business lines. The banking activities, divided in Wholesale banking, Retail banking and ING Direct, were seen as global activities. The insurance activities were regionally divided between Europe, Americas and Asia.

**Organizational chart 18: ING Group, 2004, Geographic and product divisions**



Source: Corporate website ING: [www.ing.com](http://www.ing.com).

Aetna and ReliaStar, acquired in 2000, were so large that integration with the existing ING Americas was accompanied by radical management and organization changes.<sup>83</sup> F.S. Hubbell, who was member of ING Executive Board, chaired the new Executive Committee, Hilliard was CEO and John Turner became its third member. The distinction between life and non-life and between the us and Canada was no longer sufficient. Six new business segments replaced the five old ones: Worksite Financial Services, Retail Financial Services, Mutual Funds, Re & Institutional Markets, Canada, and Latin America. Former executives of Aetna and ReliaStar headed the first three of them. These business segments have changed already by now, but here it is important to point out that the American organization became active in integrated financial products and services, not only in insurance but also in reinsurance, investment, and asset management. Since 2004, in the us the focus has been on retirement services, annuities and life insurance.<sup>84</sup>

*Summary*

In general, Nationale-Nederlanden, but even more so the rapidly expanding ING, had a multidivisional structure, like the American industrial companies as described in the introduction. Unlike banks, insurance companies did not have to control credit risks at the highest level in the organization. Therefore, Nationale-Neder-

landen was able to structure its organization as a holding in which its divisions operated with large local autonomy. The same degree of local autonomy was seen in the foreign activities of the insurer. In the 1970s and 1980s, the American operations had a unique position and head office gave much attention to the development of this region. It reported directly to the Executive Board. The special dedication and growing dominance within the organization was also seen in the fact that in 1980 the Washington office was created. Regional team America moved to the United States, closer to the actual activities to coordinate things between the various companies. In 1988, the regional management became a hierarchical layer to which the American companies had to report. Originally, a Dutchman headed the office, but in 1989, two Americans succeeded him and managed the North American companies. The two-headed management illustrated the fact that Americans find it difficult to share responsibilities at senior executive level. After the merger into ING, the relation remained the same between General Management North America and head office. It even developed into one of the six business units today, which still stresses the importance of the region.

Midterm Plans have been the most important control mechanism, after the American organization defined and Executive Board approved them. Budgets formed part of the Midterm Plans, which Nationale-Nederlanden had been using since mid 1970s. The insurer exported the planning instrument to its American companies. The American companies each had their own audit committee. In contrast to ABN Bank, the Dutch audit committee of Nationale-Nederlanden did not visit the American organization for regularly controls. Some Dutchmen sat on the American companies' Board of Directors to keep an eye on things. In the 1980s, one of them was the chairman of the Executive Board, more or less to reassure the Americans. Occasionally, an expatriate was placed in one of the American companies.

Nationale-Nederlanden had acquired relatively small American companies. The subsidiaries received a large degree of autonomy. One of the reasons behind it was the idea that local companies and their managements knew the local market well and therefore were able to service the customers best. A side effect of local autonomy, however, was that it did not bring the synergies that were necessary to remain competitive as time went on. As a result, head office had to interfere in policies and provide instruments and ideas to create synergies. In spite of the efforts, some smaller companies were sold in the 1990s. ING bought economies of scale by acquiring the large insurers Aetna and ReliaStar with the available capital.

### Conclusions

In this chapter, I have researched how the Dutch companies succeeded in organizing and structuring the American organization. The difficulties for the parent company were related to finding a balance between local autonomy and central control. The best structure had to be found without creating conflicts, which after

all do not contribute to the creation of a profitable organization. At corporate level, the 1990s formed a turning point for the three companies. Before 1990, they formulated growth strategies that were based on geographic expansion. They acquired foreign companies active in related services and products. After 1990 because of growing competition, strategies were directed towards related diversification. Consequently, the regions and especially North America lost their importance in comparison to investment banking. This change was reflected in the organizational structure in the 1990s. Rabobank adopted a multidivisional structure consisting of product divisions. After the merger in 1991, ING was organized along product instead of regional divisions. ABN AMRO followed this trend in 2000 when client-focused business units replaced the regional divisions. At the same time, the size of managing boards decreased and had strategic tasks only, while business units received their own operational responsibility. The three cases all started resembling Chandler's description of a company's strategy and structure. Compared to large, industrial companies, the Dutch financial companies were relatively late in diversifying and adopting the multidivisional structure. The growth strategy of international expansion required a different structure than a growth strategy of diversification. Before the liberalization in 1990, the Dutch companies had been pushed to foreign markets because of a saturated home market. The organizational structure of Dutch financial companies had been based on regions. Only after the liberalization of the Dutch structure regime, were financial companies able to emerge that offered all kinds of financial products, from banking to insurance to investment products. Moreover, the degree of adoption of the multidivisional structure differed because of national institutions. The Dutch central bank controlled a bank's degree of solvency on the basis of consolidation of assets and liabilities of all offices at home and abroad. As the case of ABN AMRO has shown, the solvency requirements in the banking sector resulted in the bank's preference to remain a rather integrated organization. In other words, the need to supervise its granting of credit was reflected in a hierarchical and integrated organization structure. In contrast, the insurance company Nationale-Nederlanden resembled the American holding structure. This had been possible, since the Insurance Board did not control insurance companies on a consolidated basis as DNB did. The underlying foundations for calculating the solvency of life and non-life insurance were very different, and made consolidation impossible.<sup>85</sup> Furthermore, all three cases showed that in spite of these reorganizations, decision-making between managing board and management teams still was based on consultation and consensus. Lastly, as ABN AMRO and ING did not succeed in becoming global investment banks, the regions became important again (2000).

When looking at the relation between Dutch parent and American subsidiaries and branches, three developments have been important for explaining success. First, the special treatment, which the American organization received in the 1970s and 1980s, has been important. ABN Bank as well as Nationale-Nederlanden dedicated full attention to the American organization. ABN Bank had short

reporting lines to North America, with the CEO directly reporting to the Managing Board. Nationale-Nederlanden created a General Management North America, which often reported directly to the Executive Board. In 1990s, this special treatment changed, as the result of the formulation of other priorities, like expansion in Europe and investment banking. In other words, the number of alternatives had enlarged. By that time, the American organizations of ABN AMRO and ING had matured and were headed by Americans only. The American organization of Rabobank had developed into another direction. After considerable autonomy in the beginning, which went hand in hand with disappointing results, it has become less independent. The branch has been integrated with a worldwide network, which was necessary for Rabobank to be able to become an international food & agribusiness bank.

Second, the degree of local autonomy combined with informal control has been important in explaining success. The originally integrated ABN Bank made more use of informal relations and personal contacts than Nationale-Nederlanden. It placed Dutch expatriates in the American organization. In the 1990s ABN AMRO introduced a matrix organization. Although Americans were not used to this organization type by which they had to report to a functional as well as hierarchical boss, it has been a successful tool in order to prevent the American organization becoming too independent (danger of creating a bank within a bank). It also fitted the objective of ABN AMRO to become a universal bank. In the 1970s and 1980s, the American companies of Nationale-Nederlanden received a large degree of local autonomy. However, they had a hard time working together creating synergies. This side effect demonstrates that a holding structure is not necessarily the most effective one at least for a company that needs economies of scale to be able to remain competitive. The companies were used to operate autonomously and did not feel responsible to cooperate. After some efforts to integrate activities such as automation and administration, the solution was rather Anglo-Saxon. ING sold the small companies and bought two large insurers instead. ABN Bank obviously did not have synergy difficulties, since it had bought all its companies in the Chicago area, which it integrated. In contrast to Nationale-Nederlanden, it was capable to build economies of scale.

Lastly, it is important to notice that all cases showed that managing across borders was a learning process, which especially took place in the 1980s. It took some time to get used to the American way of doing business. ABN Bank learnt that many communication and reporting lines with head office did not work out well and replaced them by one spokesman, Hielkema, located in the US. The Dutch companies found out the importance of formulating targets, objectives and budgets. They learnt that it is not wise to appoint two Americans or a Dutchman and an American next to each other in senior executive positions. In general, they were able to give the American organization enough autonomy so that they remained motivated to work for a Dutch company. The companies controlled the American activities by combining elements of the Dutch business

system with those of the American business system. In the next chapter, it will be shown that many Americans stayed at key positions in the organization for a long period. The continuance reflects a degree of contentment, which might also be a factor in explaining the successful development of the American organization.



## Human resource flow, reward system and corporate identity

### Introduction

In the previous chapters, it was shown that ABN Bank (ABN AMRO), Rabobank and Nationale-Nederlanden (ING Verzekeringen NV) became more internationally oriented. North America became an important market. With regard to organization and management, balancing between American autonomy and central control at head office was an ongoing process. In this chapter, manageability is related to the motivation of people working in different countries. In knowledge-intensive companies, such as financial service companies, people are an important asset.

Potential conflicts in service related companies are linked with the problem of delegating authority to these people so that they perform in an optimal way on the one hand and trying to connect or commit these people to the new organization on the other. Companies differ in their human resource management practices due to national differences in work-related culture. So, when multinationals attempt to transfer their home-based practices to their foreign subsidiaries, it may have two consequences for the host country. Glenn Morgan and Sigrid Quack stated that 'first it leads to conflicts with local employees and managers' models of organizing work. Second, it contributes to the destruction of locally embedded skill systems...'.<sup>1</sup> I analyze this internal dilemma by looking at matters related to human resource flows, reward systems, corporate culture, and brand names. This chapter tries to answer two questions. Did the Dutch financial companies transfer their own work-related practices to their American subsidiaries or did they adopt the American ones? And were they able to find a balance between delegating authority to American employees and at the same time connecting them to the international organization? By answering these questions, the chapter will shed more light upon the reasons for success or failure of Dutch financial companies in the American market

This chapter starts with a description of two ideal types of work-related culture, one that is dominant in LME and the other that is seen in companies in CME, and their influence on human resource management of companies. The ideal types are used to evaluate the three case studies. First, I have studied how the companies hired, educated and promoted senior management. For the successful development of their American organization qualified executives have been important. Did the

Dutch companies build up life-long relations with the Americans, or did they adopt the hire-and-fire system? Then, corporate culture has been analyzed. At Nationale-Nederlanden, the Executive Board gave explicit attention to corporate culture. At Rabobank, corporate culture has always been related to its cooperative character. At ABN Bank, I did not find explicit focus on the subject. In general, in the 1990s, all three changed into a more result-oriented organization, which was reflected among other things in the reward systems of the companies. The development from local branding to one strong company brand in the late 1990s has been studied as well. The subject is highly related to corporate culture. At that time, corporate culture developed a more individualistic attitude, which was a result of the companies' focus at performance. In order to create a common feeling, brand naming and corporate values were introduced.

### Work-related culture

The concept of culture has been defined in many ways. I am interested in corporate culture and I have used the following definition: corporate culture is the total of values that are shared by the people of a company. The national culture of a country has a strong influence on these local corporate cultures. Geert Hofstede explained the differences in national culture by referring to four dimensions: power distance, uncertainty avoidance, individualism vs. collectivism and masculinity vs. femininity.<sup>2</sup> He concluded that the Netherlands and Anglo-Saxon countries did not differ that much, except for the last dimension. He saw Anglo-Saxon countries as more masculine and the Netherlands as more feminine. In Anglo-Saxon countries, masculinity is reflected by competitive behavior and the need to strive for tangible success and material goods. Status is an important way to show the degree of success. In the Netherlands, by contrast, people have interpersonal relationships and modesty is the norm. In the US influential managers solve work-related conflicts, in the Netherlands conflicts are solved by consensus and compromise. In this context, it is peculiar that according to Hofstede the US as well as the Netherlands scored high on individualism. Ferrie Pot argued that individualism described by Hofstede is related to cultural individualism or the emancipation of groups, instead of economic individualism. Pot quoted among others John D. Aram who distinguished three forms of American individualism, including economic individualism. He wrote: 'Economic individualism refers to the unhampered opportunity to pursue profits for the purpose of self-interest. Economic freedom is assumed to result in superior national prosperity. Economic freedom encourages people to utilize their abilities fully and to reward them in proportion to their contribution'.<sup>3</sup> This economic individualism is reflected in American society, which is achievement-oriented and materialistic, and which differs from Dutch national culture. Fons Trompenaars described seven dimensions by which regions can be compared. The most important difference between the Netherlands and the US according to him is that Americans attribute status

**Table 1: Generalizations of human resource flow management, LME versus CME**

	LME	CME
<b>Recruitment</b>	Focus on quantity and on the job performance	Focus on quality, educational background
<b>Promotion</b>	Rapid promotion tracks for good performers	Promotion track is steady and structured
<b>Training</b>	Priority for market to 'buy' trained people	Priority for training to preserve productivity of incumbent employees
<b>Termination</b>	Dismissal is easy and frequent	Commitment to life-time employment

Source: Ferrie Pot, Employment relations and national culture. Continuity and change in an age of globalization (Edward Elgar: Cheltenham and Northampton, 2000), p. 155.

to individuals on the basis of their achievements and performance, while status and authority in the Netherlands originate mainly from knowledge and education.<sup>4</sup>

For the purpose of this chapter the cultural differences are projected on the labor market. In his book Ferrie Pot highlighted two ideal types of corporate practice regarding human resource management.<sup>5</sup> These ideal types will be used here as well. He divided human resource management into four areas: work organization, human resource flow, reward system and employee participation. I am interested in the second and third element, that is human resource flow and reward system. In considering management of the human resource flow, which is concerned with recruitment, training and promotion of employees, the important question is whether the company operates in a flexible labor market as in LMEs or in a more rigid labor market, as in CMEs in which employees are secure and cannot be dismissed as easily. '...firms in liberal market economies generally rely heavily on the market relationship between individual worker and employer to organize relations with their labor force'.<sup>6</sup> Companies in LMEs see workers as interchangeable resources for the organization. Accordingly, management of companies in LMEs has considerable power to hire and fire employees. Job mobility is high and job hopping is a way to ensure promotion and increase salary. Management focuses on the well performing employees, who have to be retained by means of pay raises, job opportunities and training.<sup>7</sup> In general, companies in LMEs, compensate their employees for the risk of losing their job by higher payment, often linked to performance. This leads to a more individualistic and competitive attitude, whereby short-term results are important. In the CME, life-long learning and employability are stimulated, which leads to promotion from inside the company, leaving less room for the external market.<sup>8</sup> As a result, employees are more likely to remain active in the same sector, company or even division of a

company, and become more specialized. Employees receive internal (specialized) training and education, whereas in LMES knowledge is found externally on the market. Employees in LMES obtain general managerial skills (for example MBAs) that are transferable between sectors.

The main difference in the reward system is that in LMES employees are incentivised by payment on an individual basis, whereas in CMES collective benefits and job satisfaction are emphasized.<sup>9</sup> In LMES, employee commitment is bought by financial means. Employees are paid according to individual performance, which may result in wide pay differences. Individualism is also reflected in the fact that each employee is responsible for his or her own future life security.<sup>10</sup>

**Table 2: Generalizations of the reward system, LME versus CME**

	LME	CME
<b>Intrinsic versus extrinsic</b>	Preference for material incentives, such as pay	Preference for intrinsic rewards, such as job satisfaction, congenial colleagues, and work environment
<b>Performance appraisal</b>	Individual is accountable; Objectives are clearly spelled out; Criteria are quantitative and objective; Performance appraisal is linked with pay; Emphasis on low and good performers	Teams are accountable for performance; Role in the group is emphasized; Criteria are open for outside influences; Appraisal linked with needs employee; Emphasis on large middle group
<b>Collective versus individual</b>	Focus on individual performance (merit raises); Ample room for individual recognition; Pay is geared to individual job evaluation; Wide pay differentials are accepted; Benefits are individualized	Focus on employees as group (profit-sharing); Rigid collective pay structures; Pay is linked to seniority and skills; Pay differentials are muted; Collective benefits are emphasized

Source: Ferrie Pot, *Employment relations and national culture. Continuity and change in an age of globalization* (Edward Elgar: Cheltenham and Northampton, 2000), p. 158.

## ABN Bank

### *Human resource flow*

At first, ABN Bank had a pool of only Dutch expatriates and the management development system was directed exclusively towards Dutch talent. However, to be able to expand in foreign markets, ABN Bank was forced to change its policies. To control and manage its growing organization, its human resource flow had to become more internationally oriented. The bank favored two Dutch practices: talented people holding long-term positions and related to this 'promotion from

within'. Therefore, it had to enlarge the career possibilities of its foreign qualified management, who otherwise might leave the bank because of career ceilings. This section first describes the internationalization of the expatriate and management development system of ABN Bank. Then, the human resource flow policies are projected on the American situation in particular.

In the previous chapter, we saw that ABN Bank made use of a pool of expatriates. Dutch expatriates, like Ton de Boer, Herman Siegelaar and Rien Huizer occupied key positions in the American organization. ABN's expatriates were foremost Dutch employees, who were sent abroad after one year of training in the Netherlands.<sup>11</sup> As opposed to Nationale-Nederlanden, which had only fourteen expatriates in 1989, ABN Bank had sent many employees abroad. In 1964, the bank already had 100 expatriates, which increased to 170 in 1974, and to 180 in 1986. The difference between the two companies resulted from the fact that ABN Bank had expanded internationally by opening offices that needed qualified executives. Nationale-Nederlanden, however, expanded through acquisitions that already had local employees and managers.

The foreign organization of ABN Bank grew faster than the number of Dutch expatriates. As a result, from the mid 1970s branch managers were recruited locally more often. After a visit to the New York office, P.J. Pistor wrote to the other members of the International Directorate that reinforcement of staff was necessary, and if needed by the recruitment of Americans.<sup>12</sup> In the American market, the pool of experienced bankers was large enough. In addition, occasionally foreigners were recruited as expatriates. The first non-Dutch expatriate was from Argentina and joined ABN Bank in July 1982. In contrast, Nationale-Nederlanden decided against giving foreign employees this status. Apart from the so-called career expatriates, temporary expatriates became important as well. Temporary expatriates were (mostly foreign) talented employees who were sent to another country for a given period. On their return, they brought back new experience and expertise of which a foreign office could take advantage. For the employee it was a motivation to build up a career within the bank. Furthermore, foreign officers were asked to work at head office for three to six months. The objective of this kind of transfer was the enlargement of banking know-how, to meet other staff people and to get to know the ABN organization. Finally, ABN Bank put more emphasis on training of foreign employees. Talented Dutch officers had been able to participate in specialized as well as management training at for example Bad Homburg and INSEAD. The International Banking Institute (IBI) at Bad Homburg was founded in 1972 by the member banks of the ABECOR consortium.<sup>13</sup> In 1978, the name changed to ABECOR Banking Institute. Every bank was allowed to send three participants for each training course. From 1982, ABN Bank tried to select one of its three from its foreign network.

In 1980, the number of ABN foreign offices had increased by 89 (from 161 offices in 1974 to 250 in 1980) while the number of expatriates had grown only by ten, from 170 to 180. This had become possible because of the international recruitment

and training of foreign staff apart from Dutch expatriates. Local staff indeed managed international offices more often. Especially in the US, where qualified management was at hand, Americans started to manage the ABN offices. The development was the first attempt to break down the barriers between domestic and foreign human resources that existed at ABN Bank. Important in these developments had been the position of General Manager Personnel Foreign Network which was created in 1981. Because of the international expansion of the bank, it had become difficult for Directorate Personnel to fully understand the needs of Directorate International. Therefore, the newly created General Manager had to build bridges, aimed at a better coordination between the two directorates. The new manager J.H.O. van den Bosch put it as follows: '...to have the right man, in the right job, on the right spot, at the right moment, so that the offices can continuously function in an optimal way'.<sup>14</sup> It is interesting to notice that Van den Bosch came from Citibank, where he had been working in the 1960s and 1970s.<sup>15</sup> It can be expected that he brought along some American ideas and methods. Since his appointment, talented people within the company were no longer exclusively of Dutch origin, but foreign talent also became important. They were identified and educated properly. The recognition of qualified people abroad was important, since it was a first requirement for future developments in the internationalization of the boards. Moreover, it motivated foreign employees to stay at ABN Bank.

Management development was directed towards the Dutch market at first. As early as 1974, it received formal status at ABN Bank with the creation of a department Management Development, which had to prepare qualified Dutch employees for higher key positions.<sup>16</sup> In 1977, the management development activities involved around 250 employees.<sup>17</sup> An important aspect of the program was that managers at key positions had to change directorates and obtain international experience as well. The objective of the system was to restrict recruitment of employees externally. It reflected the principle 'promotion from within'. The American subsidiary had its own management development system. Every year twelve students were selected to participate in the Management Assistant Program. Over three to four years, they worked at different departments of the bank. An important part of the program was a temporary position managing six to twelve employees. They were stimulated to obtain their MBAs via evening classes. So, the acquisition of a local bank was another way to provide qualified managers who also had knowledge of the local market and customs. Apart from general managers, ABN Bank was able to make use of specialists working at LaSalle. For example, when ABN Bank became involved in financing complex projects like the financing of planes, a specialist from LaSalle was located at the Chicago branch in the office of the regional manager.<sup>18</sup> Although LaSalle was self-supporting, ABN Bank kept qualified Dutchmen at key positions in the LaSalle organization as well.

An important difference between ABN Bank and LaSalle was that the latter had more intense relations with colleges and universities in the 1970s and 1980s. One example of these relations was a new program of seminars for middle level management in 1980. Professors in Management from the Northwestern University conducted the program aimed at improving management skills. Another example was the Youth Motivation Program, by which recently hired employees were able to speak with students at some Chicago's high schools on career alternatives and job strategies. Students were able to see the positive sides of a career in banking.<sup>19</sup> Van den Bosch had noticed the same kind of relationship between Citibank and universities.<sup>20</sup>

During the 1980s the previous distinction between national and international personnel policies gradually lifted. In the 1990s, the internationalization of management development went further. In 1988, R. Hazelhoff stated in the Supervisory Board that motivation of foreign employees remained an important issue.<sup>21</sup> Foreigners still had to deal with a ceiling in their careers because after the position of branch manager there were no career possibilities, with the exception of a few regional manager positions. As a result, in the strategy note of 1989 it was stated that talented foreign people had to be able to qualify themselves for executive positions in the Netherlands.<sup>22</sup> More than before, foreigners were admitted to the expatriate system.<sup>23</sup> At the end of 1992, ABN AMRO counted 293 expatriates and at the end of 1996 the number had increased to 481, of which 66 and 194 were foreigners respectively. Of the 194 foreign expatriates, 70 came from North America.<sup>24</sup> Especially the number of temporary expatriates had increased, from 120 in 1992 to 289 in 1996.

Even more important was the fact that the management development program became more internationally oriented. Management trainees were recruited abroad within and outside the organization. A growing number of candidates were recruited from international universities and business schools, after which they were able to follow an international career path.<sup>25</sup> In 1990s, the bank also made itself more known at Dutch universities and colleges so that relationships intensified. The organization of an annual Banking Course for students was one example of this development. A Senior Executive Program, which was mainly developed for the integration of ABN Bank and Amro Bank, was given at INSEAD in France. Two hundred executives attended the training, of which ninety were from the international organization. Moreover, in cooperation with the Nyenrode Management Development Centre, a program for management training was developed. In 1992, the first group of 19 officers started the course.<sup>26</sup> Finally, the ABN AMRO Academy with training centers in Singapore, Chicago and Amsterdam functioned as a bridge between the Dutch and international bankers.

Because of increasing international competition, ABN AMRO changed its management development ideas. The bank gave up the idea that all staff with management development potential had to be employable as general manager at

**Table 3: *Internationalization of ABN AMRO's expatriates***

	1992	1994	1995	1996
Career expatriates	173	172	242	192
Temporary expatriates	120	168	185	289
Total	293	340	427	481
Of which non-Dutch	66	n.a.	153	194
<i>Most important countries:</i>				
US and Canada			46	70
Great Britain			18	23
France			12	13
Pakistan			–	9
Brazil			11	7

Source: Social reports ABN AMRO, 1995 and 1996.

positions across the entire bank. The emphasis in management development shifted to officers with in-depth knowledge and expertise. New employees were hired for one division or discipline. In line with this shift, a new directorate – International Human Resources – was created in November 1995, which was directed towards employees of the International Division, Division Investment Banking & Global Clients (IB&GC) and expatriates. It is interesting to see that when ABN Bank expanded internationally, it was deemed necessary to break down barriers between the careers of domestic and international employees. In the mid 1990s, ABN AMRO had enlarged rapidly not only into other countries but also into other activities. As a result, within the Division IB&GC, which was divided into product lines, the development of employees with specialized expertise of complicated financial products became important as well. It was felt necessary to develop and train these employees within this division. This was in contrast with the originally formulated objectives of management development, which stated that talented staff had to be trained to become all-round managers and therefore had to make their career by switching between divisions.

Has the human resource management of ABN Bank been successful for the American organization? The adoption of the Dutch practice of a two-headed management did not contribute to the successful development of the American organization, as was shown in chapter 2. The regional management company ABN/LaSalle North America was headed by Homer J. Livingston Jr. as Chairman/CEO and Ton de Boer as President. However, the two-headed regional management did not work out very well. In 1987, Livingston resigned and was succeeded by Harry Tempest as CEO as well as President; Robert Wilmouth remained chairman.

Two other Dutch elements of human resource flow have contributed to the development of the American organization: ABN Bank's principle of 'promotion from within', together with the aspect of keeping talented people for the long-term. This was only possible by gradually giving the American executives more responsibilities and by internationalizing (enlarging) their career possibilities. At first, Dutch involvement was rather large and moreover they distinguished between the position of CEO and chairman. In the 1980s, the American organization needed executives for LaSalle National Bank (LNB) and its holding company LaSalle National Corporation (LNC) and in 1986 a regional management was created, which was responsible for LaSalle as well as the American branches. The Board of LNC consisted mainly of Dutchmen, of which Kalff as chairman. Since 1983, Livingston was CEO/ President of LNB and Wilmouth its chairman, separating the two positions, which was unusual for Americans.

In the 1990s, the Dutch parent gradually stepped out of the American Boards. After the acquisition of Exchange National Corp. and its integration with LaSalle in 1990 important management changes took place. Because the LaSalle organization had grown by acquisitions, the umbrella LNC became more important than LNB. As a result, instead of Dutch board member Kalff, Wilmouth became chairman of LNC and Tempest remained CEO/President. The positions of chairman and CEO were still separated. Norman Bobins, and some others of the Exchange senior management, were appointed to the Board of LNB. That same year Tempest was promoted to Chairman/CEO of ABN AMRO North America Inc, the regional management. Moreover, in 1993 he became a member of the management team of the International Division, which became in 2000 the executive committee of SBU C&CC. Because of this promotion to the senior management of the bank, he had given up his position at LNC, which was filled by Bobins. By now, Tempest was the American CEO of the Dutch management team, representing the North American organization, and Bobins headed the LaSalle organization. At the end of 2002, Bobins succeeded Tempest as chairman of the North American organization and as such joined the executive committee of SBU C&CC. Bobins became CEO of the regional management as well as of LaSalle, combining all positions for the first time. Hitherto, the CEO of LaSalle had been different from the CEO of regional management, since ABN AMRO did not want one American becoming too dominant.

Tempest headed the American organization for almost fifteen years, which does not match the presumption that Americans change jobs between companies very frequently. Neither did the career of Bobins support this idea of American job hopping. Only after working seventeen years at LaSalle, Bobins retired in 2007. In addition, the senior management team below the Managing Board of LNC shows some consistency in names. The Dutch expatriate Herman Siegelaar retired in 2003 after having been responsible for LaSalle's credit management for twenty years. In addition, Ton de Boer, as regional manager, had worked in the American organization at various positions from 1970 until 1995 (excluding short intervals

when he was placed in Ireland and Asia). In the 1990s, the investment banking activities in the US were first headed by De Boer and then by former expatriate Van Paridon. In 2001 he was succeeded because he was promoted as Senior Executive Vice President (SEVP) in the executive committee of SBU Wholesale clients. It is not the intention to give a detailed description of all the career moves of the Americans and Dutch expatriates. However, this description of continuity in the careers of the most important executives in the American organization, demonstrates two things. First, it shows how important expatriates have been in the American organization, of which one has even been promoted to SEVP of one of the three SBU's of ABN AMRO. Secondly, American commercial bankers at least in Illinois did not represent the American job hopping culture. One of the reasons might be the international career possibilities that ABN AMRO offered. As SEVPs, Tempest and Bobins had been able to become part of senior management in this way.

The internationalization of the human resource flow had three advantages for ABN Bank. First, it provided qualified management for the international organization, which was necessary since ABN Bank was not able to attract that many Dutch talents. Especially in the US, where educated bankers were available for managing the ABN offices, it was a good alternative. Second, it was felt necessary in order to motivate and thus to keep qualified foreign employees by giving them broader career possibilities, which was in the interest of the entire company (promotion from within).

A third advantage of the internationalization of the expatriate system and the management development program was that it led to a more international senior management and even to a more international character of the Boards. It was expected that the foreign organization would be satisfied when they reckoned that they were not solely managed by Dutch executives anymore, which did not reflect the international organization of ABN AMRO.<sup>27</sup> In 1991, discussions at ABN AMRO started on the desirability of a more international Supervisory Board, which still continued at the end of 1993. Among the Boards some reservations existed. They were afraid foreigners would not be able to understand or influence typical Dutch institutions, such as the relation with the Dutch Central Bank or the relation with the Central Workers Council. In addition, the Supervisory Board was afraid that the typical Dutch *vergadercultuur* would lead to lack of understanding.<sup>28</sup> However, they agreed that in view of the international development of the bank appointment of foreign members to the Board was necessary. The bank decided to search for an Anglo-Saxon and a European member. In 1996, the Supervisory Board welcomed two foreign members. One of them was S. Keehn, an American who had been chairman of the Federal Reserve Bank of Chicago until 1994. He had in-depth knowledge of the American banking system. He had obtained a MBA degree at Harvard Business School in 1957.<sup>29</sup> The other member, J.R.M. Messier was a Frenchman and *Président Directeur Générale* of the French company Compagnie

Générale des Eaux (later known as Vivendi). With the entry of two foreign members to the Supervisory Board, the official language changed to English. Moreover, since 1997, some meetings of the board had taken place in Chicago. In 1999, after Messier resigned, D.R.J. de Rothschild was appointed, reflecting the focus on investment banking that time. In 2002 Keehn resigned, having reached the age limit of 70 years. ABN AMRO found an American successor in A.C. Martinez. He was chairman and CEO of Sears, Roebuck & Co., Inc. and chairman of the Board of Directors of the Federal Reserve Bank of Chicago. Like Keehn, he had obtained an MBA at Harvard Business School, Cambridge. In 2006, the American became chairman of the Supervisory Board. Only in 2002, the number of foreign members increased from two to five, with the appointment of a Brazilian, an Italian and an Englishman. The foreign members of the Board had important knowledge of the local markets and brought local networks.

The internationalization of senior management and Managing Board soon followed. First, the second echelon consisting of SEVPS became more international. In May 1994, P.A. Casey, an Irishman who had been expatriate and Executive Vice President (EVP) ABN AMRO North America among other things, was appointed SEVP in the division Investment Banking & Global Clients. He actually moved to the Netherlands. Since then more foreign employees were promoted to SEVP, a development that was enforced by an organizational change in 1997. The original layer of SEVPS was removed leaving the following layer that consisted of more general directors. This meant for example that Tempest no longer functioned as regional manager for North America only, but also became SEVP or CEO. Important furthermore was the appointment of H.Y. Scott-Barrett as SEVP in the division Investment Banking & Global Clients and of S.A. Lires Rial in the International division in June 1999. Only one year later, the Englishman and Brazilian were appointed in the Managing Board. Scott Barrett, who joined ABN AMRO in 1996, had worked for Swiss Bank Corporation and had been experienced in investment banking. Lires Rial had worked at ABN Bank since 1984 and had obtained various posts in the Netherlands as well as in foreign countries. Thus, only in 2000 the board of ABN AMRO adopted foreign members, of whom Lires Rial resigned in 2002 however. In 2005, Scott-Barrett was the only foreigner in the Managing Board.<sup>30</sup> A precondition for internationalization of the senior executive level was that they were able to communicate, which in the Netherlands was probably less of a problem than for example in France or Italy. In the Netherlands, educated people in general are able to speak English. Therefore, the change in language at the Boards met with little resistance.

The internationalization of the echelon of general directors, since 2002 called SEVPS, and of the Managing Board, had become possible due to the international focus of management development since the 1980s. The bank had more insight in foreign talent that entered the company after university but also in qualified executives that entered the bank because of foreign acquisitions. It enlarged the level of expertise and knowledge of foreign markets, networks and business

environments within the Boards, which seems important for successful international expansion in general and for expansion in the American market in particular.

### *Reward system*

Since 1975 ABN Bank has organized international conferences for its international senior management. It was a way to meet each other and to exchange ideas. Moreover, the conferences were held to transfer the culture of ABN Bank at head office to foreign offices and subsidiaries and to cultivate mutual understanding. Personnel contact and trust were important values for the bank. As we have seen in the previous chapter, ABN Bank was a hierarchically organized bank. The Managing Board was involved in operational as well as strategic tasks, and reporting went bottom-up. Contacts were informal and agreements were done verbally.<sup>31</sup> In a note of 1993, the decision making culture of ABN was described as following: 'At ABN Bank decision making was done by word of mouth, via long established relationships and social control within the organization. In contrast, decision making at Amro Bank was characterized by making consideration on paper and trying to create commitment via consultative structures'.<sup>32</sup> The informal way of communication and decision making met resistance from the American executives, as was demonstrated in chapter 2. As a result, agreements were more often written down in formal contracts. In 1987, Kalff and Oyevaar wrote down guidelines for the American management headed by Livingston. Based on annual targets and budgets the American organization made a policy plan. After approval by the International Directorate they were free to operate within the plan.

In the 1990s, ABN AMRO's work-related culture changed into a more Anglo-Saxon oriented one, due to the growing international organization and management. The bank became more result-oriented and employees and business sectors were paid according to performance. It was no longer possible to know every qualified employee, so that distance had become an important factor that had to be dealt with. Not only did an increase in the company's size play a role, but also the fact that the bank wanted to operate more efficiently. Global competition increased because of liberalization of capital markets among other things. In order to survive, the Dutch bank had to reduce costs and increase earnings. ABN AMRO started to evaluate its operations. The Managing Board wanted to gain a better insight into which managers and parts of the organization were profitable, and which were not. More formal and written agreements on budgets and targets made operations more transparent for the Managing Board. In this way, the board was able to value different parts of the organization and act accordingly. The outcomes were taken seriously and the bank really acted according to the outcomes, which was reflected in its attitude towards subsidiaries that created no value for example. Before the 1990s, the bank had a more long-term view: it gave a branch more time to become profitable. With the new attitude, a new branch or subsidiary had to be profitable after a given period, and if not, it was sold again. If part of

the organization did not belong to the core business, it was sold as well. In this light, we can place the sale of European American Bank on Long Island in 2002. ABN AMRO wanted to focus on Illinois to be able to expand over there. Senior management was paid in accordance with performance as well. Agreements on targets and budgets in advance were necessary. The introduction of such a system progressed gradually and started for employees working in investment banking, for example in the Dealing rooms. Since 2006, a performance-related part of remuneration has been introduced for all employees.

### *Corporate identity*

Because of the increasing expansion of the company in other countries and activities, the number of different cultures had increased as well. Within ABN AMRO there had been differences in culture between ABN Bank and Amro Bank, between investment banker and corporate banker, between the US and head office, and so on. These differences were inevitable and had to be nourished, according to ABN AMRO. However, the Managing Board also reckoned that within a growing organization it was important to motivate its people by making them feel they belonged to a larger organization by means of a common denominator. This became even more important since the community had become more individualistic. Because of the more result-oriented ABN AMRO organization, which resulted in a focus on individualistic (or team) responsibility and performance, a common denominator should connect the employees to the bank. In 1997, the common denominator was expressed in the corporate values of the bank: integrity, respect, teamwork and professionalism.<sup>33</sup> ABN AMRO held the opinion that with corporate values foreign employees would be able to see differences with other banks and therefore be able to identify themselves with the bank better.<sup>34</sup> The norms and values had to be spread within the organization and serve as basic principles of training programs and evaluations of employees. In 1996, the ABN AMRO Academy was created with regional training centers in Chicago, Singapore and Amsterdam. The training program of the Academy was directed towards the philosophy, the products and the distribution channels of the bank. The training had a corporate character and focused on the core activities and values of the bank. The corporate values were put into practice by formulating business principles in 2001.

The strategy towards brand names worldwide was another factor that changed over time. The strategy changed from acceptance of local differences to a worldwide umbrella strategy, which did not mean local differences disappeared. At first ABN Bank decided that LaSalle Bank had to keep its brand because of its strong name in the community, which was important for building trust. The name of subsidiary Standard Federal Bank had strong recognition in the state of Michigan, and therefore kept its name as well. In 2003, ABN AMRO decided to rebrand its subsidiaries in Europe and the US. The ABN AMRO logo, a green-yellow shield, was added to the local names; it was combined with the local names of LaSalle and

StanFed.<sup>35</sup> In addition, the brand name ABN AMRO was placed below the two names. The new branding was believed to be essential to recognize all subsidiaries as members of ABN AMRO, which shared the same corporate values and business principles.<sup>36</sup> For the employees it was meant as another link to the group. In 2006, ABN AMRO introduced a worldwide tag line: 'Making more possible' with the same purpose.

### *Summary*

ABN Bank favored 'promotion from within' and long term positions. In the 1980s, ABN Bank had difficulties in finding qualified Dutchmen to manage the rapidly expanding international organization. The pool of expatriates was not large enough. As a result, more foreigners were drawn into the program and more locals were hired to manage the foreign branches. The distinction between Dutch and international employees was gradually removed. An outsider from Citibank had to remove the barriers and resistance that existed within the organization. In the 1980s a management development program was created to provide future general management. Talented employees had to make their career not within one division, but had to be trained in all aspects of banking to be able to become general managers. In the 1990s, management development changed into a worldwide program in which qualified foreigners were also admitted. ABN AMO incorporated these foreigners by acquisitions and by actively searching at universities. When investment banking activities flourished, the bank concluded it needed senior product specialists, apart from general managers. Therefore, as part of the management development policy, employees were able to develop their career within one division again. Because of these developments, the bank was able to appoint more foreigners to the senior management and Boards of the bank from the mid 1990s. This gave the Boards renewed expertise in and connections to important markets. Another result was that the position of the American CEO gradually received more authority, while Dutch interference declined. The received autonomy was one of the motivations for American CEOs to stay for long periods. Another reason was the enhanced career possibilities for Americans among others, so that Tempest and Bobins were able to become SEVPs. The continuity in American management worked well for the successful development of the American organization. It gave stability and the chance to build up more solid relations with the parent company.

ABN Bank was used to informal agreements and decision-making was often verbal. This was an aspect of the bank that hindered communication with the American executives in the 1980s, whereupon the bank decided to introduce written agreements on clear targets and budgets. In the 1990s, ABN AMRO changed into a more result-oriented organization, adopting these American practices across the entire organization. The most important reason was that the bank had to be able to keep up with global competition. The result-oriented attitude, in which

targets and budgets became popular vocabulary, was also caused by the expanding international organization. Verbal agreements and control based on trust alone were no longer sufficient to manage the organization. The more individualistic and performance-related culture was compensated for by introducing corporate values and business principles. Moreover, the foreign subsidiaries were rebranded and were more closely linked to the Dutch parent company.

## Rabobank

### *Human resource flow*

Contrary to Nationale-Nederlanden and ABN Bank, Rabobank started its expansion to foreign countries relatively late. As a result, the bank did not have a pool of experienced management with international knowledge. Nor did it have a mature expatriate system, like ABN Bank. In the late 1980s access to qualified management became even more urgent due to the increasing number of foreign branches that had to be managed. This section starts with a general overview of the developments of the bank's management development and expatriate system. Then it reflects on the American situation.

Although Rabobank favored 'promotion from within', the bank had to look for executives outside the bank to manage an international division in the Netherlands and branches in foreign countries. For example in 1974, an advertisement was put in foreign newspapers. The bank was searching for someone to head Rabobank's international division. During a visit to Bank of America's head office in San Francisco, it was suggested that they hire an executive who had been working for Bank of America. Bank of America, however, warned Rabobank that an American would not be attracted by the salary level of Rabobank compared to a more favorable one at Bank of America. In spite of that, Nick Brands, who worked for Bank of America, became head of the international division. The Dutchman had mainly been working abroad. On November 1, 1979, Brands had to resign when he became general advisor of the presidium concerning foreign activities.<sup>37</sup> Brands was succeeded by A.C. Steketee, who had no experience in international banking.<sup>38</sup> At the same time, Wim Duisenberg was put in charge of the Central Banking Sector.

A direct consequence of the search for a qualified executive were the discussions in the Executive Board on the payment of senior staff at Rabobank and on whether to hire managers from outside or inside the bank. The Executive Board held the opinion that hiring an executive from another bank involved the risk that he was not able to identify himself with the cooperative character of Rabobank.<sup>39</sup> The bank believed that the candidate should not have a higher salary than other managers of the second echelon. However, in the end the bank concluded that disruption in payment relations was less important than the need to build up foreign activities. In other words, considering the risks involved, only a top-class

executive would be able to develop foreign activities. The associated higher salary had to be put up with.

The lack of international expertise was also compensated for by hiring Dr. P. Liefstinck in 1978 as an advisor for one year to advise on the international policy of the bank.<sup>40</sup> He had been Minister of Finance in the postwar recovery period until 1952 and was known in the Netherlands for the '*Tientje van Liefstinck*', which was a symbol of currency reform. After this he had occupied several international positions, including executive director of World Bank from 1955 to 1971 and executive director of IMF from 1955 to 1976.<sup>41</sup> Liefstinck had to introduce Rabobank to the World Bank and its relations. Moreover, Liefstinck was asked to analyze the desirability and possibilities of opening an office in the US. In 1981, G.J.M. Vlak secured the services of Ray A. Goldberg, professor at Harvard University (Boston) as advisor for the New York branch. Every six months Goldberg exchanged ideas on the development of the American agribusiness and he informed Rabobank about American companies that were worth contacting.<sup>42</sup>

At first the bank thus hired experienced management and advisors from outside the bank. The bank was more or less forced into this, since it lacked qualified internal employees. Through various discussions, the Executive Board came to realize that management development was important for the future of the bank. In 1977, a steering committee Management Development was created, which at first only made suggestions to the Board.<sup>43</sup> For example, in 1980, the steering committee advised the Executive Board on international work placements. Another example was that the Executive Board decided to develop a specific program to recruit and train future Dutch staff for foreign branches. Moreover, they stated that qualified employees had to be seconded at institutions specialized in agribusiness for some years in order to develop specific expertise.<sup>44</sup> In August 1981, a more structured policy around management development was made with the intention to enable qualified employees to occupy future management positions ('promotion from within'). By the end of 1982, a first plan was presented to the Executive Board. Comparable to ABN Bank and Nationale-Nederlanden, the management development system involved Dutch employees only. However, because the organizational structure of Rabobank consisted of a network of autonomously operating local banks, it was hard to form one central system. The management development system consisted of a regional and a central part. At regional level, the Board of Directors of local banks was responsible for the annual evaluation of the general manager. On his own initiative, the general manager had to inform the central organization of his qualifications and interests.<sup>45</sup> This method turned out to be ineffective.

In 1984, Banking Sector decided that a more systematic approach to management development was necessary.<sup>46</sup> Data on the two most important aspects of management development had still not been compiled. A record of current staff had not been made and the requirements of future management had not been laid down. This suggested that so far little had been accomplished. Two years later,

it was concluded in a report that management development was still practiced in an informal way. By now a list of the highly important positions for the development of the organization had been drawn up for which a management development program had to provide. The department Management Development stressed the importance of 'promotion from within' more than once, since these employees were familiar with the organization, its culture and clients and had been able to demonstrate their capabilities within the organization.<sup>47</sup> It was thought that 'promotion from within' created more security for Rabobank by knowing that these employees were capable of occupying certain positions. Experience and knowledge could be used in an optimal way and investments in training would yield maximal returns. In spite of all these findings, a structured management development system was still hard to establish. When reading the reports on management development in the 1980s, it seems that every time the importance of a structured management development system was emphasized. However, the bank did not succeed in getting it off the ground systematically. Management development remained a problematic item. In 1990 Rabobank Opinion Research (*Rabobank Opinie Onderzoek*) was carried out. A striking finding was the fact that only 16% of Rabobank Nederland employees were satisfied with career counseling.<sup>48</sup>

By the end of the 1980s, it became clear that the foreign expansion of the bank would lead to a shortage of qualified managers. In a policy note 1989-1992 of the International Directorate, which was part of Central Banking Sector, it was stated that the Directorate consisted of 700 employees of whom 100 were active in Utrecht and the rest in the foreign network. Because of growth objectives, the Directorate expected an increase of 10 employees in Utrecht and of 200 employees abroad around 1992.<sup>49</sup> Furthermore, it was expected that circa fifteen expatriates were needed. Half of them were not available, which would lead to replacement problems. In the report of 1988, apart from quantity, more importance was attached to the quality development of the employees in order to service Dutch clients and to develop international agribusiness expertise. Training had to increase product knowledge of employees. In addition, publicity had to be improved to make Rabobank known as an international bank for Dutch clients and as worldwide agribusiness bank.<sup>50</sup> In 1991 D.J.M.G. van Slingelandt stressed once more that the expansion of foreign activities required more experienced employees.<sup>51</sup> He underlined the importance of management for the development of the foreign network. The bank concluded that the manager position had changed from being an executive specialist (expert/professional) into a general manager. Important qualities for a general manager were results, delegation and responsibility. At that time, within the Rabobank organization few qualified managers of this type were available. Moreover, he stressed that appointments and promotions had to happen more structurally and less on an ad hoc basis, which hitherto had been the case. A new plan, intended for all managers, including managers of foreign offices was drawn up. In addition, there was still no structured and suitable program of

external and internal training.<sup>52</sup> Training was done on an ad hoc basis. The emphasis had hardly been on future management (except for some trainees) but on trying to remove shortcomings in current management instead.

The development of a result oriented organization in the 1990s (see below) went hand in hand with the development of general management training. In 1992, a training 'Result-oriented management' was introduced at Rabobank.<sup>53</sup> In 1993 the Rabobank Academy started, which developed an MBA program for managers of local banks in cooperation with Nyenrode University.<sup>54</sup> Two years later, 'The professional manager' training was developed, which was also designed for foreign branch managers.<sup>55</sup> During the transition of Central Banking Sector into Rabobank International in 1996, managers were invited to attend the RSM Rabobank Executive MBA Program. The program was designed by Rabobank Academy in cooperation with Rotterdam School of Management.<sup>56</sup> Apart from general management education and technical training, a third category had to be introduced, Rabobank management training. To become a Rabo manager, an employee had to be able to perform within the Rabo context. The manager should have a clear understanding of the Rabobank's strategy, policy and desired management methods. His management style had to resemble the dominant norms of Rabobank, or in other words, he had to fit into Rabobank's cooperative culture.

The expatriate system changed over time as well. Two years after the opening of New York, an expatriate system at Rabobank was introduced. The main objective of the relocation of employees to foreign branches was the transfer of knowledge and values.<sup>57</sup> Thus, apart from general expertise, expatriates had to convey the Rabobank culture. Moreover, they had to fulfill key positions, for example as branch manager or as a liaison between branch and Rabobank. The Dutch social policies and remunerations applied to expatriates. In contrast to ABN Bank, employees at Rabobank were temporary transferred to a foreign branch with the intention to return to Banking Sector after one or two transfers.

Rabobank's objective of becoming an international wholesale bank in the 1990s also had consequences for the expatriates. The goal implied the need for international expertise, an international Rabobank culture, and clear communication lines. One of the objectives was an increase in the number of foreign branches, which implied the need for local employees as well as for expatriates. The basic principle of expatriate policy had been that every foreign branch had to have at least one expatriate. In the period between 1983, when Rabobank started the expatriate system, and 1992, 21 expatriates had completed their transfers, of whom 10 turned out not to be successful, 3 because of personal circumstances and 7 due to commercial reasons.<sup>58</sup> For 4 expatriates there were no suitable positions at Banking Sector after their return. These findings combined with the objective of further growth of the foreign organization, made the bank decide that experienced expatriates had to stay at key positions within the foreign organization instead of returning to the Netherlands, the so-called career expatriates. To be able to become

a more attractive employer for expatriates, Rabobank analyzed the payment of expatriates, for which a few Dutch banks and consultant firm Towers Perrin had been interviewed. It turned out that the bank had to change the payment since it had no competitive terms of employment for expatriates as compared to other Dutch banks.

Management development remained an important item on the agenda, due to the fact that Rabobank favored the principle 'promotion from within'. For Rabobank, which wanted to be viewed as a knowledge bank, keeping the expertise of its employees within the organization was of vital importance. However, within Central Banking Sector, in the early 1990s there was still no sector wide management development system. The bank had difficulties in establishing one management development system. The ideas of Central Banking Sector on management development were transferred top-down. However, the autonomously operating foreign branches as well as Dutch directorates within Central Banking Sector did not implement these ideas. The distance between them was too great. As a result, vacancies were often filled ad hoc with managers from outside the bank.<sup>59</sup> It was very expensive to recruit mid career staff from outside. Moreover, external recruitment had negative effects on Rabobank employees, who were often paid less. Moreover, until then Dutchmen foremost headed the foreign branches. Their number was not large enough to keep up with the expansion of foreign branches, which increased rapidly and required a pool of qualified managers. This need had already been expressed by Van Slingelandt in 1991. From 1980 to 1990, Rabobank opened 35 foreign branches, which was an average of 3.5 branches per year. In the next five years, the number increased to 77, which meant an average of 8.4 branches per year (77-35/5). It reflects the pressure for more qualified branch managers. Obviously, it would not stop there, since expansion of foreign offices remained an important objective. In 2000, the bank had 142 branches.

In September 1995, Flip Goudsmit, who had been working for Royal Dutch Shell as an HR manager for twelve years, was hired to develop and implement a new human resource policy. In order to be able to manage the growing number of foreign offices, local executives started to head them more often. Furthermore, from the mid 1990s, the national orientation of management development and trainees changed into a more international one. Internationalization of the system was an essential instrument to keep on qualified employees, who in this way had more career possibilities. This development was comparable to developments within the ABN Bank system in the 1980s. At ABN Bank, Van den Bosch, an outsider from Citibank, had started this change. In the 1990s, Central Banking Sector held General Managers Conferences, which were also attended by foreign branch managers. The official language was English. For Rabobank the conferences were a useful platform to inform the foreign organization on new policy lines or other strategic issues. The International Conferences for all general managers, changed into conferences organized per discipline. For example, an international conference

during which all credit managers came together and exchanged ideas and expertise on their specialization.<sup>60</sup> They were able to get to know each other and formulate common policies and objectives. It was an important means to build up a knowledge network within the bank.

Although more branches were headed by foreigners, the New York branch has always been managed by Dutchmen. The first three were recruited from outside the bank. The last one was promoted from within, which illustrates the fact that after more than twenty years the bank had developed employees with international expertise. In 1981, when New York was opened, G.J.M. Vlak as member of the Executive Board, moved to the us for a couple of years. Together with Hugo Steensma, who had broad experience of the American banking world, he has been very important in the start of Rabobank's foreign expansion. Steensma managed the New York branch from 1981 until 1992. This relatively long period was a pioneering phase for Rabobank in which matters related to foreign branches still had to be developed. It was important for the bank that in this period the same Dutchman headed the branch.

Dennis Ziengs, who had worked at ABN AMRO, succeeded Steensma. After five years, Ziengs was transferred to Asia and Reinier Mesritz succeeded him in the position in which he was responsible for all American activities, which included investment banking and corporate finance at the time. Mesritz had also worked at ABN Bank, where he had occupied several positions, including a position at the derivatives department of ABN Bank's subsidiary LaSalle in the early 1980s. He knew the American banking market well. Both Mesritz and Ziengs had obtained a business degree at Nyenrode in the Netherlands and their BA at the University of Oregon. They received their MBA at Thunderbird Graduate School in Arizona and University of Oregon respectively. The last Dutchman Cor Broekhuysse became regional head of all activities in North and South America. Since 1976, he had occupied various positions at Rabobank, including deputy manager of the International Directorate. Moreover, he had managed Australian bank RIBA (1994), where he had gained important experience in foreign retail banking. Broekhuysse has been an important stimulus of Rabobank's first step to the acquisition of an American bank. He had shown in Australia that the combination of a foreign retail bank with the export of Rabobank's agricultural expertise was successful. He transferred this experience to the us where he is still Regional Manager today.

In 2006, Broekhuysse was appointed to the Managing Board of Rabobank International. With his own network and expertise of the American market and culture, he brought in a lot of expertise which can be important for successful expansion in the us. In the same year, the Board of Rabobank International appointed a foreigner, the American Sheldon Sussman. He had worked at Banker's Trust, which was acquired by Deutsche Bank. In 1998, Sussman joined Rabobank International as head of New York credit derivatives desk. Today, the Executive Board of the Rabobank Nederland still consists of Dutch members only.

*Reward system*

Chapter 2 showed that Rabobank's organizational structure consisted of many layers and that decision-making was based on consultation and consensus. Furthermore, because of its cooperative character the bank did not have to pay out dividends to shareholders. The advantage of this characteristic was that its capital increased annually by its profits. However, the disadvantage was that the organization did not receive incentives from shareholders to make more profits and thus operate efficiently. In the period 1995-1998, discussions took place within the Rabobank Group on the fundamental ideas of the cooperation. Within the organization, doubts had arisen due to the emergence of the large financial conglomerates ABN AMRO and ING. Was the cooperative bank able to keep up with these listed companies? After internal discussions, the bank chose to remain dedicated to its cooperative goal of cooperation to reach individual advantages. Rabobank distinguished itself from other banks by the influence of its members on the bank's policies. Through member certificates the tie between members and banks was further strengthened. Instead of shareholder value, which became the key objective of quoted companies, Rabobank focused on customer value. Instead of making the highest profits possible, the creation of value for its clients remained Rabobank's main goal. Since 1998 the corporate values of integrity, respect and expertise have been identified and communicated more explicitly.

Thus, in the 1990s, some adjustments at Group level had taken place and the cooperative character and goals had been renewed. For this dissertation, Rabobank Group has been an important level of analysis, but Central Banking Sector (since 1996 Rabobank International) even more. International Directorate was one of the directorates of Central Banking Sector, which after 1996 disappeared when the directorates were replaced by a matrix organization. In 1991, Central Banking Sector formulated the following objectives for the period 1992-1995.<sup>61</sup> First objective was that it wanted to be perceived as one banking organization. Moreover, it wanted to become the second wholesale bank in the Netherlands with respect to market share, a profitable worldwide position in food and agribusiness and an inspiring and dynamic working environment. In order to achieve these objectives, Central Banking Sector had to change into a more result-oriented organization. The recruitment of former ABN employees during the merger between ABN Bank and Amro Bank in 1990 had probably influenced the change in strategy and character of Central Banking Sector into a more result-oriented organization.

One of the consequences of a more result-oriented organization was the need for performance measurement. In 1990, an incentive compensation scheme for the foreign branches was introduced. At the International Directorate, basic guidelines were developed in cooperation with consultant firm Towers Perrin, by which the foreign branches individually had to outline their policies.<sup>62</sup> It was decided that the foreign branches had to finance the compensation incentives themselves. In 1993, Coopers & Lybrand Management Consultants presented a

proposal for the Central Banking Sector, which after some pilots was accepted by Rabobank. Central Banking Sector started to measure the performance of the commercial units and their managers in the Netherlands, while Coopers & Lybrand supported the implementation process.<sup>63</sup> Apart from targets, discussions started on performance related payment at Central Banking Sector. An important reason for Rabobank to introduce a type of bonus system was market conformity. A Banking Survey of 1993 by Towers Perrin demonstrated that at other banks bonus systems or incentives were common, especially in Dealing rooms and Corporate Finance positions.<sup>64</sup> In addition, performance related payment became more regular for account managers and for employees in support and back office positions as well.<sup>65</sup> Rabobank also saw a bonus system as one of the instruments to accomplish a more result-oriented culture and to promote cooperation. At the end of 1994, a bonus system was agreed on for account management of the Directorate Business Relations.<sup>66</sup> At the same time, Towers Perrin produced a proposal for a performance incentive plan for all Central Banking Sector staff. They stated in the report that the plan was ‘...designed to provide all Central Banking Sector staff in the Netherlands with the opportunity to earn annual performance-related incentive bonuses, in line with external competitive market levels, for the achievement of high levels of performance on a sustained consistent or exceptional basis’.<sup>67</sup>

### *Corporate identity*

Central Banking Sector took measures in order to become more efficient, which was necessary to become a national wholesale bank and an international food & agribank. Another objective was that it wanted to be perceived as one identity to the outside world. In 1970s and 1980s, Rabobank had already used international advertisement campaigns. In 1976 before the opening of foreign branches, the bank started a worldwide campaign to extend the awareness of the Rabobank brand. The bank wanted to be associated with words like Dutch, reliable and solid. Therefore, the slogan ‘Rembrandt country is Rabobank country’ was introduced. In 1988, the Mondriaan line with the slogan ‘Rabobank, The art of Dutch banking’, replaced Rembrandt.<sup>68</sup> Important elements in this campaign were vision, dedication, clarity, commitment and trust. As a result of the formulated strategic objectives, in the international market the focus in advertising was placed on the food and agribusiness expertise of the bank. The renewed strategy had consequences for branding and marketing. In 1991, Saatchi & Saatchi became Rabobank’s new advertising agency, which apart from a national campaign also introduced an international one.<sup>69</sup> In 1989, the international brand awareness of Rabobank was around 20%, in the food and agribusiness as well as in other business in the US, UK and Southeast Asia. In 1991, a survey was done by Far Eastern Economic Review. As can be seen in the table below, readers were more familiar with ABN Bank. An objective for the foreign organization was to increase the awareness of

the brand name from 20 to 50 to 60% in 2000. Rabobank had to become recognized as a bank with large expertise and knowledge in the food and agribusiness.

**Table 4: Regional brand awareness of Rabobank and ABN Bank in 1991**  
*Percentage respondents that know Rabobank or ABN Bank (%)*

	Rabobank	ABN Bank
Asia	18	53
USA	21	34
EC	31	65

Source: HA Rabobank, 'Communicatiebeleid CBB nationaal en international, April 1, 1992.

Another result of the formulated objectives was the discussion on the naming of foreign offices. In the Netherlands, Central Banking Sector was often named Rabobank Nederland. The International Directorate suggested that foreign offices were renamed Rabobank plus the country name. For example *Rabobank Nederland New York branch* should be changed into *Rabobank USA*. However, Hugo Steensma, manager of NY branch, strongly recommended not changing the name. He stated that the addition of 'Rabobank Nederland' identified the branch as a Dutch bank and according to him Holland, Dutch business and Dutch banks had a positive image in the American market. Moreover, the name Rabobank USA created the perception of a holding company, which was a separate legal identity apart from its triple-A rated parent company. With the current name and the addition of the word 'branch', it was clear that the branch belonged to a larger parent. In addition, New York had invested for eleven years in promoting the name Rabobank Nederland so that changing the name would increase costs and require explanations.<sup>70</sup> The letter convinced Central Banking Sector and New York was allowed to keep its name.<sup>71</sup> However, when possible, branches in other countries were named Rabobank plus the country or city name plus the branch or representative status of the office. Since 2000, the names of foreign subsidiaries were changed into one single brand as well. The American subsidiary of ABN AMRO had kept its strong local name and later the parent name was added. Rabobank, having chosen to become a niche player rather than a global player, had to promote its name and its competitive advantage of being a knowledge bank worldwide. Valley Independent Bank, the retail banking part of Rabobank in the US, changed into Rabobank N.A. in 2005. Lend Lease, had already been changed in 2003 into Rabo AgriFinance and Ag Services of America Inc. into Rabo AgServices. While in 1995, the Australian retail bank PIBA kept its local name, it changed its name into Rabobank Australia Limited in 2003.<sup>72</sup>

In contrast to acquisitions, such as ABN Bank's LaSalle, which had its own marketing budget and its own brand name, Rabobank had to invest in worldwide marketing and publicity for its individual foreign branches and for promoting brand awareness. Because the international branch organization was relatively young, none of the branches had a marketing employee in 1992. However, the New York branch had large autonomy to market its activities. The larger branches New York and London did have a communication budget, which was foremost spent on brochures, direct mail and seminars. Local or regional advertising was hardly done by foreign branches, except for New York, Germany and Belgium, which used external communication firms. Moreover, the New York branch had created an Agribusiness Advisory Board, which was not only helpful for getting access to local expertise, but also useful as an active networking tool by promoting Rabobank in the agribusiness sector.

Another consequence of presenting Central Banking Sector as one strong wholesale organization was the discussion of its own brand name. Especially abroad, the name Central Banking Sector did not contribute positively to Rabobank's positioning as an international, wholesale bank. Since 1994 a few name options had been considered. Rabobank International and Rabobank Corporate & Investment Bank were chosen as best alternatives, which were presented to two insiders in the international banking world. Both Michael Lafferty of Lafferty Group<sup>73</sup> and Robert Stadius-Muller of Greenwich Associates<sup>74</sup> chose Rabobank International as the best brand name.<sup>75</sup> In 1996, Central Banking Sector was renamed Rabobank International. The name change primarily had to do with branding and image. In other words, it was a means to reach the goal of enlarging brand awareness. The legal structure did not change, although in practice Rabobank International came to stand on its own more and was less tightly linked to the rest of the organization.

### *Summary*

Rabobank favored long term positions for its employees and promotion from within. Like at ABN Bank and Nationale-Nederlanden, management development at Rabobank was at first meant for Dutch employees only. At that time, the size of the international organization was not large enough to justify an international system. When the bank started expanding abroad, promotion from within was difficult to accomplish. Rabobank had to secure expertise by hiring outside senior executives since they were not available within the organization. For example Rabobank attracted people from outside the bank for its International Directorate and foreign branch New York. The case has demonstrated that for changes within the organization it can be helpful to involve outside knowledge. Since 1983, an expatriate system was created to be able to transfer ideas and values to the foreign branches. During the 1980s, the bank did not succeed in structurally developing either a management development or an expatriate system.

In the 1980s Dutchmen headed foreign branches. As international expansion proceeded during the 1990s, the bank felt the need for more non-Dutch managers. As a result, locals were more often appointed to manage foreign offices. Also since the mid 1990s, management development became more internationally oriented and in the expatriate system more career expatriates were trained instead of temporary expatriates only. The internationalization of the management development system happened later than at ABN Bank, which is not surprising. International expansion by Rabobank had started much later and on a smaller scale. In the Rabobank organization, the transfer of expertise among senior managements by various conferences and specialized teams has become very important. The New York branch and American regional management are still headed by a Dutchman, Broekhuysen, who was able to bring along his experiences in retail banking from Australia.

It is difficult to conclude whether management development at Rabobank by now has yet been structured. In some interviews, it was stated that appointments still happened on an ad hoc basis and that management development was still in a developing stage. However, since the late 1990s foreigners were appointed at the Managing Board of Rabobank International, which seems to suggest that information on foreign qualified employees has been available at Rabobank International. In 2006, the American Sussman and Broekhuysen, the Regional Manager of the Americas, were appointed in the Board. It gives the Board more direct insight in the American market and culture, which is important for further successful expansion.

In the 1990s, Rabobank Group explicitly decided to remain a cooperative bank and restated its cooperative values of which customer value was the most important. Central Banking Sector changed into a more result-oriented organization in the late 1990s. The arrival of ABN Bank employees in 1990, with their ideas of and experiences in working at a listed bank, might have influenced this change. The outside world knew Rabobank mostly for its local member banks, while the functions and responsibilities of Central Banking Sector were hardly known. Therefore, it had to show itself as a single strong organization. The goal of enlarging its brand awareness was supported by advertising and by changing the names of its foreign offices and since 2002 of its foreign subsidiaries. What was also important in this process was the name change of Central Banking Sector into Rabobank International. The decision to distinguish itself from listed companies and to hold on to its cooperative character, combined with the name changes and the introduction of knowledge centers, has been important for the aim of becoming a successful food and agribusiness bank in the US and other foreign countries.

## Nationale-Nederlanden

### *Human resource flow*

Like ABN AMRO and Rabobank, Nationale-Nederlanden upheld the principle of 'promotion from within'. Until the mid 1980s Nationale-Nederlanden did not have a formal management development system. The size of Nationale-Nederlanden was still such that the management teams and the Executive Board knew the employees of the lower echelon from their own observation. On a regular basis future talent was discussed with the management teams. Besides, employees often made their career in the same department of the company. With the increasing size of Nationale-Nederlanden and the wider variety of positions, the Executive Board found it necessary to deal with succession and related issues more systematically.<sup>76</sup> The creation of General Management Nederland in 1985, an extra management echelon directly below the Executive Board, reflected the growing organization and also indicated that the distance between Executive Board and future talent had increased. The main purpose of the management development program of 1986 was to provide the company with present and future management. Higher positions had to be filled with its own people who knew the organization and fitted the Nationale-Nederlanden culture.<sup>77</sup> The departments developed and coordinated internal training, while the Management Development Department coordinated the external management training. The insurance company had contacts with De Baak, Nyenrode, Erasmus/Rochester (MBA), INSEAD, IMD/Lausanne, Harvard and Stanford. Apart from a focus on this general management training, job rotation within the company was still seen as a good way to obtain experience as well. The management teams of the departments were not so enthusiastic about the management development program at first. They saw talented employees leave for other departments in exchange for employees they did not know. This was the complete opposite of what they were used to.

In the Netherlands, Nationale-Nederlanden had difficulty in attracting graduate students, because of the dull image insurance companies had. The Supervisory Board pointed out that the insurance company had to go to universities and had to move more actively in the academic world. Some members of the board drew attention to the fact that in the Netherlands an informal system existed by which professors sent their students to companies with which they had personal contacts.<sup>78</sup> Examples of a more pro-active policy of Nationale-Nederlanden were the organization of Business Courses for near graduates from 1991.

The Management Development program had been developed for Dutch management positions and expatriates, who were Dutch employees sent out to foreign countries. Nationale-Nederlanden did not have many expatriates compared to for example ABN Bank. In 1989, the company had fourteen expatriates and in 1993 only ten.<sup>79</sup> Nationale-Nederlanden had expanded internationally through acquisitions, whose own managements remained in place. Moreover, the insurance

company did not place many Dutchmen at key positions in the American organization, as ABN Bank did. In general, local management appointed foreign managers in consultation with the Executive Board.<sup>80</sup> The managers had to be found within the foreign company or at least be from the nearby surroundings and / or culture. Thus, also in foreign countries Nationale-Nederlanden attached importance to the principle of 'promotion from within'.

From the late 1980s management development was set up more internationally. In 1989, a management development program was introduced in the United States. Before the creation of General Management North America, the American organization was insufficiently integrated. Because of the creation of a hierarchical structure in 1988, it became possible to coordinate things more centrally. The history of the American companies was very distinctive and the geographic distance between the companies was great. Even more than in the Netherlands the companies had problems getting used to the idea that talented employees were collectively owned. Nationale-Nederlanden tried to introduce the Dutch philosophy and instruments.<sup>81</sup> In the planning note 1992-1994, it was stated that North America and the Netherlands should learn from each other's experiences. Unfortunately, it was not specified what kind of experience. However, we can conclude that Nationale-Nederlanden tried to transfer the Dutch management development program to the American organization. At first the Executive Board held the opinion that it was not necessary to introduce a similar program in other countries because of the relatively small scale of activities. However, exactly because of the small scale it was hard to attract qualified people, since career possibilities for them were limited. A management development system had to offer international career possibilities for talented employees in these countries as well. A worldwide management development program made it possible for Nationale-Nederlanden to exploit one of its strong characteristics of being an internationally active company. The foreign CEOs were informed of the Dutch management development program during the World Conference of 1991.<sup>82</sup> And in autumn 1992, the foreign companies started adopting the Dutch management development program.<sup>83</sup>

In 1994, it was stated that the international management development activities needed reinforced attention.<sup>84</sup> Since 1994, International Business Courses had been organized for students approaching graduation. In 1997, ING began the development of an International Management Trainee Program. In North America, recruitment managers actively searched for top MBA or BBA graduates for participation in the trainee program.<sup>85</sup> The internationalization of the management development program and the Business Course reflected the internationalization of the company. ING had grown so large and was active in so many countries, that professionalism and structure were needed. Moreover, it stimulated local employees to remain active within ING. Besides, the Executive Board wanted to gain a better insight into talented people within the (international) company. With the implementation of the management program, foreign current and potential managers indeed became more visible.<sup>86</sup>

In the US, Nationale-Nederlanden's experience was that a two-headed management, consisting of Youngs and Johnston, did not contribute to successful expansion. The insurance company realized that Americans were used to one single boss. The Dutch company adopted the American practices and appointed Youngs as CEO (see chapter 2).

Nationale-Nederlanden (ING Verzekeringen) succeeded in keeping Americans at senior executive positions for long periods. In 1994, Hilliard succeeded Youngs, who since the 1980s had been CEO of the North American organization. Hilliard, who was also appointed to the board of ING FSI that same year, had been president and CEO of Security Life since 1989 and in 1993 became CEO of ING America Life. He remained a member of the ING FSI Board until his retirement in 2003. Hubbell, the third important American CEO, had joined ING after its acquisition of Equitable of Iowa and after ten years retired in 2006. In the Executive Board, ING has already appointed another American: Tom McInerney. He has been working at Aetna since 1978. The duration of the appointments of these men reflects their motivation, which has been very important for the development of the American organization. It gave stability and time to build up relations with head office. Moreover, it refutes the assumption that Americans change jobs often. The management development policies of the insurance company, which provided better career possibilities, probably have played a role.

Because of the more international orientation of management development, it became possible in 1994 to appoint two foreign CEOs to the board of the division ING Financial Services International: the American R.G. Hilliard (president and CEO ING North America Insurance Operations) and Australian P.R. Shirriff (Managing Director Mercantile Mutual Holdings Ltd).<sup>87</sup> These appointments reflected the fact that foreign CEOs were motivated by giving them international responsibilities. Moreover, ING was able to take advantage of the in-depth knowledge the CEOs possessed of their respective local areas. ING's Supervisory Board started to internationalize with the appointment of Belgian members: the first one in 1991 by the appointment of Mrs. Lutgart van den Berghe and in 1998 by Paul Baron de Meester. The first foreign member of the Executive Board was M.J. Tilmant. He had been chairman of the Belgian BBL, which ING took over in 1998. In 2000, the Executive Board of ING was reinforced with D. Robins, who resigned after six months because of reorganizations of the investment banking activities. He was replaced by American Hubbell, who had been one of the owners of Equitable of Iowa, which ING acquired in 1997. Since the acquisition was partly financed by ING shares, the American had interests in ING.<sup>88</sup> To be able to fulfill his function he moved to the Netherlands. At the same time, 1 January 2000, the corporate language in the Executive Board and head office changed from Dutch to English.<sup>89</sup> The appointment of Americans and other foreigners at senior executive positions and at the Boards was essential in order to enlarge the expertise of local markets and cultures within the Boards. Also, it was important to show

foreign employees they were not exclusively managed by Dutch executives and that they were represented in the Boards.

### *Corporate identity*

Nationale-Nederlanden has shown explicit interest in its corporate culture since the mid 1980s. In 1986, corporate culture was an item on the agenda of the fourth International Conference, which had been organized in the Netherlands for managers of all domestic and foreign subsidiary companies every five years since 1972. It has been no coincidence that in this period corporate culture became the focus of attention within the company. Precisely in this period, the concept of culture came into use after much research had been done. The concept was introduced from the US through the book of Peters and Watermann, both consultants at McKinsey.<sup>90</sup> For the first time the important role that corporate culture was able to play in the success of a company was demonstrated. In addition, the important work of Geert Hofstede, 'Culture's consequences', was published in this period.<sup>91</sup> During the International Conference, Nationale-Nederlanden referred to his work and guest speaker Bob Waisfisz worked closely with Hofstede in cultural management research.<sup>92</sup> Another reason for the attention Nationale-Nederlanden paid to corporate culture was the fact that the company was active in a growing number of countries and had to deal with local cultural differences.<sup>93</sup> The Executive Board realized the importance of corporate culture. J.J. van Rijn, chairman of the Board, said the following: '...corporate culture will increasingly become an essential condition for corporate success in a future with a workforce with ever-higher levels of education and individualistic values. Corporate culture should be an ongoing major concern of a company's management'.<sup>94</sup>

During the International Conference guest speaker Waisfisz showed the results of a questionnaire that was sent to 117 participants, of whom 102 had responded. It was possible to make distinctions between the Dutch head office, Dutch subsidiaries and subsidiaries from English speaking countries. According to Waisfisz the national cultural differences as Hofstede described were reflected in the answers of the questionnaire.<sup>95</sup> The answers on the proposition 'people feel very secure about their job' showed for example an interesting difference. Head office scored high, while the US, as one of the most important participants from the Anglo-Saxon countries, scored low, which was related to the long-standing tradition of hire-and-fire. Apart from the fact that English speaking countries were more job-oriented and head office more employee-oriented, there was a difference between result-oriented (Anglo-Saxon) and procedure-oriented (the Netherlands). This became apparent with the proposition 'the major emphasis is on meeting the customers' needs', on which the English speaking countries scored high. The differences between job and result-oriented Anglo-Saxon countries and employees and procedure-oriented Netherlands was a reflection of the difference between masculinity and femininity.

It is important to realize that by putting corporate culture on the agenda, Nationale-Nederlanden acknowledged the existence of local differences. The company became aware that American employees had to be motivated in another way than their Dutch counterparts. American employees were much more result-oriented and needed clearly formulated targets in order to achieve tangible results. For the Executive Board the ideal scenario was that each foreign subsidiary kept its local culture that fitted its own national character, market position and long-term objectives, while at the same time they had to realize they belonged to the Nationale-Nederlanden family.<sup>96</sup> The issue played a more important role at Nationale-Nederlanden compared to for example ABN Bank, since the insurance company was a more loosely structured company, consisting of autonomously operating parts.

After the Conference, the Executive Board incorporated the theme into the Midterm Plans.<sup>97</sup> In the Midterm Plan of 1987-1989 it was stated that corporate culture of a company was a crucial factor for success or failure, a factor that deserved to be well managed.<sup>98</sup> In a newsletter, employees were informed that corporate culture would receive special attention in the coming years. In addition, the chairman of the Central Workers Council recognized the importance of corporate culture. He suggested introducing the concept into the workers councils by a few lectures.<sup>99</sup> During the Conference, it became apparent that foreign managers perceived 'open communication' and 'local autonomy' as strong characteristics of Nationale-Nederlanden. Van Rijn tried to make this more concrete by creating a group charter on open communication. De Waal and T.C. Braakman made one concerning local autonomy. The main objective of the charters was to make the existing and desired Nationale-Nederlanden culture more explicit by activating cultural management from head office.<sup>100</sup>

Although corporate culture has been on the agenda since the mid 1980s, it did not mean that there were no general values and norms before the 1980s. The idea of local autonomy for example was not invented, but had historically grown. A basic assumption of the International Division had been local autonomy for local managements.<sup>101</sup> In addition, the domestic subsidiaries had always received a certain degree of autonomy with managements responsible for the day-to-day operations.<sup>102</sup> The safeguarding of the subsidiaries' local identity had always been important for Nationale-Nederlanden. During the conference, it turned out that the management of foreign subsidiaries perceived local autonomy as a strong characteristic of the Dutch insurance company. In the late 1980s and early 1990s, it turned out that local autonomy also had a downside however.

In the Plan of 1988, attention was paid to corporate culture for the last time before the merger.<sup>103</sup> The likely reason for this was the developments on the European market. Due to increasing competition, Nationale-Nederlanden was faced with more urgent problems, including securing the continuity of the company. After the merger with NMB Postbank Group in 1991 by which continuity was secured, the first Retreat of ING's Executive Board placed corporate culture

on the agenda again.<sup>104</sup> The newly formed company wanted to find out whether the bank and insurance company were different and which cultural characteristics they had in common. ING's special attention to corporate culture appeared also during the World Conference of 1991. In the workshops, foreign CEOs discussed four themes including 'local autonomy versus synergy', and 'corporate culture'. An important outcome that emerged during the discussions was that the participants were of the opinion that apart from local autonomy, more synergy was needed between the different parts of ING. Also from the results of the management surveys, it turned out that synergy was a weak point, as well as the lack of a clear company strategy and financial objectives. In a note by the International Division of Nationale-Nederlanden it was stated that a weak spot in the system of financial control was the existence of a certain informal (permissive) attitude towards budgets and forecasts and a lack of understanding as to which information was needed for financial management. According to the note, the fundamental reason was that financial control had never been part of Nationale-Nederlanden culture. What's more, it was contrary to the strongly embraced concept of local autonomy.<sup>105</sup> As an immediate follow-up, Van Rijn, chairman of Executive Board, urged CEOs by means of a letter to pay special attention in their midterm plans to these subjects. Apart from that, the Executive Board wanted to improve and enforce the midterm plans with more awareness of performance.<sup>106</sup> Clear and strong agreements became the basic condition for delegation of authority to subsidiaries. They discussed results quarterly. In this context, Kist referred to a cultural change within Nationale-Nederlanden: 'The midterm plans had always been 'soft' in the past, in the sense that nobody was blamed for bad results'.<sup>107</sup> The change in culture had been a result of the discussions during the World Conference in 1991. Moreover, the modest results of Nationale-Nederlanden in general over the last couple of years, forced the company to rethink its business. Obviously, these results made the Executive Board wonder, and a report by McKinsey called 'Clearing the decks' reinforced this. McKinsey suggested that the existing activities formed the core of the company, which needed to be optimized first and if no improvements were reached, they should be sold. This new way of thinking was a split with the past in which divestments were hardly subject to discussion, since it was in conflict with the existing corporate culture of Nationale-Nederlanden. Apart from McKinsey's recommendations, the increasing importance of the creation of shareholder value played a role. The sale of part of the organization that contributed unsatisfactorily in creating value became a real option. That this cultural change persisted was shown in the midterm plan 1993-1995 on performance and returns: '...more disinvestments are not considered impossible'.<sup>108</sup> The cultural change was also visible in the remuneration of management. In 1995 targets were formulated to be assessed annually. A variable component was included in the remuneration which depended on three factors: individual performance, results of own department and contribution to results of ING Group.<sup>109</sup>

Apart from the cultural change within ING to a more performance related culture, the company kept the different local cultures intact. However, to ensure that the growing number of foreign employees felt that they belonged to one large corporation, a common corporate culture was disseminated at the same time. In the ING annual report of 2000, it was stated that a common corporate culture was a prerequisite for achieving the strategic objectives and financial targets of the group. Many new employees had joined ING due to acquisitions, for example by the large American acquisitions of Aetna and ReliaStar. In 2000, no longer vaguely defined core concepts, but clearly formulated business principles had to reflect the corporate culture of ING. The business principles were based on the company's corporate values: integrity, entrepreneurship, professionalism, customer-focused and teamwork. Every employee was expected to comply with the principles, regardless of their local cultural background. In 1998, the creation of the ING Business School was intended to play an important role in the transfer of corporate culture, where employees could also learn from each other's experiences. The school developed a 'Live ING Program', an interactive learning program for all employees on ING's strategy, structure, culture and branding.<sup>110</sup>

The external branding strategy changed as well. At first the acquired companies in the US kept their own brand names, since they were locally well known. But during the conferences it had become clear that foreign CEOs missed synergies between the different subsidiaries. Moreover, after the merger in 1991, ING had become a worldwide company active in banking, insurance and asset management.<sup>111</sup> ING was a pioneer in this combination and the company had to take advantage of its unique position. Therefore, ING has strived for a global ING brand awareness since 2000. A strong brand was needed to achieve synergies within the company and to attract qualified employees worldwide. Besides, one brand resulted in cost savings, since maintenance of one brand was cheaper than 70 individual brands. In some markets, where local brands were still strong, the local brand was combined with the ING name. In the US for example, the ING logo was added to the existing names, which was comparable to ABN AMROS rebranding in the US. To enlarge brand awareness a campaign in the US was developed with the revealing title 'ING: It's not an ending. It's a beginning'.<sup>112</sup> In 2001, the campaign was awarded a third prize in the competition of advertisements in the American financial service sector. The most important aim was that the presence of ING in the American market became known. The launch of ING Direct accompanied by publicity in the same period has certainly helped to enlarge the awareness of ING's brand name. ING is the only Dutch financial company listed in the top 100 most valuable global brand names, composed by Interbrand<sup>113</sup>, which reflects the fact that the company has succeeded quite well. In 2006, ING moved up to place 85. The external re-branding was closely related to corporate culture. Worldwide, employees as well as clients had to perceive ING as a company with one face.<sup>114</sup> ING thus aimed at developing one brand name based on one culture.

### *Summary*

Nationale-Nederlanden has not used a large pool of expatriates like ABN Bank. In the US, Nationale-Nederlanden expanded through acquisitions and had been able to keep on their most important senior executives. A structured management development system had been developed from 1986, to secure the principle 'promotion from within'. Hitherto, the board had appointed employees it had known at first hand. However, the organization had expanded and without a system, suitable staff could have been overlooked. Talented employees had to develop their career by working at different divisions to be able to become general managers. External courses like MBAs were developed in cooperation with eminent business schools. In the early 1990s, management development was exported to foreign countries, including the US. Again, because of the loosely connected organization, it turned out difficult to make everyone cooperate. This had also been the case within Rabobank as we saw above. The internationalization of the management development system led to the appointment of foreigners at senior executive positions and in 2000 in the Executive Boards. The enlarged career possibilities, which involved enhanced authority, might have been one of the explanations why American senior executives stayed at ING for long periods. The continuity of management assisted in stabilizing the relations between head office and the American organization. Although this home-based practice has been successful, another Dutch practice was not: a two-headed management.

Nationale-Nederlanden paid attention to its corporate culture relatively early. It recognized that due to international expansion the company consisted of many cultures. Because Nationale-Nederlanden was a loosely connected organization, in which subsidiaries had a large degree of autonomy, the board found it necessary to discuss the item. It turned out that local autonomy, which was first seen as a large advantage, changed into a disadvantage. The local companies needed to cooperate more closely to be able to reach synergies. Moreover, especially the subsidiaries of Anglo-Saxon countries wanted clearly defined targets and budgets and controls that were more formal. In the 1990s the company changed into a more result-oriented organization in which employees and parts of the organization were judged on performance. The Dutch company thus adopted American practices. Then, to unite the more individualistic organization and employees with the aim of achieving synergies, ING introduced corporate values and business principles. In addition, global rebranding gave the organization a strong identity.

### **Conclusions**

This chapter has dealt with the efforts of Dutch companies to maintain talented foreign, in particular American, employees by motivating them. Employees along with their experience and expertise are an important asset of financial companies, which are relationship driven. Two main questions have been answered in this

chapter. Did the Dutch financial companies transfer their own work-related practices to the American subsidiaries or did they adopt the American ones? And were they able to find a balance between delegating authority to American employees and at the same time connecting them to the international organization?

The chapter has mainly focused on two aspects of human resource management: human resource flow and reward system. In the American market, the Dutch financial companies used a mixture of their own and American work-related practices. The previous chapter showed that senior management of the American organization of ABN Bank and Nationale-Nederlanden did not wish to share the executive position with someone else. It reflects the general assumption that Americans are used to one strong and decisive CEO. The boss tells what has to be done and there is little room for discussion. The Dutch practice of cooperation and consensus between two executives turned out unsuccessful in the US. After a first attempt, ABN Bank and Nationale-Nederlanden decided both to appoint only one CEO and thus to adopt American practices.

Most American CEOs retained their positions at the acquired companies for a long period. This refutes the assumption that American senior management change jobs and employers all the time. Possibly, the fact that the Dutch companies gradually gave them more authority in their respective functions, combined with the possibilities to make the company grow through acquisitions, enabled by a financially strong parent, have played a decisive role. The long-term positions of important executives, which can be seen as a Dutch practice, have been important for success. The Dutch parents did not have to get used to one CEO after another. They were able to build steady relations with the American organization, which otherwise might have been more difficult.

In general, the Dutch companies supported the home-based principle 'promotion from within'. In the US, the acquisitions of companies formed a source of qualified management. After an acquisition, Nationale-Nederlanden and ABN Bank kept the executives in place. The internationalization of human resource management had to contribute to the principle 'promotion from within'. It extended the career possibilities for talented employees. Rabobank has shown that a company has to buy expertise by hiring outside senior management, when it is not available within the company. However, the number of outsiders has to be limited, as chapter 5 on investment banking demonstrates. The cases of ABN Bank and Rabobank have also revealed that sometimes an outsider can be helpful in making changes and decisions that are unwelcome but are considered necessary.

Another aspect of the internationalization of human resource management was the fact that the composition of the companies' boards became more international. In 1993, Ward Howell/Maes & Lunau, an executive search company, concluded that in the Dutch boards of 200 leading companies there were relatively more foreigners compared to the rest of Europe. 30% of the Supervisory Boards included foreigners and 20% of the Managing Boards. There seemed to be a preference for British and American executives.<sup>15</sup> Moreover, it seemed that the service sector was

more conservative compared to industry and trade. The cases of ING and ABN AMRO confirmed this conservatism, since only in 2000 they welcomed the first foreigner in their Managing Boards. The fact that Supervisory Boards adopted international members first is not surprising. Most of all it had a practical reason since the board met monthly compared to Managing Boards meeting every week. These distance related aspects were sometimes overcome by members moving to the Netherlands, as was the case with Hubbell at ING. In general, the development of more international boards reflected the advancing degree of internationalization of the company. The boards had become more open and we even see that for the Supervisory Board suitable members were actively searched. All three have incorporated Americans at senior executive positions; ING and ABN AMRO have placed them in the Supervisory Board and ING even in the Executive Board. By placing an American in the boards international knowledge and experience and the understanding of the American culture were enlarged. Besides, an American member brought his own network, which could be helpful for example in future acquisitions. Moreover, it was an important gesture towards American employees and subsidiaries. They were no longer managed by an exclusively Dutch board.

The American subsidiaries had their own local reward systems, which were based on individualistic performance more than the Dutch ones. The individualistic reward system went hand in hand with a result-oriented culture, in which companies formulated clear targets and budgets, and business divisions and employees were held accountable. At Nationale-Nederlanden, the foreign executives had explicitly asked for clear targets and formal measurements. Also, ABN Bank introduced budgets and targets to satisfy the American executives. In fact, these American work-related practices were not only adopted by the American organization, but they were also transferred to the Dutch parents themselves in the 1990s.

Because of a more individualistic work-related culture, combined with the internationalization and enlargement of the companies in general, informal control decreased and was replaced by formal measurements. One of the reasons for introducing corporate values was to help employees identify themselves with the company. It is difficult to measure whether Americans identified themselves more with the parent company and to assert that the introduction of corporate values has contributed in making American operations more successful, especially since corporate values and rebranding have only been introduced in the late 1990s and early 2000s. Nevertheless, it is interesting to see that the Dutch companies introduced these items simultaneously. Apart from corporate values and the rebranding process, each company simultaneously created an academy or business school to transfer the ideas to their employees.



## Performance: growth, profitability and financing

### Introduction

ABN Bank did not like to be seen as a Dutch bank with foreign offices, but rather as an international bank with head office in the Netherlands.<sup>1</sup> Although Nationale-Nederlanden saw itself as a Dutch company with a foreign division, during the time of merger talks with NMB Postbank Group in the early 1990s this self-image had changed into ING as an international company.<sup>2</sup> Rabobank emphasized that it is and will remain Dutch, but also that it is ‘the global food & agribank with its roots in the Netherlands’. All three cases have formulated the objective to grow in the international markets. This chapter will measure whether they succeeded. International growth has been measured by looking at employees and assets or income. First, I have calculated the proportion of employees working abroad compared to the total number of employees working in the company. This ratio has been measured for all three cases up to the year 2005. Another measurement I used was foreign assets as percentage of total assets for ABN AMRO and Rabobank in the period 1975 and 2000. In 2000, ABN AMRO changed its organization into three Strategic Business Units. As a result, regions became subordinated and the annual reports did not give detailed regional information anymore. For ING Verzekeringen NV, I have used data on foreign income instead of on foreign assets. As I wanted to make comparisons with another insurance company, the Dutch insurer AEGON was included as well.

Apart from international growth in general, the Dutch companies aimed at expansion in the American market in particular. This chapter on performance gives insight into which activities of the Dutch financial companies were successful in the American market and during which period, and which activities were not. Following the distinction between asset-seeking and profit-seeking strategies made in the introduction of this dissertation, I have calculated the growth of the American organization as well as profitability. Growth is measured by calculating the total assets or income of the American activities. Unfortunately, the annual reports of the three case studies each gave different data. ABN AMRO annual reports show North American assets up to 2000. Rabobank gives data of income from North America in the period 1998-2004. In addition, for ING Verzekeringen NV, I have calculated North American income from 1983 until 2005, and compared it with

AEGON. This section also shows the growth of ING Direct by calculating the number of clients and entrusted funds for the period 2000-2005.

After calculating growth, productivity and efficiency were considered as a measure of profitability. In the banking sector it is common to calculate the efficiency ratio as total costs as percentage of total income. For LaSalle, the American subsidiary of ABN AMRO, the employee costs as a percentage of total income in the period 1978 to 2005 is shown. It is a measure of how effectively a bank operates. The annual reports of LaSalle gave me the opportunity to calculate Return on Equity (ROE) and Return on Assets (ROA) as well. Rabobank's annual reports did not give data on American income or on employment or employee costs. ING Verzekeringen NV showed data on income as well as on number of employees, which made it possible to calculate the productivity of North America. Since 1991, ING Group data have been used, which included insurance as well as banking activities. Finally, ING Direct's profits in the years 2003, 2004 and 2005 are given.

Furthermore, it is important to gain an insight as to how the Dutch parent companies financed their expansion in the American market. On the one hand, a financial company needs capital to fund its international expansion, and on the other it has to safeguard capital in order to meet solvency standards. After describing the developments in solvency requirements, the actual financing of American acquisitions is looked at. Were the companies able to keep the right balance between expansion in the American market and remaining solvent?

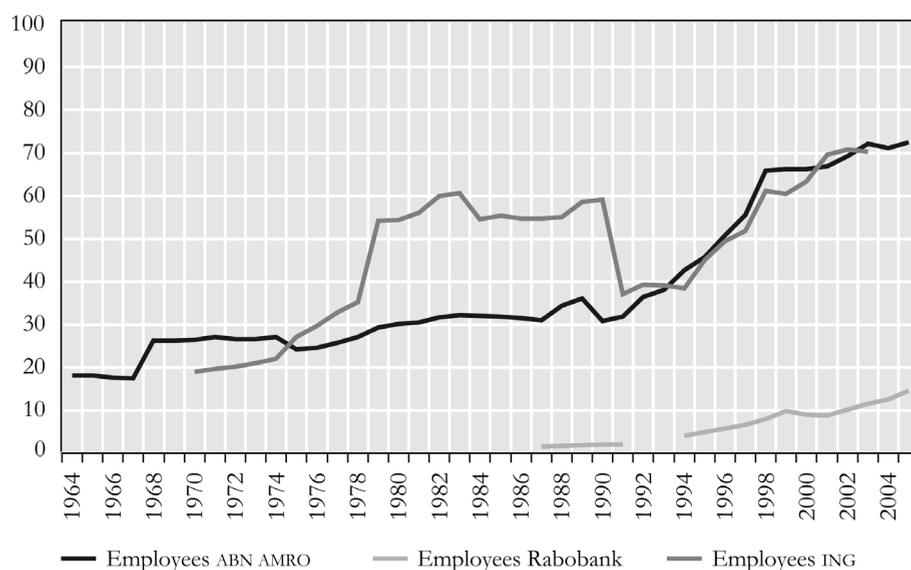
The data used in this chapter are derived from the annual reports of the Dutch companies and ABN AMRO's subsidiary LaSalle National Corporation. Therefore, calculations depended on the data given in the annual reports. For example, regional data were only available from 1983. Thus, I calculated growth of the American assets of ABN Bank from that year. In this chapter I use ABN AMRO when I mean ABN Bank before 1990 and I use the name of ING Verzekeringen NV when I mean Nationale-Nederlanden before 1991.

### **Internationalization**

In this section, the significance of the international expansion is measured. The extent of internationalization of a company can be calculated in different ways. I have measured the importance of foreign markets by looking at employees and assets or income of the company. The first percentage I calculated for measuring the degree of internationalization has been the percentage of foreign employees as compared to the total number of employees. It illustrates the internationalization process of companies. In 1964, 18% of ABN Bank's staff worked in a foreign country. By 1989, this percentage had increased to 36%. The small drop in 1990 was a result of the merger, since Amro bank had been less internationally oriented. After the drop, the share of foreign employees increased annually up to more than 70% in 2005. Although on a much smaller scale, Rabobank became more international

as well. In 1981, it opened its first foreign office and eight years later, in 1989, 1.8% of all employees worked abroad, which by now has increased to 17%. It should be borne in mind that Rabobank has a very large domestic retail business, which is very labor-intensive. Nationale-Nederlanden showed much more dramatic numbers. In 1970, 19% of its employees worked abroad and by 1989, the percentage had increased to 59%. The huge increase in the number of foreign employees in 1979 was the result of the acquisition of Life of Georgia, which involved 4,258 employees of whom 2,830 were agents. As a result, the number of foreign employees increased from 3,934 in 1978 to 8,454 in 1979 in absolute terms. The drop in 1991 obviously had to do with the merger with NMB Postbank Group, which had been less international than the insurance company. Thereafter the percentage increased annually. In 2005, ABN AMRO and ING both have around 70% and Rabobank around 17% of their employees working abroad.

**Figure 1: ABN AMRO, ING and Rabobank**  
*Foreign employees as % of total number of employees (%), 1964-2005*

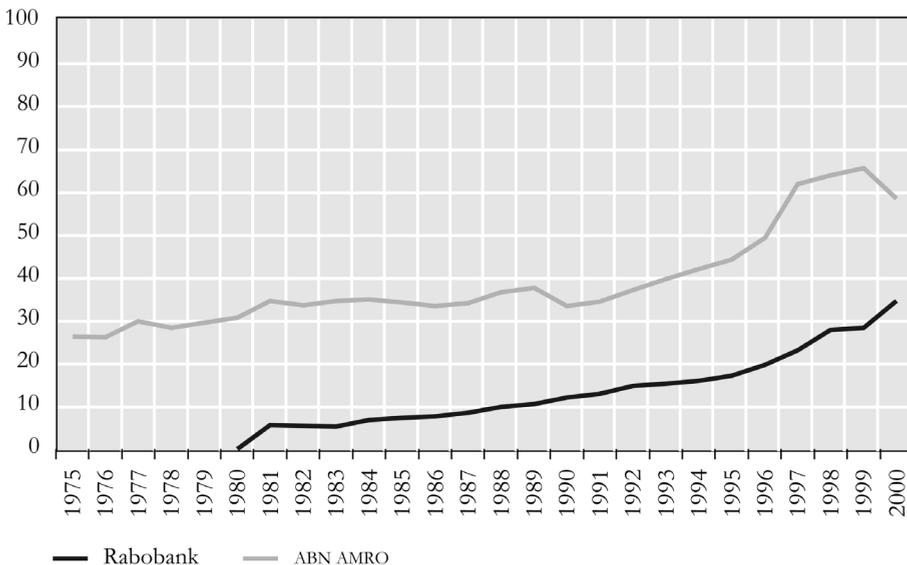


The second calculation concerning the extent of internationalization has been foreign assets compared to total assets of the banks ABN AMRO and Rabobank. For Rabobank, which started foreign activities in 1981, the international assets counted for 10.6% in 1989. In 2000, almost twenty years after its first foreign activities, 35% of Rabobank's assets were based abroad. Contrary to for example ABN Bank, Rabobank had not formulated the goal of becoming a global bank. The bank just

expanded to places and countries, which contributed to the goal of becoming the international food and agribusiness bank.

ABN Bank formulated growth objectives. At the end of the 1970s, it was ABN Bank's goal that by 1984 the International Directorate contributed for 40% of total profit and assets. Figure 2 shows that at ABN Bank the international assets increased from 26.5% in 1975 to 35% in 1984. Although it showed an increase, it did not meet the objective of 40%. By the end of the 1980s, ABN Bank repeated its ambition for 1990. In the figures, we see that foreign assets have decreased from 37.8% in 1989 to 33.5% in 1990. The decrease was a result of the merger with Amro Bank that had a much larger domestic organization relative to its foreign one. After the merger, ABN AMRO summed up its financial targets. Among other things, it was stated that the International Division had to generate 50% of gross profits and assets.<sup>3</sup> According to the Managing Board the 50/50% distribution between the home and foreign market was important. International banks in ABN AMRO's peer group had a strong position in their large home markets. ABN AMRO had a strong position at its home market as well, but the Dutch market was much smaller, which made a large international position essential. In 1996, the bank reached the objective of 50/50% in assets. In 1997, The Banker reported that fewer banks could truly claim to be global. Many banks had changed strategy because of high costs of technology, difficulties in finding suitable expertise and in satisfying the demanding shareholders.<sup>4</sup> However, ABN AMRO ranked 14th by the percentage of assets based overseas and in 1998 moved up to the 8th place.

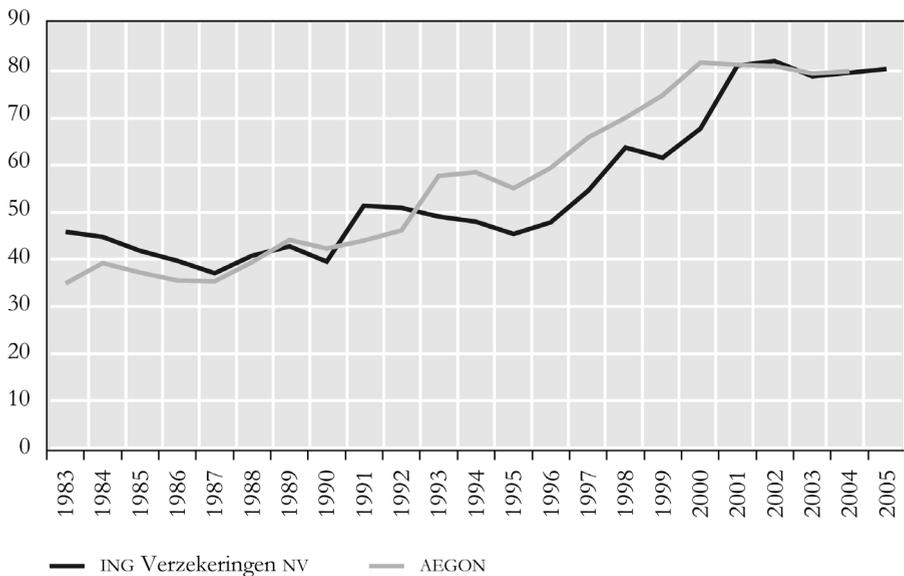
**Figure 2: ABN AMRO and Rabobank**  
*Foreign assets as % of total assets (%), 1975-2000*



The internationalization of ING Verzekeringen NV has been measured by calculating the international share in total operating income (see figure 3). The figure shows that already in the 1980s Nationale-Nederlanden operated internationally. It shows that approximately 40% of operating income came from abroad. In the early 1990s, the share remained around 50%, after which it boomed to 80% in 2001. Thus the foreign share in income has grown substantially and has been around 80% since 2001.

The developments of AEGON resembled the internationalization of ING Verzekeringen NV. The internationalization process was rather linear, and shows that every year (with some exceptions) more income was generated abroad. Since 1993, foreign countries have accounted for more than half of income of AEGON. Since that same year, the percentage of foreign income in total income surpassed that of ING Verzekeringen NV, which made AEGON even more international than ING Verzekeringen NV. Over the last six years, 80% of income at AEGON has come from abroad, which is the same percentage as ING Verzekeringen NV.

**Figure 3: ING verzekeringen NV and AEGON**  
*Foreign income as % of total income (%), 1983-2005*



*Summary*

In this section research has been conducted on the question whether ABN AMRO and ING Verzekeringen NV have indeed become the international companies they claimed to be. Rabobank had formulated different goals; it wanted to be seen as

an international food & agribank, which requires a certain degree of internationalization as well. All three have succeeded in their attempts to become more international. This goal as we have seen in chapter 2 was a result of a relatively small and saturated home market. In order to grow, they had to expand to foreign markets. To be able to compare the four companies, we have calculated the transnationalization index (table 1). The year 2000 has been chosen since it was the last year ABN AMRO distinguished between foreign and domestic assets in its annual reports. The index gives a good impression of the international growth of all four companies. ING and AEGON with an index of 71 and 77 in 2000 respectively, are clearly the most international, followed by ABN AMRO with an index of 64 in the same year. Rabobank, which had no international activities in 1980, had an index of 22 in 2000.

**Table 1: *Transnationalization index***

	ABN AMRO		Rabobank		ING		AEGON	
	1980	2000	1980	2000	1985	2000	1985	2000
a) Foreign assets or income as % of total assets or income*	30	60	0	35	42	78	38	82
b) Foreign employees as % of total employees	30	68	0	9	55	64	35	72
<b>Transnationalization Index</b> ([a+b]/2)	<b>30</b>	<b>64</b>	<b>0</b>	<b>22</b>	<b>49</b>	<b>71</b>	<b>37</b>	<b>77</b>

\* Assets were calculated for ABN AMRO and Rabobank; income for ING and AEGON

### Growth of the American activities

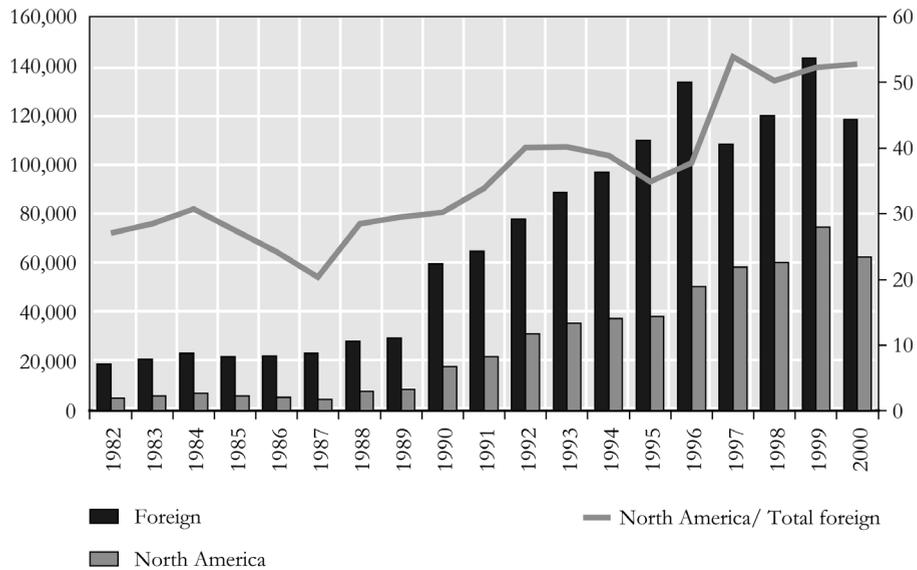
Obviously, considering the subject of the dissertation, I was foremostly interested whether the companies succeeded in their expansion in the American market. It has been important for a successful presence in the American market, to enlarge their activities and market share continuously, in order to become or remain competitive. By showing the historical development of assets or income, it becomes apparent if the Dutch companies succeeded in constantly enlarging their business constantly. The section also shows how significant the American market has been within the total foreign operations of the companies. The relative magnitude shows the importance of North America in the strategies of the companies. For ABN AMRO and Rabobank the share of American assets respectively income in total foreign assets respectively income, has been calculated. Then, I have calculated North American income as percentage of total foreign income of AEGON and ING

Verzekeringen nv. Apart from the relative share of American assets and income, the figures show the absolute growth of total foreign and of American assets or income. Furthermore, I have compared the presence of the two Dutch banks with other foreign banks in the American market. I have calculated the total assets of the 25 largest foreign banks in 1997 and 2006.

Figure 4 shows the growth in foreign and American assets of ABN AMRO. Most important is the fact that North America has grown in absolute as well as in relative terms. This is in accordance with the strategy the bank had formulated in the early 1970s. The bank wanted to expand into economic and political stable countries in Western Europe and the us. In the figure, we see that in 1997 North America took a relatively larger share in total foreign assets, increasing to more than 50%, which was a result of the acquisitions of Standard Federal Bancorporation and to a lesser extent of Chicago Corporation in 1997. It remained around 50% until 2000. Although not reflected in the figure, I think that by now the presence in the European market will have increased substantially again as a result of the acquisition of the Italian bank Antonveneta in 2006.

Figure 4: ABN AMRO

*Foreign assets and North American assets (in billion euro, left axis) and North American assets as % of total foreign assets (% , right axis), 1982-2000*

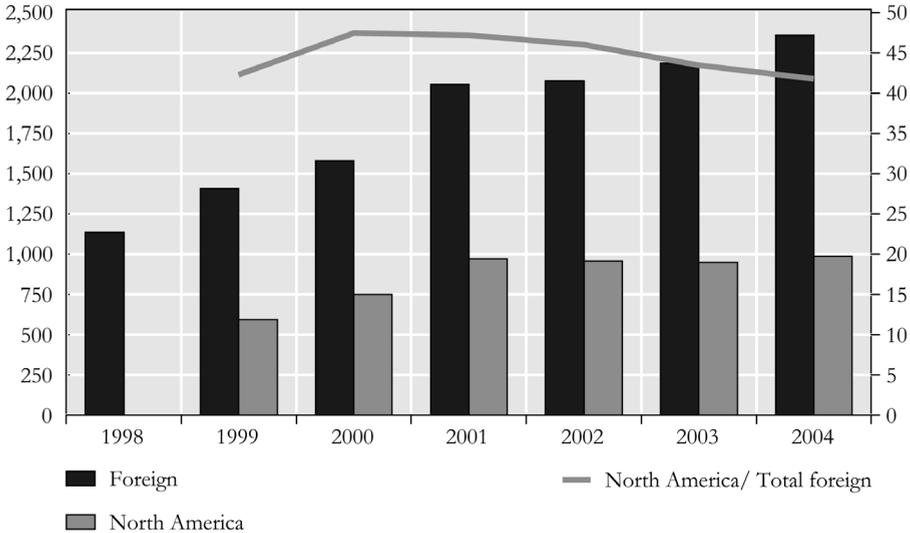


At Rabobank, data from North America were available only from 1999 to 2004. As figure 5 shows, since 1999 North America has been responsible for 40 to 50% of total foreign income, which also includes leasing by De Lage Landen for

example. However, in the period 2000-2003 income from North America did not grow in absolute terms and even declined a little, only to increase again in 2004.

**Figure 5: Rabobank**

*Total foreign income and North American income (in million euros, left axis) and North American income as % of total foreign income (% , right axis), 1998-2004*



I wanted to find out how the presence of ABN AMRO and Rabobank in the American market compares with other foreign banks. The Federal Reserve carries out large quarterly surveys on foreign banks. With these data, the size of ABN AMRO and Rabobank in the US was compared to other foreign banks. First, the two tables below show the increase in assets of the twenty largest foreign banks from December 1997 to September 2006. Total assets of these foreign banks had increased from 684,161 in 1997 to 1,784,854 million dollars in 2006, which was a rise of 161%. Already in June 1994, ABN AMRO with total assets of 33,278 million dollar, when calculating LaSalle and the American branches together, ranked fourth. The top three spot consisted of three Japanese banks. In 1997, the bank had climbed up to the number three spot with total assets of 55,554 million dollars. In 2006, ABN AMRO was the largest foreign bank in the US with total assets of 192,188 million dollars. The bank was followed by British based HSBC with total assets of 160,736 million dollars. In the figure below, it is also interesting to see that of the top twenty, no fewer than fourteen banks have New York or California as their home state in 2006. In 1997, this was even more striking with seventeen home states in New York or California. The only exceptions in 1997 were Swiss Bank Corp. (home state Connecticut), and ABN AMRO and Bank of Montreal, which had and

Table 2: *Ranking of foreign banks in the US by total assets (in million dollars), December 31, 1997*

Rank	Name	Country	Assets	Home state	% of Top 20
1	Bank of Tokyo Mitsubishi	Japan	76,839	California	11.23
2	Societe Generale	France	66,002	New York	9.65
3	<b>ABN AMRO</b>	<b>Netherlands</b>	<b>55,554</b>	<b>Chicago</b>	<b>8.12</b>
4	Industrial Bank of Japan	Japan	44,327	New York	6.48
5	Bank of Montreal	Canada	38,187	Chicago	5.58
6	Sumitomo Bank	Japan	35,700	California	5.22
7	Swiss Bank Corp	Switzerland	34,425	Connecticut	5.03
8	HSBC	UK	34,251	New York	5.01
9	Deutsche Bank	Germany	31,986	New York	4.68
10	Sanwa Bank	Japan	31,463	California	4.60
11	Fuji bank	Japan	31,257	New York	4.57
12	Credit Lyonnais	France	28,127	California	4.11
13	Canadian Imperial Bank	Canada	26,625	New York	3.89
14	Union Bank of Switzerland	Switzerland	23,909	New York	3.49
15	Dai-Ichi Kangyo Bank	Japan	23,026	California	3.37
16	Westdeutsche Landesbank Giroze	Germany	21,898	New York	3.20
17	Sparkassenverband Bayern	Germany	20,957	New York	3.06
18	Banque National de Paris	France	20,371	California	2.98
19	Barclays	UK	20,254	New York	2.96
20	Bank of Nova Scotia	Canada	19,003	New York	2.78
<b>Total Assets</b>			<b>684,161</b>		

Source: website Federal Reserve Board: <http://www.federalreserve.gov/releases/iba/default.htm>

still have Illinois as their home state. However, ABN AMRO has expanded its American assets much faster than Bank of Montreal. Within nine years, the Dutch bank had increased its assets by 246%, from 55,554 in 1997 to 192,188 million dollars in 2006. Bank of Montreal expanded its American assets from 38,187 to 73,762 million dollars, which was an increase of 93%. Another interesting aspect is the decline of Japanese dominance. In 1994, nine Japanese banks were represented in the top twenty, which had fallen to six in 1997 and to three in 2006. Lastly, although not shown in the figure, it is interesting to notice that the ABN AMRO North America holding company was also large as compared to American banks. In 1998, ABN AMRO North America ranked 26th in the table of American banks, as measured by Tier I capital and 22nd by total assets.<sup>5</sup> In 2005, these rankings were 25th and 12th respectively.<sup>6</sup>

Table 3: *Ranking of foreign banks in the US by total assets (in million dollars), September 30, 2006*

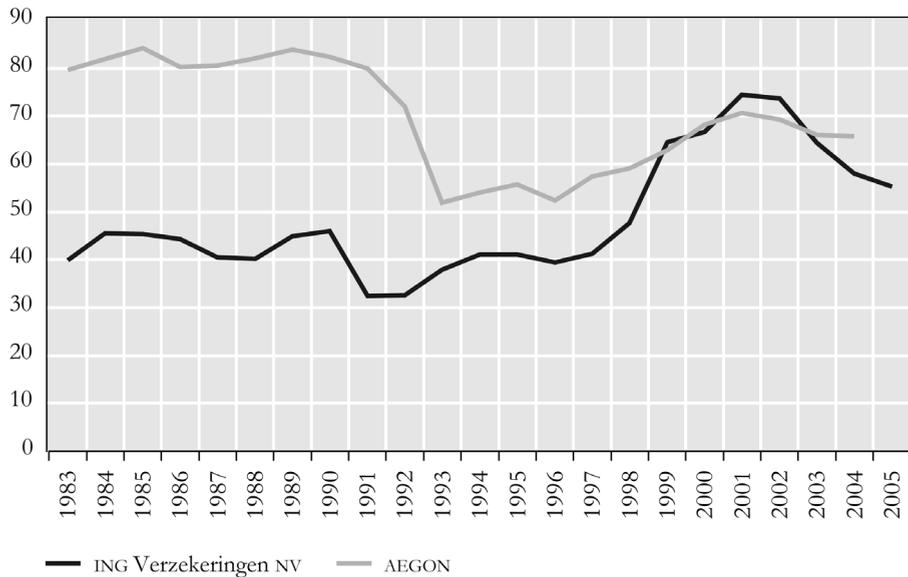
Rank	Name	Country	Assets	Home state	% of Top 20
1	<b>ABN AMRO</b>	Netherlands	192,188	Illinois	10.77
2	HSBC	UK	160,736	n.a.	9.01
3	Deutsche Bank	Germany	158,268	New York	8.87
4	BNP Paribas	France	152,237	California	8.53
5	Royal Bank of Scotland	UK	140,340	Rhode Island	7.86
6	Mitsubishi UFJ	Japan	114,894	California	6.44
7	Rheinischer Sparkassen und...	Germany	78,370	New York	4.39
8	Toronto Dominion Bank	Canada	76,625	New York	4.29
9	Barclays	UK	75,923	New York	4.25
10	<b>Rabobank</b>	<b>Netherlands</b>	<b>75,636</b>	<b>New York</b>	<b>4.24</b>
11	Norinchukin Bank	Japan	75,019	New York	4.20
12	Bank of Montreal	Canada	73,762	Illinois	4.13
13	Societe Generale	France	73,642	New York	4.13
14	sas Rue la Boetie	France	58,413	New York	3.27
15	Credit Suisse Group	Switzerland	55,696	n.a.	3.12
16	Mizuho Financial Group	Japan	52,787	New York	2.96
17	UBS	Switzerland	51,774	Connecticut	2.90
18	Royal Bank of Canada	Canada	48,923	New York	2.74
19	Unicredito Italiano	Italy	36,548	New York	2.05
20	Bank of Nova Scotia	Canada	33,073	New York	1.85
<b>Total Assets</b>			<b>1,784,854</b>		

Source: website Federal Reserve Board: <http://www.federalreserve.gov/releases/iba/default.htm>

In the Federal Reserve calculations, Rabobank appears in the top twenty largest foreign banks as well. In December 1997, the cooperative bank still ranked 23rd with total assets of 15,876 million dollars. No more than ten years later, however, the bank had climbed up to number ten by increasing its assets to 75,636 million dollars. The New York branch contributed most of all with assets of 70,713 million dollars, while the acquisition of Valley Independent Bank in 2002 (renamed Rabobank NA) counted for 4,923 million dollars. Again, it important to stress that the total position in the American market is not so important for Rabobank, since it wants to be a top food & agribusiness bank. The fact that Rabobank has been named premier US food and agribusiness bank indicates that the bank has reached its objective. A survey was conducted by Windham Partners LLC of 120 companies

in the US food and agribusiness industry. Over two-third of respondents named Rabobank the premier food and agribusiness bank in the US, based on two criteria: ‘a comprehensive knowledge of the food and agribusiness industry, and a reputation for superior execution of financial transactions for its clients’.<sup>7</sup> Also important, considering the cooperative character of the bank, has been the fact that Rabobank NA holds an ‘outstanding’ Community Reinvestment Act (CRA) rating. The CRA was enacted in 1977 by Congress to encourage banks ‘to meet the credit needs of the communities in which they operate, including low- and moderate-income neighborhoods’.<sup>8</sup>

**Figure 6:** *ING Verzekeringen NV and AEGON*  
*North American operating income as % of total foreign income*  
*(%), 1983-2005*



For the third case study, I have looked at North American income as a percentage of total foreign income in the period 1983-2005 (figure 6). I have compared ING Verzekeringen NV with AEGON. North America counted for around 40% of total foreign income in the period 1983-1996. Only since 1997, has the American contribution to the ING Verzekeringen NV organization increased significantly by the large acquisitions of Equitable (1997), ReliaStar (2000) and Aetna (2000). For AEGON the American market was even more important. From 1983 until 1991, 80% of foreign income was generated in North America. The American contribution to total foreign income decreased to 52% in 1993, after which it increased

Table 4: *ING Direct: Growth number of clients per country (x 1000)*

	Year of formation	2000	2001	2002	2003	2004	2005	Growth ** (%)	Average annual growth (%)
Canada	May 1997	342	480	684	905	1,121	1,309	282.7	47.1
Spain	May 1999	186	397	610	753	975	1,249	571.5	95.3
Australia	August 1999	123	278	475	719	996	1,240	908.1	151.4
France	March 2000	57	181	270	339	413	501	778.9	129.8
us	September 2000	60	238	864	1,399	2,226	3,382	5,536.7	922.8
Italy	April 2001	–	75	244	379	485	632	742.7	148.5
UK	May 2003	–	–	–	305	762	1,003	228.9	76.3
<b>Subtotal</b>		768	1,749	3,147	4,799	6,978	9,316	1,113.0	185.5
<b>Germany*</b>		619	827	1,894	3,735	4,511	5,390	770.8	128.5
<b>Total</b>		1,387	2,576	5,041	8,534	11,489	14,706	960.3	160.0

\* Including Austria. In Germany, ING has not built up ING Direct from scratch but it has taken a participation in Allgemeine Deutsche Direktbank (DiBa). Since March 1998, ING has 49% participation in DiBa and since February 2002 70%. In 2003, ING acquired the outstanding 30%.

\*\* Growth in 2005 compared to 2000 (Italy to 2001, UK to 2003, Germany to 2001)

Source: Annual reports ING 2000-2005.

again to around 70%. Before 1991 AEGON had been active mostly in the Dutch and American market, after which it enlarged the number of foreign markets. The Netherlands, the US and the UK still are AEGON's most important markets today. The figure shows that the North American proportion in foreign income has been larger for AEGON than for ING Verzekeringen NV until 2001, after which ING generated relatively more income in North America. ING bought Aetna and ReliaStar in 2000, because among other things it was afraid AEGON would become larger in the US after its acquisition of Providian in 1996 and Transamerica Corporation in 1999. In spite of ING's large American acquisitions, after 2001 North America decreased in favor of Asia, whose relative contribution increased, among other things because of the integration of Aetna activities in this region. However, ING is still very large in the American market in absolute terms. After the acquisitions of 2000, it moved into the top ten of largest insurance companies in North America. In addition, at AEGON the relative share of North American in foreign income has declined as well since 2001.

ING Direct has increased its activities in a relatively short period. Table 4 shows that the number of clients of ING Direct has increased considerably between 2000

Table 5: *ING Direct: Growth funds entrusted (in billion euros)*

	Year of formation	2000	2001	2002	2003	2004	2005	Growth ** (%)	Average annual growth (%)
Canada	May 1997	2.2	3.4	5.1	7.0	9.0	12.6	472.7	78.8
Spain	May 1999	1.9	3.8	6.0	7.9	10.2	12.8	573.7	95.6
Australia	August 1999	1.3	2.9	4.1	6.9	8.5	10.4	700.0	116.7
France	March 2000	0.9	3.2	6.3	7.6	9.2	10.8	1,100.0	183.3
us	September 2000	0.7	3.3	8.9	12.8	21.2	34.0	4,757.1	792.9
Italy	April 2001	–	1.2	4.5	7.6	10.6	13.3	1,008.3	201.7
UK	May 2003	–	–	–	11.5	27.9	35.7	210.4	70.1
<b>Subtotal</b>		7.0	17.8	34.9	61.3	96.6	129.6	1,751.4	291.9
<b>Germany*</b>		–	6.2	20.3	38.1	48.8	58.4	841.9	168.4
<b>Total</b>		7.0	24.0	55.2	99.4	145.4	188.0	2,585.7	431.0

\* Including Austria. In Germany, ING has not built up ING Direct from scratch but it has taken a participation in Allgemeine Deutsche Direktbank (DiBa). Since March 1998, ING has 49% participation in DiBa and since February 2002 70%. In 2003, ING acquired the outstanding 30%.

\*\* Growth in 2005 compared to 2000 (Italy to 2001, UK to 2003, Germany to 2001)

Source: Annual reports ING 2000-2005

and 2005. When looking at ING Direct, excluding DiBa, we see a growth of more than 1,000%. The US alone shows a growth of 60,000 clients in the year of formation, rising to 3.3 million in 2005, which is an average growth per year of just over 900%.

The entrusted funds show the same rapid growth. Including DiBa the entrusted funds increased from 7 billion euros in 2000 to 188 billion in 2005. In that year, the entrusted funds in the US of 34 billion euros, counted for 18.1% of total entrusted funds.

### *Summary*

This section has shown that the Dutch financial companies succeeded in their expansion in the American market. They each have become one of the largest foreign companies in their respective market sector in the US. We have looked at assets (ABN AMRO) and income (Rabobank, ING Verzekeringen NV and AEGON) of North America as a percentage of total foreign assets and income respectively. In general, North America has become an important part of the business of the four cases. Around 1990, the hope to expand in Europe because of the European market,

was shattered when the Dutch companies faced difficulties in the European countries because of protectionism and nationalism. After 1998, the Dutch banks indeed tried to strengthen their position on the European market to be able to play a role in the emerging Euro zone.<sup>9</sup> As a result the significance of the North American region became relatively smaller. At ING and AEGON the relative share of American income has declined since 2001, which means that other regions in the world have gained importance. Although not visible in the figure, this development probably can be seen at ABN AMRO as well, since it has not bought any bank in the US the last six years, but did buy Antonveneta in 2006. It suggests that the American share in total assets has declined in favor of Europe. This does not mean, that the bank's presence in the American market has become smaller in absolute terms however. The Federal Reserve data have shown that ABN AMRO was the largest foreign bank in the US in 2006. In addition, ING is one of the largest insurance companies in the US. The growth of ING Direct in the American market is remarkable, especially since Americans are not used to putting their money in saving accounts (see chapter 1). With regard to Rabobank, the American share in total foreign income has increased. Although the absolute and relative share of North America showed a little decrease after 2001, in 2004 in absolute terms it increased again. However, for Rabobank size is not that important. The fact that the bank bought two American banks in California in 2006 and 2007 and has climbed up to rank 10th in The Banker's ranking list, suggest it is still expanding its retail agribusiness banking there.

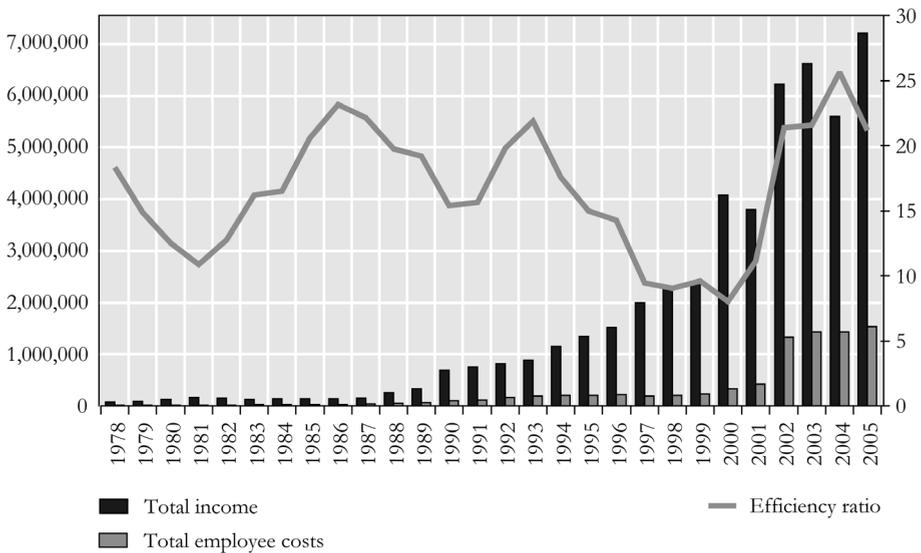
### **Profitability of the North American activities**

As well as evaluating success by growth, I wanted to find out more on the profitability of the Dutch companies in the American market. Therefore, I have calculated the efficiency ratio (ABN AMRO) and productivity ratio (Rabobank and ING) of the North American organizations.

First, I have examined the efficiency ratio of the American organization of ABN AMRO, more precisely of its subsidiary LaSalle, excluding the American branches (figure 7). The annual reports of LaSalle show consolidated figures. Thus, after an acquisition, the acquired bank was integrated with LaSalle and its figures were consolidated in the financial statements. The efficiency ratio, defined as employee costs as a percentage of total income, measures how much of income is spent on employee expenses. In investment banking business, it was quite common to see ratios of around 50%. LaSalle does not show these extreme percentages as figure 7 shows, which suggest that the bank operated rather efficiently. Between 1981 and 1986, the relative employee expenses increased from 11 to 23%, after which it declined to 8% in 2000, only with a short upheaval in the period 1990-1993. The table also shows the consolidation with StanFed in 2002, which had merged with Michigan National Corp. in 2000. The relatively large increase in employee expenses suggested that StanFed operated less cost effective. After 2002, the

efficiency ratio remained around 21%, except for the peak in 2004 due to bad performance of the mortgage business, which resulted in a decline in income. The fact that LaSalle was able to keep employee expenses relatively low, suggests that after the consolidation of a new acquisition the American bank was capable of integrating the companies, among other things by dismissing employees, which was much easier in the US than in the Netherlands. This finding confirms some statements of executives I have interviewed who declared that LaSalle headed by Tempest merged new acquisitions by integrating different departments and by dismissing employees.

**Figure 7: LaSalle National Corporation**  
*Income and employee costs (left axis, in thousands of dollars)*  
*and Efficiency: employee costs as % of income (right axis in %),*  
*1978-2005*



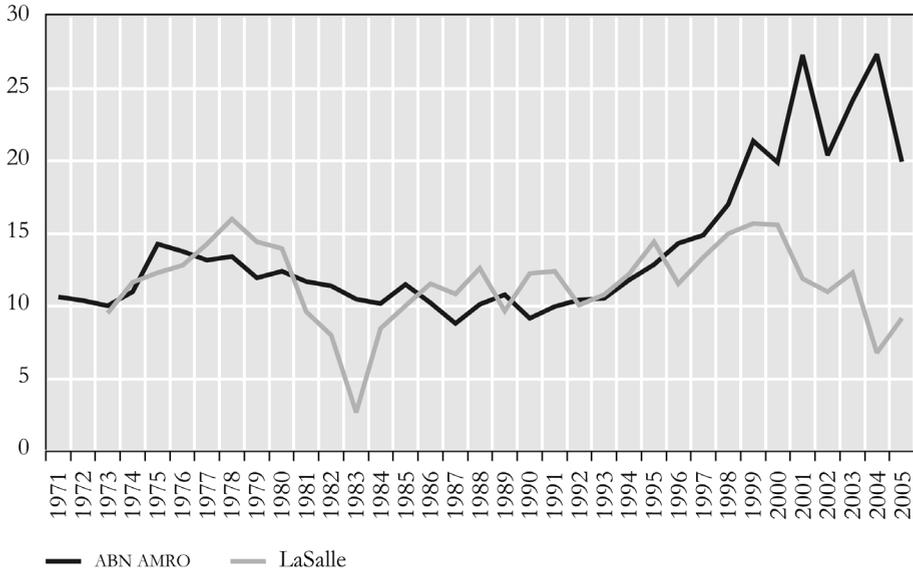
I have also calculated profitability by the indicators Return on Equity (ROE) and Return on Assets (ROA). They show the ability of a company to generate earnings from investments. ROE shows how management uses shareholders' money, while ROA shows how much profit a company makes from its assets. It is possible that a company scores high on ROE and at the same time low on ROA. This might imply that a company has large debt capital. Therefore, to measure performance it is advisable to calculate both. ROE and ROA calculated for just one year however, doesn't mean much. It is much more interesting to analyze historical data or

compare them with another company that is active in the same sector, to be able to see whether companies perform relatively well. However, I only had the required data for LaSalle National Corporation. I have compared subsidiary LaSalle with its parent ABN AMRO.

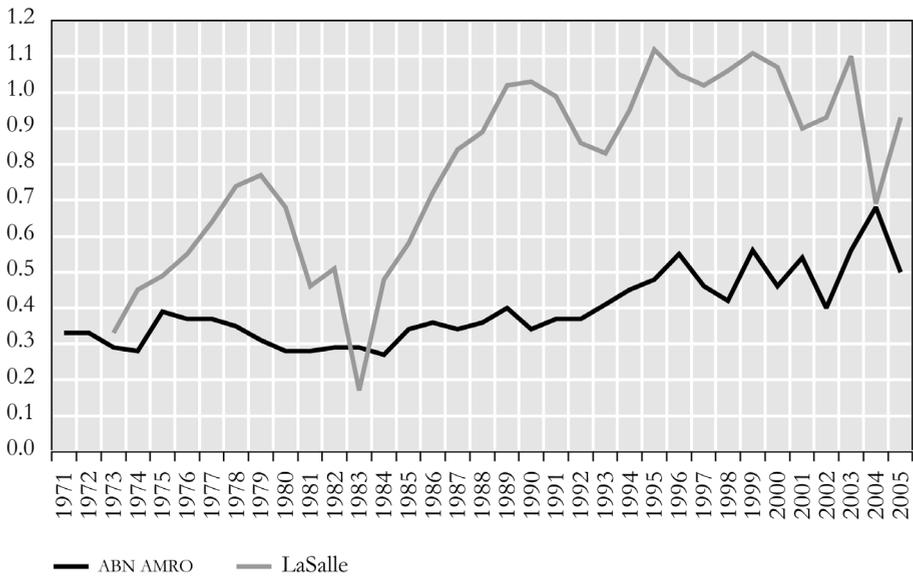
Before turning to ROE and ROA for LaSalle, one remark has to be made. ROE has been calculated in many different ways. Particularly the term equity has various definitions. As a result different ROE ratios circulate, which makes comparisons with calculations by others difficult. In the most recent definition, and probably the most accurate one, Tier I capital is measured, which only includes permanent shareholders' equity and disclosed reserves. I have used shareholders' equity defined as capital and reserves excluding minority interests, subordinated loans, third-party interests and fund for general banking risks. ABN AMRO's equity consists of share capital and reserves (including retained earnings). LaSalle's shareholders' equity is composed of preferred stock (since 1988), common stock, surplus and retained earnings.

LaSalle's shareholders' equity was accumulated annually with net income after paying dividends on preferred and common stock. This increase with net income resulted in an annual growth pattern. However, equity can also increase by issuing preferred stock or by capital donations from the parent, which was necessary to finance American acquisitions. Apart from fluctuations in net income, these possible increases have affected ROE. After the acquisition of LaSalle in 1979, the rate of ROE of the American bank decreased extremely due to the economic recession. In 1983, ROE was at an all-time low, which was mainly because of low net income. LaSalle made a special provision of five million dollars that year due to non-performing assets. As a result, net income fell 67% to \$2,219,000. LaSalle argued that the non-performing assets resulted from 'harsh economic conditions in Chicago and the upper Midwest'.<sup>10</sup> After 1983, the ratios increased again. The decreases in 1989 and 1992 were caused by an increase in shareholders' equity. Because of issuing preferred stock for financing acquisitions (Exchange in 1990 and Talman in 1992), equity increased relatively faster than income. The year 1996 also shows a lower rate of ROE, which again can be attributed to high equity, due to capital contribution of 364 million dollars in 1996 (and of 25 million dollars in 1997) by the parent company to finance the acquisition of StanFed. After 1999, ROE ratio has been decreasing with a sharp decline in 2001. In 2001, an issue of preferred stock of 500 million dollars increased equity, which for its part decreased ROE. In 2002, Standard Federal was consolidated which resulted in an increase of shareholders' equity (47%) and of net income (51%). This relatively larger increase in income resulted in a limited fall of ROE in 2002 and an increase of ROE in 2003. The year 2004 again was disappointing, due to underperformance of the mortgage business, which resulted in a drop in net income. Thus, although the consolidation with StanFed led to a better ROE in 2002, the ratio still has not yet equalled the peak of 1999. In conclusion, shareholders' equity at LaSalle has increased enormously from 26 million in 1973 to 11,000 million dollars in 2005. The increase

**Figure 8: ABN AMRO and LaSalle**  
*ROE after tax: net income/equity (in %), 1971-2005*



**Figure 9: ABN AMRO and LaSalle**  
*ROA after tax: net income/total assets (%), 1971-2005*



was mostly a result of the consolidations with other acquisitions into one banking organization. However, the consolidations involved an increase in net income as well and therefore hardly affected ROE. The fluctuations can be attributed especially to increases of equity by issuing preferred stock and capital contributions from the parent, and only in some years (1983 and 2004) by disappointing results.

Also, when we look at ROA of LaSalle, we can conclude that the bank has operated successfully. After 1983 it shows a continuous increase and since 1989 the percentage has fluctuated around 1%, which is rather high in the banking sector and conforms with the long term objective expressed by Tempest in 1989.<sup>11</sup> We see a decrease in 2004, again because of the low result of the mortgage business.

I did not have data to calculate ROE or ROA for Rabobank's New York branch. Moreover, Rabobank made its first acquisition in the US only in 2002, so that no historical data are available. Due to lack of data, performance of the American organization of Rabobank has been calculated by profit per employee and only for the years 1985, 1990, 1995, 2000 and 2006. The table gives an impression of Rabobank's slow start in the American market. In the years 1985, 1990 and 1995 profit remained more or less the same. Since the table shows only some representative years, the figure does not demonstrate when profit started raising considerably. Anyhow, at least since 2000 profit and profit per employee have risen. It seems to suggest that it took Rabobank at least ten to fifteen years to learn to increase profitability.

**Table 6: Rabobank in the American market: Profit per employee**

	Profit (in million US \$)	Employees	Profit per employee (in million US \$)
1985	5	55	9.09
1990	6	125	4.80
1995	4	346	1.16
2000	82	549	14.94
2006	295	1,950	15.13

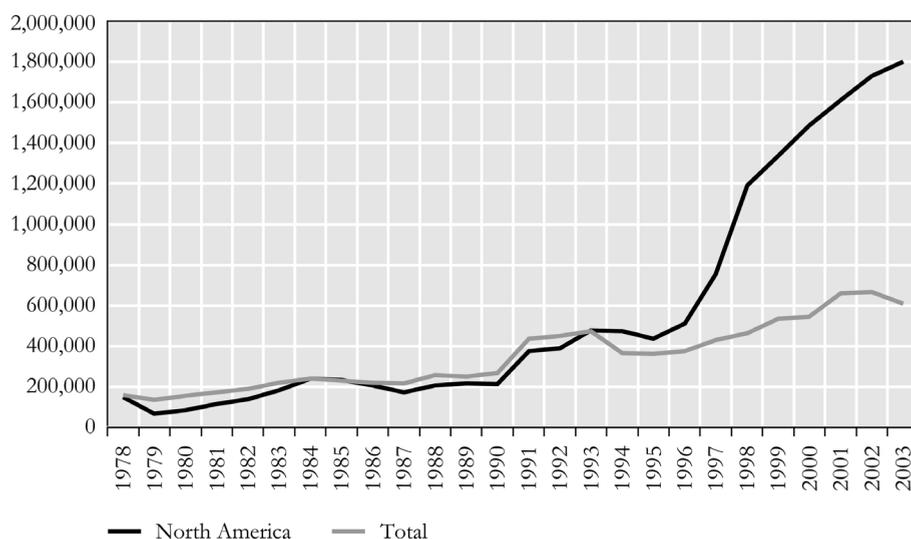
Source: Rabobank New York, Cor Broekhuysen.

Performance of the American organization of Nationale-Nederlanden has been calculated by income per employee, or productivity. Unfortunately, I did not have separate historical data of the life and non-life insurance business. Since 1991, the figure shows banking and insurance activities of ING combined, which for North America has little impact since NMB Postbank Group had few activities in that region. The American organization of Nationale-Nederlanden did not perform poorly, however productivity hardly increased during the 1980s. During the 1980s,

income per employee remained around 200,000 euros. This reinforces the analysis in chapter 2, which concluded that Nationale-Nederlanden had not been able to integrate activities and reach synergies during these years. I stated that the acquisitions were located throughout the country and operated autonomously, contrary to ABN Bank, which acquired banks in the same state and integrated them into one strong organization. The real increase in productivity came only in 1997 with the acquisition of Equitable of Iowa, and then in 2000 through the large acquisitions of Aetna and ReliaStar. In summary, since the company had not succeeded in creating economies of scale within the existing organization in the 1980s and early 1990s, it decided to buy economies of scale by acquiring three large American companies. The fact that productivity increased much faster than ING Group as a whole since 1997, suggests that the strategic actions taken for the American organization by ING were successful.

**Figure 10:** *ING*

*Productivity: North American and total income per employee (in euros), 1978-2003*



The success of ING Direct is not only demonstrated by the considerable growth in the number of clients and entrusted funds, but also by calculating profit before tax. In 2005, profit before tax was 617 million euros, compared to 151 million in 2003, which is a growth of 309%. With this profit figure, ING Direct had a share of 7% in total underlying profits of ING Group in 2005. The US shows a considerable growth in profits in 2004, when underlying profit was 173 billion euros, which is a growth of almost 200% compared to 2003. The American ING Direct showed

a decrease in profits in 2005 compared to 2004 of 9.8%. It reflected the increase in clients' interest rate in the US, among other things a result of official increases in the interest rate by the American central bank.<sup>12</sup>

**Table 7: ING Direct: Underlying profit before tax (in million euros)**

	2003	2004	Change compared to 2003 (%)	2005	Change compared to 2004 (%)
Canada	56	66	17.9	73	10.6
Spain	18	32	77.8	50	56.3
Australia	52	60	15.4	80	33.3
France	-26	5	-	25	400.0
us	58	173	198.3	156	-9.8
Italy	-27	9	-	29	222.2
UK	-44	-54	-	-34	-
Germany*	64	147	129.7	254	72.8
<b>Subtotal</b>	<b>151</b>	<b>438</b>	<b>190.1</b>	<b>633</b>	<b>44.5</b>
ING Card	0	-6	-	-16	-
<b>Total</b>	<b>151</b>	<b>432</b>	<b>186.1</b>	<b>617</b>	<b>42.8</b>

\* including Austria

Source: Annual report ING 2004 and 2005.

### *Summary*

In this section the efficiency ratio of LaSalle, the major subsidiary of ABN AMRO, has been calculated, as well as the productivity of the North American organization of ING, which I compared with the productivity of ING as a group. LaSalle has kept its employee expenses relatively low and it even decreased in the period 1986-2000. It gives the impression that the American bank operated efficiently. However, since 2001 the ratio has increased, especially in 2002 with the consolidation of StanFed. The fact that ABN AMRO has announced it will cut 900 jobs in 2007, probably has to do with this increased ratio. Furthermore, we have seen that Nationale-Nederlanden was unable to raise productivity in the 1980s and early 1990s. Only after the mid 1990s did ING become successful in the American market in terms of raising productivity. When we compare the two Dutch companies, we can conclude that economies of scale have been of vital importance in becoming successful in the American market. ABN Bank had been able to do this by buying relatively small banks in the same state of America and integrating

them into one organization. Nationale-Nederlanden was not capable of creating economies of scale, because its subsidiaries were located throughout the US, and were not able to cooperate. ING only managed to create economies of scale by buying three large companies, which by themselves created economies of scale.

ROE and ROA calculated for LaSalle, showed the difficult years of depression in the early 1980s. Both ratios showed a sharp decrease. Another relatively large decrease of the ratios took place in 2004 when the mortgage business performed badly. Although not visible in the figures, the branches of ABN AMRO located in the major cities of the US and focused at the large international companies, were less profitable due to intense competition and small margins.<sup>13</sup> The branches remained important for the international network of the bank however.

ING Direct's profits have increased to 7% of total profits of ING Group. However, the developments in the US during the last years show the downside of the concept. The growth of profits will slow down, when interest rates increase.

### **Financing the expansion in the American market**

The international activities of the three Dutch companies have grown in the last forty years, particularly in North America. The productivity and efficiency of the American organizations of ING and ABN AMRO have been studied. In this section, I wanted to find out how Dutch companies financed their expansion in the American market, while they had to remain solvent at the same time. In this section first the impact of financing international expansion on the solvency of a financial company is discussed. Then, the major developments of solvency requirements are described. One development has been the emergence of risk-weighted assets. Finally, I will discuss how ABN AMRO, Rabobank and ING financed their American acquisitions and what measures they took to remain solvent.

Companies that expand have to take several decisions on the financing of the expansion. They can pay for their acquisitions in stock or in cash. Companies can fund acquisitions in cash by borrowing capital, by enlarging their capital base through issues, or by their so-called war chest. A part of the take-over price consists of goodwill, which is the amount paid for the company's intangible assets such as a strong brand name, excellent customer relations or good employee relations. When ABN Bank made its first acquisition in the US in 1979, Managing Board and Supervisory Board discussed the possibilities of writing off goodwill.<sup>14</sup> The Netherlands and the US differed in the way banks and insurance companies had to act. In the US, the companies were obliged to activate goodwill on the balance sheet and write off the amount in a 5-10 year period. The other possibility, as the Dutch central bank prescribed, was writing off goodwill at once at the expense of the reserves. The advantage of the last option was that companies were able to show higher profits, since goodwill was not written off annually. In other words, goodwill was kept outside the profit and loss account, while the profits of the acquired company were added. Since profits increased and equity decreased, the

return on equity could augment. However, writing off to the reserves has limitations, because if equity becomes too small, the solvency of the company is at risk. For banks solvency is most important and is therefore one of the factors the central bank considers closely.

The capital-to-asset ratio measures the solvency of a bank. It has always been an important ratio, since it was a tool for the Dutch central bank to analyze the solvency of the Dutch banking sector. The Dutch central bank provided prudential supervision, which has to do with protecting the banks' creditors by securing stable, solvent and well-managed banks. The central bank controlled liquidity and solvency of banks. The central bank also exercised control over the balance structure and the composition of credit facilities. For banks it is also essential to be solvent in order to receive the highest possible rating from the important credit rating agencies: Standard & Poor's and Moody's. Because of the emergence of a European market, and even a global market, nationally determined ratios were replaced by international standards. For years the Basel Committee on Banking Supervision discussed a solvency measurement system for banks. Although the Basel Committee has no legislative power, participating countries implemented its recommendations in national acts. In 1988, the Basle Capital Accord was reached in which some minimum standards were set to be achieved by international banks.<sup>15</sup> The agreement most of all had to do with ensuring that banks and other financial institutions kept enough capital to protect themselves against unexpected losses. It was decided that the target standard ratio of capital to weighted risk assets should be set at 8%. When measuring only equity (excluding additional capital), also known as tier-1 capital, the percentage was set at 4%. The Accord mandated banks to hold higher percentages of equity capital as the perceived credit risk of assets increased.<sup>16</sup> The new Basel regulations came into effect in 1992. In the annual report of 1993, ABN AMRO mentioned the so-called BIS ratios and Rabobank followed one year later.

Until recently the Basel guidelines had some major shortcomings. They had not been adjusted in a systematic way for differences in the risks of the bank's various activities.<sup>17</sup> In Basel I, which was directed to commercial banks, credit risk (for example in case of non-payment) and since 1996 market risk were quantified, but other risks were not. However, banks developed their own measurements as well. Already in the late 1970s Bankers Trust started developing a risk-based capital allocation system, in which not only traditional lending (on-balance activities) but also fee-based and trading activities (off-balance activities) that did not involve direct use of capital were included. The methodology was called RAROC (risk adjusted return on capital). There were a few reasons why many other banks have adopted RAROC or similar systems since. As described in chapter 5, banks looked for new business to make profit in the 1990s, since profits in traditional banking were declining because of decreasing margins. These off-balance activities involved other risks that had to be measured to determine the bank's optimal capital structure (risk management). Moreover, pressures on management were increasing

with regard to adding shareholder value within the organizations. A better calculating method would lead to better performance since managers and their business units could be held accountable for the amount of investor capital they were putting at risk (performance evaluation).<sup>18</sup> In 1993 Bank of America introduced RAROC and in 1998 and 2000 ING Bank and Rabobank followed, respectively. ABN AMRO used other similar internal methods. In 2004, international standards were modified again. Basel II, which replaced Basel I, made the capital measures much more sensitive to various risks, and included for example operational risks.<sup>19</sup> Operational risks are financial risks resulting from a lack of systems, as was the case with Barings in 1995. In 2008, Basel II will be the new international capital standard for banks.

In brief, financial companies are not judged on making profits only, but also on remaining solvent. The banks not only waited for regulatory standards, but also developed their own measurements and standards in order to measure their performance and solvency. In the 1970s and 1980s capital-to-assets was the most common one, which did not include different types of risks. After Basel I assets were weighted according to credit risks and since 1996 according to market risks as well. During the 1990s when banks turned to off-balance activities, and when failures like Barings occurred, banks intensified their internal risk management systems, introducing for example RAROC. International regulations followed this trend by introducing Basel II, which included a greater range of risk types.

Thus expansion by acquisition can put pressure on solvency because in the Netherlands a financial company has to write off goodwill to the reserves. How did ABN AMRO, ING and Rabobank try to keep the balance between expansion and solvency? In the Netherlands, ABN Bank had expanded through the opening of branches and through acquisitions, which were paid in stock.<sup>20</sup> In the US, however the bank faced a different situation. American shareholders did not want to be paid in stock, since they were not familiar with Dutch ABN shares. As a result, the bank financed its acquisitions in cash (cash for stock transaction). The first acquisition – LaSalle – was financed in cash. Lane (1988) and Exchange (1990) were paid in cash as well, which was partly donated by the parent and partly obtained by LaSalle National Corp, which issued preferred stock without voting rights. However, high amounts of goodwill had been written off against the reserves of the bank. One of the reasons for ABN Bank to merge with Amro Bank in 1990 was the enlargement of its capital base in order to be able to expand internationally.<sup>21</sup> The bank concluded that it was not possible to become a global player on its own. Autonomous growth was hard to accomplish and expanding through acquisitions was not maintainable since the prices of acquisitions had increased including goodwill payments.<sup>22</sup> In addition to a stronger capital base, the banks expected that ABN AMRO shares would become more attractive for foreign investors. The acquisitions of Talman (1991) and Cragin (1994) were paid in cash, that again partly originated from LaSalle National Corp., which issued preferred stock

without voting rights. In 1995, in the Supervisory Board of ABN AMRO it was stated that the bank in practice was able to acquire a bank in the US for around 2,5 billion dollars. However, the board warned that a large acquisition would decrease possibilities in Asia or Europe.<sup>23</sup> The discussion reflects the fact that other continents had become important in the strategy of the bank as well, but that the capital base did not allow acquisitions in too many countries.<sup>24</sup> The Dutch companies had to choose to which country and to which activity they gave priority, especially since the 1990s when prices of acquisitions had become much higher.

To make its share better known and to spread its capital stock, ABN AMRO considered a quotation on the New York Stock Exchange (NYSE). However, a listing involved high costs.<sup>25</sup> For example, the American accounting principles, better known as GAAP (Generally Accepted Accounting Principles), had to be used. This meant the bank needed to adopt an adjusted accounting system. More importantly however, NYSE required more transparency of the balance sheets of the bank. Banks had to make the Facility General Business Risks (*Voorziening Algemene Risico's*, VAR) public, which the Dutch central bank allowed banks to keep secret. By keeping this provision for losses on non-performing loans secret, banks were able to show more stable profits over the years. ING also thought about a quotation on Wall Street. It raised the same objections as ABN AMRO: a quotation was expensive and comprehensive, particularly concerning the requested information. In the opinion of ING however it was inevitable due to the percentage of share capital held by American shareholders.<sup>26</sup> By the end of 1996, 13.4% of capital share was held by Americans and Canadians.<sup>27</sup> A quotation was needed on the one hand to enlarge the international spread and transferability of shareholding and to increase recognition of ING, and on the other to finance acquisitions in the US by own shares.<sup>28</sup>

At first, to circumvent difficulties, ABN AMRO as well as ING chose to sell certificates in the US, the so-called American Depository Receipts (ADRs). Certificates from ABN AMRO or ING came within reach of the American public without a quotation on the NYSE. Since 1996, Dutch banks were not allowed to keep VAR secret anymore, the result of European guidelines. ABN AMRO wanted to be the first Dutch bank quoted on NYSE.<sup>29</sup> In 1996, ABN AMRO was quoted and just a few months later ING followed. At the time of the listing, the distribution of ABN AMRO's common shares was 66% in Dutch and 34% in foreign hands. ABN AMRO expected that the American part, which was 8% at that time, would rise because of the listing.<sup>30</sup> The shares of the two Dutch companies indeed got a more international character. In 2000, 50% of shareholders ING for example were from the Anglo-Saxon countries, the US and the UK. Only 25% was of Dutch origin, which was still 50% for ABN AMRO in the same year. American shareholders had 11% and English shareholders 16% of the ABN AMRO shares.<sup>31</sup> In spite of the American quotation, ABN AMRO did not pay Michigan National Corp. (2000) in stock. The acquisition was partly financed by selling other assets. The bank sold European American

Bank to Citibank in 2001. Again, LaSalle issued preferred stock. In contrast, after the listing ING indeed financed Equitable of Iowa (1997) in stock.

The fact that ABN AMRO sold assets to finance other assets was a change from the past. It reflects the change into a more result-oriented organization, which was more focused on the creation of shareholder value. At ING, shareholders were not pleased when in 1998 ING paid for the Belgian bank BBL by issuing new stock, which led to dilution of the company's share. They did not understand why the company used such a conservative instrument while it had a solvency surplus due to its major holdings in listed companies.<sup>32</sup> Since 1992, by the Disclosure of Major Holdings in Listed Companies Act (*Wet Melding Zeggenschap*), Dutch companies were required to make public their 5% share-holdings in stock companies. The publicity of these holdings was an outcome of European regulation of 1988. Since the 1960s, Nationale-Nederlanden had invested in around 60 stock companies in which by now the insurers had 5% or more interests. It seemed as if ING took its shareholders seriously since ReliaStar and Aetna (2000) were paid by selling these major holdings in Fortis and AEGON.

Rabobank obviously paid its American acquisitions in cash. Rabobank did not have the option to finance acquisitions in stock or to raise equity through public offerings. However, the positive side of lacking shareholders was that the cooperative bank did not have to pay dividends annually. Therefore, the company always appropriated annual profits to capital. The strong capital base of Rabobank was one of the reasons for the consistent triple-A rating the bank received from the important rating agencies Standard & Poor's and Moody's.<sup>33</sup> The triple-A rating reflected the solvency and risk profile of the bank. In order to maintain the status of being one of the most solvent banks in the world, Rabobank tried to preserve its careful expansion strategy and therefore expanded not as fast as ING and ABN AMRO. In the late 1990s, the cooperative bank introduced two instruments to enlarge its capital. First, the bank raised capital by Trust Preferred Securities, which were issued for the first time in 1999 by Rabobank Capital Funding Trust, Delaware (US). In 1999 the bank raised an amount of 650 million euros and in 2003 of 1,387 million, which were accounted for under reserves. In 2004, however, based on International Financial Reporting Standards (IFRS), the Trust Preferred Securities were not qualified as equity. Consequently, in 2004, an amount of 2,037 million euros was transferred from equity to subordinated loans.<sup>34</sup> However, the issue of four tranches in 2004 was classified as equity. Rabobank wanted to provide natural hedging for the growth of international banking activities by raising new reserves in the form of Trust Preferred Securities. The issue comprised American dollars, pounds sterling and Australian dollars. American investors were interested, because of the triple-A rating, which made it the highest rated capital for a relatively low price available in the American market.<sup>35</sup> Second, the bank enlarged its capital by issuing member certificates, which was an instrument first used in 2000. In addition to increasing the company's capital, the member certificates reflected the

cooperative character and objectives of the bank. At the end of 2005, 22% of equity consisted of Member Certificates and 8% of Trust Preferred Securities.

**Table 8: Rabobank: raising equity by Trust Preferred Securities and Rabobank Member Certificates**

In million euros	Trust Preferred Securities	Rabobank Member Certificates
1999	650 (i)	
2000		892
2001		1,384
2002		1,575
2003	1,387 (ii) -2,037*	2
2004	1,877 (iii, iv, v, vi)	-13
2005	215**	1,971
<b>Closing balance 2005</b>	<b>2,092</b>	<b>5,812</b>

\* The amount of 2,037 million euros, which is the sum of tranche I and II, had to be transferred to subordinated loans in 2004, whereupon it was no longer part of equity

\*\* Revaluation

Source: Annual reports Rabobank, 1999-2005.

The Banker magazine keeps an annual listing of the top 1000 largest banks worldwide. The magazine changed its criteria in 1988. Before, The Banker only calculated asset size of banks, which did not give away much on the solvency and performance however. Following Basel I, The Banker started to assess capital strength and capital ratios. These changes had a direct impact on the ranking of Rabobank and ABN Bank in 1988. Rabobank by capital strength ranked 30 and by assets 51, while ABN Bank ranked 58 and 47 respectively.<sup>36</sup> The differences reflected the capital strength of the cooperative bank, which was only surpassed by ABN Bank after the merger with AMRO in 1990.

In the 1990s both ABN AMRO and Rabobank were seen as one of the thirty strongest banks in the world when calculating Tier I capital. In the mid 1990s, each year the banks showed a better ranking.<sup>37</sup> In 1996 rating agency Moody's typified ABN AMRO and Rabobank as flourishing banks in a strong and stable home market. According to Moody's accumulated ratings, the Dutch banking sector in general was placed number one.<sup>38</sup> Recently Rabobank has surpassed ABN AMRO in the annual ranking of The Banker by its Tier I capital.<sup>39</sup> Rabobank also ranked as the world's third safest bank, after Caisse des Dépôts et Consignations and Bank Nederlandse Gemeenten. *Global Finance* magazine composed the ranking

by selecting the institutions with the highest ratings from leading international credit rating agencies.<sup>40</sup> Apparently, the Dutch banks, and Rabobank in particular, have been able to expand internationally while keeping a strong capital base. Particularly Rabobank has expanded without taking too many risks (relative low risk profile). For ABN bank it has been essential to merge with Amro Bank in 1990, in order to strengthen its capital again.

### *Summary*

The actual financing of international expansion does not seem to have caused many problems. One of the greatest challenges the Dutch financials faced was to consider solvency carefully, which meant that capital in relation to assets had to remain high enough to be able to meet the required capital ratios. The Dutch central bank required them to write off goodwill against the reserves at once. In this way, profits were not negatively influenced. Profits were kept stable, while equity decreased by writing off goodwill. As a result, the companies were limited in their expansion and they had to choose between different alternatives. They used different methods to raise capital again. Rabobank issued Member Certificates and Trust Preferred Securities to raise its equity. In enlarging their capital, ING and ABN AMRO tried not to dissatisfy the shareholders. For example, the national merger between ABN and AMRO and the issuing of preferred stock by its American subsidiary were methods that did not directly affect its shareholders. When ING issued new stock to pay for the acquisition of BBL, shareholders indeed were not pleased. In their opinion ING had to pay for acquisitions by selling its major holdings in other companies.

In the late 1990s, ING and ABN AMRO turned to less conservative ways of financing their expansion. This development reflects the enlargement of shareholders' influence, which resulted in selling non-performing parts of the business (non-life business for ING) or parts that did not belong to the core business (European-American bank for ABN AMRO). Moreover, ING sold major holdings in Dutch stock companies. With the capital thereby obtained, new acquisitions were financed. The Dutch companies had not been used to selling business units, which therefore was seen by them as a cultural changeover (see chapter 3).

### **Conclusions**

This chapter gives an indication of how successful the different activities of ABN AMRO, Rabobank and ING Verzekeringen NV in the American market have been. In general, the Dutch financial companies have become very international as calculated by employees and assets or income. More specific, they have built up a relatively large presence in the American market. In 2006, ABN AMRO was the largest foreign bank and Rabobank ranked 10th. Apart from asset growth, the profitability of LaSalle has been satisfactory as well. The mortgage business

performed well in 2002 and 2003. But due to a declining market, which was shown by disappointing results in for example 2004, the bank sold the business in 2007. Comparable to non-life insurance it is a volatile market, which requires a long term strategy. The ten branches of ABN AMRO were less profitable due to fierce competition and small margins. They remain an important part of ABN AMRO's international branch network however.

Rabobank started its New York branch in 1981. In other chapters it has become clear that it did not reach the objective of servicing its Dutch clients in the US. After disappointing results it reformulated the objectives: the cooperative bank wanted to become a global food and agribusiness bank. Apart from its New York branch, Rabobank has followed the strategy of buying and integrating banks. In 2006 and 2007, it acquired two more Californian banks, which it integrated with Valley Independent Bank (2002). The cooperative bank has become a relatively important food and agribusiness bank in the American market. Thus, reviewing the objectives of Rabobank, the bank has become successful in the American market after a long learning period during which it cautiously expanded.

Although ING Verzekeringen NV has become one of the largest insurance companies in the US, it did not succeed in raising productivity during the 1980s. Only through acquiring large insurance companies in the late 1990s, it was able to increase productivity again. It reconfirms the finding that creating economies of scale is very important for success on the American market. Unfortunately, the data did not allow me to calculate the performance of life and non-life business of ING Verzekeringen NV. However, as described in other chapters, the non-life activities in the US were sold in 1998 due to underperformance, which was in turn a result of the increasing claim culture in the US among other things. ING Direct has been successful in the American market as well as in the other countries. In a relatively short period, it has enlarged its number of customers, entrusted funds, and profits.

The Dutch banks in general succeeded in remaining solvent, in spite of the expansion in the American market, which involved writing off high amounts of goodwill. In particular Rabobank has demonstrated its relatively low risk profile. Increasing shareholder's influence was reflected in the fact that ING in 2000, instead of financing an acquisition by issuing new stock (as had been the case with BBL), sold major holdings in Dutch stock companies to be able to pay for its expansion. Moreover, ING and ABN AMRO sold non-performing assets (American non-life business) or assets that did not belong to the core business (European American Bank) to finance expansion. Shareholders preferred this type of financing, since parts of the organization that were not efficient enough (did not create shareholder value) were sold. However, for the Dutch companies this arrangement was very different from what they were used to. It meant a cultural change within their organizations; from the objective of continuity and long term developments to making short term profits in the short run.

## Investment banking

### Introduction

From the early 1990s, investment banking became the focus of Dutch commercial banks. Investment banks are intermediaries that perform a variety of services, of which the following three are the most important: acting as an intermediary between issuers of securities and the investing public, facilitating mergers and acquisitions and assisting in market introductions. ABN AMRO, Rabobank and ING each followed a different path. ABN AMRO acquired relatively small investment banks abroad, thus building up a network of investment banking activities, and ING bought one investment bank, the well-known Barings. Rabobank on the other hand tried to build up an investment bank in London by taking over teams of investment bankers. No more than ten years later all three banks have sold their investment banking activities or integrated them into their existing organizations. This chapter analyzes why investment banking became the central strategy in the first place and why it was not as successful as expected. It is interesting to find out why Dutch banks were not as successful at investment banking as at commercial banking. Had this to do with the characteristics of the investment banking sector which resemble much more the elements of the liberal market economy (LME)? The ownership and locational advantages in relation to investment banking are analyzed, which helps classify the reasons for the hard times the Dutch companies experienced in the American market.

ABN AMRO and ING used a global strategy, since they held the opinion that a worldwide presence was necessary for the successful development of investment banking business. Rabobank focused its activities on London, New York and Utrecht/Amsterdam. The American market formed a small but important part of the expansion strategy of the three companies. Although I wanted to find out why Dutch banks were not as successful at investment banking in the American market as at commercial banking, I had to give the analysis a broader scope, simply because the companies used a global strategy.

The chapter begins with a description of some major differences between the Dutch and American investment banking market in the 1990s, which gives a better understanding of the strengths and weaknesses of both. Against this background, the most important motives for Dutch banks to focus on investment

banking are analyzed. Then, the strategies and developments within ABN AMRO, Rabobank and ING are discussed. Each case study starts with a brief outline of the company's experience in securities related business in the late 1980s, followed by its strategy and expansion in investment banking in the 1990s. The reasons for the difficulties they each encountered are analyzed. In the conclusions of the chapter, the findings are compared with the advantages I have discovered in the previous chapters on commercial banking and insurance activities. They will reinforce my findings in explaining the success or failure of Dutch financial companies in the American market.

### **The American and Dutch securities market around 1990**

Since the 1980s, the roles of banks have become subject to external pressures like internationalization, economies of scale and diffusion. Since the oil crisis of 1973, commercial banks could no longer entirely depend on interest margins as the most important source of income. After 30 years of steady interest income, the interest rate began to fluctuate which forced banks to seek new sources of income. After the economic crisis in the early 1980s, stock exchanges started to flourish again, and companies turned directly to capital markets for financing more often.<sup>1</sup> The financial world changed from a bank-based to a capital market-based financial system. The capital markets in Europe, United States and Japan played a growing role in the financing of companies and in investing capital. In addition, local capital markets became more interwoven. For example, the financing of companies and local authorities in emerging markets by American and European investors increased. The globalization of capital markets was made possible by the rise of communication technologies, which had created a 24 hour global financial market.

The Dutch banking market at that time consisted of three large banks and a few smaller ones. The three large banks, ABN AMRO (1990), ING Bank (1992) and Rabobank had already built up some securities related business in the 1980s. In 1986, the Nederlandsche Bank (DNB) and the Ministry of Finance were concerned about Amsterdam as a financial centre and took deregulation measures, which led to more foreign competition in the security business.<sup>2</sup> Most important was permitting foreign banks to be lead manager in domestic guilder issues. Moreover, foreign co-managers were allowed to underwrite up to a third of an issue. They introduced the following financial instruments: bullet maturity, commercial paper and floating rate notes.<sup>3</sup> Since the 1970s, there had been an invasion of foreign banks, whose number had increased from seven in 1965 to 41 in 1985. In the late 1980s after the deregulation, foreign securities houses came to the Netherlands as well. ABN Bank and Amro Bank, which had the strongest position in the guilder market at that time, had to face this growing competition. The Dutch market for commercial paper and floating rate notes did not flourish as expected. Before the 1980s, companies were foremost financed by traditional lending instead of by the issue of securities. In the 1950s internal financing of companies was a common

practice, made possible by the low wage policy of the government.<sup>4</sup> The number and value of issues was low during this period. Since the 1960s, rising wages and taxes and social premiums on employees put pressure on the companies' profits. As a result, banks started to play a dominant role in financing companies in the form of banking loans. Interest income was still the main source of income for banks. After the recession of the early 1980s and the booming stock exchange, the number of companies that applied for a quotation or issuing of shares increased. However, the position of the Amsterdam stock exchange was vulnerable, due to the fact that since the mid 1990s many shares of Dutch companies and much of the public debt were negotiated on the London stock exchange after issuing in Amsterdam.<sup>5</sup> Contrary to the Americans, Dutch people preferred to put their money in savings accounts, which was less risky than buying shares. With the rise of stock markets in the late 1980s and 1990s this risk-avoiding attitude changed gradually. The relative small scale of the securities market made Dutch banks less experienced in investment banking. This was reflected in a shortage of skilled expertise in this field.<sup>6</sup>

In the meantime, in the US an oligopoly of a few large investment banks dominated the market. Since the Glass Steagall Act of 1933, that prohibited the combination of investment and commercial banking, specialized investment banks had been able to emerge. Because of this act, Morgan Bank for example had to split into Morgan Stanley, JP Morgan and Morgan Guarantee.<sup>7</sup> The most important investment banks in the early 1990s were First Boston, Goldman Sachs, Lehman Brothers, Merrill Lynch, Morgan Stanley and Salomon Brothers.<sup>8</sup> They had built up years of experience derived from their dominance on a large domestic market. They were highly competitive in their own home market, which made them operate efficiently and aggressively. Because of their reputation, they were still able to attract the best people and the best deals. Especially the large home market in the US was of great importance. The Dutch market for issues was relatively small, with only a few large companies that wanted to be quoted on the stock market. In 1994, for example it was expected that only five new companies wanted to be listed in contrast to 520 new companies in the United States in 1993.<sup>9</sup> On the supply side, a large market was also important for investment banks in order to have placement power. American investment banks experienced fewer difficulties distributing new shares, largely due to the fact that in the Anglo-Saxon countries transactions on the capital market, like issues and stock quotations, were very common.<sup>10</sup> Thus, American investment banks had developed great advantages compared to the European banks: experience, reputation, a profitable home market and focus. While it was difficult for European banks to enter the American investment banking market due to regulations, American investment banks expanded rapidly in the European market of the 1980s and 1990s and played a significant role in privatizations of state companies and in large mergers and acquisitions (M&A). For example, in 1997, the American based Goldman Sachs and Morgan Stanley did almost 30% of the M&A deals in Germany. The five

investment banks with the highest volumes of M&A deals in Germany accounted for 62.9% of market share, which reflected an oligopolistic market.

**Table 1:** *M&A deals in Germany in 1997*

	Country	Volume (DM billion)	Number of deals	Market share (%)
Goldman Sachs	US	45.8	14	17.1
Morgan Stanley	US	33.0	21	12.3
Deutsche Morgan Grenfell	Germany	32.7	36	12.2
JP Morgan	US	29.0	13	10.8
Lazard	France	28.2	13	10.5
Credit Suisse First Boston	Swiss/US	23.9	15	8.9
SBC Warburg Dillon Read	Swiss	23.6	12	8.8
Dresdner Kleinwort Benson	Germany	19.8	7	7.4
Lehman Brothers	US	8.4	14	3.1
Salomon Smith Barney	US	6.3	13	2.4
B. Metzler	Germany	5.7	6	2.1
UBS	Swiss	3.0	5	1.1
Rothschild	UK	2.1	6	0.8
Baring Brothers	Netherlands	1.6	12	0.6
Paribas	France	1.5	3	0.6
Schroders	UK	1.4	7	0.5
R. Fleming	UK	1.0	5	0.4
Merrill Lynch	US	0.7	2	0.3

Source: Börsen-Zeitung, in: *The Banker*, March 1998.

The American investment banks and Dutch commercial banks differed in their corporate culture, which reflected the differences between liberal and coordinated market economies (LMES and CMES). Investment bankers focus on the deal or transaction. They are known for their calculated high-risk seeking attitude. They are not necessarily loyal to their employer and are less occupied with the overall interests of the company. In contrast, in commercial banking account managers are seeking a long-term relation with their clients. They are risk avoiding, more conservative and loyal to the company.<sup>11</sup> Although these are two ideal types, we will see that the differences between the investment and commercial banker caused difficulties when the two had to cooperate. It is interesting to note that the work-related culture of investment bankers, as we know it today, had come into being at the specialized investment banks in the US and had swept to the UK in the 1980s, when American banks expanded to London.<sup>12</sup> Before the 1980s, the merchant banks in London were not familiar with the culture of individualism and related features of exorbitant payments and job hoppers. In the 1980s, American

commercial and investment banks wanted to build up investment banking activities in London as a gateway to the rest of Europe. The commercial banks wanted to expand into London because of decreasing margins in credit loans, which resulted in pressure on profits. American investment banks wanted to expand into London because of increasing globalization. The financially strong commercial banks expanded by acquisitions, while the investment banks that had capital as well as management qualities, built up activities by organic growth. As a result, they hired recruiting agencies, which bought up the second echelon below the Managing Board of British merchant banks. In this way the Americans introduced a culture that involved job hoppers searching for higher payment, which is nowadays common for investment bankers.

### Motives

In the 1990s, competition in the Dutch home market was fierce since boundaries between different financial activities had disappeared. Other financial companies like insurance companies, pension funds, direct writers and credit card companies were able to offer traditional banking products. Banks, insurance companies and securities companies became increasingly active in each other's markets.<sup>13</sup> Because of liberalization of financial markets and international capital flows and financial innovations, which gained momentum in the 1990s, competition increased internationally as well. The idea settled in among banks that in the future only a small group of global players would dominate the international money and capital markets. A global position in investment banking was required to be able to become part of this small group of banks. Apart from defensive reasons for banks to become active in investment banking, there was also an offensive one. Investment banking activities in general were very profitable, especially in M&A and issuing, while at the same time interest margins in commercial banking were deteriorating.

It was thought that in order to become a full investment bank that belonged to the world's top league, a strong presence in the American market was essential. In the American market, banks were able to find the latest products and profits were higher. Moreover, the placement market in the US was large. To be able to challenge the American domination, some larger European and Japanese banks started developing investment-banking activities in the 1990s. At first, they bought merchant banks in London. Deutsche Bank was one of the first with the acquisition of the British bank Morgan Grenfell in 1989.<sup>14</sup> The second largest bank in Germany, Dresdner Bank followed in 1995 with the acquisition of Kleinwort Benson. Switzerland was the home country of Credit Suisse, which had already formed an alliance with First Boston and was the only European bank to belong to the top ten investment banks in the US. In 1995, Swiss Bank Corp acquired SG Warburg, which was one of the largest English investment banks.<sup>15</sup> In this period, ING bought Barings, ABN AMRO acquired Hoare Govett, and Rabobank started building up investment banking activities in London from scratch.

In the late 1990s, despite difficulties, only a few decided to withdraw from the investment banking business, while the others decided to stay active. From the UK, National Westminster Bank and Barclays withdrew from the equities business in 1997, admitting they were not able to compete.<sup>16</sup> The large European banks faced difficulties at that time. The main bottleneck was that they were unsuccessful in establishing themselves in the American market, which was still necessary to provide distribution capacity and to be able to compete with the American giants in general. For that reason, Deutsche Bank acquired Bankers Trust in 1998, by which it bought itself a place in the American investment banking market. With a value of \$ 9 billion, it had been the largest American banking acquisition by a European bank. Previously, only Credit Suisse through its alliance with First Boston had been able to compete with the American investment banks.<sup>17</sup>

The consolidation wave also swept to the American continent: Morgan Stanley merged with Dean Witter, Salomon Brothers with Smith Barney<sup>18</sup> and Chase Manhattan bought JP Morgan, to name just a few. In the late 1990s, the large banks became even larger, which made competition for European banks even harder. The consolidation process had direct consequences for the investment banking activities of Dutch banks, which by that time were still relatively small in the American market. Deutsche Bank had shown that large amounts of capital were required to buy a place on this market. In order to survive in the investment banking business, the Dutch companies had to build up a stronger presence, which meant more capital was needed. Besides, size was not the only precondition for success. Investment banks needed global distribution capacity for capital-raising issues and enough resources for research, which was a vital part of investment banking.

Some important motives have been reviewed here, which applied to Dutch banks as well as to other European banks, such as Deutsche Bank. Below the three Dutch banks are examined in greater detail. The sections show what specific strategies they had and how investment banking activities were developed within their organizations.

#### ABN AMRO

ABN AMRO was historically a commercial bank; on the international market its investment banking activities were modest. However, in the Netherlands Amro Bank in particular had been relatively active in securities related activities. The bank had turned its subsidiary Pierson, Heldring & Pierson into an investment bank.<sup>19</sup> In 1992, after the merger with Mees & Hope, a subsidiary of ABN Bank, the new combination MeesPierson was expected to become an important European investment bank. In practice, MeesPierson experienced considerable competition from its own parent company ABN AMRO, which therefore decided to sell the bank to Fortis. ABN AMRO enlarged its investment banking activities in the home market, which became very profitable. The bank wanted to develop into a global player.

It was expected that expansion in the home market only was not enough and the bank's international position would decline compared to foreign banks.<sup>20</sup> ABN AMRO believed that just a few universal and investment banks would be able to compete in all banking areas. The full-service investment banks, i.e. active in capital markets, treasury, advisory services and asset management, were active in three world regions, namely United States, Europe and Asia.

In order to realize the new goal of becoming a global player, ABN AMRO decided a new home market in one or two European countries (France, Germany) had to emerge, apart from the existing American home market. The current size of its European presence was insufficient to achieve economies of scale. Furthermore, the focus in expansion had to be on investment banking. ABN AMRO stated that it had the ambition to join the top ten investment banks.<sup>21</sup> This group of banks was seen as a separate league and consisted of five large American investment banks, SG Warburg (UK), three large Swiss banks, Deutsche Bank and Barclays.<sup>22</sup> By formulating these activities and target regions, acquisitions were to be expected in order to become a global bank. However, in its desired expansion in the European commercial banking market, ABN AMRO faced the same difficulties as ING. Unlike the US where 'everything is for sale', the European countries were still very nationalistic, protecting their commercial banking business. As a result banks were expensive or simply not for sale. In the light of the strategy concerning investment banking, we can place the acquisition of securities house Hoare Govett in London. The new strategy reflected the fact that ABN AMRO attached more importance to the advantages of an integrated bank than to the disadvantages that were inherent in the less specialist character of universal banks compared to autonomously operating investment banks.

Contrary to ING, which bought one relatively large investment bank, ABN AMRO acquired small banks that initially kept their own brand names. The first investment bank, Hoare Govett, was acquired in 1992.<sup>23</sup> The British bank had to become the centre of the European investment banking activities of ABN AMRO. The Dutch bank had a majority shareholding in Italian Cimo and owned securities house Massonaud Fontenay Kervern in France, a broker Raida & Co in Ireland and Alicon in Denmark.<sup>24</sup> Furthermore the bank had small investment banking activities in Spain, Switzerland and Germany. With the acquisition in 1995 of Swedish Alfred Berg from Volvo, the car company, a network in Europe had been built. It is interesting to note that at first negotiations failed, because Alfred Berg's management was not willing to compromise on the bonus arrangement.<sup>25</sup> Expansion in Europe was followed by expansion in Asia. In 1995, a stake of 20% in HG Asia was extended to 60%.

At that time, ABN AMRO still had few investment banking activities in the American market. Because ABN AMRO wanted to belong to the top ten investment banks, the bank believed it had to create a strong presence in the American market. At first, the bank looked for placement capacity in the US especially for European fixed income products.<sup>26</sup> Since ABN AMRO had already built an American organi-

**Table 2: The top 25 global wholesale banking and investment banking 1998**  
**Full credit to book running manager only (\$ million)**

	Global securities underwriting and private placements	Global M&A *	International bank loans arranged	MTN lead managed **	Total	% of top 25	
1	Goldman Sachs	388,766	1,067,259	16,405	54,420	1,526,849	13.89
2	Merrill Lynch	549,797	692,920	11,000	129,629	1,383,347	12.59
3	Morgan Stanley Dean Witter	404,498	635,624		32,680	1,072,802	9.76
4	Salomon Smith Barney/ Citigroup	366,354	483,762	107,566	51,412	1,009,094	9.18
5	Credit Suisse First Boston	290,502	431,757	19,087	60,166	801,512	7.29
6	JP Morgan	250,065	324,207	115,666	27,503	717,440	6.53
7	Chase Manhattan	122,603	172,859	307,131	20,448	623,041	5.67
8	Lehman Brothers	264,340	225,416	26,312	48,983	565,050	5.14
9	Deutsche Bank/Bankers Trust	158,681	147,874	53,780	84,419	444,755	4.05
10	Warburg Dillon Read/UBS	201,810	143,743	17,010	53,780	416,343	3.79
11	Bank of America	57,976	83,679	200,100	42,250	384,005	3.49
12	Bear Stearns	140,609	184,753		17,610	342,972	3.12
13	Donaldson, Lufkin & Jenrette	111,499	217,614	12,619		341,732	3.11
14	<b>ABN AMRO</b>	<b>127,078</b>	<b>34,143</b>	<b>16,283</b>	<b>125,333</b>	<b>302,837</b>	<b>2.76</b>
15	Paribas/Societe Generale	153,649	54,472		11,398	219,519	2.00
16	Lazard Houses		160,776			160,776	1.46
17	Barclays Capital	81,237		14,457	6,370	102,064	0.93
18	Dresdner Kleinwort Benson	54,612	37,373		8,273	100,258	0.91
19	Rothschild Group		84,291			84,291	0.77
20	Nomura Securities	58,998			14,556	73,554	0.67
21	Schroder Group		69,179			69,179	0.63
22	BankBoston		49,903	19,125		69,028	0.63
23	First Union Corp	24,972		21,592	20,000	66,564	0.61
24	PaineWebber	57,604				57,604	0.52
25	HSBC	57,261				57,261	0.52
<hr/>							
	Total	3,922,908	5,301,605	958,131	809,230	10,991,873	100.00
	Top 10 as % of top 25	76.41	81.59	70.34	69.63	77.88	
	Top 5 as % of top 25	50.98	62.46	16.08	40.57	52.71	

\* Completed deals only. Full credit to both advisers to targets and acquirers

\*\* Equal credit to both book runners if acting jointly

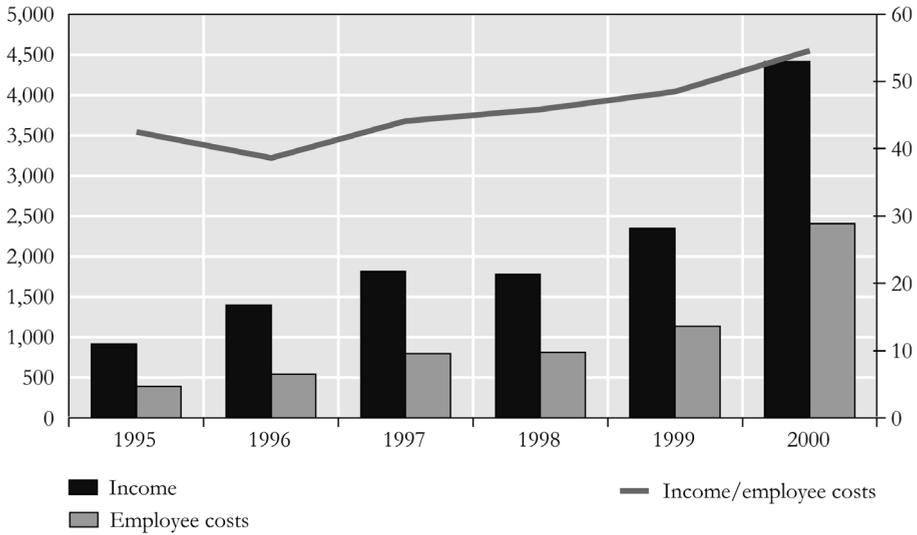
Source: NY Stern School of Business, Data: Securities Data Corporation, in: *The Banker*, April 1999.

zation in commercial banking, for a long time it was forbidden to take securities positions due to the Glass Steagall Act of 1933, which separated commercial from investment banking. In December 1994, after waiting two years, ABN AMRO obtained a so called 'section 20 license' in the US, which was a license to trade and underwrite in securities.<sup>27</sup> The bank created a separate subsidiary, which was named ABN AMRO Securities Inc. Consequently, ABN AMRO was allowed to buy American investment banks, which it did in 1996 with the acquisition of Chicago Corp.<sup>28</sup> This investment bank had 13 branches (of which one in NY and one in Chicago) and 1,000 employees. The bank merged with American ABN AMRO Securities Inc. The joint venture with Rothschild Group in 1996 was another milestone. ABN AMRO Rothschild combined the equity capital markets activities of both companies. ABN AMRO was able to take advantage of the strong position of Rothschild in international privatizations.<sup>29</sup> By then it seemed as if ABN AMRO had built a strong network of investment banks worldwide, which covered Europe, Asia and the US and the most important financial centers of London, New York, Chicago, Singapore and Hong Kong.

The Banker reported that fewer banks in 1997 could truly claim to be global. Many banks had changed strategy because of high costs of technology, difficulties in finding suitable expertise and in satisfying demanding shareholders.<sup>30</sup> ABN AMRO ranked 14th by the percentage of assets based overseas and in 1998 moved up to place 8. However, this ranking of global banks does not reveal anything about performance in investment banking. Table 2 shows a list of the top 25 investment banks in 1998. ABN AMRO, ranking 14th in 1998, could hardly be compared with the top ten investment banks, which together possessed 78% of the world market. The table reflects clearly the difficulties of European banks in the investment banking business. Especially in securities and M&A activities, where provisions were high, American investment banks were dominant. The top five possessed 51% and 62 % of the securities market and global M&A activities respectively. What draws attention in the table, apart from the American dominance, is that although ABN AMRO has the lowest position in global M&A activities, the bank did well in issuing new Medium-Term Notes.<sup>31</sup> Most active in international bank loans were the originally commercial American banks: Citigroup, JP Morgan, Chase Manhattan and Bank of America.

Figure 1 shows that the efficiency of the business units Investment Banking & Global Clients decreased in the late 1990s.<sup>32</sup> It illustrates among other things that although income from investment banking increased significantly, it could hardly keep up with growing employee costs. Employee expenses had increased especially due to the high bonus system. Although these high employment costs were not uncommon in the investment banking business, and often took up 50% of revenue, for the Dutch commercial banks they were.<sup>33</sup> At ABN AMRO it increased to more than 55% in 2000.

**Figure 1:** *ABN AMRO Business Unit IB&GC*  
*Income and Employee costs (left axis, in million euros) and*  
*Efficiency: employees costs as % of income (right axis, in %)*



Source: Annual reports ABN AMRO, 1995-2000.

In short, at the end of the 1990s, it seemed as if investment banking activities had been rather successful. However, employees' expenses boomed and the bank had not yet earned a place in the top 10 of worldwide investment bankers. Especially in the important and most profitable activities of investment banking, i.e. issuing and M&A, ABN AMRO only had a small market share. What had happened?

### *Organization and management*

After the merger in 1990, members with some knowledge of investment banking sat on the Managing Board of ABN AMRO; this was an important difference with ING and Rabobank. In 1996, for example three out of nine members were qualified investment bankers.<sup>34</sup> While at ING and Rabobank just one member was responsible for the investment banking division, within ABN AMRO the number of people in charge of investment banking was two to three, which at least created a larger basis and support. The new organization after the merger was structured along three divisions: Domestic Division, International Division and Investment Banking & Global Clients Division (IB&GC). The International Division formed the commercial banking side of ABN AMRO, whose products were more traditional. The investment banking side (IB&GC) sold innovative products with shorter life

cycles in a rapidly changing market. Contrary to ING, asset management and investment banking were put in one division. Although in the ABN AMRO organization, corporate and investment banking were separated, they were explicitly instructed to work closely together, in order to obtain the advantages that were inherent for a universal bank, for example the fact that a full range of products created customer loyalty. Changes in the organization as mentioned below were all initiated to support the goal of cooperation between the two.

In 1993, reorganizations took place in the American organization of ABN AMRO.<sup>35</sup> Not only management and head office activities were concentrated in Chicago, also the New York treasury was transferred to the Midwest in order to create synergy. Furthermore, the activities of the International Division and of IB&GC were modeled along a matrix organization. This meant that the securities subsidiary was a hierarchical part of the American organization, but a functional part of IB&GC. Thus, the American management team, as part of the International Division, remained responsible for profit from all banking business in the US. The matrix organization was introduced to improve cooperation between product management (IB&GC) and sales (International). After the American reorganization, ABN AMRO introduced the matrix in the rest of the organization. The introduction of the matrix structure was one way to integrate commercial and investment banking activities. Another one took place in January 1994, when the IB&GC Division was organized along product lines instead of along functional ones such as trading and sales. Many American and British banks had made the change to a product-oriented structure years before. In order to be able to keep up with international competition, ABN AMRO followed this trend.<sup>36</sup> It meant that investment banking activities were divided into Equity & Merchant Banking (for equity-related products) and Treasury & Fixed Income (for bonds, interest-related products). Within Equity & Merchant Banking, sales and research of non-Dutch equities were transferred from the Netherlands to London, since London was seen as the heart of European equity business.<sup>37</sup> The large institutional investors, like pension funds and insurance companies, asked for international comparative research of sectors and companies. This international research expertise was mainly based in London.<sup>38</sup> It was also thought that 'thanks to its long-standing research tradition, London was able to provide analyses of a much higher quality'<sup>39</sup>. The transfer of non-Dutch securities business to London did not pass without protest. In Amsterdam employees complained about the high bonuses paid to colleagues in London.<sup>40</sup> The resistance between the Netherlands and London was also present at Rabobank and ING, as we will see below.

Developments at Deutsche Bank resembled the ones at ABN AMRO. In the same year, Deutsche Bank took a first integration step when the bank decided to move non-Deutschemark investment banking business to London under a single management.<sup>41</sup> Deutsche Bank, which acquired Morgan Grenfell in 1989, had waited six years before integrating the investment bank with the existing investment banking activities of Deutsche. The bank had consciously kept Morgan Grenfell

at a distance, giving the investment bank autonomy. Only in 1998 did the bank integrate commercial and investment banking business after which it eventually dropped the brand name Morgan Grenfell.<sup>42</sup>

### *Cultural differences*

Rebranding was another means to make the world familiar with ABN AMRO's investment banking business and to support the universal banking principle. The investment banking activities had to be visible within the organization since the concept was that ABN AMRO's worldwide branch network made use of investment banking products for its existing commercial banking client base. In 1995, all European securities units were renamed ABN AMRO Hoare Govett. The name Hoare Govett that was added was a strong and well-known name in the investment banking world.<sup>43</sup> In the US, ABN AMRO Chicago Corp. kept its name as well. Another way to create a link between investment and commercial banking was the decision that country managers (part of the traditional International Division) were seated in the Supervisory Boards of the securities units.<sup>44</sup> Although Hoare Govett received a central position in Europe, the network was still managed from ABN AMRO head office in Amsterdam.<sup>45</sup> This led to problems in the relationship between Hoare Govett and its Dutch parent company. Moreover, the integration of an organization with many local differences between subsidiaries turned out to be a time consuming task. Hoare Govett and the other European investment banks differed in management styles, expertise and market positions, which made cooperation not easy.<sup>46</sup> Uniformity between the European companies was essential to bring added value for ABN AMRO. Because ABN AMRO had no plans for a large acquisition, its investment banking business remained looking lightweight.

At the beginning of 1998, ABN AMRO abandoned the brand name Hoare Govett after all. ABN AMRO adopted a single brand name for its investment banking business worldwide; including Chicago Corp.<sup>47</sup> One brand name was introduced to create cohesion and transparency. It reflected the increasing integration and globalization of the bank's operations. Hoare Govett was known only in Europe, while ABN AMRO by now also had operations in the US and Asia. To emphasize the universal banking character, in which commercial and investment banking worked closely together, the bank deliberately did not opt for the name ABN AMRO Investment Banking.<sup>48</sup> The joint venture with Rothschild kept its name ABN AMRO Rothschild. It was no coincidence that names were replaced at that specific moment. Deutsche Bank had just dropped the brand name Morgan Grenfell and HSBC Holdings had dropped the name James Capel.<sup>49</sup>

One of the reasons for ABN AMRO (and Deutsche) to keep different brand names worldwide at first, was related to the fact that identity and culture played an important role in investment banking which was related to reputation. The case of Alfred Berg showed that the rebranding process was a delicate matter. When Alfred Berg lost its name later on, senior executives who feared a loss of autonomy

left the Swedish bank.<sup>50</sup> So, although the strategy of collecting a portfolio of investment banks around the world was less risky in financial terms than buying one large investment bank, it turned out to be difficult to make the different companies cooperate. Image, identity and related brand names prevailed. Collaboration between commercial and investment bankers, which was a prerequisite for becoming a universal bank, was hard to achieve as well. ABN AMRO as a commercial bank was characterized by its risk avoiding culture (see chapter 3). Especially ABN Bank, which was seen as the more solid of the two with a long history and standing, had a traditional banking hierarchy in which risks were managed. This was in contrast with the calculated risk-seeking attitude of investment bankers. The commercial bankers felt that the money they had made with considerable effort was spent prolifically by investment bankers. The high bonuses were one of these high expenses. Moreover, the bonus payment system did not encourage investment bankers to cooperate with commercial bankers unless they were able to turn it to their own advantage. As a result there was little mutual understanding.

In 2000, R. Groenink succeeded P.J. Kalff as chairman of the Managing Board. He was known for being a more aggressive Anglo-Saxon banker. He introduced the goal of maximizing shareholder value.<sup>51</sup> Within four years the bank had to join the top five of a peer group consisting of 20 banks in terms of total return to shareholders. ABN AMRO streamlined its operations into three global business units. Corporate and investment banking activities were merged into one wholesale business unit in order to create synergy. One of the reasons for the difficulties in the 1990s had been the lack of cooperation between the two activities (universal banking). Wholesale banking, which focused on large international clients, became the most important business of the bank, which was for example reflected in a management team of four men, of whom two were foreign and highly experienced in investment banking. The reorganization marked the end of the universal banking principle accompanied by the matrix organization. The focus on shareholder value led to a policy whereby costs had to decrease and capital had to be invested in the most profitable business. To this end a new measuring instrument was implemented in 2001 named Management for Value. By this method, the bank was able to calculate the real results of each division.

At that time, ABN AMRO was mostly a European equities house, with hardly any presence in the American market.<sup>52</sup> When in 1998 Deutsche Bank took over Bankers Trust, ABN AMRO realized even more that it had to enlarge its position. However, it was put off by the high prices of American investment banks. While ABN AMRO did not give up its ambitions, ING sold its investment banking activities in 2001, of which ABN AMRO bought parts of Barings US and Furman Selz: prime brokerage, corporate finance, domestic securities, and options and futures. The bank paid 275 million dollars plus 12 million for goodwill. In a press release, it was stated that 80-100 million dollars were reserved for keeping the most important employees.<sup>53</sup> It turned out that the timing could not have been worse. After the

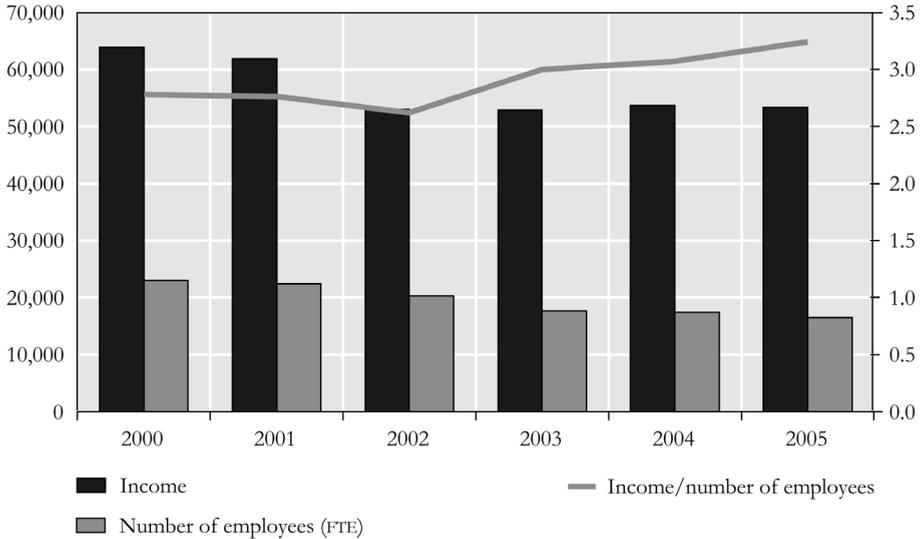
terrorist attacks of September 11, 2001, the US, followed by the rest of the world, fell into a recession and stock markets collapsed which was bad for investment banking activities.<sup>54</sup> In contrast to traditional banking in which interest income is rather stable due to long-term contracts with clients, investment banking income is volatile. It has mainly short-term relations with clients, while it depends highly on the developments of the capital markets.

ABN AMRO had formulated unrealistic company objectives. The bank did not meet the return to shareholder targets, nor did the bank belong to the top ten investment bankers worldwide. Moreover, the desired new home market in Europe had not been created yet. Reorganizations, by which many jobs were cut in the Netherlands, had not led to a satisfactory cost level.<sup>55</sup> The Wholesale Clients unit did not generate enough profit to be able to pay for the expensive investment bankers. Between 2001 and 2003, other reorganizations took place which led to the loss of many jobs within the wholesale division. Figure 2 shows the number of employees of SBU Wholesale Clients among other things. After the introduction of three Strategic Business Units in 2000, the annual reports only showed the number of employees instead of employee costs as shown in figure 1. In addition, corporate and investment banking were put together, which made the income of SBU Wholesale Clients in 2000 much higher than the income of IB&GC in figure 1. As we can see in the figure below, the number of employees decreased from 23,000 in 2000 to 16,500 in 2005. After reorganizations and cutting jobs, the efficiency rate increased somewhat. In 2002, each employee was responsible for 262,000 euros income, which increased to 324,000 euros in 2005. However, the investment bank of ABN AMRO still lacked the necessary scale to be able to compete. In 2002, the bank sold its American equity and M&A business, which were relatively small and did not have a competitive advantage. The American organization remained active in international securities and M&A, which was supported by the worldwide network of branches.<sup>56</sup> Apart from selling the American equity business, the bank sold its prime brokerage and futures activities. Investment banking activities could not be closed down completely, since the bank wanted to be able to service its largest clients.

In short, the developments in the worldwide economy combined with the collapse of the stock exchanges had not been favorable. As opposed to specialized investment banks, universal banks that expand in corporate and investment banking have less focus. Management of universal banks needed to make difficult allocation and control decisions in order to satisfy both.<sup>57</sup> In general, ABN AMRO had formulated unreal ambitions in setting its objectives. It turned out that the bank had difficulties especially in competing with American investment banks. Contrary to Deutsche Bank, ABN AMRO did not want or was not able to acquire a large investment bank in the US. As a result it lacked sufficient scale to be able to compete with the American investment banks, which still dominated the American as well as the European market. For example, when the Dutch state sold a large number of KPN shares, it called in UBS. Goldman Sachs was called in

by the large Dutch pension funds when they wanted to sell NIB Capital.<sup>58</sup> On top of this, chief executive and four senior executives left ABN AMROS Hoare Govett for Citigroup in 2005.<sup>59</sup> The departure was followed by an exodus of clients.<sup>60</sup>

**Figure 2: ABN AMRO SBU Wholesale Clients**  
*Income (left axis, in hundred thousand euros) and number of employees (left axis) and Productivity: income/employees (right axis, in hundred thousand per employee)*



Source: Annual reports ABN AMRO, 2001-2005.

In October 2005, the bank announced a new organization structure, by which the bank returned to an organization structure in which regions became dominant again.<sup>61</sup> The SBU Wholesale Clients disappeared; 6,000 of its clients were transferred to the regional business units and the 550 largest clients were transferred to Global Clients, which still offers investment banking products for all corporate clients.<sup>62</sup> These developments marked the end of ABN AMROS aspirations in investment banking as the spearhead of the company. The bank returned to consumer (middle market) banking as the centre of activities again and left corporate and investment banking as a supporting activity. Accordingly, in a relatively short period the bank had changed its strategy from being a universal bank between 1994 and 2000, to an investment bank after Groenink succeeded Kalff, to a consumer bank in 2005.

## Rabobank

In the 1980s Rabobank already had a Directorate Securities, which was part of the Central Banking Sector. At first the development of this Directorate met some resistance from the local member banks. These local banks depended on traditional banking activities for their funding. So, they were not enthusiastic about the securities business competing for clients with the traditional banking activities. In the 1980s the stock markets blossomed and in order to keep their clients, the local banks started dealing in securities as well.<sup>63</sup> In 1987, Directorate Securities was split into two different directorates, one for retail clients of the local member banks and the other for wholesale clients of Rabobank Nederland. The latter was named Merchant Banking Division and was headed by W.M. van den Goorbergh. The bank had formed an alliance with Robeco Group and restyled its securities house Schretlen which mainly focused on retail clients. The Merchant Banking Division was responsible for the securities operations and provided services in the field of mergers, acquisitions and management buy-outs.<sup>64</sup>

In the 1990s, Rabobank expanded into many activities other than banking, such as leasing, asset management, and insurance. Rabobank Group became a diversified group, in which the local member banks had a relatively smaller part. At the same time, Central Banking Sector was reorganized into a more result-oriented organization. One of the objectives was to become an important wholesale bank in the Netherlands as well as abroad. With the newly integrated dealing room put into use in 1990, Rabobank strengthened its position in regard to the wholesale market. The bank opened a dealing room after ABN AMRO, but before NMB Postbank Group (later ING Bank).<sup>65</sup> In addition, in 1993 the corporate finance department of Rabobank invented a complex construction named techno lease for Philips and Fokker.<sup>66</sup> A renewed strategy, which Rabobank launched in 1996, was aimed at reinforcing its objectives. Central Banking Sector was renamed Rabobank International. In this way, Rabobank was able to present itself abroad as a wholesale bank. The bank formulated high expectations. The activities of Rabobank International in 1996 were divided between corporate banking (75% of total profits) and investment banking and private banking (25% of total profits). The objective for 2000 was a ratio of 60-40%. The activities of Rabobank International were expected to double in 2000. The number of employees would increase from 2,500 to 5,000. The balance sheet total had to double to 200 billion guilders.<sup>67</sup> In order to reach the 60-40% objective, investment banking activities had to increase. As was the case with ABN AMRO and ING, Rabobank was more or less forced into this, since competition had decreased the margins on traditional banking. Moreover, companies often turned directly to capital markets for financing. The bank's clients asked for investment banking products. In order to keep these large clients Rabobank had to engage in investment banking. Contrary to ABN AMRO and ING, however Rabobank did not aspire to become a worldwide investment bank. The bank concentrated its activities in Utrecht/Amsterdam, London and New York.

At first Rabobank tried to find a suitable investment bank. However, in June 1996, the take-over of Greenwich Capital was abandoned, since Rabobank did not want to pay the extremely high bonuses of its traders.<sup>68</sup> Instead, NatWest bought the American securities house and sold its securities business to Royal Bank of Scotland just one year later. Since Rabobank was not able to find a suitable, affordable take-over candidate, it started building up investment banking activities by hiring teams of investment bankers. Graf Alex von Ungern-Sternberg, hired in September 1997, became head of the investment banking activities and was given a seat on the Managing Board of Rabobank International. Von Ungern-Sternberg had worked for Deutsche Bank and for Barclays de Zoete Wedd (BZW). Barclays sold this securities arm in 1997. Von Ungern-Sternberg was a German, but he had become an Anglo-Saxon investment banker who understood the business environment well.<sup>69</sup> He started searching for investment bankers in London.<sup>70</sup> At that moment, Rabobank London employed 210 people, of whom 50 were engaged in investment banking activities. In a relatively short time period he hired around 1,000 investment bankers. For example, in October 1997, Rabobank hired four senior investment bankers, who had built up experience in securities and fixed income trading.<sup>71</sup> Apart from hiring expertise, the investment banking activities were clustered into centers of knowledge. Rabobank Securities in Amsterdam was active in Dutch securities. Utrecht was the centre of euro business and London of non-euro business and complicated derivatives. The dollar activities were centered in New York.<sup>72</sup> The other foreign offices had a supporting or sales function.

In June 1998, only six months later, it turned out that Rabobank was not going to meet its objectives. The Dutch newspapers reported on the many changes in executive positions, which reflected the undesirable developments in investment banking. The bank had to reconsider its strategy. Of the 1,000 newly hired investment bankers 600 were dismissed.<sup>73</sup> What had happened?

### *Organization and management*

Rabobank had always been a bank in which activities were dominated by clients who placed money in savings accounts and by clients who received credit loans. In other words the bank had in-depth knowledge of the traditional banking business. The rise of the stock markets in the 1980s forced Rabobank more or less to respond to these developments. The bank switched from a traditional bank to a bank with a broader range of activities, and from general bankers to specialists. However, in-depth knowledge of investment banking was not represented in the Executive Board. Although its members all agreed the bank had to respond to the external developments, there had also been much hesitation.<sup>74</sup> In practice this resulted in a support base which was too narrow, so that in the end H. Visser, the responsible member of the Executive Board, rather stood alone when things

did not turn out as expected. In the ING case below, we will see a similar development.

Von Ungern-Sternberg was seated on the Managing Board of Rabobank International and reported to the Executive Board. Although Rabobank's treasury departments were dealing in basic interest-related products, the bank had not been able to apply in practice the wishes of its clients for equity-related products. The broad field of M&A, equities and so on could not be overlooked. Due to his experience, Von Ungern-Sternberg was able to undertake the analysis and to present his ideas and product descriptions to the Executive Board. The Board gave him *carte blanche* to execute his plans.<sup>75</sup> He had an enormous drive to build up investment banking activities and hired many investment bankers in a relatively short time. However, they had other motives than Rabobank, which wanted to become a niche player. The Executive Board, with little experience of its own, supported Von Ungern-Sternberg. The Board interfered at a relatively late stage only after it found out that many traders in London were doing nothing due to the absence of or failings in administrative systems (see below). Von Ungern-Sternberg had enthusiastically built the front office while the back office had not yet been developed.

#### *Risk management systems*

Although Von Ungern-Sternberg was capable of defining the investment banking products, he paid less attention to the back office of the investment banking business. Rabobank only had a well functioning credit management system. And the compliance and risk organization was mainly directed towards risks involving credit loans.<sup>76</sup> The bank had to introduce and develop systems that managed investment banking related risks. As a result many investment bankers working in the front office got frustrated by the absence of administrative systems. They were not able to work efficiently.<sup>77</sup>

#### *Cultural differences*

Rabobank International received a large degree of autonomy to develop its investment banking activities. In 1996, it had stated that it wanted to expand in investment banking, but in a modest way and mainly directed towards food and agribusiness clients. The investment bank had to become a niche player in London, New York and the Netherlands. The niche strategy needed employees with a long term focus instead of investment bankers who were used to rapid deals and high bonuses. By hiring a relatively large number of investment bankers, the cooperative bank was not equipped with employees who understood Rabobank's norms and values. This problem started actually at Rabobank International, where former ABN Bank employees held positions. They had no experience with the cooperative ideals of the bank. Consequently the differences between the local banks with a

cooperative character and Rabobank International were large. The strategic focus of Rabobank International on investment banking reinforced the lack of understanding.

Over the next year and a half, Von Ungern-Sternberg expanded by buying investment bankers. He came from Barclays and did not take into account the cooperative character of Rabobank. The total number of employees working in the investment banking activities was 1,300, which was one third of all employees of Rabobank International.<sup>78</sup> This fast growth led to problems caused by cultural differences between investment bankers and traditional Rabobank employees. The investment bankers in London, who had been working for JP Morgan and Merrill Lynch among others, were expensive and operated autonomously vis-à-vis Rabobank. They mainly worked for Rabobank because of its triple-A status. The Anglo-Saxon culture of the investment bankers did not fit in with the culture of Rabobank employees who were used to consultation and consensus.<sup>79</sup> High costs especially caused by high remuneration were a thorn in their side. Another large obstacle for the Dutch employees was the transfer of Dutch activities to London.<sup>80</sup> This led to an inevitable clash not only between the competitive investment bank in London and Rabobank International in Utrecht, but also between London and other foreign offices.

In June 1998, Arthur Arnold was transferred to the department of strategic alliances. He had been the chairman of the Managing Board of Rabobank International.<sup>81</sup> In early 1999, he was succeeded by Maarten Hulshoff. Hulshoff had worked for Citibank until 1995, after which NCM hired him as chair of the Board.<sup>82</sup> At the end of 1998 Von Ungern-Sternberg left the bank.<sup>83</sup> He was succeeded by Bill Cuthbert.<sup>84</sup> Not long after that, four managers of the second echelon situated below Rabobank International's Board resigned.<sup>85</sup> Due to disappointing results combined with unrest in the financial markets due to the Asian crisis, Hulshoff announced some reorganization measures. Aspirations in investment banking were reduced and modesty had to prevail again.<sup>86</sup>

He decided to restrain the dominant position of London. The securities business in London was integrated with Amsterdam Rabo Securities into one organization called Rabobank International Equities, headed by a Dutchman Andries Mak van Waay.<sup>87</sup> Another reorganization followed only six months later, when Rabobank found out that although income was reasonable, costs were still rising too fast.<sup>88</sup> The international securities business in London was transferred in its entirety to Amsterdam. Only a sales department for Dutch securities remained active in London. In London, employees lost their jobs in order to reduce expenses.<sup>89</sup> 600 investment bankers were dismissed, 400 bankers remained. Simultaneously the strategy was reformulated, which meant that the bank returned to the original idea of becoming an international bank in the food and agribusiness niche. The focus on investment banking products, which had become more important in the bank's policy, had to be given up.<sup>90</sup>

Since Rabobank International did not succeed in acquiring an investment bank or in building an investment bank from scratch by hiring investment bankers, a new attempt to develop its investment banking activities was made. Rabobank International and German DG Bank intended to place their corporate and investment banking activities into one organization, creating a joint venture.<sup>91</sup> In this way, they wanted to develop a European investment bank. However, the idea failed mainly because of the different cooperative structures of the two banks and because the joint venture would not receive a triple-A rating since DG Bank only had a single-A rating.<sup>92</sup>

According to the newspapers there continued to be many changes in management positions in the period after the reorganizations.<sup>93</sup> After some management changes, the Executive Board believed it needed direct control and influence over Rabobank International again. Therefore, D.J.M.G. van Slingelandt headed Rabobank International for a period of two years. With the acquisition of American Valley Independent Bank in 2002, which emphasized Rabobank's expertise in agribusiness, the ambitions in investment banking seemed to be abandoned. The exceptional developments in London were rather short-lived. In spite of the failed ambitions in investment banking, it produced advantages for Rabobank as well. The treasury department of the bank operates very well and the division Global Financial Markets is profitable. Rabobank is no longer a credit loan bank only, but has developed into a bank with a broader income base, which has been necessary in order to remain competitive.

### ING Bank NV

ING Group was formed in 1991 through the merger between a bank and an insurance company, NMB Postbank Group and Nationale-Nederlanden respectively. ING Group consisted of two sub holdings: ING Verzekeringen NV and ING Bank NV. Contrary to the other chapters, this chapter on investment banking deals with ING Bank NV and not Nationale-Nederlanden or, since 1991, ING Verzekeringen NV.

NMB Postbank Group was a bank with little foreign experience compared to ABN Bank and Nationale-Nederlanden. In the US, the bank only possessed a branch in New York. NMB Bank started investment banking activities with the opening of Nederlandse Merchant Bank NV in 1987. The bank became known especially for financing third world debt in emerging markets.<sup>94</sup> Directly after the merger in 1991, ING's long term strategy was directed towards building up a second home market in Europe. In the heads of agreement, it was stated that both companies were directed to the creation of an International Financial Services Group (banc-assurance) with a strong European presence as its base. A great deal was expected from the European integrated market. McKinsey had provided a report about the acquisition possibilities in Europe.<sup>95</sup> However, it turned out that expanding in the European continent was still hard, mainly due to national differences and

banking protectionism. In order to remain competitive, the focus was shifted to the development of international investment banking. Investment firm James D. Wolfensohn, Inc. was asked to explore possible take-over candidates. In the Midterm Plan 1994-1996 it was stated that the idea of a second home market in Europe was not abandoned, however, it was no longer the central objective.<sup>96</sup> In the Midterm Plan 1995-1997, ING put emphasis on the emerging market within the investment banking strategy. ING already had a good track record in the emerging markets in Central Europe, Latin America, and the Far East. One reason for this was that the large players in the world did not yet dominate these markets.<sup>97</sup> As soon as the company had changed its focus to international investment banking, it introduced a separate business unit for investment banking activities. The new structure was recommended by McKinsey. Most important was the distinction between ING Financial Services International (FSI) and ING Corporate & Capital Markets (C&CM).<sup>98</sup> ING FSI combined international insurance activities with international commercial banking activities (retail and small and medium sized enterprises). In this division, the concept of bancassurance had to prevail. A possible acquisition of a European retail bank fitted this policy. ING C&CM was directed towards wholesale banking, of which investment banking was part.

In 1995, Wolfensohn stated that with the exception of 'Brick', a code name used by ING, it had not found any other suitable investment bank to reinforce the sales and distribution capacity of ING (US) Capital. They were not for sale or asked too high a price.<sup>99</sup> 'Brick' fitted the strategic focus of ING on investment banking in the world. Moreover, the investment bank would reinforce the sales and distribution capacity of the investment banking activities in the US.<sup>100</sup> Since the creation of ING Group in 1991, the company had not been allowed to combine insurance and banking activities in the US due to the Glass Steagall Act of 1933. After a temporary exemption by the American authorities, ING decided to continue with the insurance division and to convert ING Bank New York into an investment bank, since the Act did not prevent the combination of insurance and investment banking. In November 1993, banking licenses were given up and ING (US) Capital was formed. The competitive position of this small investment bank was modest so that enlargement by other acquisitions was needed.<sup>101</sup>

While the possible acquisition was ongoing, another opportunity arose: the acquisition of Barings Group. The bank had endured a heavy financial setback of £ 600 million because of the Nick Leeson affair. According to the ING Executive Board, Barings fitted the ING strategy well, especially in relation to the emerging markets. Moreover, the price of Barings was acceptable. The most important disadvantage was that an extensive due diligence analysis was not possible, for lack of time.<sup>102</sup> Instead, a group of commercial and financial employees, IT specialists and the external accountant were asked to make a quick scan of Barings. The IT specialists of ING (US) Capital judged the systems as average but not unsatisfactory. They concluded that the control systems were reasonable, but that Barings' employees used them in a sloppy way, which meant in other words that

employees had often exceeded the assigned limits. The Bank of England typified the control process of Barings as rather informal.<sup>103</sup> In spite of these qualifications, ING acquired Barings on 8 March 1995. Contrary to ABN AMRO which had been interested in parts of Barings, ING decided to buy all the business activities of Barings. With the acquisition of Barings, ING Bank put itself in the world's ranking lists for the first time, which was reflected in its 50th place ranking in *The Banker's* Top 1000.<sup>104</sup>

In the United States, the investment bank 'Brick' mentioned previously was not acquired. ING was placed on the watch list by the rating institutes after the acquisition of Barings. Also the capacity of management was limited after the Baring acquisition. ING abandoned the idea for the moment.<sup>105</sup> However, securing a distribution channel in that country for investment banking received high priority.<sup>106</sup> Moreover, in order to remain competitive with the largest global firms, the ING investment bank needed to enlarge. It was not easy to find a suitable candidate, since prices of investment banks were high in the US boosted by high demand. Early 1997, talks on a majority participation in Dillon Read, in which Barings already had a 40% share, ended without result. Instead, Swiss Bank Corp's investment bank Warburg incorporated Dillon Read.<sup>107</sup> In 1997, a possible takeover of small-sized Furman Selz was discussed, which was in fact the second choice. ING at that moment was not equipped for the acquisition of a large investment bank.<sup>108</sup> With the reorganization, called *Blueprint*, it was not able to effectively manage the integration of a large firm. Furthermore, a large investment bank would be very expensive at a time when ING Group had many aspirations in all of its business groups.<sup>109</sup> However, the American bank located in New York did have some advantages. The acquisition would fit the expansion strategy in the US and subsequently would fill some of the management gaps in New York. Its client base, principally middle-market companies, was similar to that of ING (US) Capital. Finally, it was expected that the combined capability of Furman Selz and ING Barings would provide a platform for new business.<sup>110</sup> The acquisition was accomplished on October 1, 1997 for 600 million dollars in cash, after which integration with ING Barings in the US started.

By the end of 1998, because of the financial crisis in Asia and Russia, it became clear that ING Barings had incurred enormous losses, so that ING had to adjust its profit forecasts.<sup>111</sup> In the 1998 annual report, ING Corporate & Investment Banking (CIB) showed a loss of 2,167 million guilders.<sup>112</sup> M. Minderhoud, the responsible member of the Executive Board, resigned.<sup>113</sup> It was the first time that a member of ING Executive Board took responsibility for disappointing results. In 2000, parts of Barings and Furman Selz were either sold or integrated within ING. What had happened?

*Organization*

Barings had been active in venture capital, management buy-outs, corporate lending, treasury & trading, capital markets and securities distribution. Barings Plc had two sub-holdings, Baring Brothers and Baring Asset Management. The bank Baring Brothers consisted of Baring Securities and corporate finance activities, such as new issues, mergers & acquisitions. The bank also traded on its own account, especially in equities.<sup>114</sup> After the acquisition, ING division Corporate & Capital Markets changed its name into ING Corporate & Investment Banking (CIB), in which corporate banking activities were combined in ING Bank International and all investment banking activities in ING Barings.

As of January 1, 1996, Baring Brothers became an autonomous unit within the business division CIB, alongside ING Bank International, Treasury, Trading & Sales, Global Clients and Global Risk Management.<sup>115</sup> ING was determined not to integrate Barings with ING Corporate Banking, because they were afraid of an exodus of highly qualified employees. It was expected that a more integrated model would not be successful due to existing cultural differences. Both organizations retained their own name, staff and network within the Executive Committee CIB. Only risk management and secretariat were organized at executive committee level. The organization model was developed with assistance from McKinsey, which had recommended the separation of corporate banking, investment banking and treasury activities. At the time Barings was bought, ING had not yet decided on its final strategy. The opportunity to buy Barings came rather suddenly and decisions had to be taken fast (for example there had been no time for a due diligence). ING did not have a clear idea of how to fit Barings into its organization. In contrast to Deutsche Bank (see ABN AMRO section), ING rushed things more. After just a year, in mid 1997, when it turned out that costs were still high it was decided, in spite of McKinsey's recommendations, to integrate corporate and investment banking activities under the name ING Barings. ING Barings and ING Bank International had competed increasingly for the same clients.<sup>116</sup> This resulted in miscommunication, duplications and high costs. The integration project named Blueprint involved high costs and required dedication from management.<sup>117</sup> During the integration process of ING Barings and ING Bank International, it soon turned out that significant cultural differences existed between investment bankers and commercial bankers, which became apparent in the Executive Committee.<sup>118</sup> Besides, while New York management was still occupied with the integration project Blueprint, it had to deal with the incorporation of Furman Selz in the American part of ING Barings as well. The ongoing reorganization and integration projects began to cause uncertainty and unease. Management became more occupied with these projects than with daily business.

Within the Executive Board, members were rather unfamiliar with the investment banking business.<sup>119</sup> The fact that Barings was not just a bank, but one of England's oldest banks, made decision-making even more difficult. The Super-

visory Board had warned the Executive Board about the psychological effects of the acquisition. The Board had advised that Barings would lose its independent status and that it would take time and effort to integrate Barings' systems, mentality and culture into the ING organization.<sup>120</sup> The Executive Board of ING however had insufficient experience with the complex and fast changing world of investment banking. A Dutch member of the Executive Board, J.H.M. Lindenbergh who became responsible for ING Barings in 1995, was succeeded in February 1997 by M. Minderhoud. Both had no experience in investment banking. Until a suitable candidate was found, they received the status of CEO Barings in the American sense; one that chaired all meetings and took final decisions.<sup>121</sup> In contrast, the investment banking group of Deutsche Bank, after reorganizations in 1995, was headed by a board, of which three members came from Deutsche and two from Morgan Grenfell. The chief executive was from Morgan Grenfell as well. Obviously, they brought along experience and knowledge. At Barings, the investment bankers in London did not take Lindenbergh and Minderhoud seriously due to their lack of experience.<sup>122</sup> This attitude was reinforced by the fact that the acquisition of Barings was seen as a necessary evil by its management. Before the Leeson affair, ING already had talked with Barings' management, which at that time had not been interested in any kind of cooperation with other banks.<sup>123</sup> So, it was questionable whether the motivation of Barings' management and employees was high enough. After investigating the Leeson scandal, 21 highly positioned executives who had been involved were dismissed and they had taken with them essential expertise. So it became very important for ING to attract a qualified CEO who was able to carry the load. Lindenbergh was not able to find one, which was one of the reasons he was succeeded by Minderhoud. Only in 1997 did Minderhoud hire A. Mathrani as the first new CEO of ING Barings. He had been working at Chase Manhattan.

Because of differences in opinion, Mathrani left after just six months.<sup>124</sup> He particularly disagreed with the renewed focus on Europe, as formulated in the midterm plan of 1997. The most important strategic issues mentioned in the plan were developing an important position in the euro market, strengthening of investment banking activities and securing cost developments.<sup>125</sup> It was argued that a position in the European market was a necessary prerequisite to hold on to ING's strong position in the Netherlands.<sup>126</sup> In this context, we have to place the acquisition of the Belgian bank Bank Brussel Lambert (BBL) in early 1998, by which ING got a strong foothold in Benelux. The acquisition of BBL made Mathrani wonder where the priorities of the ING Executive Board lay.<sup>127</sup> For example, activities like trade in euro bonds and Dutch shares were transferred from London to Brussels.<sup>128</sup> This created bad feelings within Barings London. In October 1998 Mathrani was succeeded by David Robins from Union Bank of Switzerland.<sup>129</sup>

The ING Board underestimated the difficulties that came with integrating Barings into the organization. It was one of the oldest banks of England, making the acquisition a delicate issue. Not only the fact that Barings was proud to be British,

but also being an investment bank in general played a role. The resignation of Mathrani showed that investment bankers refused to play second fiddle. When he had the feeling that ING's priorities lay in Europe instead of in investment banking activities, he decided to leave the bank.

*Emerging markets and risk management systems*

One of the spearheads of policy had been the involvement in emerging markets. In theory the focus on this niche was a good choice, since competition was relatively low. ING (US) Capital already had built up activities in these markets and the acquisition of Barings reinforced this position. However, in the period after the acquisition this favorable situation came to an end when competition in the emerging markets increased.<sup>130</sup> Banks like Citibank became important opponents. Moreover, after the financial crisis in Asia, followed by recessions in Russia and Latin America in 1998, the transaction volumes in the emerging markets were not that large anymore. And in the mature markets where the volumes were large, Barings had no record of achievements to build up a strong position. The wave of large merger & acquisition projects and stock market quotations in Europe were interesting, but these were mostly done by the well-known American investment banks (See for example table 1). And in the American market ING did not have sufficient placing capacity in order to be competitive. ING Barings was a relative small player and faced difficulties competing with the American investment banks, which invested enormous amounts of capital in growth.<sup>131</sup>

Apart from growing competition in the emerging markets, another difficulty was the higher risk profile of these markets. ING was aware of them, but failed to reinforce the necessary control mechanisms. Management as well as accountants had underestimated the difficulties of ING Barings.<sup>132</sup> After the acquisition it turned out that more was going on than just the Leeson fraud. The administrative organization was not sufficient. In Singapore for example, Leeson had been responsible for the front office as well as the back office, which made control mechanisms ineffective. After a year Lindenbergh stated in the Supervisory Board that reparation work had been done and control systems worked again. Surprisingly, a year later the Audit Committee of ING Barings said during a meeting of ING Supervisory Board that the administrative organization and internal control did not yet meet the requirements. Instead of 'close to adequate' the committee qualified the system as 'weak to very weak'.<sup>133</sup> In August 1998, it was stated during a meeting of the Supervisory Board that improvement of the administrative organization had achieved little progress.<sup>134</sup> Trading activities were reported daily, but treasury activities only monthly. This gave a delayed understanding of results. The very poor results of the third quarter of 1998 had taken the Executive Board by surprise.<sup>135</sup> Because of a higher risk profile in the emerging markets in which ING was active, a more alert attitude might have been expected. In order to be able to control the risks involved in securities business, the Executive Board should

have had in-depth knowledge of trading securities. At Barings, a culture still prevailed in which doing business and making money was seen as more important than the administrative settlement.<sup>136</sup> This obviously had to do with performance-related payment.

### *Remuneration*

In August 1996 it became clear that salaries at the bank side of ING had increased by 23.6%, of which more than half was caused by ING Barings.<sup>137</sup> This was especially surprising, in light of the fact that Barings only performed moderately. At Barings employees were used to relatively low salaries, compensated by high bonuses. This had been possible since Barings had been administered by a foundation. Profits did not have to be paid out as dividends to shareholders, but could be used to pay employees. After the acquisition of Barings, ING had already invested millions in bonuses in order to keep Barings employees; in 1995 the amount was £ 87 million. Halfway through 1996 the budget for bonuses was adjusted from £ 72 to £ 95 million.<sup>138</sup> Again, the main reason was that the Executive Board was afraid qualified people would be bought by the competition.<sup>139</sup> High costs due to high bonuses remained a great concern. In addition to ING's Executive Board, the Dutch central bank (DNB) had also expressed its concerns about the rising bonuses in a letter (dated October 31, 1996).<sup>140</sup> So, every year ING Executive Board and Barings' management team discussed the amount of bonuses, which more or less escalated in 1997 when the issue was raised again. The management team had calculated an amount of 140 million guilders for bonuses, which Lindenbergh had already decreased to 120 million. However, the Executive Board did not want to go beyond 105 million.<sup>141</sup> Barings management pointed to the market in which extremely high bonuses were being paid to top performers. ING Executive Board however stressed the fact that ING Barings clearly did not belong to the top performers. The Board had objections to the ever growing bonuses and moreover was afraid the special treatment of Barings employees would spread to other employees of the international organization of ING.<sup>142</sup> In the end Executive Board lost the argument and decided to pay the bonuses.<sup>143</sup>

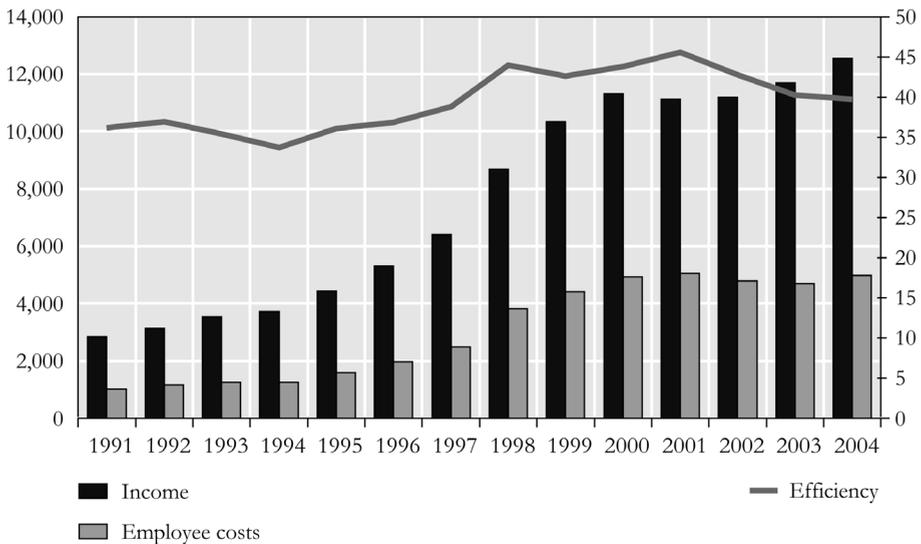
Although bonuses were related to performance, in practice there turned out to be a minimum. That had to do with the fact that banks building up investment banking activities were afraid their experienced employees would leave for banks that paid better. The labor market in financial centers was transparent and its employees were very mobile. Loyalty was not so high, which was reinforced by the fact that in the investment banking business people were easily hired and fired. Competition on the labor market was fierce, due to competition from European financial companies trying to build up investment banks. Buying teams of specialists back and forth happened frequently. For example, directly after the acquisition in 1995 ABN AMRO bought a team of 30 Barings dealers.<sup>144</sup> In the Netherlands it was unusual to buy a team of employees from the competition. De Nederlandsche

Bank had expressed its disapproval, but could not prevent it.<sup>145</sup> Relations between ABN AMRO and ING were flagging. In 1996, Deutsche Morgan Grenfell bought 44 specialists from ING.<sup>146</sup> In Latin America a team of 60 employees (of a total of 117) left ING Barings.<sup>147</sup> ING especially distrusted Deutsche Morgan Grenfell which was aggressively buying people from other banks.<sup>148</sup>

Remuneration was an important means in trying to hold on to qualified people. Sometimes even fixed bonuses were promised in order to be able to attract people. This solution resulted in frustration among current employees. Moreover, if results were not so good, these fixed costs remained. Because of these tendencies, hiring people became increasingly expensive. Although income was satisfactory, often it could not keep up with employee costs. In figure 3, we see employee costs of the banking arm of ING, including investment banking. It gives an impression of the rising costs, which increased faster than income, resulting in decreasing efficiency between 1994 and 2001. In 2001, almost 45% of income went to employee expenses. After selling or integrating investment banking activities in 2001, we see that employee costs stabilized and income increased.

**Figure 3: ING Bank NV**

*Income and Employee costs (left axis, in million euros) and Efficiency: employee costs as % of income (right axis, in %)*



Source: Annual reports ING, 1991-2004.

ING gradually dropped its ambition to become a world leader in investment banking. After the crisis of 1998 followed by profit warnings, ING refocused its strategy in order to reduce its risk profile (for example, ING Barings had to reduce

trading on its own account) and to lower costs by 25%.<sup>149</sup> The goal to become a global player was given up. Conversely, ING was faced with the difficulty that it had to somehow remain active in investment banking activities in order to keep its large international clients. In a strategic review it was stated that ‘...it would never be possible to profitably conduct corporate banking activities without a (basic) investment product line’.<sup>150</sup> Therefore, Corporate & Investment Banking (CIB) stayed a separate business unit, but it focused more on middle sized companies in specific branches. The middle market segment for corporate and investment banking activities was growing. Moreover, less competition was expected from the large investment banks which were aimed at the large multinational clients. The geographic focus was on the European market, Japan and the US. Jobs disappeared especially in Asia and Latin America.

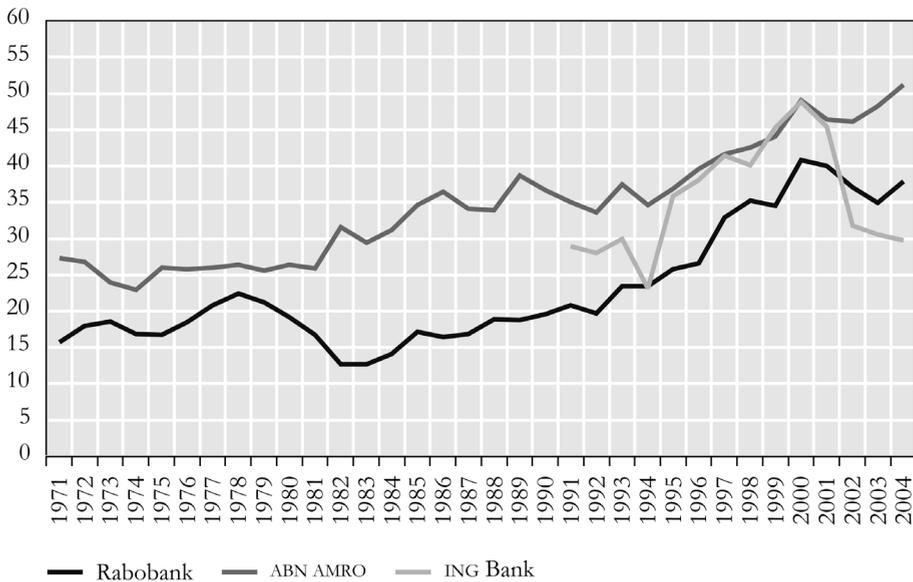
In 1999 and 2000 CIB showed a profit of € 219 million and € 280 million respectively. However, results deteriorated again during 2000, with the last quarter showing a loss of 58 million.<sup>151</sup> As a result, already in the year 2000 strategy was reconsidered again. That year, E. Kist succeeded G.J.A. van der Lugt as chairman of the Executive Board. It was decided that the business unit had to disappear and investment banking activities were integrated into the regions. This meant that ING Barings was integrated into ING Europe together with the investment banking activities of BHF, BBL and ING Bank. Barings’ head office in London was closed down and many of its employees dismissed.<sup>152</sup> In 2001, the American investment banking business was sold to ABN AMRO. In the US, it turned out impossible to compete with the large American investment banks that had become even larger by recent mergers and acquisitions. The new goal was to build a wholesale and financial market organization centered in Europe.<sup>153</sup> The financial market activities of ING Europe reported to M.J. Tilmant (from BBL) and the wholesale activities to Lindenbergh, both members of the Executive Board of ING. Apart from the European division, the American division with its life insurance business became the centre of attention again. ING wanted to get a place in the American top ten life insurers. Indeed, as we have seen in chapter 1, ING acquired two large American companies in 2000: Reliastar and Aetna.

### Conclusion

In the 1980s, banks were already aware of decreasing interest margins and therefore tried to focus more on a modern portfolio of banking services that were related to provision (fee) income. After the merger wave in the financial sector around 1990, this trend persisted as we have seen. Diversification became an important means to growth, together with internationalization. Part of diversification was the move in strategy to investment banking, which led to another income pattern by which interest income declined relatively compared to provision income as can be seen in figure 4. In the 1970s at ABN Bank, other income consisted of around 25-30% of total income. At the end of the 1990s, this percentage increased

to 50% of total revenue. This highlights the fact that ABN AMRO had diversified largely into other activities than traditional banking. Rabobank generated about 15-20% revenue from other activities than traditional banking in the 1970s and 1980s. In the 1990s, this percentage increased to 30-35% and peaked in 2000 at 40%. ING Bank gives a similar picture, whereby non-interest income increased from 29% in 1991 to 49% in 2000. The acquisition of Barings in 1995 shows a large increase in non-interest income. However, the year 2000 marked a breaking point after which ING Bank's interest income again increased relatively. In addition, the income of Rabobank and ABN AMRO show that after 2000 non-interest income decreased.

**Figure 4: ABN AMRO, ING Bank and Rabobank**  
*Diversification: non-interest income as % of total income, 1971-2004*



Source: Annual reports ABN Bank (ABN AMRO as of 1990), Rabobank and ING Bank NV.

At the beginning of the 1990s, ABN AMRO, ING and Rabobank faced a saturated home market and growing foreign competition. As expanding in the European market remained difficult, the banks chose to diversify into investment banking. In the late 1980s with the booming stock markets, there was a general feeling that only a few large global companies would dominate the international banking business. In order to keep large corporate clients, who asked for complex capital market products, the banks were forced into investment banking. Furthermore, the provisions in investment banking were high. Expanding in investment banking

required a worldwide distribution capacity and thus a worldwide presence, of which the US was most important because of its mature securities market.

The focus on investment banking by the three Dutch financial companies in the 1990s is an interesting development. It reflects the assumption Keetie Sluyterman made in the conclusion of her book on Dutch business.<sup>154</sup> She stated that although companies take individual decisions, they are active in the same business environment and face the same external obstacles and stimulus. We have seen that because of development in the markets, the Dutch financial companies indeed changed their strategies. An example was the globalization of the capital markets, enabled by technological innovations, resulting in growing international competition and decreasing margins in traditional banking. As Sluyterman also argued, apart from sharing the same external developments, the Dutch companies kept an eye on each other's strategies, which was reinforced by consultants like McKinsey and more transparency in general. Therefore they follow the same strategy. Because of a combination of the two, all three Dutch companies decided to expand their investment banking business. They were afraid to miss the boat, so to speak. The way the companies expanded into the new investment banking activities differed.

Why weren't the Dutch banks able to turn their investment banking activities into a success? It was a combination of economic factors (recessions), market structure, organization and management failure, and cultural differences. In 1998, because of the crisis in Asia and Russia, the investment banking activities of ING Bank NV and Rabobank showed disappointing results. Both decided to withdraw or to integrate their activities. ABN AMRO bought ING's American investment banking business. In 2001, however, the bursting of the dot-com bubble marked the beginning of a recession. The bank was not able to achieve its objectives.

In the US the market for investment banking was different from the market for commercial banking, as ABN Bank had experienced. In the 1970s and 1980s, the American commercial banking market had been fragmented, consisting of innumerable banks that often had no international department. ABN Bank with its worldwide branch network in other words had been able to add value in the American market. The American investment banking market was completely different. The Glass Steagall Act of 1933 had separated commercial from investment banking. The investment banks had built up experience for years and had been able to develop into dominant banks because of the large American capital market. On the one hand, the Dutch companies depended on a successful establishment in the American market, where distribution capacity was large, provisions were high and innovations took place, but on the other, they were not able to compete with these American investment banks. In contrast to the American market, the Dutch market for investment banking was small. They had not been able to build up long-term and in-depth knowledge of this specialized banking activity. This was quite different from the experience the Dutch companies had built up in agribusiness or financing medium-sized companies. Moreover, instead of gradual expansion or incremental growth, by which companies increase their foreign

investments when the perceived risks have decreased because of a learning process, the expansion in investment banking took place during a shorter time span. Because they were afraid to miss the boat, many decisions were taken in a short time and there was little time or room for learning and reconsidering strategy.

Of the three companies, ABN AMRO had the best prospects for success. First, its predecessor ABN Bank had built up a worldwide network of branches and corporate clients. Consequently, the bank had a global basis for sales and support of investment banking activities. Secondly, ABN AMRO had a leading position in investment banking in its domestic market. Finally, the bank had relatively experienced members in the Managing Board. ING and Rabobank on the other hand lacked experience. ING's predecessors had been active either in insurance or in the retail side of traditional banking (small to medium sized companies and consumers). The only experience of NMB Bank in complex financing was in the emerging markets. This was reflected in the Executive Board of ING, where not one member had sufficient knowledge of investment banking. Rabobank had been the most traditional bank, whose activities were dominated by credit granting and savings accounts. As a result, little experience in the fast changing investment banking world was present. The cases have shown that a certain degree of professional knowledge in the highest echelons of the company is needed to be able to manage expansion into new activities. Moreover, all three banks lacked experienced senior executives located directly below Managing Board. For a long time the Netherlands only had a small market for issues and Dutch shareholders had not been very active. As a result, the Dutch market for investment bankers was small. Although in the 1990s changes took place, there still was a shortage of experts. Senior management was therefore often hired from foreign investment banks.

The risk management systems, required to control the risks involving investment banking activities, were more complex than the usual credit risk systems. The importance of sufficient control systems has been underestimated especially by ING Bank NV and Rabobank. ING was faced with difficulties to improve the failing Baring systems and Rabobank did not succeed in putting an adequate risk management system in place at first.

We have seen (in chapter 3) that the incorporation of outside senior executives can be useful if expertise is not available within the company or unfavorable decisions have to be made. In the 1990s, however, the Dutch banks hired large numbers of investment bankers, sometimes even complete teams. The invasion of a large number of investment bankers together with their different dominant culture resulted in internal conflicts within all three companies. The strategy of the Dutch companies had rested on the assumption that the existing corporate banking organization first cooperated and later on would be integrated with investment banking. They underestimated the differences in culture between the two, which made cooperation extremely difficult. For example, the required knowledge of an investment banker was so specific, that it often went hand in hand with solo performance instead of cooperation. Especially, the related high

bonus culture was hard to accept for the existing organization of the companies. Bonuses were a vital tool for investment banks to motivate their employees. The danger of the bonus system however, is that making short-term profits becomes more important than the continuity and long-term success of the company. In the 1990s, it became more common to give employees a guaranteed bonus for two to three years, in order to keep them, and after which they often left for another investment bank. They showed little loyalty. Another aspect of high mobility of employees and CEOs is that it becomes hard to build up skills, expertise, and corporate culture within the organization, while corporate culture can be important for informal control systems, like personal contact and relations based on trust. Informal control systems covered by corporate culture could be an addition to formal control systems, which obviously remained very important in investment banking as Leeson among others has demonstrated at Barings. Moreover, sometimes it was difficult to justify the companies' priorities to the investment banking CEOs. They expected to be given highest priority in the expansion strategy. When for example ING bought BBL, which was an important strategic step to get a foothold in Europe, the CEO of Barings resigned.

To be able to compete with the established American investment banks, enormous amounts of capital were required, which the Dutch banks were not able or willing to invest. In the 1970s and 1980s the prices of banks and insurance companies were much lower compared to the 1990s. As a result ABN Bank had been able to expand in the American market by buying commercial banks in the state of Illinois and integrating them into one strong organization. This so-called stringing of a chain of beads had been a cautious and rather conservative way of expansion. The bank tried to develop the same strategy by buying relatively small investment banks worldwide. However, the geographic distances made it difficult to cooperate, which was reinforced by the attitude of investment bankers who felt very strongly about autonomy and reputation. ING bought Barings that was bankrupt and Furman Selz that was not too expensive but was not completely in line with its strategy (the acquisition of Dillon Read, first choice, had failed). Probably this reflected the Dutch risk-avoiding mentality. In spite of many (financial) setbacks, Deutsche Bank, on the other hand, held on to its strategy and in the end succeeded in becoming an (the only European) investment bank. Deutsche Bank invested enormous amounts in its investment banking division, even aggressively buying executives from competing banks. The bank paid a high price for Bankers Trust. In 2000, Deutsche Bank had made corporate and investment banking its core business. In the same year, ABN AMRO had done the same, but in 2005 decided to move out and integrate its investment banking activities into the core business of medium sized enterprises.

Capital was not only needed for acquisitions. Operational costs were also high due to large bonuses. As we have seen, ABN AMRO reserved almost 100 million dollars in order to keep senior management of Barings US, on a total acquisition price of no more than 300 million dollars. One of the advantages of investment

banking was its high provisions. However, it turned out that, compared to interest margins, the revenues of investment banking activities were also volatile, due to fluctuations in capital markets and short-term relations with clients (more transaction driven). In addition, the reorganizations consumed a lot of capital. Therefore, costs grew often twice as fast as revenues. However, the question remains whether ABN AMRO and ING would have been able to compete with other large investment banks if they had invested more capital. In the banking world a consolidation process had been taken place and still takes place. The Dutch banks saw competing banks merge with or acquire each other. As a result the effective size for a successful investment banks appeared to be rising, and with it financial commitment. Particularly, the American investment bank were extremely large and competitive. They had lengthy experience and were able to fall back on their profitable home market. In times of economic recessions these large investment banks were able to counterbalance a loss more easily.

In spite of the difficulties encountered, ABN AMRO, ING and Rabobank could not contemplate withdrawing completely from the investment banking business. They had to remain able to offer investment banking products to their large, international clients. Today, all three indeed offer investment banking products. However, the goal of becoming a global investment bank has been abandoned and the emphasis is no longer on global clients and the American market, but on middle sized clients and European and Asian markets. This renewed focus was reflected in the organizational structure of the companies, in which investment banking no longer formed part of the business units.



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## Conclusions

### Central research question

ABN AMRO and its predecessor ABN Bank have built up one of the largest foreign banks in the US. It acquired LaSalle, a commercial bank located in the Midwest directed towards the middle market. ABN AMRO also has branches located throughout the US to serve large international clients. The two organizations together formed the largest foreign banking organization in 2006. Rabobank is getting a foothold in the American market as well. Apart from a branch in New York and related representative offices in some major American cities, the cooperative bank acquired its first American bank in 2002. In subsequent years more acquisitions followed. The branch serves agricultural wholesale clients, while the subsidiaries provide services to local farmers (country banking). The insurer Nationale-Nederlanden, since 1991 part of ING, has built up a life and non-life business in the US by means of acquisitions. The expansion of ING Direct, the Postbank concept with a new look, has expanded not just in the US but also in a number of countries worldwide.

In the late 1990s, these Dutch companies sold parts of their American activities. In 1998 ING put its non-life activities on the American market up for sale. In 2001, ABN AMRO sold European American Bank and six years later the bank sold its previously highly profitable mortgage business. Moreover, ING, Rabobank and ABN AMRO did not succeed in establishing a lasting position on the American investment banking market, which was considered an essential element in becoming an investment bank of worldwide significance. Based on these findings I formulated the following research question in the introduction of the book: *Which activities were Dutch financial companies able to exploit successfully in the American market, and in which activities did they fail? How can we explain differences in success between parts of the same company and between different companies?*

The conclusions are divided into four parts. The first section summarizes in which activities the companies have been successful and in which they have not, based on the chosen definition of success. The second section presents explanations for success and failure, supported by table 1. The third relates internationalization with national business systems, whereby the role of Dutch and American business systems in the successful or unsuccessful expansion process of the financial

companies are given more explicitly. Finally, this chapter concludes how the Dutch business system is changing and to what extent we can speak of ‘Americanization’ of the national business system (see also table 2).

### **Five activities: successful or not?**

I have measured success by calculating whether companies reached their formulated objectives. I noticed that in the 1970s and 1980s for Dutch companies, continuity and a long-term view, by which all stakeholders were considered in decision-making, prevailed over making profits in the short term with a focus on shareholder value. During the research it became apparent that ABN AMRO and ING changed their own definition of success. In the late 1990s, they increasingly focused on shareholder value and making profits in the short term. Consequently, they began selling parts of their American organization more readily, which can be seen as a break from the past. Selling of an activity does not necessarily mean that the activity has not been profitable in itself. The activity may simply not fit strategy anymore or may not be as profitable as shareholders desire. The latter refers to the fact that in the shareholders’ opinion the company has to allocate its capital in the most efficient way. Bearing this in mind below I have summarized in which activity each case has been successful and in which activity it failed.

ABN AMRO met its objective of growth and raising market share in the American market. The bank has developed into one of the largest foreign banks in the US. The bank has been successful in its expansion, especially in servicing the middle market through its subsidiary LaSalle in the Midwest. The selling of European American Bank must not be seen as a failure. The bank operated profitably, but did not fit ABN AMRO’s strategy. ABN AMRO wanted to focus on LaSalle in the Midwest. By that time, it also had become more common (or an element of corporate culture) to sell parts of the organization. The selling of its mortgage business, which had been very profitable, has been a response to changing economic conditions. In contrast, the bank did not reach its strategic objectives in investment banking, so that we can speak of an unsuccessful expansion of this activity in the American market.

At first Rabobank did not reach its objectives in expanding wholesale banking activities. It did not succeed in servicing its Dutch clients. As a result, the New York branch had not become profitable within the stated time period. It has taken a relatively long time to become truly successful. Reinforced since the 2000s by the expansion of retail banking in California, by now, the bank is meeting its objective in becoming a leading agricultural bank. Therefore we can state that its expansion in the American market has become successful. I have to stress that Rabobank for that manner cannot be compared with ABN AMRO, which has formulated different objectives. Rabobank wanted to become a specialized worldwide player, while ABN AMRO desired to develop into a global player active in all financial sectors. The cooperative bank did not desire having the largest market

share in de US but wanted to have a (small) present to be able to service its agricultural clients.

While life insurance and ING Direct have been successful, the investment banking and non-life insurance activities of Nationale-Nederlanden (ING) have been a failure. By its expansion in the American market, Nationale-Nederlanden was able to spread its risks and to grow by enlarging its market share. Most goals, formulated in the in the 1970s, were obtained. Non-life insurance was rather successful during the 1970s and early 1980s, but this picture changed in the second half of the 1980s. The fact that the non-life insurance activities were not sold before 1998, had to do with the cultural legacy of the company. Until that time, the company was not used to selling parts of its organization; rather it did anything to make an activity profitable again. It tried to do so for years but failed, whereupon the insurer decided to sell the business. ING never has been able to build up investment banking activities, which had been one of the objectives in the 1990s.

### **Explanations for success and failure**

I have looked at characteristics of companies and markets, to explain the different degrees of success between types of banking and insurance activities. Countries' institutions differ due to historically developed business systems. The differences are reflected in their companies and the way they do business. By institutions I mean not only the legal system or the labor market, but also less visible institutions like for example norms and values. Because of different business systems, I presumed that the ownership advantages of Dutch companies were different from the ones of American companies and that the American market had different locational advantages than any other country. By analyzing the differences I was able to find out why the Dutch companies were able to become successful in some activities and in others not. The outcome of the research is presented in table 1, which contains supporting and restraining factors that explain the degree of company's success. The table has been inspired by the one Rene Olie developed to explain the degree in success of cross border mergers, of Dutch-German mergers to be precise.<sup>155</sup> Its format has been accomplished in cooperation with Maurits van Os, who as a participant of the BINT project writes his dissertation on cross border mergers. Table 1 relates to cross border acquisitions (and foreign branches) of companies and cannot be applied to all expanding companies of any nationality. The outcomes only apply to Dutch financial companies expanding in the American market between 1965 and 2005. For each factor, a more detailed description is given below.

## 1. Environment

### *Political and economic conditions*

#### National politics

In the 1970s and 1980s, the American market became an attractive market for investments. The predecessors of ABN Bank, for example, had been active in Asia, South America and Africa. Political unrest and economic instability, which led to nationalization of property, contributed to the bank's decision to shift its focus to more stable countries in Western Europe and North America. A few times in the studied period, Dutch banks and insurance companies gave priority in their strategies to expansion in Western Europe. However, for a long time Western Europe had not been an attractive market for banks or insurance companies to expand due to protectionism and nationalistic tendencies. For example, the French state had a large influence on the banking sector and preferred to financially support a bank in trouble rather than let it be acquired by a foreign company. Even more recently, ABN AMRO met fierce resistance during the acquisition of the Italian bank Antonveneta. In contrast, the American market was more open to foreign investors. Everything was for sale, as long as the shareholders were being paid.

#### Capital flows

An important factor that made the American market attractive was the collapse of the Bretton Woods system worldwide, by which countries had been obliged to adopt a monetary policy that maintained the exchange rate of their currencies within a fixed value in terms of gold. In the international monetary system after 1973, exchange rates were liberated and left to the market again. One of the results was that countries started to develop their own monetary policies. All limitations on international capital transfers disappeared, resulting in a liberalization of capital flows. The shortage on the capital markets became a thing of the past, so that companies were able to finance their international expansion again. As a result, Dutch companies started expanding into the American market on a large scale, which, in order to keep their clients, necessitated Dutch banks expanding to the us as well (follow-the-client).

#### Number of alternatives

Companies have to allocate their resources such as people and capital in the best possible way. Thus, when the number of attractive alternatives for expansion enlarges, the allocation decisions companies have to make become more urgent. In the 1970s and 1980s the Dutch companies looked for economically stable countries. The Dutch banks and insurance companies focused on American expansion. In Western Europe the Dutch banks and insurance companies were

not able to find many suitable companies that were for sale, so that the alternatives for expansion declined.

During the 1990s the alternatives for expansion enlarged. First, in the early 1990s, after relaxation of the Dutch structure regime, national mergers were an important means for growth, creating ABN AMRO and ING among others. And since expansion in Europe was still difficult in spite of the emergence of a single European market, the financial companies turned to investment banking. The number of alternatives for growth increased further when in the mid 1990s Eastern Europe, South America and Asia became attractive investment regions as well. The dominance of their American organization within these banks declined relatively to other regions and activities. For example, after the reorganization in 2000 at ABN AMRO the role of the American region declined, since all American investment banking activities were transferred to SBU Wholesale Banking. The emerging markets became less attractive investment locations after the crisis in the emerging markets in 1998. Instead, in the late 1990s, the Dutch companies became interested in expansion on the European market again, since they wanted to play a role in the future Euro zone. As a result, the relative dominance of America within the Dutch companies decreased during this period.

### *Market size and structure*

#### Market size and development

The Dutch financial companies saw the American market in general as an attractive market because of its size and maturity and because it was not saturated. For Rabobank the large agricultural sector has been of importance, while Nationale-Nederlanden (and AEGON) saw many possibilities in the American life insurance sector, where half of worldwide premium income was generated. In New York, which had been the financial centre of the world since WWI, companies were able to find the latest financial products and knowledge. In general the Americans showed an entrepreneurial spirit and companies could rely on a good infrastructure. The labor market provided qualified bankers, which the Dutch companies were able to use in heading branches and subsidiaries.

In addition, when the Dutch companies decided to expand in investment banking in the 1990s, they faced an American investment banking market that was well-developed and was backed by a large and mature capital market, in which complex financial products were being developed. In comparison, the Dutch capital market was relatively small when the Dutch companies started to expand in investment banking. The small scale was shown, among other things, in the national labor market where relatively few experienced investment bankers could be found.

### Market structure

There is a distinction between home and host country. It has been shown that an oligopolistic home market and a fragmented host country have been supportive for companies expanding abroad. After the national mergers, in 1964 between *Amsterdamsche* and *Rotterdamsche Bank* and between *Twentsche Bank* and *Nederlandsche Handel-Maatschappij*, and in 1972 between the two central organizations of the cooperative banks into Rabobank, an oligopoly of four banks had emerged: ABN Bank, Amro Bank, Rabobank and NMB. They were confronted with a saturated home market. *Nationale-Nederlanden*, the product of a merger in 1963, was the largest insurance company in the Netherlands, and faced few expansion prospects at home. Because of the saturated home market, Dutch banks and insurance companies were pushed to expand their markets abroad. In contrast, because of the McFadden Act (1927), which prohibited interstate banking, the American commercial banking sector was fragmented and consisted of many relatively small banks that often did not have an international department. Because of early international expansion, ABN Bank, in comparison, had built up a worldwide network of branches. In addition, Rabobank faced small American agricultural banks, which did not support the American agricultural companies that wanted to export their products.

The American market for investment banking was different. The Glass Steagall Act had led to the development of an oligopoly of specialized investment banks that operated nation-wide, which differed from commercial banks. Both served the same clients but with different products. The investment banks had built up years of experience and had developed into competitive companies thanks to a large home market. Because of fierce competition, it was difficult for Dutch (and other European) banks to get a foothold on the American investment banking market.

### *Legislation*

The Dutch central bank had been supportive in the emergence of large Dutch banks. DNB did not disapprove of the mergers in 1964 (*ABN Bank* and *Amro Bank*) and 1972 (*Rabobank*), because it was of the opinion that larger combinations were more capable of withstanding foreign competition. In 1990 the structure regime was relaxed so that insurance companies and banks were able to merge. The national mergers into *ABN AMRO* and *ING* among others have been important in enabling them to play a significant role in the world.

In contrast, American legislation, especially the McFadden Act had not been so supportive in the creation of efficiently operating commercial banks that were able to compete with international banks. It had created a fragmented market of many small banking organizations. On the other hand, due to American legislation a strong investment banking market had emerged. Although the Glass Steagall act (1933) had restrained commercial banks from expanding into other activities,

at the same time it had supported investment banks in becoming specialized in securities related business by building up expertise over decades.

Before 1979, American banking legislation had been favorable to foreign banks, since the federal McFadden Act and Glass Steagall Act did not apply to them. ABN Bank took advantage of the loopholes and expanded in the 1970s by opening branches in different states and by starting securities activities. Instead of buying an American bank in the over-banked states of New York or California, which most of the foreign banks did, ABN Bank bought one in Chicago. The acquisition of LaSalle made Illinois its home state. After 1979, thanks to the rigid legislation of Illinois, there was little competition in the acquisition of banks, especially compared to New York where the barriers on interstate banking were lifted much earlier and competition to acquire possible candidates was large, which led to an increase in prices of acquisition candidates. In Illinois, ABN Bank was able to expand relatively easily by acquiring banks and integrating them into one banking organization.

## 2. Strategy

### *Choice of location*

#### Buyers or sellers market for acquisitions

Although Chicago (Illinois) had not been ABN Bank's first location choice, it turned out to be a very good one. First, as we saw above, the rigid state legislation on interstate banking was favorable for ABN Bank's expansion. Moreover, in over-banked New York, few expansion possibilities were present. In Illinois on the other hand, more acquisition candidates were available with fewer possible buyers. As a result, acquisition prices were not yet as high, which also applied to salaries. For Rabobank, high staff costs in New York were one of the reasons it opened Loan Production Offices (LPOs) in other cities of the US to service its clients, instead of servicing them from the New York branch.

Finding suitable candidates for expanding their investment banking activities in the US was more difficult. In the 1990s, because of the worldwide consolidation process, the prices of important investment banks among others had become high. The Dutch companies settled with less costly, but also less attractive alternatives.

#### Economies of scale

Nationale-Nederlanden and ABN Bank acquired a number of American companies in the 1970s and 1980s. ABN Bank, more or less forced by legislation, bought banks in the state of Illinois, integrated them and built up one strong banking organization. Recently, Rabobank used the same strategy by buying local, agricultural banks in the state of California. Nationale-Nederlanden, on the other hand, acquired relatively small life and non-life insurance companies spread over the US.

Since the mid 1980s, in order to remain profitable they had to cooperate and reach synergies. The achievement of economies of scale involved considerable time and effort. The Dutch company did not succeed, since it was not able to raise productivity. In the late 1990s it sold some parts of its existing organization (non-life insurance) and replaced them with two large insurance companies ReliaStar and Aetna. These companies themselves were so large, that we can say that ING through these acquisitions bought economies of scale.

### *Time scale of expansion*

#### Incremental or radical expansion

ABN Bank, Rabobank and Nationale-Nederlanden cases demonstrated an incrementalist growth path. It presumes that companies in a foreign country will invest more when the perceived risks diminish. The risks will diminish when the companies build up knowledge of the country by learning. First, through the international background of its predecessors, ABN Bank had built up (colonial) experience, which has played a positive role in the American expansion of the company. ABN Bank started in New York in 1941 and in the 1970s opened several branches and representative offices in the country, directed towards wholesale banking. In 1979, the Dutch bank bought its first American bank to serve retail and middle market clients. Between successive acquisitions, time periods had been long enough to merge and integrate them. Rabobank, which lacked international practices, experienced more difficulties, which resulted in a demanding start in the us. Rabobank New York expanded quietly, by opening up representative offices in the cities Dallas, San Francisco, Chicago and Atlanta, which served wholesale clients. Only in 2002 did it acquire an American bank in California, which focused on large, local farmers (retail banking). The bank had obtained its first knowledge of this so-called country banking principle in Australia, with the acquisition of PIBA. The expansion of Nationale-Nederlanden was no exception. Like ABN Bank, the insurance company had been active in former colonial and emigration countries, including Canada. In Canada, it collected its first knowledge of the American market, which lowered the barriers to enter. While Nationale-Nederlanden made use of local agents in the colonies, the insurer expanded in the us by taking over local insurance companies. Knowledge of local legislation and taxation was important, since insurance products are tightly interwoven with them.

The Dutch companies learnt by their own experience. The predecessors of Nationale-Nederlanden and ABN Bank had already been highly active internationally. In the us, the banks were able to hear of and learn from the latest developments in New York, the financial centre of the world since World War I. They also gained knowledge of the us market by incorporating people and companies. Steensma, head of Rabobank New York, came from Bank of America. The acquisitions of American banks with their own American employees led to even

more knowledge of the American market, products and clients. The American subsidiaries had their own ownership advantages so to speak. Finally, they searched for knowledge by hiring American lawyers and consultants. Maybe even more important has been the time span in which the Dutch companies were able to learn and to expand rather carefully. In the period 1970s-1980s competition was less as compared to the 1990s.

The rather cautious way of expanding in the 1970s and 1980s was quite opposite to the expansion in investment banking in the 1990s. ABN AMRO, ING and Rabobank had some experience in the national securities business, but not in worldwide investment banking. Not only senior management, but also members of the managing board had little knowledge. Because of increasing competition and fear of missing the boat, the Dutch companies felt they had to move fast. During their expansion in the complex and fast changing investment banking world, there was little time to cautiously integrate an investment bank and learn from it. Instead of incremental and rather cautious growth, they had to grow fast in order to be able to keep up with competition, which became more dominant every day because of the worldwide consolidation wave in the financial sector.

#### Pace of expansion and capital strength

ABN AMRO, Rabobank and Nationale-Nederlanden have been financially strong companies. Because of its cooperative character Rabobank has no shareholders. The bank has been able to appropriate annual profits to its capital, instead of paying it out as dividends to shareholders. Its strong capital base has been one of the reasons the bank has received a triple-A status from important rating agencies, reflecting its strengths. Since the bank does not want to lose the triple-A ranking, it will continue to expand only in a modest way. Since the 1960s Nationale-Nederlanden has bought large shares in around 60 companies, listed in the Dutch stock market which has contributed to an increase in capital.

In general, the Dutch banks and insurance companies have expanded in a conservative way. This put little pressure on the capital base of the companies since the prices of American companies they bought in the 1970s and 1980s were not so high. In the 1990s, when prices of acquisitions and the involved goodwill had risen, the pressure on their capital enlarged. For example, ING's acquisition of Aetna and ReliaStar involved a goodwill amount of 10.7 billion euros, which was almost one third of its total equity at that moment.

#### *Type of organization*

##### Full control versus shared control

Three examples in this study have pointed out that the Dutch banks and insurance companies were most successful when they had full control of their foreign organization. None of the joint ventures were a lasting success. Before the merger with ABN Bank in 1990, Amro Bank, as member of the EBIC consortium, had a

share in the European American Bank, located on Long Island, New York. In 1989, the bank enlarged its share to 66.33%. However, the American bank experienced difficulties. In times of shared ownership it turned out to be complicated to make strategic decisions. The EBIC partners developed their own priorities. Deutsche Bank for example was the first which had its own New York branch. After the merger, ABN AMRO increased ownership to 100% and was able to make European American Bank a profitable subsidiary.

Nationale-Nederlanden was not pleased with the organization of Peerless, from which at first it received 10% of profits, while the company was managed by an American organization. As soon as possible, the Dutch insurer enlarged its share. Lastly, Rabomerica, the joint-venture of Bank of America and Rabobank, was closed down after some years. It competed on the Dutch market for the existing clients of the American and Dutch bank. Moreover, decisions were hard to reach since no bank had a majority.

#### Retail versus wholesale customers

It has always been presumed that financial companies, because of the characteristics of their services, needed to build up a relationship of trust and personal contact with their clients. There is a difference between servicing retail and wholesale clients however. The case studies have shown that branches have been sufficient for servicing large, international clients and that the Dutch companies preferred the acquisition of a local company for servicing retail clients, because of its established name, products, management and general familiarity in the local community. However, the case of ING Direct, which is a concept that has been exported from the Netherlands, by which people can open a savings account via the internet, shows that direct personal contact was not required anymore. Due to individualization and new technology (internet) this had become possible. Trust remained an important factor, which was built up by marketing efforts (brand awareness, opening cafes, and regional promotions).

#### *Type of activity*

##### Exporting ownership advantages

In knowledge-based business like banking and insurance, companies are most successful abroad in activities they have practiced in their home market for a long time; that is to say activities in which the companies have been able to build up an ownership advantage. Originally, ABN Bank and Amro Bank were primarily wholesale banks, that had turned to retail banking in the 1960s and 1970s as well. Abroad ABN Bank had expanded successfully in those two segments. After disappointing results in investment banking directed towards the largest companies in the world, the bank turned to the middle market again. Rabobank exported its agricultural knowledge abroad. The bank lost its focus sometimes, which in the mid 1990s peaked with the attempt to set up an investment bank. However, since

it combined international wholesale banking with country banking, the cooperative bank truly exported its agricultural expertise and skills. ING was successful in exporting the Postbank concept, named ING Direct, again a concept that had been flourishing in the Netherlands for decades earlier.

#### Expenses versus income

Apart from higher take-over prices in the 1990s in general, investment banking demanded lots of capital because of high bonuses and reorganizations. Vis-à-vis high expenses stood a volatile income pattern. Rather than steady incomes as commercial banks and life insurance companies were used to, income in investment banking had been very volatile, depending on the developments of the capital market. Non-life insurance has also been very volatile especially in the US, where forces of nature like hurricanes are a rather common phenomenon. The development of a claim culture in the US has reinforced this volatility.

#### *Leadership capabilities*

Some people have played an important role in the American expansion of the Dutch companies. Hazelhoff, who had worked at the New York branch before he became a member of the managing board, has played a central role in ABN bank's first acquisition of LaSalle in 1979. He knew the significance of the American market by his own experience. Hattink who had built up experience in Canada, convinced Nationale-Nederlanden to move to the US as well. Both men had built up international experience. This combined with vision and persuasiveness made them encourage the Dutch managing boards to expand into the American market. In contrast, when Rabobank first started focusing on international expansion, it had no members in the managing board with international experience, except for Vlak, which explains partly the difficulties the bank experienced during its first decade of expansion. Twenty years later, Broekhuysse has played a important role in Rabobank's international expansion in retail banking. He was located in New York to enlarge the bank's presence. He brought with him experience built up at PIBA in Australia.

### 3. Organizational structure and management

#### *Relation with parent company*

Many foreign companies experienced problems in the American market, which sometimes led to withdrawal. Jones and Gálvez-Muñoz suggested that managerial difficulties resulting from differences in culture and entrepreneurship played an important role.<sup>156</sup> Based on my research I think that foreign companies in the American market have to give their operations considerable autonomy in decision-making, however combined with formal control and in the initial phase with

informal control as well. It resembles the term 'federal decentralization' used by Alfred P. Sloan, Jr., of General Motors (see chapter 2). I will explain this below.

#### Local versus central decision-making

A balance has to be found between local autonomy and central control. In other words, the Dutch parents had to decide where decisions were being made. The relation between Dutch parent and American subsidiary or branch in general has been a relation in which the American part received a large degree of authority. All three Dutch companies shared the opinion that matters relating to personnel, remuneration, and marketing, had to be dealt with according to local practices. They shared the view that the Americans knew what they were doing best. The subsidiaries of Nationale-Nederlanden from the start decided on almost everything. They prepared a Midterm Plan and, after approval by the Dutch executive board, they were free to operate within the framework of the plan. In the 1970s and 1980s, LaSalle had to consult ABN Bank more frequently on possible acquisitions, on new products and for approval on credit loans above a certain maximum. But in general ABN Bank gave LaSalle much operational autonomy as well. In addition, Rabobank gave its New York branch much autonomy, although the branch formed legally an integrated part of the parent company. For the Americans this was a favorable relationship, since they had maximum space to operate without the Dutch parent interfering constantly.

#### At arm's length or integrated with parent

Delegating authority to the Americans was a good way to motivate them. It is my belief that at the same time the Dutch parent has to integrate the American organization to a certain extent. Although this may seem self evident, for Dutch companies it was not, especially because they exported their historically developed organizational structures. This becomes apparent when we compare ABN Bank and Nationale-Nederlanden.

As compared to the insurance company Nationale-Nederlanden, ABN Bank had been a hierarchical and integrated bank. One of the reasons had been the difference in supervision by the Insurance Board and the Dutch central bank (DNB) respectively. DNB required consolidated figures from banks, including figures from their foreign organizations. In other words, DNB controlled a bank's degree of solvency on the basis of consolidation of assets and liabilities of all offices at home and abroad. Banking supervision has been intense and DNB's relationship with banks was based on mutual trust. In contrast, the relationship of the Insurance Board with insurance companies was more distant. The Insurance Board controlled insurance companies on a non-consolidated basis. The calculations of solvency of non-life and life insurance were too different. In the Netherlands, life and non-life insurance were often combined in one holding company. The differences between an integrated ABN Bank and a more loosely connected Nationale-Neder-

landen were reflected in the relationship with their American organization, as we will see below.

Nationale-Nederlanden as well as Rabobank had an organizational structure that loosely connected its American organization. The American companies were satisfied with these Dutch parents, since in contrast, an American parent would have integrated the subsidiary into the existing organization, after which the subsidiary would lose its brand name and possibly some top executives. Now, they were able to keep their name and executives and at the same time be backed by a financially strong parent in the Netherlands. The loosely connected organization also had a disadvantage, at least for the parent company.

In the 1980s, Nationale-Nederlanden attached much importance to the principle of local autonomy. The American subsidiaries were spread around the US and operated under their own brand names. The top management remained in place. The American subsidiaries each practiced their own policies, including marketing and personnel. As a result, there was little synergy between them. In the late 1980s the American organization of Nationale-Nederlanden had to become more profitable to be able to resist growing competition. For example, economies of scale in automation were necessary to reduce relative costs. As a result, Nationale-Nederlanden had to relax its local autonomy principle a little. A regional management located in Washington headed by a Dutchman was created to stimulate and coordinate cooperation between the different companies. It turned out difficult to accomplish this, because of the geographic distance between the subsidiaries. Because they were used to run their own business, they did not feel like cooperating with companies they did not know very well. In the case of Nationale-Nederlanden it has been shown that when foreign subsidiaries have little interaction between themselves or with their parent, it is difficult to carry through changes in the organization or the existing strategy, which can be very important for a successful expansion of the American organization as a whole.

Another example of the downside of too little integration has been the relation of the New York branch with Rabobank. The cooperative Rabobank has always given the local Dutch banks a large degree of autonomy. In fact each had to run and was responsible for its own business. Rabobank Nederland existed by delegating responsibilities to these local banks. The bottom up organization structure also had its impact on the relation between Rabobank Nederland and its New York branch. Although technically the New York branch was an integrated part of Rabobank Nederland, it was not treated that way during the first years. There were hardly any official guidelines or mechanisms to control the branch. Only in 1983, for example, was a separate directorate created as a liaison between New York and Utrecht. As a result, for the first five years the branch did not perform well.

The more integrated organization at the corporate level of ABN Bank was reflected in its American operations. The parent approached the branches and subsidiaries

differently. Legally, the American branches formed an integral part of the parent company. Dutch functional directorates, such as personnel and automation, supported the branches. These functional, horizontal connections reflected a degree of integration. LaSalle on the other hand was a subsidiary, which kept its management and strong brand name. The bank had its own marketing, personnel, and automation departments and determined for example remunerations according to local standards. The American subsidiary had few and short reporting lines with the Netherlands, but as seen below it used many informal controls. In the early 1990s, after LaSalle had expanded steadily with the risk of becoming a bank within ABN AMRO bank, its parent chose to introduce a matrix organization. Apart from vertical reporting lines, the bank in Chicago was subjected to horizontal lines with the Dutch head office as well and thus became more integrated.

#### Formal versus informal control

The Dutch companies had to learn how best to control the autonomously operating American organization. The way ABN Bank controlled its American operations has been a good example of using informal control. Compared to Nationale-Nederlanden the bank integrated the American organization on an informal basis. At first, it practiced informal control by personal contacts and relations based on trust. Immediately after the acquisition of LaSalle, it created a regional management headed by a Dutchman. Dutch expatriates headed branches and occupied key positions at LaSalle. Members of the Dutch board, who had seats on the Board of LaSalle, attended the meetings. Frequently, the Dutch were informed on the latest developments and were given directions by informal talks before the meetings. The Dutch credit committee visited the American bank and branches on a regular basis.

In the first years of the New York branch, Rabobank hardly did anything to formally control the branch, except for the fact that the branch was headed by a Dutchman and a member of the Executive Board had been located in New York for a couple of years. Thus Rabobank created a liaison with the American branch by appointing a member of the Board in New York and thereafter by a small directorate in the Netherlands. But Rabobank had not provided written guidelines regarding credit loans approval for example. Like ABN Bank, they were more used to oral agreements and relations based on trust.

At first, Nationale-Nederlanden did not have Dutchmen in the American organization, except for some Dutch members who were represented in the American boards. It had one or two temporary expatriates who left after a couple of years. There was little consultation with head office, because most of the decisions on strategy, products, and budgets were made in Midterm Plans, which had to be approved by the Dutch Managing Board. Compared to ABN Bank who used informal control mechanisms, the American organization of Nationale-Nederlanden had been loosely connected managed by formal control. Moreover until the 1990s although the American organization formulated budgets and targets, it

was not held responsible for bad performance. Nationale-Nederlanden did not introduce regional management until 1986 when head office wanted to create economies of scale. In Washington, a Dutch regional manager formed the linkage between the us and the Netherlands.

In the 1990s, informal control decreased and formal control was professionalized. The Americans replaced the Dutch in the regional management after the American organization had settled down and the companies had outlined their responsibilities. In the early 1990s at Nationale-Nederlanden the Dutchman who headed regional management pulled out and the organization was headed by Americans again. Nationale-Nederlanden had already used formal control systems. Especially the mid term strategic plans were important, by which the American companies themselves outlined the coming years' policies including targets, budgets and profit forecasts. The pulling of Dutchmen out of the American organization happened more gradually. When the American organization expanded, ABN AMRO introduced more formal control mechanisms as well. The bank had learnt that the Americans were used to clear agreements on budgets and targets.

The research has shown that it is important for the Dutch companies in the American market to distinguish an initial and a mature phase of expansion in the way they control their American operations. In the initial phase the American organization has to settle into the new organization. Informal consultation between parent and subsidiaries is important in this phase. Later, when the American organization has matured, the parent company can decrease its informal control while professionalizing its formal control system. To motivate American managers and employees, they need clearly formulated goals and a budget to realize them. In this way, successful expansion in the American market becomes a process that evolves gradually over time.

### *Management of subsidiaries and branches*

#### Two headed versus single headed management

Another important variable for success has been the CEO of the American organization. ABN Bank and Nationale-Nederlanden experienced that top management consisting of two executives led to difficulties. The dual leadership at LaSalle during the first years proved unsuccessful, whereupon one CEO was appointed. In addition, the combination of a Dutchman (De Boer) and an American (Livingston) at regional management level caused complications, although they had different responsibilities. Dutchmen Jonckheer and Kist respectively first headed the American regional management of Nationale-Nederlanden and were succeeded by two Americans, Youngs and Johnston. One was responsible for non-life, the other for life insurance, which did not work out well. The presumption that Americans cannot share top executive positions appeared to be true. The Dutch companies seemed to realize this by putting one strong CEO in place.

## Long term versus short term positions;

## Inside versus outside promotion

An important aspect of executive succession has been continuity and the principle of 'promotion from within'. When we compare the American commercial banking and insurance organization with investment banking activities, there are some interesting differences. The length of the appointment of CEOs in the American organization seems to be important. It was possible to build up a relation based on trust, which gave stability and increasing acceptance and understanding between head office and CEO. Tempest had been CEO of LaSalle for 15 years. Bobins, who already worked at the bank, succeeded him. During the first phase of the Rabobank presence in the American market it had one representative Steensma, who has remained head of Rabobank New York for more than ten years. After two others, Broekhuysen headed the branch, again for a rather long period up to now. At Nationale-Nederlanden the same picture emerges with the long tenure of Youngs, Hilliard and Hubbell.

Apart from continuity in top management, their origin has also been important. Did the Dutch companies hire executives from inside or outside the organization? In the US, the acquisition of companies provided a source of qualified management. The executives of the American acquisitions of Nationale-Nederlanden were kept in place. At LaSalle with the integration of companies, some top executives left the bank while others stayed. Senior management of LaSalle therefore mainly consisted of inside executives. It has been recognized that external recruits can contribute to filling certain gaps in expertise. For example, Rabobank, which did not have internationally experienced managers, hired them from outside at the Bank of America or appointed advisors specialized in international expansion.

However, the high rates of turnover that especially ING and Rabobank experienced in the top management of their investment banking activities, suggest that a certain degree of continuity in executives is preferable. ING was not able to replace immediately the enforced departures of senior executives at Barings, which had been one of the aftermaths of the Leeson affair. There were no suitable candidates within ING, who had enough knowledge of investment banking. As a result, Barings had to operate without a CEO for some time while a relatively inexperienced member of the Managing Board was appointed temporarily. The CEO who was finally found outside the bank, left within six months. Rabobank, which had no inside investment banking expertise either, hired teams of investment bankers and executives from outside. The many changes in the top echelon, voluntary and involuntary, did not contribute positively to the development of an investment bank. Especially at Rabobank, where the investment bankers did not resemble the cooperative character of the bank, the large number of outside investment bankers led to unrest and dissatisfaction within the existing organization.

### Ceilings versus career possibilities

Another important factor for success has been the extension of career possibilities for Americans, with the intention that they remained motivated and willing to work for the Dutch companies. In the 1970s and 1980s, Nationale-Nederlanden and ABN Bank used a strict separation between foreign and domestic career paths. At home, a national management development system had to provide the future management in the Netherlands. The foreign subsidiaries had their own career possibilities and development programs. The expatriates at that time were mostly Dutch and made a career in foreign countries by climbing up to branch manager and occasionally to regional country manager or to a key position within a foreign subsidiary. In the late 1980s, the companies started realizing that it was important to break down the barriers between these Dutch and foreign career paths, because foreigners faced a ceiling in their career path, which was bad for motivation. Besides, the Dutch companies wanted to have a better view on talented, foreign employees. At ABN Bank, the number of expatriates could not keep up with the rapid expansion of branches worldwide. Therefore, internationalization started by admitting foreigners to the expatriate system and by promoting more locals to branch manager. In the 1990s, ABN AMRO as well as ING introduced an international management development system. In this way, future top management was internationally recruited, developed and promoted. Not only did they find talent externally, at universities and business schools, but also the American acquisitions brought in future executives. As a result, in the 1990s the companies were able to promote foreign employees to senior executive positions and in 2000 to appoint some to the Managing Boards. The development of international senior management has been important since the Dutch did not exclusively manage and control the company any longer, which was a positive signal to the expanding foreign organization. For Dutch boards and management teams it meant an enrichment of expertise and networks.

## 4. Cultural factors

Culture and cultural differences have been interwoven with the above mentioned variables for success. Here, I limit myself to mentioning the differences between the Midwest and New York and the more explicit form of culture: corporate values and branding.

### Cultural environment

The Midwest (Illinois) as investment location was favorable in comparison with New York because it was more traditional and small-scale; there was a more collaborative atmosphere. The mentality therefore might have resembled the Dutch one better. The fact that the American Tempest had been CEO of LaSalle for 15 years shows that long-term relations were possible.

### Cultural ties

When the companies in the 1990s became more result-oriented, informal control had decreased and management became more international, other tools had to be used to create the necessary cohesion. One way was the introduction of corporate values. Corporate values can be important especially in service related businesses where people are an important asset. Another way was by introducing one worldwide brand name. However, even after 2000, when a worldwide rebranding campaign started by which the entire organization of ING and ABN AMRO had to adopt the parent's name, the American subsidiaries only added the parent's name to their own names.

Two remarks have to be made. Banking branches servicing corporate companies were relatively small compared to local banks and wanted to be identified with a financially strong parent company. So, the branches of ABN Bank and Rabobank were named after the parents from the beginning. Second, Rabobank which focused on the agribusiness niche wanted to be viewed worldwide as one specialist bank. As a result, every foreign subsidiary or branch carries its name, the ones in the US as well.

### Internationalization and Business systems

The differences in business systems or market economies have been used as a tool to discover possible factors that supported or restrained expansion in the American market. After the summary of explanations for success and failure, I now want to explicitly point towards which elements of the Dutch business system have contributed to the successful expansion of Dutch financial companies and which elements the companies adopted from the American business system in order to become successful.

#### Open, international focus and colonial past

One of the elements of the Dutch business system has been the international orientation of companies and people, and a strong focus on trade and service industry in relation to heavy industry. Related to this is the colonial past of the Netherlands. It has been very important for the successful expansion in the American market that the predecessors of ABN Bank and Nationale-Nederlanden had already built up international experience in former colonies and migration countries. The bank and insurer had developed an organizational structure in which an international department was located and they possessed executives with international experience.

#### The Dutch state and legislation

This dissertation has shown the close relationship between banks and the central bank and the effects of these relations on international expansion of the companies. An important reason behind it has been the significance for a country to maintain

a stable financial system. In the 1970s and 1980s the Dutch banks and insurance companies enjoyed certain protection in which they were able to flourish. DNB approved two mergers in 1964 between four large commercial banks because the central bank supported the argument that they had to protect their competitive position in relation to international competition. DNB had also been a supporter of the hidden reserves, with the intention to stabilize profits of banks and with that the preservation of people's trust. In addition, the government allowed companies to use takeover defenses. The relatively protectionist environment changed under the influence of European guidelines, by which more influence has been left to the market. DNB had to follow European decisions. The Disclosure of Major Holdings in Listed Companies act in 1992 and the disclosure of the Facility General Business Risks in 1996 are examples which reflected the increasing transparency of Dutch financial companies. The transparency was welcomed by shareholders and customers. Takeover defenses were formally lifted with Code Tabaksblat.

#### Inter-company relations

In the 1970s and 1980s the inter-company relations were favorable for expansion. The companies were able to keep an eye on each other. Even in New York the branch managers of Dutch banks met on a regular basis to inform each other. By now, cartels and other forms of cooperation are forbidden by law. The cooperation between banks and insurance companies has become less tight and the closed and private networks have declined. One of the reasons has been the internationalization of the boards. On the other hand, agreements still exist between the companies. For example it is still not done to poach each other's employees. ING was not pleased, when ABN AMRO employed a team of investment bankers from Barings. In order to maintain good relations, the discussion led to telephone calls between the chairmen of the Boards.

In the 1960s and 1970s, the Dutch banks also cooperated with foreign banks in trying to build up a foreign network and experience. This type of inter-company relationship has been less favorable for international expansion, since it turned out difficult to manage a consortium and take decisions. Most of them disappeared in the 1980s.

#### Risk-avoiding attitude

International expansion has been a learning process for Dutch banks and insurance companies. The companies have followed a risk-avoiding expansion strategy. The relatively conservative way of expansion expressed itself in seeking well-managed acquisitions at relatively low prices and in taking time between acquisitions in order to be able to integrate them with the existing organization. This risk-avoiding attitude proved successful in building up commercial banking and insurance activities in the American market in the 1970s and 1980s. During the 1990s, however, when the Dutch banks started focusing on investment banking a risk-

avoiding expansion strategy seemed less favorable. In order to be able to compete with American investment banks in particular a certain scale was needed. The Dutch banks however did not want or were not able to pay for large investment banks. The prices of investment banks were high and the Dutch banks often settled for less costly and smaller investment banks. At the same time, they were afraid to miss the boat and took less time to integrate and learn from the acquired companies.

#### American business mentality

In general the American business mentality has been welcomed by the Dutch financial companies. It contrasted sharply with France and other European countries, in which the state protected the home-based companies, including banks, against foreign interference. The entrepreneurial spirit and the fact that 'everything is for sale' appealed to the sentiment of the Dutch bankers and insurers. On the other hand, the American claim culture which led to volatile and unpredictable incomes has been one of the most important reasons for Nationale-Nederlanden to sell its non-life insurance business.

#### Organizational framework

An important element of the Dutch business system has been the integrated organizational framework of companies. An integrated framework is opposed to a loosely connected one, which American companies are used to. Geoffrey Jones and Lina Gálvez-Muñoz have already demonstrated that it is not wise for a parent company to pay no attention to its American activities and give it complete freedom to operate. The cases of ABN Bank, Rabobank and Nationale-Nederlanden reinforced this finding. ABN Bank gave LaSalle autonomy but was able to keep an eye on matters. For example, from the start, the bank appointed Dutchmen (of whom some were expatriates) at key positions in the LaSalle organization, while Nationale-Nederlanden hardly had any Dutchmen present. Not until the insurer wanted to achieve more synergies did it set up a regional management in Washington headed by a Dutchman. Although Nationale-Nederlanden resembled the American loosely connected organization best, it has been shown that it was not the most successful way for a foreign company to expand in the American market.

The informal and personal contacts based on trust are a typical Dutch way of organizing and have contributed to success, especially in the initial phase of expansion. As the American organization grew, it became important to introduce the American element of formal control (budget, targets) as well.

The case study of ABN Bank demonstrated that the Dutch custom of using many committees and commissions to gather information or to prepare decision-making was not appreciated by the Americans. The Americans are not used to many reporting and communication lines with their head office. During the management of Livingston, who was a rather demanding American, all these reporting lines were lifted. Hielkema became the only spokesman between LaSalle

and Dutch head office. ABN Bank adopted the American way of doing business. When LaSalle increased in size and the parent company became concerned that LaSalle would develop into a bank within ABN AMRO bank, the parent introduced a matrix organization. The matrix organization is a typical element of the coordinated market economy, with two heads to report to and an increase in reporting and communication lines. It was a successful tool to integrate the American organization without decreasing its autonomy. In 2000, ABN AMRO abolished the matrix organization after Groenink announced a new strategy that focused on investment banking. Today, we can see that LaSalle has indeed become a bank within a bank. The Dutch bank is able to sell the American bank without the many problems of an integrated organization. So, ABN Bank at first adopted American practices, but when it became necessary the bank replaced them with Dutch ones. Although Americans are not pleased with a matrix organization, it has been a successful tool to integrate the American organization into other parts of the company. At the time this was deemed necessary to prevent the development of a bank within in a bank and to establish a universal bank.

#### Management

In the Dutch business system companies are used to the fact that employees are not easily dismissed. They are protected in several ways. Consequently, the financial companies developed the principle 'promotion from within'. Although the Dutch companies applied the local practices on staff policy, they transported this principle of inside promotion to American organization as far as was possible. One of the essential conditions for this principle is that executives remain with the company and don't 'hop to other jobs'. Therefore, the companies increased career opportunities for foreign management. I think that promotion from within together with long term positions of executives in the American organization has contributed to successful expansion. In this way the Dutch companies were indeed able to build up relations of trust and possible changes could be carried out more easily. Although here inside promotion is viewed as a positive contribution of the Dutch business system, it must be recognized that sometimes it is preferable to hire executives from outside, for example when no expertise is present within the company, as Rabobank has demonstrated, or when difficult decisions concerning radical changes have to be made. A wave of outside executives however can lead to unrest within the company, as the investment banking activities of the three case studies have shown.

Dutch managers are used to consensus building and consultation, together with shared responsibility or collegial management, in which a non-authoritarian leadership style prevails. ABN Bank and Nationale-Nederlanden transferred this element when they at first appointed two executives at the head of the American organization. However, the Dutch companies learnt that a two-headed management leads to problems and lack of clarity for Americans, who are used to

authoritarian leaders. Soon, they adopted a single management system, consisting of one CEO.

### Conclusion

The Dutch business system explains success and failure in the internationalization process of Dutch banks and insurers in the American market in two ways. First, the Dutch business system has provided Dutch financial companies with certain advantages, such as international experience and a relatively large and stable position in the home market. On the other hand, the relative small scale of the capital market, a characteristic of the Dutch business system, did not help in creating investment banks. The lack of long-term experience and of a strong position in the home market, made it difficult for Dutch banks to become successful in investment banking activities in the American market. This was reinforced by the fact that the American business system, which is characterized by a dominant capital market and financial system among other things, facilitated the development of competitive investment banks. They had built up long experience and were backed up by a large home market.

That is one aspect for the explanation of success and failure. Another aspect has to do with the question whether Dutch companies transferred domestic practices to the American organizations or whether they adapted to the foreign environment. The above outline shows that the Dutch companies that expanded across borders and thus had to deal with other national business systems, have united elements of the home and host country in order to organize and manage their foreign activities. The mixture of elements changed over time due to external (internationalization of capital markets for example) and internal (enlargement of American organization for example) developments and was subject to trial and error behavior by the companies. It was a process of learning. It has been this mixture of Dutch and American business practices that have made the Dutch financial companies successful in the American market. In investment banking activities the Dutch banks and insurance companies had more difficulty in finding an appropriate mixture of elements of both the Dutch and American business systems. The American investment banking culture and practices resembled much more the liberal market economy (LME) characteristics than American commercial banking and insurance. Therefore, they differed much more from the Dutch ones. Consequently, Dutch financial companies found it harder to transfer their home-made practices and create a mixture of elements. At the same time they did not want to adopt and hand over to the investment banking culture entirely.

Following the above reasoning two things can be concluded concerning the American business system. First, the US should not be seen as one type of liberal market economy (LME). There are major differences within the US. This is mostly reflected in the fact that the state of Illinois has a much more conservative and provincial character than New York, and therefore had a greater resemblance to the Dutch business system. Secondly, within the US we noticed differences between

financial activities. The work-related culture of investment bankers resembled much more the generalizations, which have usually been made for the American way of doing business, than the commercial bankers and insurers. These two differences within the US partly explain why Dutch banks and insurance companies have not been successful in investment banking and why Illinois as its home state has been a good choice for ABN AMRO.

### Changing national business systems

The role of national business systems in the international process of companies has become clear. However, *time* is an important factor that has to be included in the analysis as well. A national business system in itself changes over time, so that competitive advantages that home-based companies derive from it may change or disappear. What does this study say about the Dutch financial sector in relation to national business systems over the past forty years? The Dutch national business system was favorable for expansion in the American market in the 1970s and 1980s. Since the 1990s, more often the Dutch financial companies have chosen to coordinate matters by the market and hierarchy instead of by networks and cooperation (see table 2)

I did not find that changes within the companies have been the result of the expansion in the American market per se. The internal changes were a reaction to the institutional environment of the companies. As a result of globalization, liberalization of capital markets, the development of the European market and the emergence of a 24 hour economy, international competition increased. In the 1990s a new, international merger and acquisition wave swept the continents, which resulted in the emergence of large, financial conglomerates. More than before, general opinion was that just a few companies would survive. Simultaneously the protection of the Dutch financial market decreased: networks and cooperation have been replaced by the market. As stated previously, DNB and the Insurance Board had to take into account European guidelines, in which the dominance of the market prevailed. Cartels or other forms of cooperation were forbidden, and financial companies had to give more information on their business and make their business more transparent. The relation between the supervisors and the Dutch banks and insurance companies became more formal.

Also in the field of corporate governance changes took place. An important development has been the increase in the influence of shareholders, due to Code Tabaksblat among other things. ING and ABN AMRO had to lift take-over defenses and remuneration of executives became related to performance criteria. Moreover, the shares of ABN AMRO and ING increasingly came in the hands of foreign shareholders, of whom a large part came from Anglo-Saxon countries. Consequently, the companies focused more on the creation of shareholder value, which meant in practice that making profits received highest priority. They started giving

priority to reducing costs and increasing income. At ABN AMRO this development was seen particularly after Groenink succeeded Kalff in 2000.

The focus on shareholder value combined with the enlargement of the companies by international expansion and by diversification, led to changes in the organizational structure to one with business units that were each profit responsible. The managing board delegated operational tasks, remaining responsible for strategic tasks only. Although its chairman remained *primus inter pares*, he became more than before the figurehead of the company (see Groenink). Nowadays Dutch CEOs step more to the foreground. However, the managing board still has shared responsibility and decision-making still happens by consensus. Foreign regions and subsidiaries became profit responsible and were remunerated according to performance. If a subsidiary did not create value it was sold. Instead of informal relationships based on trust, formal control mechanisms were created to determine whether targets had been achieved and budgets had not been exceeded.

In addition the relation with the labor market changed in the 1990s. Society in general individualized. ABN AMRO, Rabobank and ING started closing local Dutch offices and laying off employees, with the aim of reducing costs. The organizations adopted remuneration systems of the liberal market economy (LME) to a different extent. Since 2006 all employees at ABN AMRO have a performance related part in their remuneration. At Rabobank, only parts of the organizations have such performance related pay. Although ING and ABN AMRO changed into more market oriented companies, this was only a change to a certain extent. During the time they wanted to expand in investment banking, both companies had been afraid that the high bonus culture, which typified investment banking, would move to other business units. They did not accept this liberal culture of high bonuses. It is just an example which illustrates the extent of change.

The dissertation in which three case studies have been researched cannot draw conclusions on the entire national business system. The financial multinationals might have developed completely differently from the small and medium sized companies, which form a large part of the Dutch economy as well. In addition, the dissertation shows that the transformation within ABN AMRO and ING into the liberal market economy (LME) has been less visible at Rabobank. The extent of change within a company depended on two things. First, the degree of internationalization has played a role. The relatively large position of ING and ABN AMRO in the American market compared to Rabobank affected them. Due to their international character they were more open to foreign influences. Via internationalization of senior management and boards new ideas found their way into the Dutch companies.

Second, the degree of change depended on the legal form of the company. A company listed on the stock market changed more than a cooperative company. The focus on shareholder value that involved making profits in the short term had consequences for the entire organization. Formal methods to calculate the

value of activities and people had to be introduced to enable the company to allocate its resources in the most optimal way for maximizing profit. ING and ABN AMRO as a result became less conservative in selling parts of the company. Rabobank remained dedicated to its norms and values that were inherent to its cooperative character, of which the most important was its focus on customer value instead of shareholder value. Although making profit has been important for the Rabobank organization, developments occurred at a steady pace and with more room for a long-term view. Because of its cooperative business structure and attitude, the bank has been one of the most solid banks in the world.

How did the change into a more liberal business system affect the competitiveness of the Dutch financial sector in the American market? As a result of changes, success of Dutch financial listed companies is no longer reflected by the continuity of the company in the long term. ING and ABN AMRO have been less preoccupied with continuity of (parts of) the company any longer, but with profits in the short term. In other words they have formulated other priorities. Therefore, it has become more legitimate to sell the previously very profitable mortgage business for instance. The cooperative bank, Rabobank on the other hand still focuses more on continuity in the long term. The Dutch presence of ABN AMRO and ING in the American market will only continue if it remains profitable and part of the core business. This seems logical, but in fact it is a change compared with the past. In the 1970s and 1980s they showed more patience in letting subsidiaries and branches become profitable. The attitude to the American organization had been led by the aim to have a presence in that market.

Thus, the Dutch institutions, especially corporate governance and financial market, changed due to external developments, such as liberalization of capital markets and development of the European market. Dutch financial companies that operated within this institutional environment had to deal with these changes. However, they were not passive actors but also influenced the extent of the transformations. One of the reasons has been their American orientation, which enabled them to transfer elements of this business system to the Dutch business system more easily. Changes of national institutions and multinational companies therefore influenced and reinforced each other.

**Table 1: Supporting and restraining factors of international expansion of Dutch financial companies in the American market 1965-2005**

Factors	Supporting factors (+)	Restraining factors (-)
<b>Environment</b>		
Economic and political conditions	Relatively stable economic and political environment	Instable economic environment due to politics (nationalization of foreign property, political unrest)
	Liberalization of capital flows	Gold Standard (Bretton Woods)
	Few expansion alternatives: focus on few activities and/or few locations	Many expansion alternatives worldwide
Market size and structure	Large and developed host market	Small and less developed home market
	Fragmented host market	Oligopoly in host market
	Oligopoly in relatively small, saturated home market	Fragmented home market
Legislation	Favorable to enlarging competitiveness of company in home market	Less favorable to enlarging competitiveness of company in home market
	Restraining legislation of host country does not apply to foreign companies (before 1979)	Restraining legislation of host country also hit foreign companies (Investment-commercial banking, interstate banking)
<b>Strategy</b>		
Location choice	Many opportunities left for further growth, with few buyers	Few opportunities left for further growth, with many buyers
	Subsidiaries centered at one place in large country: increase in scale	Subsidiaries located across large country: lack of economies of scale
Time scale of expansion	Incremental growth and time to learn	Radical growth and less time to learn
	Conservative expansion put less pressure on capital of parent company	Expensive acquisitions put pressure on capital strength of parent
	Long term focus, also in less favorable times	Short term focus, leads to quick changes in strategy and organization structure

CONCLUSIONS

AA*		Rabo*		ING			AA	Rabo	ING
Whole sale	Retail	Whole sale	Retail	Life	Non-life	ING Direct	IB*	IB*	IB*
+	+	+	+	+	+	+	+	+	+
+	+	+	+	+	+	+	+	+	+
+	+	+	+	+	+	+	-	-	-
+	+	+	+	+	+	+	-	-	-
+	+	+	+	+	+	+	-	-	-
+	+	+	+	+	+	+	+/-	+/-	+/-
+	+	+	+	+	+	+	0	0	0
+	+	+/-	+/-	0	0	0	-	-	-
0	+	0	+	+	+	0	-	-	-
0	+	0	+	-	-	0	+	0	+
+	+	+	+	+	+	+	-	-	-
+	+	+	+	+	+	+	-	-	-
+	+	+	+	+	+	+	-	-	-

Table 1, *continued*

Factors	Supporting factors (+)	Restraining factors (-)
Type of organization	Full control (subsidiaries and branches)	Without full control (consortium, joint venture, minor participation)
	In accordance with customer type	Not adjusted to customer type
Type of activity	Expansion of activity of which company has profound knowledge and experience built up in home country	Expansion of activity of which company has little or no knowledge and experience
	Activity with low/moderate expenses versus stable income	Activity with high expenses versus volatile income
Leadership capacities	Strong leadership at head office with international experience and vision	Executives at head office without any international experience and/or experience of specific activity
<b>Organizational structure and management</b>		
Relation between subsidiaries and parent company	Balance between local autonomy versus central control	Focus on local autonomy or central control only
	Foreign organization integrated with parent company or other parts	Foreign organization loosely connected with parent company or other parts
	Short and few reporting lines with Dutch head office	Long and many reporting and communication lines with Dutch head office
	Combination of formal and informal control	Focus on formal or informal control only
Management of subsidiaries and branches	Single headed management	Two-headed management
	Inside promotion	Hired from outside only
	Long term positions	Short term positions
	Many (international) career opportunities (into the Boards)	Career ceiling

CONCLUSIONS

AA*		Rabo*		ING			AA	Rabo	ING
Whole sale	Retail	Whole sale	Retail	Life	Non-life	ING Direct	IB*	IB*	IB*
+	+	+	+	+	+	+	+	+	+
+	+	+	+	+	+	+	+	+	+
+	+	+	+	+	+	+	-	-	-
+	+	+	+	+	-	+	-	-	-
+	+	-	+/-	+	+	+	+/-	-	-
+	+	+	+	+	+	+	+	+	+
+	+	+/-	+	-	-	+	-	-	-
0	+/-	0	+	+	+	+	+	+	+
+	+	+	+	-	-	0	-	-	-
0	-	0	0	-	-	0	+	+	+
+	+	+/-	+	-	-	0	+/-	-	-
+	+	+	+	+	+	0	-	-	-
+	+	+	+	+	+	0	+	0	+

Table 1, *continued*

Factors	Supporting factors (+)	Restraining factors (-)
<b>Cultural factors</b>		
Cultural environment	Location resembles home market cultural environment	Location is very different from home market cultural environment
Cultural ties	Identification with parent, by informal/personal ties and /or formal brand name or corporate values	Creation of company in a company without (informal, personal) ties with parent

\*Key to abbreviations:

AA = ABN AMRO

Rabo = Rabobank

IB = Investment banking

Factors:

+ = supportive

- = restraining

o = neutral

CONCLUSIONS

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AA*		Rabo*		ING			AA	Rabo	ING
Whole sale	Retail	Whole sale	Retail	Life	Non-life	ING Direct	IB*	IB*	IB*
o	+	o	+/-	+/-	+/-	o	-	-	-
+	+	+	+	+	+	+	-	-	-

**Table 2: Generalizations of Dutch and American business systems in the 1970s/1980s versus 1990s/2000s, from the perspective of banks and insurance companies**

	1970s and 1980s Dutch financial companies	American companies
<b>State/regulation</b>	State supportive of companies' needs	State is distant, but regulates things by acts and severe (financial) penalties
<b>Inter-company relations</b>	Strong tradition of informal cooperation/gentleman's agreements	Strong anti-trust laws
<b>Capital markets</b>	Increasing access to foreign capital markets	Increasing access to foreign capital markets
<b>Corporate governance</b>		
Shareholder versus stakeholder value	Aim is stakeholder value	Aim is shareholder value
Takeover defenses	Many	None
Transparency	Banks use hidden reserves	Complete, since investors depend on publicly available information to value company
<b>Managing Board</b>		
Leadership	Shared responsibility. Chairman is primus inter pares	Strong authoritarian leadership/CEO
Responsibilities	Strategic and operational responsibilities	Strategic responsibilities
Size	Relative large	Relative small: delegated operational authority to management teams of business units
<b>Management</b>		
Organizational framework	Integrated with many communication and reporting lines	Loosely connected: profit responsible business units
Leadership	Collegial	Authoritarian
Decision-making	By consensus	By executive

## CONCLUSIONS

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**1990s and 2000s**

**Dutch financial companies**

**American companies**

Relation between state and companies less close

State is distant, but regulates things by acts and severe (financial) penalties

Closed and private networks have declined.  
Cartels and other forms of cooperation forbidden

Strong anti-trust laws

Complete access to international capital markets

Complete access to international capital markets

More focus on shareholder value

Aim is shareholder value

None (Code Tabaksblat)

None

More transparency: hidden reserves forbidden by (European) law

Complete, since investors depend on publicly available information to value company

Shared responsibility. Chairman is primus inter pares

Strong authoritarian leadership/CEO

Strategic responsibilities

Strategic responsibilities

Relative small: delegated operational authority to management teams of business units

Relative small: delegated operational authority to management teams of business units

More loosely connected

Loosely connected: profit responsible business units

Collegial

Authoritarian

By consensus

By executive

Table 2, *continued*

	1970s and 1980s Dutch financial companies	American companies
<b>HRM policy</b>		
Remuneration	High severance pay limits 'hire and fire' strategy Fixed payments	'Hire and fire' contracts Performance related wage system
Training	Specialist training: banking, insurance etc.	General management trainings: MBAs
Universities/high schools	Little contact	Cooperation
Promotion of executives	From inside	From outside

## CONCLUSIONS

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**1990s and 2000s**

**Dutch financial companies**

**American companies**

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In practice more easily hire and fire

'Hire and fire' contracts

Introduction of performance related wage system

Performance related wage system

General management (MBAs) and specialist trainings

General trainings: MBAs

More cooperation

Cooperation

From inside (if possible)

From outside

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## Notes

### Notes Introduction

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- <sup>11</sup> John H. Dunning, 'Trade, location of economic activity and the MNE: a search for an eclectic approach', in: *The international allocation of economic activity: proceedings of a Nobel Symposium held in Stockholm*, ed. B. Ohlin, P. Hesselborn, and P. Wijkman (London: MacMillan Press, 1977), 395-431.
- <sup>12</sup> John H. Dunning, 'The eclectic paradigm as an envelop for economic and business theories of MNE activity', *International Business Review* 9 (2000): 163-190.
- <sup>13</sup> For example: Barry Williams, 'Positive theories of multinational banking: eclectic theory versus internalisation theory', *Journal of Economic Surveys* 11 (1997): 71-100.

- <sup>14</sup> John H. Dunning, 'The eclectic (OLI) paradigm of international production: past, present and future', *International Journal of the Economics of Business* 8 (2001): 173-190, p.186.
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- <sup>16</sup> Jan Johanson and Jan-Erik Vahlne, 'The internationalization process of the firm. A model of knowledge development and increasing foreign market commitments', *Journal of International Business Studies* 8 (1977): 23-32.
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- <sup>23</sup> Richard Whitley, ed., *European business systems: firms and markets in their national contexts*, (London: 1994), Richard Whitley, *Divergent capitalism. The social structuring and change of business systems* (Oxford and New York: Oxford University Press, 2000).
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- <sup>33</sup> Morgan, 'Introduction: changing capitalisms? Internationalization, institutional change, and systems of economic organization', p. 16-17.
- <sup>34</sup> See for information on the research program: [www.bintproject.nl](http://www.bintproject.nl)
- <sup>35</sup> Johan van der Lugt, 'Het commerciële bankwezen in Nederland in de 20e eeuw- Een historiografisch overzicht', *NEHA-Jaarboek* 1999, 388-421.
- <sup>36</sup> K. E. Sluyterman, 'Nederlandse bedrijfs-geschiedenis, de oogst van vijftien jaar', *NEHA-Jaarboek voor economische, bedrijfs- en techniekgeschiedenis* 1999.
- <sup>37</sup> Pieter K. Jagersma, *Multinationalisatie van Nederlandse dienstondernemingen* (Tilburg: Katholieke Universiteit Brabant, 1994).

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- <sup>47</sup> Jacobsen and Tschoegl, 'The international expansion of the Norwegian banks', p. 12 and 22.
- <sup>48</sup> Eelke M. Heemskerk, *Decline of the corporate community: network dynamics of the Dutch business elite* (Amsterdam: Amsterdam University Press, 2007).
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- <sup>60</sup> Rene L. Olie, *European transnational mergers* (Maastricht: Rijksuniversiteit Limburg, 1996).
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- <sup>63</sup> 'Accepting houses stay on top', in: *The Banker*, August 1981, p. 46.
- <sup>64</sup> 'Why merchant bankers are different', in: *The Banker*, August 1981, p. 41.
- <sup>65</sup> Rietbergen, *The internationalization of European insurance groups*, p. 41-43.
- <sup>66</sup> Rietbergen, *The internationalization of European insurance groups*, p. 42.
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- <sup>68</sup> R. van Hoesel and Rajneesh Narula, eds., *Multinational enterprises from the Neth-*

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<sup>70</sup> See for example also: Hall and Soskice, *Varieties of capitalism*, p. 16.

## Notes Chapter 1

<sup>1</sup> For a complete history of the Nederlandsche Bank see: *Geschiedenis van De Nederlandsche Bank*, parts I-VI and Wim Vanthoor, *De Nederlandsche Bank 1814-1998. Van Amsterdamske kredietinstelling naar Europese stelselbank* (Amsterdam, 2004).

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<sup>3</sup> Federal Reserve Board, *The Federal Reserve System: Purposes and Functions* (Washington D.C., 1994) and M.M.G. Fase and W.F.V. Vanthoor, 'Het federal reserve stelsel belicht. Proeve van een vergelijkende analyse', *Financiële & Monetaire Studies* 18e jaargang, Nr. 4, 1999-2000.

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<sup>12</sup> AAHA, ABN, inv.nr. 2624: 'The debate on foreign banking law', in: Bank Stock Quarterly, October 1977 (published by M.A. Schapiro & Co), 16-23.

<sup>13</sup> AAHA, ABN, inv. nr. 2624: Research report on possibilities of expansion ABN in US, October 16, 1973.

<sup>14</sup> For a more detailed description of the emergence of financial conglomerates in the Netherlands, see: Jeroen de Leeuw, *Financiële conglomeraten in Nederland*, Serie Bank- en Effectenbedrijf nr. 38 (Amsterdam, 1996).

<sup>15</sup> Adrian E. Tschoegl, 'Who owns the major US subsidiaries of foreign banks? A note.' *Wharton School Center for Financial Institutions, University of Pennsylvania* (April 2003)

<sup>16</sup> F.T. Knickerbocker, *Oligopolistic reaction and the multinational enterprise* (Cambridge, MA: Harvard University Press, 1973).

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<sup>18</sup> AAHA, ABN, inv. nr. 4364: Minutes Supervisory Board in presence of Managing Board, March 19, 1976.

<sup>19</sup> AAHA, ABN, inv. nr. 4364: Minutes Supervisory Board in presence of Managing Board, March 19, 1976.

<sup>20</sup> AAHA, ABN, inv. nr. 4364: Minutes Supervisory Board in presence of Managing Board, June 10, 1978.

<sup>21</sup> AAHA, ABN, inv. nr. 4401: Minutes Managing Board, April 11, 1975.

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- <sup>25</sup> AAHA, ABN, inv. nr. 6216: Notes of Europe and North America: report on America, October 21, 1975.
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- <sup>29</sup> AAHA, ABN, inv. nr. 2624: Research report on possibilities of expansion ABN in US, October 16, 1973.
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- <sup>31</sup> For example: AAHA, ABN, inv. nr. 2624: Research report on possibilities of expansion ABN in US, October 16, 1973; Report on expansion banking activities in the US, October 23, 1973; Note for Managing Board by R. Hazelhoff, December 17, 1973.
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- <sup>34</sup> AAHA, ABN, inv. nr. 3178: Note on the opinion of legislation in Florida, August 4, 1977.
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- <sup>37</sup> AAHA, ABN, inv. nr. 2624: Expansion in the US: ABN office network, June 27, 1978.
- <sup>38</sup> AAHA, ABN, inv. nr. 2624: Expansion in the US: ABN office network, May 23, 1977.
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- <sup>45</sup> Zanden and Uittenbogaard, 'Expansion, internationalisation and concentration, 1950-1990', p. 369 and Christiaan Berendsen, 'Global ambitions, ABN AMRO Bank 1990-1999', in: *Worldwide banking, ABN AMRO 1824-1999*, ed. Joh. de Vries, Wim Vroom, and Ton de Graaf (Amsterdam: 1999), p. 466.
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- 50 HA Rabobank, Supervisory Board, November 24, 1977.
- 51 HA Rabobank, Minutes Executive Board, April 20, 1976, attachment.
- 52 K.E. Sluyterman et al., *Het coöperatieve alternatief. Honderd jaar Rabobank 1898-1998* (Den Haag: SDU, 1998), p. 247.
- 53 HA Rabobank, Minutes Executive Board, September 20, 1976, attachment.
- 54 HA Rabobank, Minutes Executive Board, February 14, 1977, attachment.
- 55 HA Rabobank, Notes for Executive Board: 'Verslag van bezoek aan de Bank of America', December 2, 1974 and 'Verslag aan Bank of America, San Francisco', May 26, 1975.
- 56 See chapter three for more on P. Lief-tinck.
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- 59 HA Rabobank, Supervisory Board, September 27, 1979.
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- 70 'Triple-A wordt voor banken langzamerhand onhoudbare luxe', in: *Het Financieele Dagblad*, December 27, 1996.
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<sup>82</sup> HA NN, inv. nr. A100: Note 'Het Buitenland van Nationale-Nederlanden', no date.

<sup>83</sup> HA NN, Minutes Supervisory Board, October 30, 1963 and October 28, 1964.

<sup>84</sup> HA NN, inv. nr. A100: Note 'Het Buitenland van Nationale-Nederlanden', no date.

<sup>85</sup> HA NN, inv. nr. A100: Note 'Het Buitenland van Nationale-Nederlanden', no date.

<sup>86</sup> HA NN, Minutes Supervisory Board, September 9, 1975.

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<sup>88</sup> HA NN, Minutes Supervisory Board, February 8, 1979.

<sup>89</sup> Barendregt and Langenhuyzen, *Bedrijfsgechiedenis van Nationale-Nederlanden*, p. 400.

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<sup>93</sup> HA ING, Minutes Supervisory Board, April 2, 1998 and Note 'Proposal TNIC divestiture', March 25, 1998.

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<sup>95</sup> HA ING, Minutes Supervisory Board, May 28, 1998.

<sup>96</sup> Mira Wilkins, 'Dutch multinational enterprises in the United States: a historical summary', *Business History Review* 79 (Summer 2005): 193-273, p. 256.

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<sup>99</sup> 'Dutch (re)treat', in: *Canadian Business*, Augustus 21, 2000.

<sup>100</sup> Bart Luteijn, 'De opmars van ING Direct. Het Postbankconcept in het buiten-

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<sup>103</sup> 'A Dutch behemoth invades America; ING Group makes its move in virtual banking and insurance', *The New York Times*, August 26, 2000.

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### Notes Chapter 2

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<sup>6</sup> Chandler, *Strategy and structure. Chapters in the history of the industrial enterprise*, p. 54.

<sup>7</sup> Peter F. Drucker, 'New templates for today's organizations', *Harvard Business Review* January-February, 1974, 45-53; and Thomas K. McCraw and Richard S. Tedlow, 'Henry Ford, Alfred Sloan, and the three phases of marketing', in: *Creating modern capitalism. How entrepreneurs, companies, and countries triumphed in three in-*

*dustrial revolutions*, ed. Thomas K.

McCraw (Cambridge, Massachusetts and London: Harvard University Press, 1997), p. 287.

<sup>8</sup> Harm G. Schröter, *Americanization of the European economy. A compact survey of American economic influence in Europe since the 1880s* (Dordrecht, 2005).

<sup>9</sup> Alfred D. Chandler, *Scale and scope. The dynamics of industrial capitalism* (Cambridge e.a.: Harvard University Press, 1990).

<sup>10</sup> Geoffrey Jones, *Multinationals and global capitalism, from the nineteenth to the twenty-first century* (New York: Oxford University Press Inc., 2005), p. 176-183.

<sup>11</sup> Richard Whittington and Michael Mayer, *The European corporation. Strategy, structure, and social science* (Oxford University Press, 2000), p. 225.

<sup>12</sup> Henry Mintzberg, *Structure in fives. Designing effective organizations* (New Jersey et al, 1983).

<sup>13</sup> Pieter K. Jagersma, *Multinationalisatie van Nederlandse dienstenondernemingen* (Tilburg, Katholieke Universiteit Brabant, 1994), p.366.

<sup>14</sup> At that time these SEVPs were called general directors.

<sup>15</sup> AAHA, ABN, Annual report ABN, 1973.

<sup>16</sup> AAHA, ABN, inv. nr. 4492: Policy document Foreign Directorate, April 1975.

<sup>17</sup> AAHA, ABN, Annual report ABN, 1973.

<sup>18</sup> Interview with Mr J.J. Oyevaar, November 29, 2005.

<sup>19</sup> AAHA, ABN, inv. nr. 2624: Memorandum 'LaSalle National Bank', September 4, 1979. For the exact number of members of Board of Directors each year see Annual Reports LaSalle.

<sup>20</sup> AAHA, ABN, inv. nr. 4365: Minutes Supervisory Board in presence of Managing Board, August 10, 1979.

<sup>21</sup> For more detailed figures, see chapter four on performance.

<sup>22</sup> AAHA, ABN, inv. nr. 4406: Secret minutes Managing Board, September 17, 1982 and June 14, 1983.

<sup>23</sup> Interview with Mr R. Hazelhoff, November 16, 2005.

<sup>24</sup> AAHA, ABN, inv. nr. 3049: Biographi-

cal data on three potential candidates for the CEO post by Wilmouth, September 26, 1983.

<sup>25</sup> AAHA, ABN, inv. nr. 3049: Memorandum 'Succession of President LaSalle', October 26, 1983.

<sup>26</sup> AAHA, ABN, inv. nr. 3048: Letter from Wilmouth to Oort (Managing Board ABN), September 26, 1982.

<sup>27</sup> At that same time International Directorate was being transformed. The bank had divided the world into five regions and each had its own general manager in Amsterdam. One region was North America and Hielkema thus became its general manager.

<sup>28</sup> AAHA, ABN, inv. nr. 2605: Note for Managing Board by Langelaar 'Treasurer position at LaSalle National Bank', July 30, 1981.

<sup>29</sup> AAHA, ABN, inv. nr. 4408: Secret minutes Managing Board, April 13, 1984.

<sup>30</sup> AAHA, ABN, inv. nr. 6051: ABN in the United States, Directional strategy, December 1983.

<sup>31</sup> Credit authorization of the ABN Branches was as follows: New York US \$ 1 million; Chicago US \$ 600,000; Los Angeles US \$ 400,000; San Francisco, Houston, Atlanta, Pittsburgh US \$ 300,000 in: AAHA, ABN, inv. nr. 3048 Note 'Credit authorization North American branches', November 3, 1982.

<sup>32</sup> AAHA, ABN, inv. nr. 6051: Minutes International Directorate, July 26, 1984.

<sup>33</sup> AAHA, ABN, inv. nr. 4408: Secret minutes Managing Board, October 1, 1985 and October 15, 1985.

<sup>34</sup> AAHA, ABN, inv. nr. 4409: Secret minutes Managing Board, January 9, 1987.

<sup>35</sup> AAHA, ABN, inv. nr. 4409: Secret minutes Managing Board, April 3, 1987.

<sup>36</sup> AAHA, ABN, inv. nr. 6011: Note 'Management of ABN LaSalle in North America', June 15, 1987.

<sup>37</sup> AAHA, ABN AMRO, inv. nr. 1094: Minutes Supervisory Board, June 14, 1991, note 'Group's basic principles ABN AMRO Bank', November 1990.

<sup>38</sup> AAHA, ABN AMRO, inv. nr. 2125:

Note 'Organisation International Division' by Kalff, Drabbe, Oyevaar and Reuchlin, September 15, 1993.

<sup>39</sup> AAHA, ABN AMRO, inv. nr. 1102: Minutes Supervisory Board, January 21, 1994, note 'Organisation structure ABN AMRO in relation to a few large international operating companies and banks', December 1993.

<sup>40</sup> AAHA, ABN AMRO, inv. nr. 1104: Minutes Supervisory Board, June 10, 1994.

<sup>41</sup> In 1993, the division management consisted of two members of Managing Board Kalff and Drabbe and two SEVPs Oyevaar and Reuchlin. In 1994 the division management changed into one member of Managing Board M.J. Drabbe and three SEVPs, J. Koopman apart from Oyevaar and Reuchlin. In 1996 Tempest was included as CEO.

<sup>42</sup> AAHA, ABN AMRO, inv. nr. 2125: Note 'Organization International Division' by Kalff, Drabbe, Oyevaar and Reuchlin, September 15, 1993.

<sup>43</sup> AAHA, ABN AMRO, inv. nr. 1121: Retreat Managing Board, November 18 and 19, 1992.

<sup>44</sup> Interview with Mr J.J. Oyevaar, November 29, 2005.

<sup>45</sup> AAHA, ABN AMRO, inv. nr. 1122: Minutes Managing Board, May 31, 1994.

<sup>46</sup> Interview with Mr J.J. Oyevaar, November 29, 2005.

<sup>47</sup> AAHA, ABN AMRO, inv. nr. 1108: Note 'Strategy for Asia 2000' discussed by Special Commission (*Bijzondere Commissie*), December 11, 1995 and by Supervisory Board, January 19, 1996.

<sup>48</sup> AAHA, ABN AMRO, Annual report ABN AMRO, 2000.

<sup>49</sup> AAHA, ABN AMRO, Annual report ABN AMRO, 2005 and 2006.

<sup>50</sup> HA Rabobank, Minutes Supervisory Board, November 23, 1978 and note *Het Buitenlandse Bedrijf van de Rabobankorganisatie*, November 13, 1978.

<sup>51</sup> HA Rabobank, inv. nr. A327: Minutes Presidium, April 25, 1979, note *Steunpunten in het Buitenland*, no date.

<sup>52</sup> HA Rabobank, An accompanying letter of sir Vlak attached to Policy plan New York 1981-1984, October 20, 1980.

<sup>53</sup> From 1978 until 1980 Steensma was Group Vice President and Manager of Bank of America's SF Corporate Banking Office. From 1977 until 1978 he managed Bank of America's International Banking Office in SF. From 1974 until 1977 he was general manager of Rabomerica.

<sup>54</sup> HA Rabobank, Policy plan New York 1981-1984.

<sup>55</sup> HA Rabobank, inv. nr. A327: Minutes Presidium, April 25, 1979, note *Steunpunten in het Buitenland*, no date.

<sup>56</sup> HA Rabobank, Minutes Executive Board, May 11, 1981.

<sup>57</sup> HA Rabobank, Minutes Executive Board, September 14, 1981.

<sup>58</sup> Interview with W.M. van den Goorbergh, February 8, 2006.

<sup>59</sup> HA Rabobank, Minutes Executive Board, November 23, 1981.

<sup>60</sup> HA Rabobank, Minutes Executive Board, November 30, 1981.

<sup>61</sup> HA Rabobank, Notes concerning visit New York by Burghouts, June 20, 1983.

<sup>62</sup> HA Rabobank, McKinsey&Company, 'Assessing the profit and strategic potential of the New York branch', phase 2 Progress review, May 4, 1984.

<sup>63</sup> HA Rabobank, Minutes Executive Board, February 20, 1984.

<sup>64</sup> K.E. Sluyterman et al., *Het coöperatieve alternatief. Honderd jaar Rabobank 1898-1998* (Den Haag: Sdu, 1998), p. 291-292.

<sup>65</sup> Jagersma, *Multinationalisatie van Nederlandse dienstenondernemingen*, p. 262-263.

<sup>66</sup> J. Barendregt and T. Langenhuyzen, *Ondernemend in risico. Bedrijfsgeschiedenis van Nationale-Nederlanden 1845-1995* (Amsterdam, 1995), p. 402.

<sup>67</sup> HA NN, Planning memorandum, February 1985.

<sup>68</sup> HA NN, Minutes Supervisory Board, discussion paper 'Foreign Division and its foreign activities', March 1968.

<sup>69</sup> HA NN, Annual report North America, 1987.

<sup>70</sup> HA NN, Introducing Nationale-Neder-

landen. Excerpts from presentation given by Odo Hattink, May 1980.

<sup>71</sup> HA NN, Speech on the activities of Washington office by Mr. G.F. Jonckheer, EVP of NNUS Corp, November 30, 1983.

<sup>72</sup> HA NN, Annual report North America, 1987.

<sup>73</sup> HA NN, Speech on the activities of Washington office by Mr. G.F. Jonckheer, EVP of NNUS Corp, November 30, 1983.

<sup>74</sup> Interview E. den Bakker, March 3, 2006.

<sup>75</sup> HA NN, Minutes Supervisory Board, February 10, 1977.

<sup>76</sup> HA NN, Minutes Supervisory Board, November 25, 1975.

<sup>77</sup> 'ING trekt zich in VS terug uit schadebedrijf', in: *Het Financieele Dagblad*, April 8, 1998.

<sup>78</sup> HA NN, McKinsey & Company, 'ING Group, Organization of activities on financial markets', January 27, 1993, attached to Minutes Supervisory Board.

<sup>79</sup> HA NN, Minutes Supervisory Board, October 17, 1994, report 'Strategic direction and organization of ING's international activities'.

<sup>80</sup> HA NN, Minutes Supervisory Board, November 24, 1994, note 'Division of tasks Executive Board since January 1995'.

<sup>81</sup> HA ING, Minutes Supervisory Board, November 25, 1992.

<sup>82</sup> HA ING, Annual report ING, 2000

<sup>83</sup> ING press release 'ING Americas announces integrated management and organizational structure', December 14, 2000.

<sup>84</sup> HA ING, Annual report ING, 2004

<sup>85</sup> Jeroen de Leeuw, *Financiële conglomeraten in Nederland*, Serie Bank- en Effectenbedrijf nr. 38 (Amsterdam, 1996), p. 79-81.

### Notes Chapter 3

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<sup>2</sup> *Power distance*: the extent to which the less powerful members of institutions and organizations accept that power is distributed unequally. *Uncertainty avoidance*: the extent to which people feel threatened by ambiguous situations and have created beliefs and institutions that try to avoid these. *Individualism*: people are supposed to look after themselves and their immediate family only *vs.* *Collectivism*: people belong to in-groups or collectivities which are supposed to look after them in exchange for loyalty. *Masculinity*: the dominant values in society are success money and things *vs.* *Femininity*: the dominant values in society are caring for others and quality of life. Source: Geert Hofstede, *Culture's consequences. International differences in work-related values* (London, 1984).

<sup>3</sup> Ferrie Pot, *Employment relations and national culture. Continuity and change in the age of globalization* (Cheltenham and Northampton: Edward Elgar, 2000), p. 136.

<sup>4</sup> F. Trompenaars, *Riding the waves of culture. Understanding cultural diversity in business* (London, 1993).

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<sup>6</sup> P.A. Hall and D. Soskice, *Varieties of capitalism. The institutional foundations of comparative advantage* (Oxford, 2001) p. 29.

<sup>7</sup> Pot, *Employment Relations and National Culture*, p. 156.

<sup>8</sup> Jeroen Touwen, 'Varieties of capitalism en de Nederlandse economie', *Tijdschrift voor Sociale en Economische Geschiedenis* 1 (2006) p. 93-94.

<sup>9</sup> Pot, *Employment Relations and National Culture*, p. 157.

<sup>10</sup> Pot, *Employment Relations and National Culture*, p. 158.

<sup>11</sup> An employee remained staff employee for about 10 years, then he became First Staff employee for 7 years. Thereafter the career ended as Agent. In 1984 the system changed to one with 6 levels: the A group was a training period. The employee was evaluated if he would be able to become an executive. If not, employment was broken off. After 5 years he went to B group as a

preparation for managing a small office (C-Group). D-group was the group of branch managers of a middle sized to large office. The E and F group were meant for executives of the largest offices and for regional managers. See: AAHA, ABN, inv.nr. 4407: secret minutes Managing Board, December 6, 1983.

<sup>12</sup> AAHA, ABN, inv. nr. 6216: Report 'Visit to ABN New York from 15-19 September 1975', October 1, 1975.

<sup>13</sup> Participating banks in 1971 were: ABN Bank (Amsterdam), Banque de Bruxelles (later Banque Bruxelles Lambert) (Brussels), Bayerische Hypotheken-und Wechsel Bank (Munich), Dresdner Bank (Frankfurt am Main). In the following years the membership was enlarged with Österreichische Länder Bank (Vienna), Banca Nazionale del Lavoro (Rome), Banque Nationale de Paris (Paris), Barclays Bank Ltd (London), Banque Internationale a Luxembourg (Luxembourg) and Banque de la Société Financière Européenne (Paris).

<sup>14</sup> AAHA, ABN, inv. nr. 2962: Managers Conferences 10-12 May, 1982, 'Manpower planning for our foreign network', speech by Jhr. Mr. J.H.O. van den Bosch.

<sup>15</sup> Interview with Jhr. Mr. J.H.O. van den Bosch, December 2, 2005.

<sup>16</sup> AAHA, ABN, Social report ABN Bank, 1974 and 1976.

<sup>17</sup> AAHA, ABN, Social report ABN Bank, 1978.

<sup>18</sup> AAHA, ABN, inv. nr. 4365: Minutes Supervisory Board, August 15, 1980.

<sup>19</sup> AAHA, ABN, Annual report LaSalle National Bank, 1980.

<sup>20</sup> Interview with Jhr. mr. J.H.O. van den Bosch, December 2, 2005.

<sup>21</sup> AAHA, ABN, inv. nr. 4367: Minutes Supervisory Board, May 20, 1988.

<sup>22</sup> AAHA, ABN, inv. nr. 4367: Minutes Supervisory Board, November 10, 1989.

<sup>23</sup> AAHA, ABN, Annual report ABN Bank, 1988

<sup>24</sup> AAHA, ABN AMRO, Social report ABN AMRO, 1995.

<sup>25</sup> AAHA, ABN, Annual report ABN Bank, 1989.

<sup>26</sup> AAHA, ABN AMRO, Social report ABN AMRO, 1992.

<sup>27</sup> AAHA, ABN AMRO, inv. nr. 1105: Minutes Supervisory Board, January 20, 1995.

<sup>28</sup> AAHA, ABN AMRO, inv. nr. 1102: Minutes Supervisory Board, December 7, 1993 and Discussienota met betrekking tot aspecten van de Raad van Commissarissen by mr. R. Hazelhoff, November 25, 1993.

<sup>29</sup> AAHA, ABN AMRO, inv. nr. 1108: Minutes Supervisory Board, January 19, 1996; and letter (including curriculum vitae) of Supervisory Board to central workers council, January 19, 1996.

<sup>30</sup> Scott-Barrett resigned on August 1, 2007, given the expected change in ownership of ABN AMRO. The Managing Board consists of Dutch members only.

<sup>31</sup> Interview with Jhr. Mr. J.H.O. van den Bosch, December 2, 2005.

<sup>32</sup> AAHA, ABN AMRO, inv. nr. 1122: Note 'Debureaucratisering', June 1, 1993.

<sup>33</sup> Interview with Mr P.J. Kalf, October 10, 2005 and AAHA, ABN AMRO, Social Report ABN AMRO, 1997, p. 7.

<sup>34</sup> AAHA, ABN AMRO, Social Report ABN AMRO, 1996, p. 9.

<sup>35</sup> On September 12, 2005, Standard Federal Bank changed its name to LaSalle Bank Midwest N.A. and is marketed and branded as LaSalle Bank.

<sup>36</sup> ABN AMRO press release 'ABN AMRO announces rebranding major subsidiaries in US and Europe', February 13, 2003.

<sup>37</sup> HA Rabobank, Minutes Executive Board, October 22, 1979 and appendix II.

<sup>38</sup> HA Rabobank, Minutes Executive Board, April 28, 1980 and interview with A.C. Steketee, February 22, 2006.

<sup>39</sup> HA Rabobank, appendix III part of Minutes Executive Board, September 23, 1974.

<sup>40</sup> HA Rabobank, Minutes Executive Board, October 16, 1978.

<sup>41</sup> For a complete CV of mr.dr. P. Lief-tinck see: <http://www.parlement.com/9291000/biof/00816>

<sup>42</sup> HA Rabobank, Minutes Executive Board, November 23, 1981.

- <sup>43</sup> HA Rabobank, Minutes Executive Board, February 28, 1977.
- <sup>44</sup> HA Rabobank, Minutes Executive Board, April 6, 1981.
- <sup>45</sup> HA Rabobank, Minutes Executive Board, February 6, 1984.
- <sup>46</sup> HA Rabobank, Minutes Banking Sector, January 28, 1985.
- <sup>47</sup> HA Rabobank, Minutes Banking Sector, March 31, 1987, Note 'Informatiesysteem Management-Ontwikkeling'.
- <sup>48</sup> HA Rabobank. Note 'Uitkomsten Rabobank Opinie Onderzoek', May 1991.
- <sup>49</sup> HA Rabobank, inv.nr. A 299: Note Beleidsplan Buitenland 1989-1992, by Visser, July 1988.
- <sup>50</sup> HA Rabobank, inv.nr. A 299: Note Beleidsplan Buitenland 1989-1992, by Visser, July 1988.
- <sup>51</sup> HA Rabobank, Minutes Central Banking Sector, June 24, 1991, Note 'Outline vestigingenbeleid'.
- <sup>52</sup> HA Rabobank, Minutes Central Banking Sector, October 7, 1991, Note 'Management training'.
- <sup>53</sup> HA Rabobank, Implementatievoorstel 'Resultaatgericht managen' CBB, October 15, 1992.
- <sup>54</sup> HA Rabobank, Annual report Rabobank, 1993 and 1994.
- <sup>55</sup> HA Rabobank, Minutes Central Banking Sector, July 17, 1995 and November 6, 1995.
- <sup>56</sup> HA Rabobank, Minutes Central Banking Sector, July 1, 1996.
- <sup>57</sup> HA Rabobank, Note 'Hoofddlijnen van het te volgen expatriatebeleid', by Booi, Van Vugt and Keizer, no date.
- <sup>58</sup> HA Rabobank, Note 'Aanpassing voorwaarden bij uitzending naar het buitenland', by P&O CBB, June 5, 1992.
- <sup>59</sup> HA Rabobank, Human Resources Plan, Central Banking Sector, 1996-'97.
- <sup>60</sup> Interview with Flip Goudsmit, February 16, 2007.
- <sup>61</sup> HA Rabobank, Minutes Central Banking Sector, January 20, 1992, Note 'Realisatievoorstel Strategisch Actieplan CBB'.
- <sup>62</sup> HA Rabobank, Minutes Central Banking Sector, March 19, 1990 and May 4, 1990 and Note 'Incentive compensation guidelines for the foreign banking division', by Towers Perrin, March 1990.
- <sup>63</sup> HA Rabobank, Minutes Central Banking Sector, August 24, 1992 and March 1, 1993 and Note 'Performance meting Central Banking Sector', February 22, 1993.
- <sup>64</sup> Participating banks were: ABN AMRO, Credit Lyonnais Bank, ING Bank, Rabobank, Robeco Groep, Bank of America, Bank van Haften Labouchere, Banque Nationale de Paris, Citibank, Crediet- en Effectenbank, Lloyds Bank, and United Garanti Bank.
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- <sup>66</sup> HA Rabobank, Minutes Central Banking Sector, October 24, 1994, and Note 'Bonusplan Directoraat Bedrijfsrelaties', October 21, 1994.
- <sup>67</sup> HA Rabobank, 'Success through performance. Performance incentive plan for CBB staff in the Netherlands, October 25, 1994.
- <sup>68</sup> Stefan de Boer, *De bank voor iedereen. Reclame van de Rabobank* (Utrecht: Rabobank Nederland, 2005).
- <sup>69</sup> HA Rabobank, Minutes Central Banking Sector, August 12, 1991 and Note 'Communicatiebeleid CBB in Nederland en daarbuiten', August 8, 1991.
- <sup>70</sup> HA Rabobank. Letter from H. Steensma to B.R.H. Wentrup on Rabobank name, March 4, 1992.
- <sup>71</sup> HA Rabobank, Minutes Central Banking Sector, April 27, 1992.
- <sup>72</sup> HA Rabobank, Minutes Central Banking Sector, March 27, 1995 and Note 'Naamgeving buitenlandse vestigingen', March 23, 1995.
- <sup>73</sup> Michael Lafferty left the Financial Times in 1981 to start a new business called Lafferty Group, a consultant and research firm specialized in retail banking.
- <sup>74</sup> Greenwich Associates, established in 1972, is a consulting and research firm in institutional financial services.
- <sup>75</sup> HA Rabobank, Minutes Central Banking Sector, March 11, 1996.

- <sup>76</sup> HA NN, Planning note Executive Board for Supervisory Board, February 1986.
- <sup>77</sup> HA NN, Minutes Supervisory Board, May 31, 1989, Note 'Top management manpower plan Nationale-Nederlanden', May 1989.
- <sup>78</sup> HA NN, Minutes Supervisory Board in presence of Executive Board, April 16, 1986.
- <sup>79</sup> Number of expatriates: 1989-14, 1990-12, 1991-18, 1992-19, 1993-10.
- <sup>80</sup> In May 1989 there were about 50 foreign managers and 62 domestic managers.
- <sup>81</sup> HA NN, Minutes Supervisory Board, May 30, 1990.
- <sup>82</sup> HA ING, World Conference 1991, Speech 'Management development=Shaping the future', by S.J. Jonker and I.L.M. Komor, May 14, 1991.
- <sup>83</sup> HA ING, Minutes Supervisory Board in presence of Executive Board, June 3, 1992, Note 'Management Development ING Insurance'.
- <sup>84</sup> HA ING, Minutes Supervisory Board, November 21, 1996, Note 'Management development ING Group'.
- <sup>85</sup> HA ING, Minutes Supervisory Board, January 29, 1998, Note 'Internationalization management development'.
- <sup>86</sup> HA ING, Minutes Supervisory Board, November 27, 1997, Note 'Management development ING Group'.
- <sup>87</sup> HA ING, Minutes Executive Board ING, 17 October 1994, Note 'Strategische richting en organisatie internationale activiteiten', October 14, 1994.
- <sup>88</sup> Interview with J.H. Holsboer, March 28, 2006.
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Notes Conclusions

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## Summary in Dutch

### Samenvatting in het Nederlands

Het doel van de dissertatie is het verklaren van de expansie van Nederlandse financiële ondernemingen op de Amerikaanse markt gedurende de laatste veertig jaar. Onderzocht is in welke activiteiten ze succesvol waren en in welke niet. Bovendien is gezocht naar verklaringen voor de verschillen in de mate van succes. Drie ondernemingen vormen het uitgangspunt van onderzoek: ABN Bank, Rabobank en Nationale-Nederlanden, en vijf activiteiten zijn onderscheiden: retail, corporate en investment banking, en schade- en levensverzekeringen. De ondernemingen zijn onderzocht in hun institutionele omgeving. De vraag die daarbij gesteld wordt, is hoe de bedrijven omgingen met verschillende nationale business systemen? Om dit te bepalen heb ik de drie ondernemingen en hun activiteiten geplaatst binnen twee ideaaltypen zoals gedefinieerd in het boek *Varieties of Capitalism* van Hall & Soskice: de liberal market economy (LME) en de coordinated market economy (CME). In een LME voeren ondernemingen activiteiten uit via hiërarchieën en markten, terwijl in een CME ondernemingen meer afhankelijk zijn van netwerken. Op deze manier kan ik er achter komen of Nederlandse financiële ondernemingen zaken via de markt en hiërarchie of via netwerken coördineerden. Tevens zal worden vastgesteld of de ondernemingen hun activiteiten in de vs op dezelfde wijze coördineerden. Met andere woorden brachten ze Nederlandse elementen in hun Amerikaanse organisatie, en kan dat gezien worden als een reden voor succes? Of veranderden de ondernemingen hun ideeën en inzichten onder invloed van het contact met het Amerikaanse systeem, en vormde dit een verklaring voor succes?

Wat is succes? Het begrip is moeilijk te definiëren en het succes van ondernemingen is lastig te vergelijken. Een manier om succes te meten is te kijken of de bedrijven er in slaagden hun doelstellingen te realiseren. Rabobank bijvoorbeeld heeft andere doelstellingen geformuleerd in haar expansiestrategie dan ABN AMRO. Het feit dat Rabobank een veel kleinere speler op de Amerikaanse markt is, betekent dan ook niet per definitie dat Rabobank niet succesvol is. Kortom, de gestelde doelen van een onderneming zijn essentieel om succes te kunnen bepalen. Een onderneming kan haar strategieën en doelstellingen veranderen. Met het veranderen van haar doelstellingen, verandert ook wat een onderneming onder succes verstaat. De wijze waarop doelstellingen worden geformuleerd en vastgesteld zijn sterk afhankelijk van in welk business systeem het bedrijf opereert. Verschillen in

instituties tussen CMES en LMES genereren verschillen in ondernemingsstrategieën. In CMES opereren raad van bestuur en raad van commissarissen in het algemene belang van de onderneming. In de besluitvorming wordt rekening gehouden met alle stakeholders, zoals management, werknemers, consumenten, aandeelhouders en staat. In LMES zijn het voornamelijk de belangen van de aandeelhouders die gediend moeten worden. Ondernemingen in CMES zullen als gevolg meer gericht zijn op de lange termijn, op de continuïteit van de onderneming en op marktaandeel, terwijl ondernemingen in LMES meer geneigd zullen zijn om op de korte termijn winst te genereren voor hun aandeelhouders.

De hoofdstukken van de dissertatie zijn op dezelfde manier ingedeeld. Elk hoofdstuk begint met generalisaties van een element uit het business systeem. Ze dienen als uitgangspunt van analyse waarbinnen vervolgens de drie case studies na elkaar worden behandeld. Elk hoofdstuk eindigt met een vergelijkende analyse van de drie ondernemingen en conclusies. In hoofdstuk 1 wordt de expansie van retail en corporate banking en van schade- en levensverzekeringen geanalyseerd. Het begint met een vergelijking tussen de Nederlandse en Amerikaanse bankwetgeving. Uit dit hoofdstuk komt duidelijk de invloed van wetgeving in het thuis- en gastland op de expansiestrategieën naar voren. Tevens laat het hoofdstuk zien dat internationale expansie van ondernemingen een leerproces is. In de ogen van ABN Bank en Nationale-Nederlanden was de verzadigde thuishmarkt een belangrijk motief voor expansie. Voor Rabobank speelde voornamelijk het volgen van grote klanten in het buitenland een rol. Voor de ondernemingen gold dat de vs een aantrekkelijke markt was vanwege de relatief stabiele politieke en economische situatie, vrij ondernemerschap en toegang tot de dollar. Daarnaast was de Amerikaanse markt relatief groot en goed ontwikkeld en lag het inkomensniveau hoog. Wat expansie in de vs voor ABN Bank bijzonder aantrekkelijk maakte tot 1978 waren de voordelen van buitenlandse ten opzichte van Amerikaanse banken, veroorzaakt door mazen in de wet. Rabobank en ABN Bank openden kantoren voor de bediening van grote, internationale ondernemingen (corporate banking). Lokale kennis van de markt, een sterke merknaam en gekwalificeerd management werden gezien als essentieel voor de bediening van lokale consumenten en het midden- en kleinbedrijf (retail banking). Bijgevolg kreeg de expansie van retail banking vorm door acquisities van lokale banken. De verzekeraar Nationale-Nederlanden expandeerde door middel van overnames op de Amerikaanse markt. Sinds 2000 is ING actief in het Amerikaanse bankwezen via ING Direct. Het blijkt een succesvolle manier van retail banking zonder een duur kantorennet en met ondersteuning van goede marketing. Ten slotte wordt in dit hoofdstuk aangetoond dat instituties niet alleen het gedrag van ondernemingen beïnvloeden, maar dat ook vice versa door het gedrag van ondernemingen instituties kunnen veranderen.

In hoofdstuk 2 en 3 wordt het proces na een acquisitie van een onderneming of opening van een kantoor geanalyseerd. Meer specifiek, hoofdstuk 2 behandelt de manier waarop de Nederlandse ondernemingen hun Amerikaanse organisaties integreerden en bestuurden. Werden de Amerikaanse activiteiten bestuurd 'at

arm's length' of werden ze geïntegreerd in de bestaande organisatie? Hoewel ABN Bank, Rabobank en Nationale-Nederlanden hun Amerikaanse activiteiten op verschillende manieren aanstuurden, kunnen er toch een aantal parallellen getrokken worden. Ten eerste is gebleken dat er niet een beste manier van aansturen is, en dat het vinden van een goed bestuursmodel een leerproces is dat tijd nodig heeft. In dit proces is het van belang om een juiste combinatie van elementen uit zowel het Nederlandse als het Amerikaanse systeem te vinden. Bijvoorbeeld, zowel ABN Bank als Nationale-Nederlanden hebben getracht via een tweekoppig management de Amerikaanse activiteiten aan te sturen. In de praktijk bleek deze typisch Nederlandse bestuurswijze op grote weerstand te stuiten onder de Amerikanen. In beide gevallen besloot men na een aantal jaren over te gaan tot eenhoofdig leiderschap (CEO). Ten tweede, hoewel de Amerikaanse organisatie gebaat was bij een relatief grote mate van zelfstandigheid, mocht een zekere mate van toezicht hierop niet ontbreken. Het was bijvoorbeeld belangrijk Nederlanders in de Amerikaanse organisatie te plaatsen. Een te grote mate van zelfstandigheid zoals de Amerikaanse bedrijven van Nationale-Nederlanden genoten, bemoeilijkte samenwerking en het behalen van synergie. De informele manier van toezicht op basis van persoonlijke contacten en vertrouwen bleken in het bijzonder in de initiële fase van expansie van belang. Zodra de Amerikaanse organisatie groeide werden formele controlemechanismen zoals budgets en targets belangrijker.

Hoofdstuk 3 behandelt de menselijke factor en bedrijfscultuur. De kwaliteit van het management was van belang voor het al dan niet succesvol zijn op de Amerikaanse markt. Door de bestudering van het human resource management van de ondernemingen, wordt in het hoofdstuk geanalyseerd hoe de moedermaatschappij trachtte buitenlands managementtalent te motiveren. Duidelijk wordt dat de Nederlandse ondernemingen eigen werkgerelateerde gebruiken combineerden met Amerikaanse. De Amerikaanse ondernemingen behielden na een overname het zittend management, zodat kennis van de lokale markt, producten, wetgeving en gebruiken niet verloren ging. Om het management te motiveren en 'promotion from within' te stimuleren, vergrootten de Nederlandse ondernemingen de carrièremogelijkheden. De internationalisatie van het personeelsbeleid op managementniveau droeg hier in belangrijke mate aan bij. Het feit dat de Amerikaanse managementposities op het hoogste niveau niet voortdurend veranderden, zorgde ervoor dat de Nederlandse ondernemingen een goede relatie konden opbouwen. Daarnaast heeft de internationalisatie van dit personeelsbeleid er aan bijgedragen dat de samenstelling van de Nederlandse raad van bestuur en raad van commissarissen internationaler werd. Hierdoor werd in de besturen kennis van de Amerikaanse markt en cultuur vergroot. Bovendien hadden deze Amerikanen een eigen lokaal netwerk wat interessant kon zijn voor toekomstige overnames. Ten slotte wordt in dit hoofdstuk beschreven hoe het Nederlandse hoofdkantoor voortdurend diende te manoeuvreren tussen het geven van verantwoordelijkheden aan buitenlandse managers en hen binden aan de wereldwijde

organisatie door middel van de introductie van eenzelfde merkenbeleid en bedrijfscultuur.

Aan de hand van jaarverslagen wordt in hoofdstuk 4 het marktaandeel en de winstgevendheid van de drie ondernemingen op de Amerikaanse markt geanalyseerd. In het bijzonder blijkt dat in 2006 ABN AMRO de grootste buitenlandse bank in de VS was. Daarnaast is het opvallend dat Rabobank na een lange aanloopperiode, een 'food & agribusiness' bank van belang is geworden in de VS. ING Verzekeringen NV is een van de grootste buitenlandse verzekeraars in de VS. Wegens teleurstellende prestaties werd het schadebedrijf van de laatste verkocht, een gevolg van onder meer de toenemende Amerikaanse claimcultuur. Sinds de start in 2000 heeft ING Direct een enorme groei doorgemaakt; het aantal Amerikaanse klanten is bijvoorbeeld gestegen tot 3,3 miljoen in 2005.

Ten slotte analyseert hoofdstuk 5 de expansie van investment banking met nadruk op de jaren negentig. Vanwege de bijzondere eigenschappen van deze sector, die grotendeels overeenkomen met de kenmerken van een LME, hanteerden de Nederlandse ondernemingen andere expansiestrategieën. Een aspect hiervan is de algemeen gedeelde visie dat investment banking alleen succesvol zou kunnen zijn als men een wereldwijde aanwezigheid heeft, waaronder een deel van de belangrijke Amerikaanse markt. De drie Nederlandse banken slaagden er niet in hun doelstellingen te behalen. Aan deze mislukking lag een combinatie van factoren ten grondslag, variërend van de recessies in 1998 (Rusland/Azië) en 2001 (dot.com) tot de structuur van het Amerikaanse bankwezen. Daarnaast was er weinig ervaring bij het management en onderschatten de ondernemingen het belang van complexe risicomangement systemen. Bovendien bestonden er interne spanningen als gevolg van culturele verschillen tussen commercial en investment bankers, waarbij vooral de hoge bonussen van de investment bankers tot discussies leidden.

In de conclusie worden de factoren beschreven die expansie op de Amerikaanse markt ondersteunden dan wel hinderden. Vastgesteld is welke elementen uit het Nederlandse business systeem hebben bijgedragen aan een succesvolle expansie, zoals de open, internationale focus en het koloniale verleden. De staat heeft een ondersteunende rol gespeeld in het ontstaan van grote, financiële ondernemingen. Het risicomijdende gedrag van ondernemingen werd in de dissertatie ook gezien als een positief kenmerk van het Nederlandse business systeem. De ondernemingen expandeerden op de Amerikaanse markt in de jaren zeventig en tachtig op een weloverwogen manier. Een ander belangrijk punt is de Amerikaanse mentaliteit geweest waar vrij ondernemerschap hoog in het vaandel stond. Het motto 'alles is te koop zolang je betaalt' stond in scherp contrast met het protectionistische Europa in die jaren. Vervolgens is aangegeven welke elementen de Nederlandse ondernemingen overnamen van het Amerikaanse systeem. Een conclusie is dat de Nederlandse ondernemingen onder andere succesvol waren op de Amerikaanse markt omdat ze elementen van het Nederlandse en Amerikaanse business systeem combineerden. In de organisatie en management van de Amerikaanse activiteiten is dit duidelijk te zien. De samenstelling van de elementen veranderde in de loop

der tijd als gevolg van externe en interne ontwikkelingen en was bovendien de uitkomst van een leerproces. Met de organisatie en het managen van investment banking activiteiten hadden de Nederlandse banken meer moeite. De investment banking sector vertoonde grote verschillen met het Nederlandse business systeem en met het Amerikaanse commercial banking en verzekeringswezen. De cultuur en werkwijze van investment banking kwam meer overeen met de kenmerken van de LME. Hierdoor bleek het moeilijker voor de ondernemingen om eigen Nederlandse elementen in te brengen en een goede balans tussen beide systemen te vinden. Bovendien wilden de Nederlandse ondernemingen zich niet volledig overgeven en aanpassen aan de investment banking (of LME) cultuur. Daarnaast is geconcludeerd dat binnen de vs grote verschillen te onderkennen zijn, zodat je niet kunt spreken van één Amerikaans business systeem. Ten eerste zijn er geografische verschillen (zoals tussen New York en het Middenwesten) en ten tweede zijn er verschillen tussen activiteiten (commercial vs. investment banking). Gedeeltelijk kan hieruit verklaard worden waarom de Nederlandse ondernemingen in bepaalde activiteiten en gebieden meer succes hadden dan in andere.

Als laatste wordt in de conclusie ingegaan op de vraag hoe de drie financiële ondernemingen zijn veranderd, gezien vanuit de twee uitersten in de business systems literatuur. Het wordt duidelijk dat in de jaren negentig ABN AMRO en ING verschoven richting LME, terwijl elementen van dit ideaaltype minder zichtbaar zijn bij Rabobank. De mate van verandering hangt samen met twee variabelen. Ten eerste de mate van internationalisatie. ABN AMRO en ING hebben een veel grotere aanwezigheid op de buitenlandse en meer in het bijzonder op de Amerikaanse markt. Door het internationale karakter stonden zij meer open voor andere invloeden, bijvoorbeeld als gevolg van de internationalisatie van het management. Ten tweede is de juridische structuur van een onderneming van betekenis. De twee beursgenoteerde ondernemingen veranderden in grotere mate dan de coöperatieve bank. De al dan niet geforceerde aandacht voor aandeelhouderswaarde in de jaren negentig had gevolgen voor de gehele organisatie van ABN AMRO en ING. Formele methoden om waarde van activiteiten en mensen te bepalen werden geïntroduceerd. Niet optimaal presterende onderdelen werden verkocht. Rabobank hield echter vast aan haar eigen normen en waarden inherent aan het coöperatieve karakter, zoals de focus op klantwaarde in plaats van aandeelhouder-swaarde.

Nederlandse instituties, zoals de organisatie van de corporate governance en de financiële markt, zijn de laatste veertig jaar veranderd als gevolg van externe ontwikkelingen zoals de liberalisering van de kapitaalmarkten en de ontwikkeling van de Europese markt. De Nederlandse financiële ondernemingen moesten zich staande houden in en reageren op deze veranderende institutionele omgeving. Ze dienen echter niet gezien te worden als passieve actoren, maar als actoren die op hun beurt invloed uitoefenen op de mate en inhoud van institutionele verandering. Kortom, nationale business systemen en multinationals beïnvloeden en veranderen elkaar.



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## List of interviewees

	Place interview	Date interview	Date e-mail response
<b>ABN AMRO</b>			
A.D.J. Drost A.J.M. de Boer	Weesp	May, 15, 2005	September 1, 2005 September 7, 2005 October 28, 2005 January 12, 2006 November 15, 2005
H. Siegelaar P.J. Kalff	Amsterdam	October 10, 2005	
E.O. Langelaar	Baarn	October 24, 2005	
R. Hazelhoff	Amsterdam	November 16, 2005	
P.J. Pistor	Blaricum	November 18, 2005	
C.J. Oort	Wassenaar	November 25, 2005	
J.J. Oyevaar	Heiloo	November 29, 2005	
J.H.O. van den Bosch	Noordwijkerhout	December 2, 2005	
H.J. Hielkema	Zeist	December 13, 2005	
<b>Rabobank</b>			
H. Visser	Bosch en Duin	February 7, 2006	
W.M. van den Goorbergh	Rosmalen	February 8, 2006	
H. Steensma	By phone	February 9, 2006	
D.J.M.G. van Slingelandt	Utrecht	February 17, 2006	
	Voorburg	June 30, 2007	
A.C. Steketee	Harmelen	February 22, 2006	
R.A. Arnold	Den Haag	March 22, 2006	
R. Mesritz	New York	June 21, 2006	
C.F. Broekhuysse	New York	June 22, 2006	
G.J.M. Vlak	New York	June 23, 2006	
F. Goudsmit	By phone	February 16, 2007	

LIST OF INTERVIEWEES

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	Place interview	Date interview	Date e-mail response
<b>Nationale-Nederlanden/ING</b>			
E.K. den Bakker	By phone	March 3, 2006	
A.J. Debets	Drunen	March 7, 2006	
O. Hattink	Wassenaar	March 14, 2006	
D.E. Ernste	Leiden	March 16, 2006	
J.J. van Rijn	Katwijk	March 29, 2006	
D. Laman Trip	Velp	March 31, 2006	
J.H. Holsboer	Huizen	April 4, 2006	
E. Kist	Den Haag	April 6, 2006	
P.H.M. Kuys	Amsterdam	April 11, 2006	
L. Grijns	New York	June 19, 2006	
G.F. Jonckheer	Den Haag	September 21, 2006	

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Historical Archives Rabobank (HA Rabobank)

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*Elsevier*  
*FEM Business*  
*Financial Times*  
*Het Financieele Dagblad*  
*De Financiële Telegraaf*  
*Global Finance magazine*  
*The McKinsey Quarterly*  
*The New York Times*  
*NRC Handelsblad*  
*Het Parool*  
*Volkscrant*

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[www.rabobankamerica.com](http://www.rabobankamerica.com)  
[www.ing.com](http://www.ing.com)  
[www.ing-usa.com](http://www.ing-usa.com)

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## Curriculum Vitae

### Personal information

Name: Westerhuis, Gerarda Kunny  
Date of birth: November 22, 1973  
Place of birth: Hoorn  
Nationality: Dutch

### Employment history

2002-2007 Research Institute for History and Culture,  
Utrecht University (Utrecht)  
PhD student

2000-2001 Marketing Department, Fortis Bank (Rotterdam)  
Project manager

1999-2000 Fortis Group (Utrecht, Amsterdam, Amersfoort)  
Management trainee

1997-1998 Nutreco (Madrid, Spain)  
Student internship

### Education

2001 Opleidingssinstituut SRM (Utrecht)  
NIMA Marketing-A

1992-1998 University of Groningen (Groningen)  
MA in economic and social history

1986-1992 Koningin Wilhelmina College (Culemborg)  
Pre-university education



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