Case 5 shinsei bank assignment

Sociology

Shinsei Bank’s current organizational structure and culture reflect the effects of several defining moments in the bank’s history. When its original incarnation, the Long-Term Credit Bank of Japan, failed in 1998, it set in motion a series of paradigm shifts for the bank. First, the bank was sold to a US private equity group, Ripplewood. This was controversial as, per the case material, “ corporate Japan loathed private equity groups, and the government was reluctant to allow a foreign group to control a major local bank. Thus, right from the start, Shinsei Bank had an uphill climb ahead of it in terms of public acceptance. Ripplewood smartly chose a highly respected Japanese senior executive, Masamoto Yashiro, as CEO. He had worked for decades in American companies’ operations in Japan, and could use that experience to integrate the new owners’ expectations into the company structure and culture. The “ injection” of foreign values and culture cannot be underestimated. Within the first year, Yashiro chose not to support one of its biggest clients during its financial troubles, and the company, Sogo, ended up filing for bankruptcy.

This was counter to the historical moral code in Japan that banks support company clients even if they suffer losses, and confirmed the public’s and government’s worst fears of changes that might be wrought by foreign ownership. Furthermore, Yashiro abolished the former rotational assignment system so that employees could specialize. He decentralized hiring and promotion decisions, allocating them to individual groups and disbanding the former Planning Department that handled all such duties.

Finally, he aggressively pursued hiring employees from outside the former LTCB in order to increase fee-based revenue. All these choices were significant events that affected the culture and operations of Shinsei Bank. By moving away from the historical moral code of Japanese banks – supporting failing companies, charging small spreads on loans regardless of credit worthiness—Shinsei began to reflect the values of foreigners in the industry. With the aggressive external hiring of product specialists, Yashiro cemented this internal shift.

He chose to further differentiate Shinsei bank by aggressively developing retail banking, and by combining the commercial banking department (relationship oriented) and investment banking department (product and fee-oriented) into one Institutional Banking Group. In order to keep both long-term LTCB employees (permanent staff) and the new product specialists (market employees), Shinsei instituted a two-tier system for promotion and compensation that was designed to compensate each group according to its accustomed manner.

While it probably seemed logical on its face, in hindsight this decision caused more divisiveness and hostility between the employee factions. Though each was paid according to a system they were culturally accustomed to, the faster promotions and higher bonuses afford the market employees rankled the permanent staff, despite the fact that they themselves enjoyed more security via steadily increasing salaries and generous retirement packages. This resentment caused the already fragmented culture to fracture further, and collaboration was minimal.

Such an environment is an impediment to successful operations, and, by extension, profits. While in theory a “ hybrid” bank, the lack of integration among employees meant that instead of reaping the benefits of diverse backgrounds and outlooks, it was instead the worst of hybrids – neither fish nor fowl, with little common ground on which to build. The values and vision exercises was implemented because Thierry Porte recognized that integrating the diverse cultures (and attendant professional behaviors and expectations) of Shinsei's employees was critical to the bank's success.

He hired Tom Pedersen to help him in this endeavor. Pedersen launched the Vision and Values initiative in order to revise the corporate vision statements, align those statements with particular values, and then build a shared vision of Shinsei's future among all employees based on those values and vision. Eventually a set of competency statements was created for each value, and these competencies would be included in performance-evaluation programs for senior executives.

Based on the case materials, I think the values and vision exercises were somewhat successful, but that the desired end result requires more time to fully develop and become internalized among the employees. So I think recognition of full success is still yet to come. First, there were social conflicts between Japanese and non-Japanese employees. Second, there was a conflict between relationship-oriented commercial bankers (who tended to be Japanese) and profit-oriented investment bankers (who were foreigners.) The differences in values reflected by each banker " type" only exacerbated the social conflicts already in place.

Thus the values and vision exercises have a very large, ingrained, cultural divide to bridge, and that takes time. I also think the progress of the visions and values initiative was slowed by the fact that Pedersen wanted to incorporate it into performance evaluations, and the kind of performance evaluations he instituted also reflected a cultural change from the evaluations of the past—thus introducing another facet of new leadership that the “ old guard” might be suspicious of and uncomfortable with. Almost any time change is instituted, someone will be unhappy and resist conforming.

When there is not one change but many changes being instituted, and these changes are directly counter to someone’s culture, experiences and background, the success of such changes will be slow. It will take time for the two diverse groups of employees to build trust, to communicate openly, to become more tolerant of one another, and to eventually share values. So I think Pedersen is doing a good job and should not be penalized for the reality that changing a culture – or really, merging two radically different cultures – cannot happen overnight.

Pedersen’s efforts are based on sound organizational theories (mostly the Action Research approach), and while many of these theories are foreign to the LTCBers, Pedersen seems to possess the sensitivity and awareness to successfully engender the transition. As described in Chapter 15 of our text, the Shinsei environment exhibits almost every source of resistance to change: saving face, fear of the unknown, breaking routines, incongruent team dynamics (in spades! , and incongruent organizational systems (Shinsei’s was constantly in flux, first under Yashiro and then under both Ponte and Pedersen.) In his role as the Chief Learning Officer, Pedersen was initially responsible for formulating an overall learning strategy, and developing educational initiatives to support that strategy. The strategy and initiatives should be closely tied to the new vision and values. Eventually, the CLO was also responsible for centralizing and managing training programs throughout the organization, managing the erformance-evaluation process, and developing succession plans for the next generation. Essentially, the CLO was the embodiment of the ideal that an organization should be able to learn and grow both individually and collectively. Given the environment as described in the close of the case, I don't think the performance evaluation program should be expanded—yet. I believe that change, especially change that challenges one's culture and entire lifetime of experiences, is like information: we can only handle so much.

I believe there might be " change overload" similar to information overload: more change or information than we have the capacity to handle at a given moment. Therefore, although the 360 performance evaluation of the senior executives was a pilot, and the plan was to roll out the system bank-wide in the following year, I think Pedersen should slow down. First, the Japanese legacy employees can only handle so much change, and they have really been asked to absorb a lot of changes within the span of only a few years.

Second, I don't think Pedersen has done enough to educate or convince the employees of the link between the new kind of performance evaluations and his goal of shared values and visions. As noted in the case, the executive vice president and head of the Institutional Banking Group said, " I thought the purpose was to get people more self-aware rather than permeating values. " If such a senior executive does not see the link between the evaluation system and sharing values, there is little hope that line employees will either.

The expansion of the program should be delayed until more optimal feedback is obtained. This quote demonstrates one of the key factors that helps you realize whether an initiative should be expanded: what kind of feedback are you getting from the initiative, and is it what you expected? If not, why not? The feedback loop is crucial for understanding the effectiveness of a new initiative, and is instrumental in helping a manager to determine where the breakdown might be. Knowing whether to eliminate an initiative is also based on feedback, though the feedback can be direct or indirect.

If many people leave a company after an initiative is introduced, it’s quite probable there is a causal relationship and this should be investigated. Or if employee climate surveys show a marked increase in dissatisfaction after a new initiative is implemented, again, the timing might not be coincidental but causal. To this point Pedersen has focused on textbook management tools such as 360 performance evaluation, workout sessions with senior managers, and training programs. I think he has forgotten the human touch that could be helpful among the lower ranked employees.

Especially with the value and visions exercise, he seemed to make a point of having these generated by employees and not imposed from the top down. But the workshops and breakout sessions only involved senior management. I think he needs to recognize that despite his best efforts, he is engaging in a bit of top-down management even though he would prefer that the organization develop more organically. To improve cross-divisional collaboration and increase learning, he really needs to get the rank and file employees to mingle and communicate so they can better understand and empathize with one another.

Employees on the front lines need to stop viewing each other as “ the other” and with suspicion. Workshops involving these front line employees engaging in learning about other business units’ operations would be beneficial. When employees can understand why different attitudes or methods might be necessary for success, they can be more tolerant of them, and then, by extension, more tolerant of the person possessing those different attitudes or engaging in different methods. Informal workshops where employees simply get to know one another as people (and not merely as fellow employees) can be helpful as well.