Structure follows strategy – or does it? The dynamic processes of introducing the M-form in two Dutch banks

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Abstract

This paper examines the introduction of the multidivisional structure or M-form in two Dutch banks, AMRO and ABN, during the late 1960s and early 1970s. It attempts in particular to determine why ABN implemented the M-form significantly later and less deeply than AMRO, even if the drivers identified in the extant M-form literature would predict the opposite. We argue that long-term dynamic processes, involving a broad range of actors and including the succession of CEOs, play a crucial role in explaining these differences in the M-form adoption in the two cases. These broadly defined "political" processes supplement and even counterbalance the economic and institutional factors highlighted in much of the previous research. More in general, the paper suggests that case-based and comparative historical studies can complement cross-sectional data analysis, namely in terms of determining firm-specific differences and their role in the creation of a sustainable competitive advantage.

1. Introduction

The multidivisional structure or M-form has been characterized as the most important organizational innovation of the 20th century (e.g. Williamson 1971; Whittington and Mayer 2000). It is marked by a separation between relatively autonomous operational divisions with profit responsibility and a corporate centre, which makes firm-level strategic decisions and supervises the divisions through financial control mechanisms (e.g. Williamson 1985: 284; Strikwerda and Stoelhorst 2009: 13-15). In much of the literature the terms M-form, divisionalization or decentralization are used interchangeably (e.g. Freeman 2001: 1). Most studies consider the creation of product or geographic divisions as evidence for M-form adoption, while some also describe a more broadly defined decentralized organization with the delegation of decision-making and accountability driven deep into the hierarchy – a principle that has, at times, even been seen to provide a model for managing society as a whole (e.g. Drucker 1946; Ouchi 1984). [POSSIBLY PUT INTO A FOOTNOTE: As we will argue below, the actual "depth" of decentralization is one of the firm-specific differences in the M-form adoption that requires more explanation – in particular since it might have significant consequences in terms of performance.]

Historically, the multidivisional structure is widely believed to have originated during the 1920s in a number of increasingly diversified US companies, notably General Motors and DuPont (Drucker 1946; Chandler 1962; Sloan 1964; cf. however Fear 2006), and to have spread more widely and quite rapidly after World War II, both in terms of its geographic expansion – first in the United States and then in Western Europe (e.g. Rumelt 1974/1986; Channon 1973; Dyas and Thanheiser 1976; Whittington and Mayer 2000; De Jong et al. 2011; Binda 2013) – and in terms of the sectors covered – with banking and other financial services among the last to adopt it from the late 1960s onwards (Channon 1977; 1978). At the beginning, companies diversified into related businesses, but they soon also expanded into unrelated activities, often through acquisitions, leading to a growing number of conglomerates. While the latter became largely de-institutionalized during the 1980s (Davis et al. 1994) and have tended to disappear (albeit not completely), predictions about the demise of divisionalized organizations more broadly speaking (Bartlett and Ghoshal 1993) seem to have been premature (Whittington et al. 1999; Gooderham and Ulset 2002).

In addition to tracing its dissemination, the literature on the M-form has largely focused on identifying the factors driving its widespread adoption coalescing into two dominant schools of thought (see also Palmer 1993): one focusing on economic efficiency, the other on institutional conformity pressures – reflecting a broader dichotomy within the literature on the dissemination of management innovations (Abrahamson 1991; 1996). Both have their origin in Chandler's (1962) study on *Strategy and Structure*, which examined the four pioneering companies in the United States in detail and also the incidence of the M-form among the country's largest industrial corporations more broadly. He identified geographic and/or product diversification and the resulting "administrative overload" as the major driver (here Chandler 1990: 43) and also stressed the efficiency improvements from adopting the M-form – or rather the inefficiency resulting from not adopting it. In terms of its wider dissemination he highlighted the "significant role of management consultants", on the one hand, and the importance of the pioneering companies as "models", on the other (Chandler 1962: 381 and 394).

The efficiency argument was developed theoretically by Williamson (esp. 1971), who pointed at growth rather than diversification as the primary driver inhibiting "[t]he ability of management to handle the volume and complexity of demands placed upon it" and leading lower level managers to behave opportunistically (here Williamson 1985: 280-281). In his view, the adoption of a divisional structure and its associated controls allowed to better monitor and correct this behaviour resulting in a more efficient allocation of resources among the different divisions – superior even to external capital markets given the lower information costs of the internal hierarchy. However, subsequent tests of what came to be known as the "M-form hypothesis" that tried to identify the predicted superior profitability of organizations having adopted a decentralized structure only yielded mixed results (for an overview Hoskisson 1993). While differing in some details and in the unit of analysis (see Chandler's [1992] critique of Williamson), underlying the explanations provided by both Chandler and Williamson was a need for market competition as a necessary condition for companies experiencing a "performance gap" driving them towards decentralization as an organizational response following their original change in strategy towards diversification and/or growth.

By contrast, the institutional explanation for M-form adoption focused less on competitive markets and efficiency improvements and more on pressures towards conformity exercised mainly by management consultants and the business schools, ultimately leading to "isomorphism", theorized in particular by DiMaggio and Powell (1983) in terms of coercive, normative and mimetic mechanisms and, more recently, by Abrahamson (1991; 1996) regarding the role of "fashion-setting communities". This approach could rely on growing evidence for the role of consulting firms in promoting decentralization, first pointed out by Chandler (e.g. Channon 1973; Kipping 1999) and empirical studies, which associated CEOs holding a graduate degree from an elite business school with the largest increase in the probability of adopting the M-form (Palmer et al. 1993: 120). Similarly, a comprehensive multivariate analysis of M-form adoption among the 100 largest nonfinancial US corporations by assets between 1919 and 1979 (Fligstein 1985) identified three main drivers: product diversification, mimetic behaviour (other firms in the same sector adopting an M-form) and CEO background (in this case in sales and finance). While not conceptualizing it in terms of purity vs. corruption, authors close to this approach also identified differences in the extent of separation between the strategic centre and the operational divisions, which they attributed to a "decoupling" (Mayer and Rowan 1977) between rhetoric and actual structures with the latter anchored by the lasting influence of different national patterns (e.g. Kogut and Parkinson 1993; cf. Whittington et al. 1999).

While authors in each school stressed their differences, even incompatibilities (e.g. Fligstein 1985; Whittington and Mayer 2000), others found some statistical validity for both (e.g. Palmer et al. 1993) and yet others tried to integrate them (Roberts and Greenwood 1997). What needs to be stressed here is that –for all their differences– both the efficiency and institutional approaches are highly deterministic in terms of setting out a series of drivers that are seen to increase the likelihood of M-form adoption. This leaves little, if any room for firm-specific factors, in the sense that despite sharing similar characteristics, organizations might differ considerably in the timing or depth of decentralization. Such a deterministic view stands in clear contrast with recent findings from the strategy literature, which have highlighted firm-specific differences –conceptualized as "resources", "capabilities" or "competencies"– as the major source for sustainable competitive advantage (REFS; Oliver 1991 for an attempt to combine the resource-based and institutional views).

Within the extant M-form literature, there are some starting points for building an alternative approach explaining firm-specific differences and their effects. Thus, in deriving broader conclusions from his study of M-form adoption in US corporations Fligstein (1985: 388-389) highlights the need for powerful internal actors to identify or construct problems based on their interpretation of the internal and/or external environments and to implement what they perceive as the most appropriate solution given their own position within the organization (see also Pettigrew 1985). Similarly, Freeland (2001) in his in-depth, archive-based study of the M-form in General Motors has exposed the on going power struggles between owners, senior executives and middle managers regarding their respective responsibilities, leading over time to differences in the separation between strategic and operational decision-making – with, in his view, a more consensual approach resulting in superior economic outcomes. However, neither study looked at management consultants, whose rather contentious role in the process of M-form implementation has been described by several other individual case studies (e.g. Cailluet 2000; Hilger 2000).

To advance this type of analysis, what is needed is a systematic comparison of two organizations, which share similar characteristics, but show significant differences in terms of the timing and depth of M-form adoption. This paper will present the results of such a study, comparing two Dutch banks. It suggests that only by examining the underlying dynamic processes involving a variety of internal and external actors can these different outcomes be understood. More in general, the paper argues that studying these kinds of "political" processes can supplement the economic efficiency and institutional perspectives towards the introduction of management innovation and that comparative historical case studies are well suited to examine these processes and their outcomes in the necessary detail, thus ultimately contributing to better understand firm-specific differences driving sustainable competitive advantage.

What follows consists of four major parts. The next section examines in some detail the drivers for M-form adoption identified in the extant literature, focusing on the dominant efficiency and institutional approaches and highlights their shortcomings in terms of explaining firm-specific differences. Building on some previous studies and more general ideas in the relevant literature (in particular by March and Pettigrew), the section then outlines an alternative, less deterministic and more dynamic view, which examines the "political" processes of management innovation. The subsequent section explains the selection of the cases for our empirical study as well as the data and methodology used. Next is the presentation of the results from the in-depth analysis, organized chronologically: (i) the period leading up to the M-form introduction, which examines the context, notably the changes in the sector as a whole and the two banks in particular; (ii) the actual process of M-form implementation, which looks at external and internal actors involved and their roles and relationships; and (iii) the outcomes of this process in terms of the depth of decentralization (in terms of autonomy of decision-making and accountability) and its subsequent impact on the (relative) performance of the two banks. The final section discusses the broader insights from this study regarding the extant literature on the M-form, the introduction of management innovations more in general, as well as the possible contribution of an historical approach to the strategy literature.

2. Reviewing and advancing the literature

The following section first summarizes the extant research on the M-form. In an earlier review of the literature, Hoskisson et al. (1993) had distinguished three perspectives – transaction cost economics (mainly Williamson's M-form hypothesis), strategic management (which suggested that efficiency outcomes depend on a variety of contingencies), and sociological approaches (which looked at the role of power struggles among competing groups within the organization on the one hand and at the attempt to gain legitimacy on the other). Combined with the more recent research, one can actually identify two dominant schools of thought, which highlight, on the one hand, economic efficiency as a major driver for the development and dissemination of the multidivisional structure and, on the other, the pressures towards organizational isomorphism exercised by coercive, normative and mimetic forces. We will argue that, despite their different focus, both approaches are rather deterministic predicting M-form adoption based on a series of firm characteristics. Building on part of the limited literature subsumed by Hoskisson et al. (1993) under the "sociological" label, the section will then develop an alternative, political approach (see also Palmer et al. 1993), which looks at the dynamic interaction between different actors to better understand firm-specific outcomes.

2.1. The dominant economic and institutional views

The first to describe what subsequently became known as the M-form was Peter Drucker in his book *Concept of the Corporation* (1946/1993), which examined the case of General Motors "as an example of the social structure and of the institutional problems of the big-business corporation" (p. 41). He observed that GM's had not only created a separation between central and divisional management, but had driven the decentralization principle further down the hierarchy, with the larger divisions of the company themselves being further decentralized. Academic study and a more widespread interest in the multidivisional structure originated with the work of Alfred Chandler (1962), who studied the four pioneering US companies, DuPont, General Motors, Standard Oil (of New Jersey) and Sears, Roebuck in depth and also examined the diffusion of the new decentralized, “product-division structure” among the largest industrial firms in the United States, identifying different patterns in different industries (Chandler 1962: ch. 7) – an examination later complemented and completed by Rumelt (1974/1986).

Chandler’s work became the starting point for both of the approaches that came to dominate subsequent research. On the one hand, he put efficiency at the centre of his argument, summarized in the oft-quoted dictum: “Unless structure follows strategy, inefficiency results.” (Chandler 1962: 314). He found that after the four companies adopted a diversification strategy, expanding either geographically or into related products, their senior executives became “too enmeshed in operational activities” to the detriment of strategic, entrepreneurial decision-making (p. 315). The resulting “administrative overload” eventually prompted them “to establish a structure consisting of divisional offices to administer each of the major product lines and a general or corporate office to administer the enterprise as a whole” (here from Chandler 1990: 43). While representatives of the institutional approach have, consequently, tended to characterize him as part of what some call “efficiency theory” (Abrahamson 1991; see also Fligstein 1985), Chandler also stressed a number of other elements driving the companies he studied to review and revise their organizational structure.

[THE FOLLOWING COULD BE CUT: These include the background of the innovators, who were neither “empire builders” nor “outside owners” but “professional administrators” (pp. 315-316), had an “engineering background or attitudes”, “were relatively young” and had only a short tenure, when they “became interested in organizational change” (p. 319). Nevertheless, while in two of his cases, GM and Standard, these “young professional administrators with their engineering approach” brought little external information to bear in their reorganization,[1] in the

[1] This is somewhat in contrast with the earlier findings by Drucker (1946: 73), who suggests that the introduction of the M-form at GM after WWI was at least partially driven by its

other two “there was much more awareness of outside experience, examples and ideas” (pp. 320-321).] Moreover, concerning the dissemination of the new organizational form, he points to “the very significant role that management consultants […] have had in bringing about the adoption of the new structure as well as introducing many other administrative innovations and practices” – but did not provide further details (pp. 381-382). Last not least, he notes a mimetic effect – without using that term – since organizations wanting to introduce a divisional structure “could look to the model” of the pioneering companies – with their example also providing a possible incentive for those wanting to embark on diversification, but having previously been held back by the absence of an adequate structure (p. 394).

Drawing on Chandler’s empirical findings, Oliver Williamson (esp. 1971; also 1985) developed a theoretical reasoning for the adoption of the M-form based on economic efficiency. Looking at transaction and information costs, it sees size rather than diversification as the primary driver. As the functionally-based unitary of or U-form organizations became larger, so the main argument, “[t]he ability of management to handle the volume and complexity of demands placed upon it became strained and even collapsed”, leading managers to behave opportunistically. This behaviour was corrected by the introduction of a multidivisional structure, which empowered top managers to allocate cash flows “among divisions to favour high-yield uses”. For Williamson (1985: 280-281) and his followers, such a structure can therefore be usefully understood as “a miniature capital market”, which allowed for a more efficient allocation of resources among the different divisions – the superiority over external capital markets explained by the lower information costs of the internal hierarchy. “Altogether, so Williamson (1971: 368), the M-form enterprise tends, through *internal* organization, to provide institutional underpinning for the prima facie standing ordinarily accorded to the profits-maximization assumption” (emphasis in original). Taking this logic further,

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leaders’ “concepts of management and of corporate organization” – in particular the conviction “that a corporation must have a policy”.

Williamson (1985: 288) also endorsed unrelated diversification, characterizing the conglomerate "as a logical out growth of the M-form mode for organizing complex economic affairs", which also lead him to see takeovers of unrelated businesses as a way for these companies to grow (ibid.). Finally, Williamson (1975) developed a taxonomy, distinguishing in particular the "pure" M-form, with a clear separation between the strategic centre and the divisions and the "corrupt" M-form, where the former retained some operational control over the latter.

While there were a number of studies focussing on the role of size as predictor for M-form adoption (Grinyer and Yasai-Ardekani 1981; Grinyer 1982; cf. Donaldson 1982), much of the empirical testing focused on the superior performance supposedly resulting from divisionalization. This research yielded mixed results. Thus, in their review of the extant literature, Hoskisson et al. (1993) identified thirteen studies of which nine found some, usually qualified, support for what had become widely referred to as the "M-form hypothesis", while four did not (see also Ezzamel 1985). Among the former was a study of 28 US oil companies, which found a statistically significant positive relationship between M-form adoption and profitability, but also showed that any such superior performance was temporary and vanished as the new structure became more widely diffused within the industry (Armour and Teece 1978; see also Teece 1981). In another study, Russo (1991: 719) focused on free cash flows, arguing that "high levels of discretionary cash" would prompt managers to adopt an M-form allowing the "elite staff" in the corporate center to direct this cash to the most appropriate uses based on "dispassionate decisions" – a hypothesis he tested and confirmed, controlling for the effects of size, diversification, vertical integration and imitation, based on a sample of 52 US electric utilities between 1974 and 1986. Efficiency, or as most would call "performance" was also an explicit or at least implicit assumption in many of the studies tracing the diffusion of the M-form (e.g. Rumelt 1974/1986). Thus, most recently, based on an analysis of the largest 100 industrial firms in the UK, Germany and France, Whittington and Mayer (2000: 187) concluded that both in terms of survival over time and financial results "the multidivisional is a solid and consistent performer".

Within this broader school of thought, there was some debate about the relative merits of the different types of M-forms posited by Williamson (see above). Thus, based on a questionnaire survey of the top 500 commercial and industrial firms in the UK, Hill (1985a) found broad support for a link between the "pure" multidivisional organizational structure and superior profitability, but also noted that pure M-forms constituted only a small subset of his sample, 26 of 144 respondents (p. 215). In another analysis of the same data, he confirmed the superior profitability of the "pure" M-form but only for cases of unrelated diversification, while for related diversification what he calls the "centralized" and what Williamson calls the "corrupt" M-form performed better (Hill 1988: 79-80). As possible explanations Hill suggests the failure of the pure M-form to exploit interrelationships between the divisions and, possibly, the role of financial controls, which prompted divisional managers to sacrifice long-term investments, e.g. in R&D, to improve short-term profit maximization (pp. 80-81).

Based on his longitudinal, in-depth, archive-based case study of GM Freeland (1996; 2002), come to conclusions broadly similar to those derived by Hill from cross-sectional data. Thus, he showed that the company operated as what he refers to as the "textbook" M-form only during very limited time periods, usually preferring governance by consent among the owners, senior executives and middle managers. This, in his view, "did not necessarily lead to suboptimal performance" (Freeland 1996: 512). On the contrary, he argued that it was only when the owners imposed a stricter separation between the strategic centre and the operational divisions that GM's performance suffered. While both Hill (see esp. 1985b) and Freeland used their findings to launch a more theoretical critique of Williamson (rebuffed in the latter case by Shanley 1996), their findings can be reconciled with a view focussing on economic efficiency as a major driver for and result of the M-form. Thus, building on these and similar findings Hoskisson et al. (1993: 281-285) suggested distinguishing between what they called “cooperative” and “competitive” M-form organizations, with the former exploiting economies of scope through related diversification (see also Martin and Eisenhardt 2003) and the latter functioning as internal capital markets for unrelated divisions.

More or less explicitly, all of the studies focusing on efficiency as the main driver for M-form adoption have highlighted the importance of market competition as a necessary condition, putting pressure on companies to close the “performance gap” arising from an inefficient structure. This had already been pointed out by Drucker (1946), who was the first to describe the M-form in his in-depth study of General Motors and argued that the major advantage of a decentralized organization stemmed from its superiority “in developing and training leaders capable of decisions and assuming responsibility”, with markets supplying “objective performance tests for managerial ability” (pp. 128-129). Equally, in discussing the differences in M-from adoption he identified among different industries, Chandler (1962) not only pointed at the different levels of diversification but also at their exposure to “market demand”. Or, in banking, where only the UK case has been studied in some detail, what was seen to have precipitated the introduction of decentralized structures were (i) the move towards a more oligopolistic industry structure through a series of mergers, (ii) the “awakening of competition” through deregulation, and (iii) the competitive threat from foreign, in particular US banks (Channon 1977; 1978). There were also suggestions that some of the country-based differences in M-form diffusion, notably its later adoption in Europe could be attributed to less competitive and more collaborative, even collusive inter-firm relations there (e.g. Franko 1974; more in general Chandler 1990). Finally, at the level of the organization, a number of studies found that majority ownership by banks or families led to a delay in the M-form adoption (Palmer et al. 1987) – presumably because these owners were less driven by short-term profitability and therefore less pressed to close the “performance gap” through changes in the organizational structure.

However, both empirical findings and theoretical developments led a growing number of scholars to question the role of economic efficiency and the underlying assumptions about market pressures and led to the development of alternative explanations for the widespread diffusion of the M-form – and management innovations more in general. Empirically, it has built on the observation of the "significant role" played by management consultants in the dissemination of the M-form, first noted by Chandler (1962), then confirmed, among others, in subsequent studies of the adoption of the new structure in Great Britain, Germany, and France (Channon 1973; Dyas and Thanheiser 1976), and also highlighted by those examining the historical development and global expansion of management consulting firms (Kipping 1999; McKenna 2006). Theoretically, the foundation for the new approach was (neo-)institutional theory, which posits the need for companies to achieve social legitimacy (Rowan and Meyer 1997) and highlights the impact of coercive, normative, and mimetic pressures on managers leading to widespread "isomorphism" (DiMaggio and Powell, 1983; DiMaggio 1991). It was brought together namely in the work of Abrahamson (1991; 1996), who questioned the assumption that what got adopted, were necessarily the most efficient management innovations, and stressed instead the importance of fashion-like processes and the role of "fashion-setting communities" for the widespread adoption of ideas and structures such as the M-form.

Some support comes from the earlier work of Thompson (1983), who examined a sample of 138 large publicly quoted non-financial UK firms between 1958 and 1976. Among the 102 that had adopted a broadly defined M-form, he found that its diffusion resembled the symmetric patterns typical for complex process innovations (p. 302). More important was the subsequent work of Fligstein (1985; 1991), who empirically tested five different theories of organizational change to see which of them seemed best placed to explain the spread of the M-form. These included Chandler's historical approach, where changes in strategy towards diversification were –presumably– followed by changes in structure; Williamson's transaction cost economics, which suggests that increasing size leads to control loss and inefficiency

– supposedly remedied by M-form adoption; population ecology, which according to Fligstein (1985: 379), would predict "that younger and smaller firms would be more likely to adopt the MDF than older and larger ones. Based on a detailed examination of the 100 largest industrial firms in the US between 1919 and 1979, he finds no support for the latter two. By contrast, M-form adoption seems positively affected by (i) a diversification strategy – consistent with Chandler's predictions, (ii) top managers having a sales or finance background – explained by what he calls a "power perspective", which suggests that M-form "adoption would be favoured by those who stood to gain most" from growth and diversification strategies (p. 380); and (iii) in industries where other firms have altered their structures – lending support to what he, based on DiMaggio and Powell (1983) calls "organizational homogeneity theory".

A study by Palmer et al. (1993) comes to similar conclusions. It explicitly tests for economic drivers, defined as poor firm performance preceding the M-form adoption, and "institutional factors", divided into tradition and, building on DiMaggio and Powell (1983), mimetic, coercive, and normative pressures. Using discrete-time event history analysis, they examined a sample of 105 companies from the largest 500 industrial corporations in the US in 1962 that previous studies had found to be using the U-form for six one-year intervals from 1 January 1963 to 31 December 1968. They did find support for economic factors, with an increase in industrial or geographic scope, also through acquisition, significantly increasing the likelihood of M-form adoption, while size per se and low profitability did not (p. 117). And, like Fligstein, they found that having a CEO with sales experience did exert a significant influence (pp. 118-119). In terms of institutional conformity, they confirmed a mimetic effect with the number of firms in an industry with an M-form significantly increasing the likelihood of others adopting it; found an influence of coercive pressure in terms of financial dependence, measured as a higher debt-to-equity ratio, and also found support for normative pressures, namely in terms of companies having a CEO with a graduate degree from an elite business school, which increased the probability of adopting the M-form by .369, "about the largest increase observed in the study" (p. 120), and also in terms of board interlocks. Their analysis also revealed an increase in the adoption rate over the period and, as institutional theory would predict, the different pressures being associated with each other (p. 121). Interestingly enough, in an earlier study based on a structural equation model they had found no support for what they then called an "ecological" explanation, referring to the lasting legitimacy of dominant organizational forms in a given industry and the structural inertia of more established firms (Palmer et al. 1987).

These studies, while confirming the influence of diversification strategies first identified by Chandler, highlight the importance of isomorphic pressures, in particular the adoption rate within a given sector and the business-school background of CEOs. Given the apparent role of both economic and institutional factors Roberts and Greenwood (1997: 358) have proposed integrating both approaches, arguing that "the extent to which an organization is driven to evaluate the efficiency of its current design is influenced by its institutional environment", and using the M-form as an illustration for what they call the "constrained-efficiency framework". Nevertheless, what needs to be stressed here is that the institutional perspective remains equally, if not more deterministic in orientation than the efficiency-based approach, leaving little room for firms in the same country and industry to differ in terms of the speed and extent to which they adopt a multidivisional structure. Or, as Scheinberg and Clemens (2006: 195) put it for institutional theory more generally:

> The behavior of actors –whether individuals or other social entities– is attributed not to the characteristics or motives of that entity, but to its context or to higher-order factors. Thus, individual action derives from scripts or schemas drawn from shared cultural systems. Firm behavior and attributes are shaped by the organization of industries, fields, or national polities.

This stands in clear contrast with recent findings from the strategy literature, which have highlighted firm-specific differences –conceptualized as "resources", "capabilities" or "competencies"– as the major source for sustainable competitive advantage (REFS and Oliver 1991 for an attempt to combine the resource-based and institutional views). Differences in the adoption of the M-form between companies from the same sector and country therefore need to be explained by other, more firm-specific factors. Institutional theory does leave the option open that organizations adopt changes, following external conformity pressures, they might do so only superficially or, leaving their operating core untouched – a process generally referred to as "decoupling" (Meyer and Rowan 1977). But while such a "symbolic" adoption seems feasible for equal opportunity practices (Edelman 1992) or shareholder value (Fiss and Zajac 2005), it is more difficult to imagine for the changes in the organizational structure and in the attribution of responsibilities and accountability required when introducing the M-form. And even if one admits this possibility, the question remains what would drive one organization towards a symbolic adoption, while another profoundly changes its operating core. However one puts it, the drivers for such profound differences needs to be found within those firms. The following section outlines these firm-specific drivers building on some of the factors identified in the M-form under the label "political".

2.2. Towards a complementary, "political" approach

Faced with the deterministic nature of both the efficiency and institutional approaches, one can go back once again to Chandler, who in the Introduction to the 1990 reprint of *Strategy and Structure* has stressed that the relationship between the two was not as unidirectional as the book title –and subsequent interpretations– might have suggested: "My goal from the start was to study the complex interconnections in a modern industrial enterprise between structure and strategy, and an ever-changing external environment". At a more conceptual level, he also in distanced himself quite clearly from Williamson, highlighting that his primary unit of analysis was the firm (and its context) rather than the transaction (Chandler 1992).

Among the different theories tested by Fligstein (1985), what he calls the "power perspective" probably comes closest to what we refer to as a political approach in terms of the relationships and interactions between various actors. As noted, in his analysis of longitudinal cross-sectional data, he found support for this perspective, operationalized as the background of top managers. In interpreting these findings, he characterizes "shocks" or "turbulence" in an organizational field as "a necessary, although not sufficient, impetus to change", highlighting instead the crucial role of "key actors" within an organization in using these external conditions to articulate a different view of a firm's strategy and "the power to implement that view" (here Fligstein 1991: 334-335). He also stresses that the implementation of these solutions does not necessarily improve the performance of the organization, as the economic efficiency approach would argue (Fligstein 1985: 388-389).

> This model of organizational change does not imply that the most important organizational problems are being solved. Instead, it suggests that actors have to construct such problems, have the claim to solve those problems, and be able to implement their solutions. It is also the case that the organizational change may or may not aid the organization in surviving.

Such a model, while consistent with his results, is difficult to prove or even illustrate based on a statistical analysis, though. It has, however, found support in a number of case studies. Thus, based on his in-depth history of British company Imperial Chemical Industries (ICI), Pettigrew (1985) also rejects a simplistic causal relationship between changes in the environment and internal changes. Instead he argues that "a change in business strategies has to involve a process of ideological and political change, which eventually releases a new concept of strategy that is ideologically acceptable" (here Pettigrew 1987: 666). Moreover, like Fligstein, he stresses that such a change is not always successful, because it pitches corporate leaders, who are often new to their position, against "dominating ideas and power groups of the organization" (ibid.). More specifically with respect to the M-form, there is the in-depth, archive-based analysis of its changing nature in the case of General Motors by Freeland (1996; 2001). He argues that in order to understand the shifting balances between centralization and decentralization in terms of the involvement of the corporate centre in operational issues, "governance must be recast as a social process" (Fligstein 1996: 485), pointing namely to the on going struggles between owners and the different levels of managers (for a more general view of companies as "political systems" see March 1965).

However, none of these studies, whether specific or general, have looked at the role of consultants as additional actors. Their important role and –often contentious– interaction with various internal actors, and in particular middle managers, has been examined in a number of largely descriptive, historical case studies of the introduction of the M–form in resource-based and industrial firms (e.g. Cailluet 2000; Hilger 2000; in general Kipping and Armbrüster 2002). Moreover, all these detailed studies have looked at single cases, which, while providing a richness of detail, make it difficult to derive broader generalizations (Eisenhardt 1989). Chandler (1962), in his original study, did compare four companies, but his key interest was in identifying the commonalities, driving these organizations to pioneer a multidivisional structure. More importantly, these companies came from very different sectors, which does not allow identifying firm-specific differences in terms of M-form implementation within an otherwise largely similar context.

Therefore the purpose of this paper is to compares two organizations from the same sector to examine how the political processes, outlined above, might have resulted, or not, in different patterns in terms of their M-form adoption. Building on the suggestions made in the extant literature, the paper aims to provide a more comprehensive analysis of these processes, making sure to cover three crucial aspects:

(i) ***the developments over a long-term horizon***, which include (a) the period leading up to the decision to implement a multidivisional organization, focusing on shifts in the environment on the one hand, and the earlier history of the organization putting in place "dominating ideas and power groups", on the other; (b) the actual implementation process and its outcomes namely in terms of the depth of decentralization, i.e. the level of involvement by the higher level managers in operational decisions, and in terms of a possible "decoupling" of stated from actual company policies; and (c) the consequences of the firm-specific M-form adoption (and adaptation) on medium-term performance, which, heading the warning by Flistein and others, avoids assuming a simplistic causal relationship between organizational change and profitability and/or survival, but will nevertheless try to reach some very tentative conclusions about how the M-form might have influenced certain types of behaviour leading to certain performance outcomes.

(ii) ***the relationship between the organization and its context***, focusing in particular on (a) changes in the environment of the organization preceding the M-form adoption, notably in terms of increasing competition, and how these might have affected the particular organization, e.g. in performance terms; (b) how these environmental changes were interpreted and, possibly, leveraged by powerful groups within the organization, but possibly also by external actors such as consultants; and (c) the extent to which these efforts were successful in "challenging and changing the core beliefs, structure, and strategy of the firm" (Pettigrew 1987: 650).

(iii) ***the interactions between a variety of different actors***, examining namely (a) how, by whom and why consultants were brought into the organization and the extent to which they managed to influence the internal political processes and the eventual outcome; (b) the shifting balance of interests and power between owners, represented by the company board, and the top executive(s), as well as the succession of the latter, which, on the one hand, might be an important trigger for change, and in case of early departures, an indicator for its failure, and (c) the involvement and position of lower-level managers in these processes, looking, if possible, not only at the way they affected the outcome in terms of the organizational changes introduced, but also at the way they subsequently implemented them in day-to-day operations.

The subsequent section of the paper identifies the case studies selected for in-depth examination, the data sources used and the methods applied for their analysis.

3. Cases, Data and Methods

The selection of cases is based on theoretical sampling, since the research question requires the organizations to be from the same country, the same sector and as similar as possible in terms of their main characteristics in order to identify the influence of political processes on the outcome in terms of the timing, depth and consequences of the M-form adoption. In addition, there had to be, on the one hand, sufficient material covering the sector and its evolution making it possible to follow changes in the context as well as unrestricted access to internal documentation at the chosen organizations in order to examine the various actors and political processes in detail. The organizations meeting all these criteria are the two Dutch banks AMRO and ABN, which both had been established in 1964, each based on the merger of two other banks (see below). As the following table shows, they are very similar in terms of their major characteristics.

Table: Key figures of AMRO and ABN in 1964

	AMRO	**ABN**
Type	listed	listed
Ownership	dispersed	dispersed
Creation	merger	merger
# executives	9	11
# non-executives	14	36

Assets (in mill Euros)	2,707.27	2,573.85
Return on Equity	0.160	0.078
Return on Assets	0.009	0.004
Liquidity*	0.073	0.096
Leverage**	0.055	0.054
Share non-interest income (in total net operating income)	0.42	0.33
# domestic branches	544	358
# foreign branches	0	36
# domestic employees	10,634	7,950
# foreign employees	0	1,760
# total employees	10,634	9,710

* Liquidity: Cash plus securities divided by total assets
** Leverage: Total equity divided by total assets

Based on these characteristics, one would actually expect ABN to have adopted an M-form organization earlier, because it was more geographically diversified and showed a significantly lower performance than AMRO. However, somewhat surprisingly the latter became the first mover, hiring McKinsey to study its organization in 1968, while the former only considered revising its structure in 1972, asking Arthur D. Little (ADL) for assistance. This somewhat unexpected outcome further highlights the need for an in-depth study of the underlying political processes in each organization.

The extant literature on the M-form, reviewed in the previous section, has almost exclusively focused on resource-based or industrial organizations and sectors. Channon (1977) has conducted the only in-depth study of strategy and structure in the banking sector, looking at both clearing and merchant banks in the UK (summarized in Channon 1978). His conclusions are in line with the economic efficiency approach, stressing the role of "increased competition in the late 1960s, the diversification of domestic services and the spread of overseas activities" as major drivers, while nevertheless highlighting "the widespread use of consultants" (Channon 1978: 78). In terms of outcomes, he found that all banks had adopted a similar three-division structure: UK banking. International banking and related banking/financial services, but that decentralization within each of these divisions was uneven, with the UK banking divisions still being largely centralized, while the other two were operated more on a "holding company basis". And in terms of the accompanying measures supporting decentralization, "modern budgetary control procedures" had been introduced at these banks, but "long range planning systems and clearly allocated profit responsibility were still rare". With respect to performance effects, he states that it was only possible to derive an "impressionistic" picture, due to that fact that banks were legally entitled to mask their "true profitability" (ibid.). He nevertheless suggests that the first movers in terms of divisionalization and internationalization showed higher growth in net assets, which, he admits, might be the result of favourable exchange rates, "but, so he continues, *speed of reaction* and *degree of aggression* certainly appeared to be greater among the divisional companies (Channon 1978: 86; emphasis added).

While pioneering, his study remains marred by the fact that he did not have access to internal company documents (which would have allowed him to study the implementation process in more depth) and that it was conducted too close to the actual organizational changes to evaluate their possible impact on performance in the medium term. By contrast, both was possible in our cases, since the necessary confidential files were fully available in the archives of ABN-AMRO, which had been formed through a merger of both banks in 1991. Moreover, there was now sufficient historical distance to better evaluate the changes and their results in the context of the Dutch banking sector, which has also been studied extensively. We were thus able to cover all the prerequisites for the empirical analysis, outlined above, relying namely on three different types of data:

(i) the extant secondary literature on the evolution of the banking sector in the Netherlands, which, as noted has been studied fairly comprehensively (see below).

In addition, there has also been some work on the role of consultants in the sector, examining in particular the special relationship between AMRO and McKinsey (Arnoldus 2000; Arnoldus and Dankers 2005), which provides important context information for our analysis.

(ii) extensive and comprehensive internal archival documents from both banks (now merged), which include in particular the various reports written by the consultancies involved, McKinsey and Arthur D. Little, minutes of –often secret– board meetings before and during the reorganizations as well as the personal files from several of the crucial board members.

(iii) a database covering the main characteristics (e.g. revenues, assets, income) and performance indicators (e.g. return on equity/assets, liquidity) of the twenty largest listed and non-listed Dutch banks for each year from 1957 through 2007, which allows assessing the relative competitive position of both banks leading up to and after the M-form adoption. This data was collected from the annual reports of the banks and the industry publication *het Bankenboekje*.

The secondary literature was used to provide the context for our case study analysis, which was conducted with (a) interpretivist historical methods to uncover the latent meanings in the archival documents (Berg 2011) and (b) simple descriptive statistics based on our database. THIS COULD BE EXPANDED SOMEWHAT. The following section summarizes the main results of this analysis.

4. Empirical Analysis and Findings

This section traces the implementation of the M-form in both Amro and ABN in some detail. On the one hand, it puts the firm-specific developments in their broader context (namely the evolution of the sector as a whole) and, on the other, it examines the underlying political processes looking at the main internal and actors and their interactions in each of the banks. The analysis therefore proceeds chronologically subdivided in three sub-sections. The first sub-section analyses the period leading up to the decision to change the organizational structure, made in 1967 at AMRO and 1972 at ABN, comparing in particular their respective motivations. The next sub-section looks in detail at the process of organizational change, the internal and external actors involved as well as the outcomes, notably in terms of the depth of decentralization. The third and final subsection compares the performance of both banks over the long run, focusing in particular on how they fared during the banking crisis of the early 1980s, and discusses how the differences might be related to their organizational structure. The following table summarizes the main findings for the three periods distinguishing the common context and the firm-specific factors at each bank. All of these are discussed in more detail in the subsequent narrative.

Table: Context and Action in the Decentralization of Amro and ABN

Period	***Context***	***Action***	
		AMRO	***ABN***
Sector changes (1950s-1960s)	Move away from specialized banks; increasing oligopolistic competition between general banks; consolidation through M&A	Dual structure of board and organization increases complexity, prompts reform plans in 1967; dual chairmanship in 1968 requires outside advice; Karsten favours "Americanization", hiring of McKinsey	(Hidden) takeover of TB by NHM; more decentralized structure due to international activities; temporary dual chairmanship in 1972; hire Arthur D. Little as "second best"
Reorganization (1970s)	Further consolidation; banks observe,	McKinsey proposes pure M-form type organization at top	Arthur D Little has limited impact; board refuses to

	mimic each other; moves towards greater internationalization	level; also introduces more decentralized structure and autonomy at lower levels down to branch managers; uses board divisions as tool to act as ultimate arbiter	implement most recommendations; retains moderate decentralization; little autonomy given to branch managers
Banking crisis and result (1980s)	Oil shocks leading to many business failures; leads to banking crisis	Badly affected by crisis; problems widely blamed on excessive risk-taking	Also affected, but to a lesser extent than AMRO

4.1 Setting the stage: Motivations

The introduction of the M-form in both AMRO and ABN has to be seen within the context of profound changes in the Dutch banking sector. Both banks played an active role in those changes, but they were also affected by them, namely because they became pitched more closely against each other following the mergers leading to their formation in 1964. Despite these similarities in terms of their environment, there were also marked differences between them, which explain the different timing of the M-form adoption. These concern in particular decisions made at the time of the mergers in terms of the structure adopted and the succession planning, combined with differences in the corporate cultures. This subsection will first describe the changes in the Dutch banking sector and their impact on all actors and then look at the processes leading up to the decision by AMRO and ABN to introduce the M-form (and hire consultants) in 1967 and 1972 respectively, identifying their major underlying drivers.

4.1.1. Context: Increasing consolidation, competition, and isomorphism

In terms of the context, the Dutch banking sector underwent a significant transformation since the 1950s, leading to increasing concentration and competition. Before, the Dutch banking sector had been segregated along functional lines. This well-defined system came under pressure as a result of post-war economic growth and the development of retail banking. The outcome of the process of consolidation, on the one hand, and product diversification, on the other, was that the formerly specialized Dutch banks increasingly converged and grew into general banks, offering similar banking services to similar clients.

In the 1950s, the Dutch banking field was dominated by four large commercial banks: Nederlandsche Handel-Maatschappij (NHM), Twentsche Bank (TB), Amsterdamsche Bank (AB) and Rotterdamsche Bank (RB). The four were mainly active in the West of the country, and their business focused on attracting deposits from large companies and to a lesser extent from wealthy customers. The deposits were placed as short-term loans to the corporate sector. There were also two main cooperative banks, serving farming communities and companies in the food sector. They had a countrywide presence and were deeply rooted in the local communities. Two other main categories were the mortgage banks and the savings banks, mostly local banks with just one office. With the two cooperative banks and the National Postal Savings Bank (*Rijkspostspaarbank*) the individual savings banks dominated the market for household savings. Post-war economic growth and the introduction of retail banking in the late 1950s are widely seen as the starting point of product diversification and consolidation processes (van der Lugt 1999).

While Dutch business had initially financed its postwar growth mainly via retained earnings, since the late 1950 profits became lower due to rising wages and increasing taxes and social premiums (De Jong et al 2010). To fill the gap, the commercial banks started financing Dutch companies. The lower profitability also led to a relative decline in deposits maintained by corporate clients, which had been the traditional source of funds for the four commercial banks. So, to provide the corporate sector in medium- and long-term loans the banks had to attract other sources of funds. They started looking for household savings, which were rising fast due to increases in private incomes. The four commercial banks approached the savings market aggressively, with their share of savings growing from less than one per cent in the early 1950s, to 8.4 per cent in 1960, 15.3 per cent in 1970 and 27.4 per cent in 1980s, after which they stabilized (Van Zanden and Uittenbogaard 1999). They offered more attractive interest rates on saving accounts, provided transfer payments practically free of charge and made innovations in payments and transfers. These activities were seen as an investment in the "total relationship" with the client. The automation of administrative processes, which started in 1963, has been an important contributing factor (Bosman 1989). It made it possible to use computers for the administration of wages, salaries, and pensions, and for the payment of salaries into bank and giro accounts rather than as cash (Bosman 1989; van der Lugt 1996; Van Zanden and Uittenbogaard 1999). To distribute the new products and services to private households the banks built up a countrywide network of branches, which had to be managed, with decisions needed about how much autonomy to grant each of them. Thus, the number of branches increased rapidly at AMRO from 544 in 1965, to 673 in 1970, and 873 in 1980. The branch network of ABN was somewhat less widespread in 1965with 359 branches, but it expanded quickly to 528 in 1970, and 718 in 1980 (Van Zanden and Uittenboogaard 1999).

Due to these changes, the formerly specialized banks gradually transformed into nationally active general banks during the following decades (de Leeuw 1996). As general banks they began to offer a comprehensive array of banking services. The increase in competition led to a wave of mergers and acquisitions, which in turn accelerated the process further. As a result, the total number of banks declined from 145 in 1958 to 40 in 1973 (own database). The concentration process cumulated in the two mergers in 1964 – one between NHM and TB into ABN Bank, the other between AB and RB into AMRO Bank. The mergers created by far the two largest banks in the Netherlands. Both had developed from specialized trade banks into general banks that offered practically all banking services. Another important merger, leading to an increasingly oligopolistic market and competition, was the one between the two cooperative banks into Rabobank in 1972, which was as large as ABN or AMRO (Sluyterman et al. 1998). The consolidation process ended in 1975 when ABN and AMRO bought two private banking firms, Mees & Hope and Pierson, Heldring & Pierson respectively.

As shown in Table X above, AMRO and ABN had converged into fairly similar banks. They both were listed on the Amsterdam Stock Exchange and had a dispersed ownership. Measured by total assets, they had about the same size, 2,700 and 2,600 million Euros respectively, and both banks had around 10,000 employees in 1964. The main difference was that, due to the legacy of its predecessor NHM, ABN had a large international network, reflected in the number of foreign branches and employees, while AMRO had a stronger position in the domestic market, reflected in a higher number of domestic branches. In terms of Return on Equity, Return in Assets, and liquidity ratio AMRO performed slightly better than ABN, while the leverage ratio was about the same for both banks.

4.1.2. Deciding to reorganize

The increased competition led to mimetic behavior between AMRO and ABN in strategy as well as in structure. Both expanded into retail banking and increased their domestic branch networks; both also decided to reorganize their top-level structure. The exact timing of the reorganization differed, however, with AMRO starting the process in 1967 and ABN in 1972 – a difference that was related to the structures and the succession planning they had adopted following their respective mergers, combined with marked differences in corporate cultures. First we discuss how both banks would watch each other closely, then we look at the processes leading up to the decision by AMRO to introduce the M-form, finding their major underlying drivers, followed by a comparison with ABN.

The formation of ABN and AMRO in 1964 created a rivalry between the two banks. For example, when large companies wanted to issue their shares on the capital market, the two banks battled as to which one would lead the syndicate. But the rivalry also led to mimetic behavior reflected for example in the way they developed their retail activities, opened domestic branches and acquired other banks such as Pierson, Heldring & Pierson and Bank Mees & Hope in 1975. Such mimetic behavior was simplified by the many occasions during which they could meet. Thus, the uneasiness of major clients about the banks' rivalry prompted them prompted ABN and AMRO from the mid-1960s onwards to hold confidential "evening talks" every six months, with the aim to smooth ruffled feathers caused by any perceived wrongdoing (Van Zanden and Uittenbogaard 1999). The two also met in more broadly-based interbank meetings, such as the ones of the Nederlandse Bankiersvereniging (Dutch Association of Bankers). Moreover, since ABN and AMRO both had the most central position in the Dutch corporate network during the 1960s (Westerhuis and de Jong 2010), their top managers held many positions as non-executive directors (*commissarissen*) in Dutch companies and, consequently, met each other in the network of industrial decision-makers.

Despite their generally mimetic behaviour, when it came to the introduction of a decentralized, multidivisional structure, there was a considerable difference in timing. AMRO was a clear first mover, deciding to reorganize in 1967 and hiring a consultant in 1968, whereas ABN followed only in 1972. Both decided upon a reorganization because of an increase in scale, which put even more pressure on an already overloaded managing board. On the surface, the need for reorganization at both banks was prompted by an increase in scale, with AMRO expanding mostly in the domestic market and ABN growing not only domestically, but also internationally, namely through the acquisition of Hollandsche Bank Unie in 1967. While this seems consistent with the economic rationale hypothesized by Williamson, the exact timing of the reorganization, as we will show, was more related to political, partially ideological factors, linked to the succession of the chairman of the board at each bank.

Thus, AMRO's board discussed a reorganization of the top-level organization for the first time in February 1967 and hired McKinsey one year later. This timing was related to the structure introduced at the time of the merger as well as to the succession in the bank's chairmanship. During an initial phase after the merger, the bank tried to avoid any potential rivalry between the two former entities – reinforced by the more general rivalry between Amsterdam and Rotterdam – by adopting a structure with two head offices, one in each city with the members of the board divided accordingly: three members located in Rotterdam and four in Amsterdam.[2] Many positions at lower levels were also held by two persons, one from each predecessor bank, in order to advance, so the stated reason, the integration between the two.[3] But because responsibility was held jointly in many levels of management, accountability for the departments was often shared and diffused. The bank did appoint a single person as the Chairman of the managing board, the former president of AB, C. A. Klaasse. His integrative role should however not be overstated, since Dutch organizations had statutory collegial management, where all board members together were responsible for decision-making. They discussed things in meetings trying to come to a consensus, with the Chairman leading the discussions and summarizing final decisions, rather than imposing their own ideas like a CEO in an Anglo-American context might be able to do (Zanden 2002). Adding to the complexity was that fact that, over forty departments reported directly to the managing board, regardless of their importance or size.

In 1967, the board therefore decided that it was necessary to make the organizational structure more transparent and improve decision making – officially

[2] AAHA, AMRO, inv.nr. 3591. Report 'Structure Amsterdam-Rotterdam Bank', February 1965, and internal note of managing board to all employees. 15 February 1965; AAHA, AMRO, inv.nr. 4814. Internal note of H.N. Wakkie to the other members of the managing board on the structure of AMRO, 7 September 1967.

[3] AAHA, AMRO, inv.nr. 2139. Internal note of the managing board to directors, vice-directors and department directors, 15 February 1967

declaring the integration of both banks as successfully completed.[4] The idea was to start by reorganizing the top-level structure and then introduce a simplified management structure at all organizational levels. This endeavor became more complex and contentious in 1968, when Klaase decided to step down due to health issues. He was succeeded by two chairmen, each one from the two predecessor banks J. R. M. van den Brink from the former AB and C. F. Karsten from the former RB.[5] This dual chairmanship had apparently already been decided at the time of the merger, in order to provide incentives for both to stay in the merged entity (Arnoldus and Dankers 2005). However, their relationship was apparently somewhat strained, which together with the dual board structure made the planned reorganization increasingly difficult and prompted the recourse to an external advisor.

That McKinsey was chosen as an advisor, despite the availability of well-respected Dutch consultants at the time (REF), can largely be attributed to Karsten, who was greatly interested in the American way of doing business, reflected for instance in his dissertation on the US banking sector published in 1952 (Arnoldus and Dankers, 2005). This was also apparent in his actions as Chairman of Rotterdamsche Bank between 1959 and 1964, which more closely emulated those of a CEO. Finding the board too preoccupied with daily operations and not enough with overall strategy, he changed the way board meetings were held by introducing an agenda with most important items and no longer giving priority to the interventions of members with more seniority. And his penchant for "Americanization" could also be seen in the introduction of a budget for marketing and advertising (Van der Werf, 1999). As we will see below, Karsten would not only be crucial for McKinsey being hired as a consultant, but also strongly support them throughout the change process.

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[4] AAHA, AMRO, inv.nr. 2139. Internal note of the managing board to directors, vice-directors and department directors, 15 February 1967.

[5] AAHA, AMRO, inv.nr. 3591. Internal note of the managing board on mutations in the board, 29 January 1968.

The case of ABN was different, since there was no similar rivalry between Amsterdam and Rotterdam and, consequently, much less of a need to keep a balance within the managing board. Also, within the board there was no single person similar to Karsten who would drive the process in an equally determined way. Moreover, ABN already had a somewhat decentralized structure consisting of two main directorates: Domestic and International, and some additional functional directorates. This was in continuation of its predecessor bank NHM, which had managed its international activities separately. As has been highlighted in the literature (Van der Werf 1999), despite being billed as a merger, the creation of ABN was really takeover of DTB by NHM, which was also reflected by the fact that former NHM president H.W.A. van den Wall Bake became ABN's first chairman (1964-1970). Being already somewhat decentralized the operational level, while more integrated at the top, ABN originally felt less of an instant need for a reorganization. But it was once again the introduction of a dual chairmanship, which caused potential divisions at board level and prompted a reflection about the future composition and role of the board.[6] Following the retirement of Wall Bake's successor Wurfbain, the bank appointed two Chairmen, Andre Batenburg from the former NHM and Tom Dijkgraaf from the former DTB. It is less clear what prompted this decision; it was certainly not agreed at the time of the merger, and the bank returned to a single Chairman after Dijkgraaf's premature death in 1974.

Nevertheless, it was clear and well known that their relationship was rather problematic, which most probably pushed the bank to also hire an outside consultant.[7] Following the mimetic behavior detailed above, ABN's preference would have been for McKinsey.[8] After having been informed by ABN about their intention, AMRO intervened and convinced McKinsey not to accept the assignment, apparently threatening to end what had turned into a very lucrative relationship for the consulting firm (Arnoldus and Dankers 2005; see below). ABN continued to

[6] AAHA, ABN, inv.nr. S298. Secret minutes managing board, 25 March 1972.
[7] AAHA, ABN, inv.nr S298. Secret minutes managing board, 25 March 1972.
[8] AAHA, ABN, inv.nr. S298. Secret minutes managing board, 9 May 1972.

covet a US consultancy, but had to go for “second best”, hiring Arthur D. Little, which had no office in the Netherlands but conducted the project from a base in Brussels.

Despite a difference in timing, AMRO and ABN seem to have made similar decisions for a similar reason: the reorganization of top-level management with the help of an external advisor as a kind of arbiter, following the introduction of a dual chairmanship in 1968 and 1972 respectively. However, these similarities are superficial. The AMRO organization was clearly more divided, based on the previous rivalry among the constituent banks and their home cities, while ABN had been created through a (dissimulated) takeover and with its international activities leading already to a more decentralized structure, with the personal dislike among the two Chairmen appointed in 1972 as a passing phenomenon. Moreover, McKinsey, which was hired by AMRO on –as it would turn out– exclusive basis, could rely on strong internal support from one of the Co-Chairman, Karsten, whereas ADL was handicapped from the outset, based on being only the bank’s second choice. As the following sub-section will show, these differences also drove the processes and outcomes of M-form adoption in both organizations.

4.2 Divisionalization: Processes and outcomes

As we will show in this sub-section, the choice of consultant, ultimately somewhat involuntary for ABN, proved highly consequential for the subsequent divisionalization process and its outcomes. McKinsey in particular –in conjunction with its internal supporter Karsten– drove decentralization deep into the AMRO organization, and in particular into the domestic branch network, over the next decade. By contrast, ABN went hardly beyond the very moderate level of decentralization it had already introduced following the merger, with no clear separation of strategic from operational control and even less autonomy given to lower levels of the hierarchy, in particular branch managers. We first discuss the reorganization at AMRO, and then compare it with the one at ABN, showing in particular the different roles McKinsey and ADL played at both banks. The degree of influence that the consultants could impose leading to different outcomes depended, as repeatedly noted, on the structures adopted directly after the mergers in 1964, but also on the banks' corporate cultures, and, last not least, on the consultants' working procedures.

4.2.1. Going deep: McKinsey and the divisionalization at AMRO

Once the decision was made to reorganize the top structure of the bank, AMRO hired McKinsey in the spring of 1968. The American consultant was assigned the task to structure the top level organization of the bank. After a first report in June 1968, which was based on talks with Karsten en Van den Brink and annual reports, three more progress reports on the top-level structure followed. In the first two progress reports two alternative organization structures were presented, one called the Operation Committee Structure, the other the Presidium. After discussing both alternatives with the board members individually, it became clear that no overall consensus of opinion emerged which would satisfy even the majority of the board. This "political" impasse allowed McKinsey to become the final arbiter in the restructuring of the bank. Thus, in its third progress report dated 9 January 1969, the consultancy presented a final structure, which minimized political conflicts. In May 1969 managing board organized a meeting to inform second echelon and spread a letter to lower management. Over the next twenty years, McKinsey then introduced the new organizational structure and made many more recommendations, and also promoted the internationalization of the bank.[9]

From its reports we learn more about McKinsey's philosophy. In its first progress report it is stated that the present AMRO organization did not meet the changing needs of the banking community nor satisfy the interests of senior employees and clients. Therefore the organization in its present form could not systematically

[9] See for example: AAHA, AMRO, inv.nr. 2463. Discussion in managing board of final report by McKinsey "Formulating a strategy for AMRO's International Development", 4 September 1978.

supervise the very important branch network; it restrained the development of individual accountability for results; it did not adequately motivate second level managers; and it did not facilitate the development of new and essential skills.[10] These so called “opportunities” were essential for McKinsey enabling them to recommend an organizational structure and relating management processes pretty much comparable to Chandler’s and Williamson’s theorizing, that is a multidivisional organizational structure combined with a clear separation between strategic and operational responsibilities. Moreover, from the reports it becomes clear that McKinsey favored a management philosophy in which we can see a transition in the importance of specialized bankers to general managers. It was stated that the responsibilities for activities that influence the performance of the bank should be assigned to individuals. This could only be made possible by delegation and the implementation of information and control systems, so it was said.[11]

From the reports and board meetings we can distinguish four issues in which differences of opinion between the bank and McKinsey became apparent. AMRO’s board expressed its concerns considering collective responsibility of the board to the supervisory board and shareholders for the overall results of the bank, the board’s contact with important clients and the preservation of day-to-day operational ties with second level management. Lastly, AMRO was keen to maintain the two headquarter concept.[12]

While AMRO did not take McKinsey’s findings and suggestions for granted instantaneously, eventually AMRO made quite some concessions to the McKinsey philosophy which probably had to do with the working procedure of the consultant. The third progress report was perceived by the managing board as a co-product of

[10] McKinsey progress report I, October 1968.
[11] AAHA, AMRO, inv.nr. 873. McKinsey final report to general managers, 3 March 1969; ADL report 1973.
[12] McKinsey progress report I, October 1968.

McKinsey and AMRO, which enhanced the acceptability of the final recommendations. This perception was the result of the working procedure of McKinsey, which involved many contacts between the consultant and client (Arnoldus and Dankers 2005). They interviewed the first two hierarchical levels – managing board and general managers – and occasionally someone from third level. McKinsey also interviewed in close consultation with AMRO's board some important clients. All in all McKinsey was good in keeping itself in the game. The consultant made sure that it supported AMRO with the implementation of the new structure and management processes, and that it could remain AMRO's most important consultant until 1990.

The most important outcomes of these political processes were AMRO's decision (i) to adopt a structure in which two main banks in Amsterdam and Rotterdam remained, but with operational policymaking concentrated at one place; (ii) to separate between strategy and long term planning at board level and day-to-day operational tasks at a second echelon level; (iii) to make the branch network the primary line organization with a in-depth decentralization of responsibilities. These decisions will be dealt with in more detail below.

The first concern of the managing board was to maintain contact with important clients and related to this to keep the dual head office concept. Already after the merger in 1964 AMRO had decided to keep two head offices, one in Amsterdam and another in Rotterdam, because of the importance to maintain close relations with the bank's most important clients. In the 1960s there existed a rivalry between business from Amsterdam and Rotterdam; there existed two different business cultures. After the merger they had decided upon the name Amsterdam-Rotterdam Bank, because it was thought that when either name would disappear this could be harmful for the link with clients. Probably it also had to do with the fact that not only between their customers but also between Amsterdamsche Bank and Rotterdamsche Bank similar rivalry existed, which was even felt within the board. During the reorganization process, the importance of the two head offices became apparent again. The board agreed with McKinsey that although customers wanted a head office in Rotterdam and Amsterdam with board members available to maintain top level relations, how the bank was internally organized did not pose an issue with them. Internally McKinsey had made clear that the bank's operations could be best controlled and coordinated from one head office in Amsterdam. The board found it important to be located in the financial centre of the Netherlands and close by the Nederlandse Bankiersvereniging (Dutch Association of Bankers) and the Dutch Central Bank. Consequently AMRO maintained - at least to the outside world - the dual headquarter concept, but internally it decided to coordinate things from one headquarter.

A second issue AMRO decided upon was a clear separation between strategy and long term planning at board level and day-to-day operational tasks at a second echelon level. The way this should be organized was an issue that involved some discussion between AMRO and McKinsey though, especially on the related issue of the board's collective responsibility. One of McKinsey's proposition to maintain the collective responsibility at first was to move it from the managing board to a presidium, providing leadership and authority. The remaining board members could then be held responsible and accountable for a line or staff department.[13] AMRO did not accept this proposition mostly because it violated joint responsibility of the managing board. Moreover they were afraid for a demotion of the status of the members not elected in the presidium, and for the need for too high a degree of specialization of these members not elected. After many discussions it was decided that three line organizations were introduced, each headed by a General Manager, and five Steering Groups were created (Branches and Retail banking; Wholesale Banking; International Banking; Credit Policy; Personnel). An Executive Committee was appointed consisting of two to four people, to provide leadership and coordination to the General Managers and the Steering Groups. Interestingly, in this way the changes were not interfering with the board's collective responsibility,

[13] McKinsey progress report II, 27 November 1968.

which stayed intact but only for long term planning and strategy. Individual responsibility existed for the decentralized daily operations. In the Executive Committee there was still ample room for discussing to come to consensus between members of the board and the General Managers.

Thirdly, AMRO agreed with McKinsey to make the branch network the primary line organization since it formed the main source for profits. The other two line organizations were International Banking and Securities. The branches were supported by specialists working at the two head offices. Also there came more emphasis on the marketing function of these branches. Interestingly it was stated that in International Banking and Securities top operating decisions required board approval because of the amount of risk involved and because of the bank's financial reputation at stake. On the other hand, responsibility was much more decentralized into the domestic branches, AMRO's board decided upon this because of the branches' high profitability and related to this McKinsey's idea that profits were best made when people were held responsible and accountable. An important concession to the McKinsey philosophy in this respect was the decision by AMRO to give more own responsibility to district managers concerning the granting of credits.[14] So there was an important difference of depth of delegation between the three line organizations.

4.2.2. Remaining true to its roots: Limited decentralization at ABN

By contrast, ABN did not make these kinds of concessions to its consultant ADL. When the bank originally decided to hire a consultant in 1972, they were given three issues to be addressed: (i) the top management structure, (ii) the relation between the board and the Directorates and (iii) the role of the supervisory board. On 29 December 1972, Batenburg presented a preliminary memorandum of ADL.[15] A couple of months later, in March 1973 ADL presented its first report on the organization of the top structure, while the assignment on the supervisory board

[14] AAHA, AMRO, inv.nr. 2439. Minutes managing board, 9 October 1969.
[15] AAHA, ABN, inv.nr. S298. Secret minutes of managing board, 29 December 1972.

was cancelled. This deletion was a first sign that ABN did not rashly accept advice from outside.

A lack of consensus between the managing board and ADL led to the decision that the consultant would refrain from any advice concerning the third assignment, that is the role and composition of the supervisory board.[16] ABN's top executives and corporate clients met often, not rare in the bank's supervisory board, in which many important clients occupied a position. Members of the managing board wanted to have personal contact with some important large clients. And vice versa these clients expected to talk to a member of the managing board. For this reason, in the 1960s and 1970s its supervisory board was extremely large especially compared to the boards of industrial companies. To illustrate, in 1968 the top 100 listed non-financial companies had a supervisory of 6,93 people on average. ABN had one consisting of 27 people (own database). So, the board did not want to decentralize personal contact with important clients, since it was afraid of losing them offended when they had to talk to executives of a lower echelon. In this sense for ABN banking really was about personal relations and trust, in a time in which personal ties between industrial companies and banks were omnipresent and very strong (Westerhuis and De Jong 2010).

ADL stated in its first report that ABN suffered a lack of commonly understood goals, excessive centralization of power, over-emphasis on collegial management, often wasteful utilization of management talent, and an insufficient commercial orientation.[17] These findings were quite similar to the ones McKinsey had found for AMRO. However, for a number of reasons the relation between ABN and ADL was less intense than the one between AMRO and McKinsey, which ultimately led to different outcomes.

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[16] AAHA, ABN, inv.nr. S299. Secret minutes of managing board, 19 October 1973.
[17] ADL Report 1973

First, ADL had not been ABN's first choice. Second, the consultants interviewed a smaller number of people of the first two management levels and moreover they did not consult ABN's clients. This had to do with limits on time and expenses set by ABN (Arnoldus and Dankers). Third, in contrast to AMRO, ABN already possessed a structure that fitted quite well its (international) growth ambitions. Fourth, in general ABN was more confident in what is was doing and less open to be manipulated by external advisors. ABN found itself a more distinguished bank, since it was the oldest bank - predecessor NHM was created by King William I by issuing a royal decree and its history dated back to 1824. ABN nourished this relation with the royal family. AMRO, on the other hand, had a more businesslike image which was a reflection of its predecessor Rotterdamsche Bank which was known for its aggressive growth (Van Zanden and Uiitenboogaard 1999).

The different corporate cultures were also shown by individuals such as the chairmen of both banks. Karsten and Van den Brink –managing AMRO in dual chairmanship- both had a degree in economics and they did not come from a family of entrepreneurs or managers. Van den Brink had been a professor and had worked at the Ministry of Economics, before he started working for Amsterdamsche Bank. AMRO was a bank of new economically educated bankers, while Van den Wall Bake, first chairman of ABN, coming from a patriarchal family, represented the eminent ABN. This mind-set of ABN might also have been the reason why the board decided that ADL could only assist in the first phase of implementation, after which the board would do the actually implementation and ADL was assigned an advisory and supporting task on a ad hoc basis.[18] This was in sharp contrast to McKinsey, which assisted AMRO in its implementation process, and continued to consult AMRO at least until 1990 (Arnoldus 2000).

The result was that ADL did not so much impose a new organizational structure at ABN as making recommendations to improve the existing structure and to make it

[18] AAHA, ABN, inv.nr. S299. Secret minutes of managing board, 13 March 1973.

more efficient. Since the bank already had a structure consisting of several Directorates, ADL did not make recommendations to change this basic approach. The two most important ones were Domestic and International; these were the commercial ones. Other functional and operational directorates had to support both Domestic and International. Of these directorates only two named Credit and Customer Services were new directorates, bringing together activities which were until then spread throughout the bank. The Directorates were not considered separate profit-centers.[19]

Most important and biggest change was the introduction of an extra echelon below the managing board. Before the reorganization members of the managing board were held responsible collectively, whereas Directeuren heading the Directorates were not hold responsible. This had created much distance between the Directeuren and the board members. In its first preliminary memorandum ADL proposed to abandon the board's collective responsibility altogether, which led to quite some commotion in ABN's managing board. ADL found a way to maintain the collective responsibility namely by moving it to a presidium instead of the managing board.[20] Comparable to AMRO, ABN did not accept this recommendation. Thereafter, ADL recommended ABN to add a hierarchical layer of senior executive vice presidents (SEVPs, Directeuren Generaal), directly below the managing board to head the Directorates. Direct goal of an extra layer was the reduction of the Board's tasks. After the reorganization the SEVPs became responsible for operational and daily management of the directorates, and for the results of the banking activities. The managing board secured more time for long term planning and strategy (ADL report 1973; Westerhuis 2008). The board members and the SEVPs met on a regular basis, forming the executive committee of the bank.[21] This structure looked very similar to AMRO's.

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[19] AAHA, ABN inv.nr 4492: Policy document Foreign Directorate, April 1975.
[20] AAHA, ABN, inv.nr. S299. Secret minutes of managing board, 2 January 1973 and 8 January 1973.
[21] ABN Annual Report 1973.

Similar to McKinsey's advice, ADL was of the opinion that ABN had an insufficient commercial orientation, but in sharp contrast to McKinsey ADL did not talk about a far reaching decentralization of responsibilities into the branch network. ABN's managing board seemed to be more hesitant than AMRO to delegate all operational responsibilities. ABN's board wanted to control some important aspects of banking, such as the approval of large loans and issues, and personal relations with its most important clients. Large loans, domestic as well as foreign, had to be send to head office to be approved by a credit team. Loans above a certain amount and issues had to be approved by the managing board itself. ABN was of the opinion that these could have such an impact on the bank's solvency, that it should not be delegated but managed carefully in the board. Consequently, the most important recommendation of ADL in respect of a more commercial organization structure was the emphasis on a structure with a more customer instead of a product orientation. The newly created Customer Services directorate should be responsible for development of new financial products, supported by strong marketing. The new products should be sold in the two commercial directorates.

As the next sub-section will show, the differences in decentralization, especially in the domestic branches, led to different performance outcomes during the banking crisis of the early 1980s.

4.3 Consequences: Performance differences over the long run

This section discusses how AMRO and ABN fared in the Dutch crisis of the early 1980s and what role the differences in decentralization might have played in this respect. The subsection, first describes the developments of the Dutch banking sector leading to the crisis, showing the over crediting, then discusses the performance of AMRO and ABN during the early 1980s and lastly tries to give explanations for the different performance outcomes.

During the 1970s Dutch banks expanded rapidly, because low interest rates had created an incentive to borrow. As a result households, business and Dutch government alike borrowed on a massive scale. Only in 1979 when interest rates increased sharply due to monetary policies, did this growth on credit come to an end and with it the ongoing expansion of the banking sector. The breakdown in the international monetary policy in 1979, the second oil price crisis in 1979 and the subsequent recession in the international economy had severe consequence for the Dutch economy. Between 1980 and 1983 a wave of bankruptcies hit Dutch business. As a result commercial banks faced serious problems for the first time since 1945. Banks had extended substantial loans to households and business that were now in trouble. On top of this the international debt crisis came to the fore in 1982. These setbacks led to the need for a reorientation of the banks (Van Zanden and Uittenboogaard 1999).

To show the performance of AMRO and ABN in the longer run we calculated ROE and ROA for the period 1964 to 1989, after which both banks merged into ABN AMRO. Two remarks we would like to make. First we are well aware that we cannot simply make a causal relation between the reorganization of both banks and their medium term performance. Nevertheless we make a tentative conclusion that the M form and related changes in behavior especially within AMRO might have had a negative effect on its performance which became apparent during the economic depression in the early 1980s.

Second, the ROE and ROA ratios are not necessarily the best ratios to measure banking performance. Although ROE is the most common measure for banks' performance the recent financial crisis has shown that ROE is not risk-sensitive. However since this would require a completely different study (see e.g. European Central Bank 2010), we suffice here with ROE and ROA, which until recently have been quite widespread ratios. One requirement should be that the ratios are comparable to the whole sector. Therefore we included the mean, which we calculated as the average of the twenty largest Dutch banks. As can be seen from the two figures, ABN and AMRO both performed worse in the early 1980s, especially compared to other banks. However ABN did slightly better than AMRO. AMRO shows its lowest ROA and ROE in 1982 after which both ratio increased again. The ROE ratio of ABN, although somewhat declining after 1975 and falling below the mean in 1983, remained much higher than AMRO's.

Figure 1: Return on Equity: ABN, AMRO and mean, 1964-1989

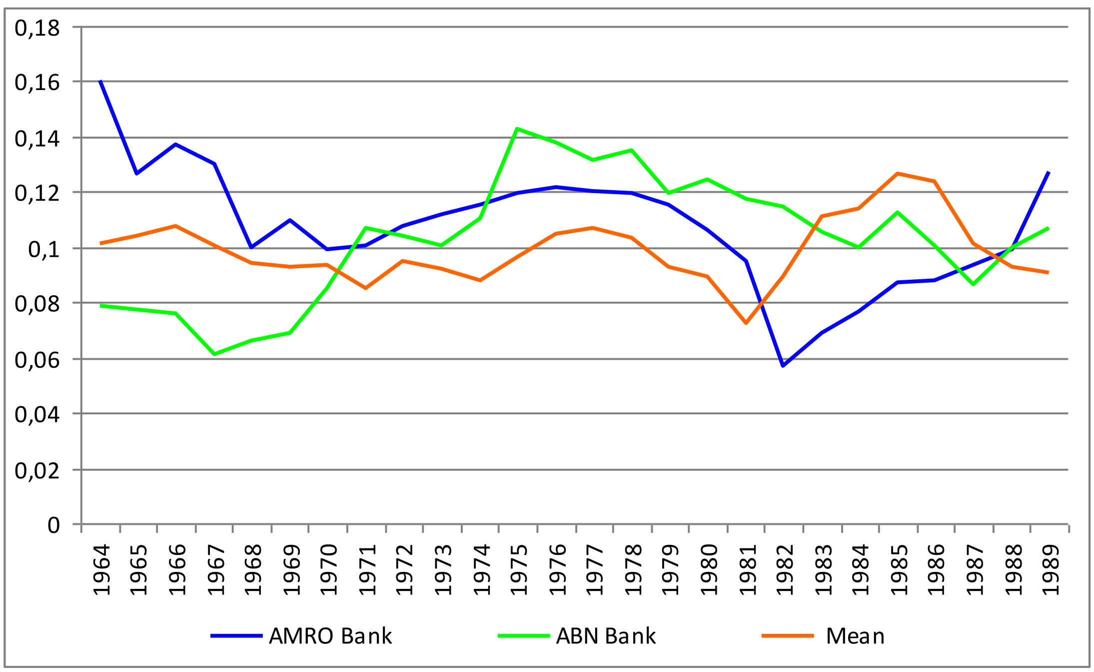
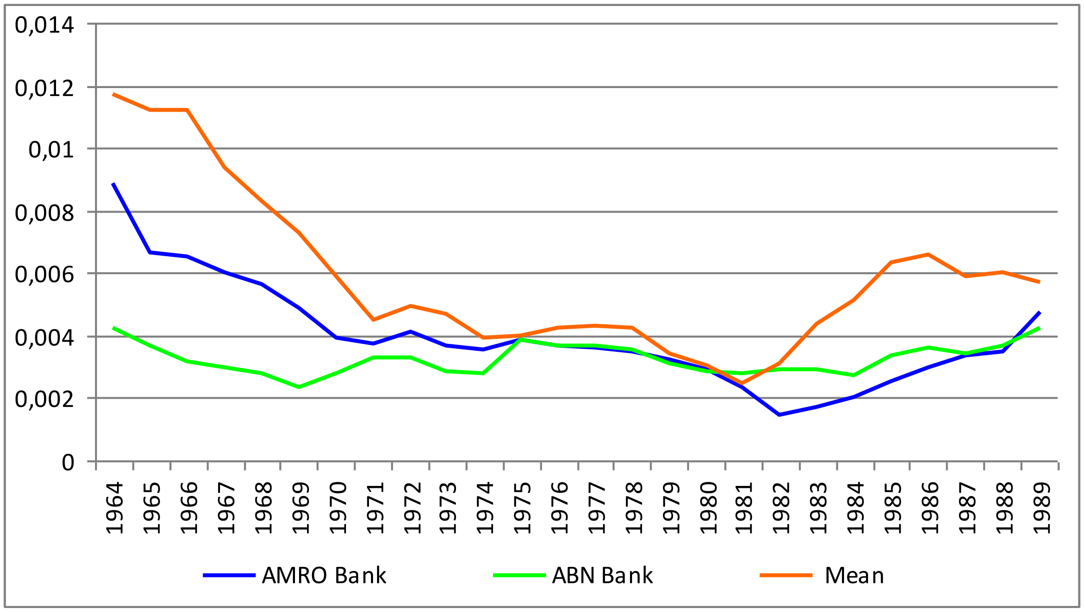


Figure 2: Return on Assets: ABN, AMRO and mean, 1964-1989



In 1981 and 1982 problems became visible when AMRO had to accept enormous losses, which eventually led to a temporary lowering of its credit rating by Standard & Poor's in late 1984. The crisis had revealed two organizational problems at AMRO. First, the decision making process for loans was too much decentralized. Due to the crisis bad loans were exposed and the bank became involved in number of bankruptcies. As a result the domestic credit policies came under fire. Second, the position of a number of subsidiaries of EBIC turned out to be too independent. They had been too optimistic and the bank had over-extended itself (Van Zanden and Uittenbogaard 1999; Metze 1993). In contrast ABN pursued a more conservative policy, both at home and abroad. The bank appeared to give greater consideration to profitability of operations. Besides, management appeared to have firmer grip on the organization, since the bank's decision making apparatus for loans took place at the board level (Westerhuis 2008; Van Zanden and Uittenbogaard 1999).

5. Discussion and Conclusion

TO BE COMPLETED

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