

POLAR BANK: TRULY ONE CULTURE?

Research Associate Nancy Lane prepared this case under the supervision of Professor Robert Hooijberg as a basis for class discussion rather than to illustrate either effective or ineffective handling of a business situation.

This case is based on real events but has been disguised to maintain confidentiality.

As Karsten Hansen left the management board meeting on 15 December 2004, he had a pretty good idea of what he wanted to accomplish when he assumed the role of CEO of the Polar Bank Group on 1 January 2005. He wanted the bank to truly operate as one bank and to establish itself as a European leader in personal financial services and a global leader in public and project finance. What was less clear was how to get there.

Karsten Hansen had just reviewed the results of a recent organizational culture survey with the management board and overall they were disappointing. Results demonstrated the absence of a clear strategic intent at Polar Bank. At the same time, the company could not successfully effect change and there was a lack of coordination and integration across businesses and borders. There was little focus on team and consensus building and even less on customer satisfaction. The survey reported positive results only in two areas: capability development and empowerment. With so few existing strengths, Karsten Hansen wondered what he could do to redefine the company culture at Polar Bank and accomplish his organizational and business goals.

History of Polar Bank

The Polar Bank Group was founded in 1996 as the result of an alliance between Ländesbanken and Fylkesbanken.

Fylkesbanken

Founded in 1860, Norway's Fylkesbanken focused on providing loans to local authorities for public projects. Fylkesbanken shareholders were also municipalities as it was a public limited company. Those who wished to borrow from Fylkesbanken were supposed to subscribe to shares for at least 5% of the amount they borrowed. In 1947 Fylkesbanken developed a branch network to allow private individuals to deposit their money in savings accounts.

In 1960 the network diversified its range of operations. It included private banking and corporate financing as well as municipal funding. The bank developed individual customer loyalty by expanding its range of retail products and services. In the early 1990s Fylkesbanken bought shares in the International Bank of Denmark (IBD), the oldest private bank in Denmark. At the beginning of 1992, Fylkesbanken increased its equity participation share in IBD to 51%.

Ländesbanken

Sweden's Ländesbanken was created in 1948. It was a public administrative institution and had previously been the only option for municipal project financing. Swedish municipalities, like private companies, now required financial products and services offered on the market for funding public projects and had become major new economic players. In 1988 Ländesbanken, a specialized institution, restructured in order to address the new financing requirements of local authorities. Carl Jonsen, who would later become chairman and CEO at Polar Bank, was deputy general manager of Ländesbanken from 1983 to 1993. In 1988 he also became chairman of the new institution.

In 1990 Ländesbanken began its international development by opening a US branch – Ländesbanken New York Agency. In order to expand into the European market, it identified a first expansion zone that included the UK, Spain, Germany and Italy, to be followed by a second zone comprising Austria, Scandinavia and Portugal. In 1991 Ländesbanken was listed on the Stockholm Stock Exchange. Its shareholders included the Swedish state (25.5%), Ländesbanken (25%) and Swedish and foreign investors and individuals (49.5%). In 1993 Ländesbanken was privatized and Carl Jonsen became chairman and CEO.

Creation of the Polar Bank Group and Polar Bank SA

Ländesbanken and Fylkesbanken combined in 1996 to become sufficiently large to compete in the growing European market. The Polar Bank Group was founded as a dual-listed company and Carl Jonsen was named vice-chairman. Polar Bank Group included two holdings – Polar Bank Sweden listed on the Stockholm Stock Exchange and Polar Bank Norway listed on the Oslo Stock Exchange. The Polar

Bank Group jointly and equally owned Fylkesbanken and Ländesbanken. However, this dual structure did not provide the expected efficiencies of combining retail banking with public financing activities nor did it provide clarity to shareholders. In 1999, therefore, Polar Bank Norway took over Polar Bank Sweden. The direction of the merger (with Polar Bank SA becoming a Norwegian company) was determined because the shares of Polar Bank Sweden were trading at an average 10% discount to the Polar Bank Norway shares. In order to maintain the original balance between the interests of the two founding partners, specific clauses were included in the articles of association providing that Norwegian and Swedish directors would have equal representation rights on the board. Furthermore, it was agreed that Stockholm would run Public Finance operations, Retail would be run out of Norway and Private Banking and Asset Management out of Denmark. The Polar Bank Group began operating as a single holding company called Polar Bank with operations and listings in Oslo, Stockholm and Denmark. Carl Jonsen was then chairman of the management board and CEO of Polar Bank. In June of the same year, Polar Bank purchased the remaining 49% of IBD's equity that it did not yet hold.

Between 2000 and 2002, Polar Bank acquired a financial securities insurance unit in the US and another Norwegian bank. The financial securities unit specialized in the insurance of structured assets and municipal bond issues. The bank's activities included banking and insurance. By 2002 Polar Bank was one of the three largest banks in Norway.

In the sector of public and project finance, Polar Bank announced the opening of four new outposts in Poland, Japan, Mexico and Canada in 2004. These countries represented strong growth potential for Polar Bank, yet continued to operate with only minimal support from the parent company.

In sum, Polar Bank built its strategy on two key pillars: retail banking in Europe (Norway and Denmark) and public and project finance at the global level (*refer to Exhibit 1 for Polar Bank Financials*). The retail side of Polar Bank had 3.95 million customers in Norway and Denmark. Polar Bank was also active in the sectors of asset management, insurance, investor services and capital markets and was also the first global player in the local public finance sector.

Organizational Culture

While the individual listings of Ländesbanken and Fylkesbanken had ceased to exist in 1999, the actual businesses continued to run separately. Strong entity pride and an internal focus characterized both the Swedish and Norwegian offices and there was little cross-border communication. Different business lines were associated with each office. Public and project finance (PPF) was the primary responsibility of the Swedish office and retail banking (PFS), the key focus of the Norwegian office. Additionally, the PPF business line was more profitable than the PFS business line as it contributed more than twice the net profits, while having about half the staff. This created definite feelings of satisfaction on the PPF side and bad feelings on the PFS side. A large separation also existed between the national entities and Polar Bank. People openly questioned the added value of becoming part of a larger group of companies.

The culture at Polar Bank was strongly results oriented. The emphasis was very much on technical competencies which meant that as long as you achieved your results you were a “good guy.” Little attention was paid to how you provided leadership and developed staff.

In addition to a results-oriented and technical focus, employees very much identified themselves with their company of origin. That is to say, people referred to themselves and others in terms of whether they came from Ländesbanken or Fylkesbanken. Most people also characterized the culture as top-down. There was little involvement of staff members in decision-making processes and a lot of emphasis on hierarchical relationships.

A study conducted by a company called Square Circle in 2003 at Polar Bank Norway supported this perception of Polar Bank’s culture. They interviewed 78 senior managers and held six discussion groups of about 10 Polar Bank employees each. They found that 40% of managers and employees did not know what the overall business strategy for the bank was and that the rest had a partial understanding at best. The respondents saw the organization as hierarchical and felt that they were part of a large machine in which they were accorded little value. They saw the opportunities to give feedback as “bad,” “very bad,” or “disastrous.” The dynamic image of the organization was seen only in advertisements on television, but not inside the company itself. If anything, respondents felt that the bank’s increase in size was a liability rather than an asset. When asked what they saw as the critical success factors in mobilizing employees, respondents emphasized the need to involve the employees in stimulating projects, to actively establish a new company culture, to value human potential because banking is a people business and for management to step out of its ivory tower and show that they understand employees and their context. The respondents felt that they could offer the bank a lot more if they were given the opportunity to contribute.

In summary, during this period, Polar Bank was mainly considered a financial conglomerate. It was made up of a significant number of local companies, operating in different markets with no common business models, tools or processes. The culture of Polar Bank Norway had the characteristics of a major local retail bank: a large number of staff, a strong top-down decision model, an emphasis on procedures and a strong focus on cost-cutting. The culture of Polar Bank Sweden demonstrated the qualities of an investment bank: a small number of highly specialized staff, a more entrepreneurial culture, a faster and more flexible decision process and a more international focus. The culture of IBD was highly characterized by its major activity of private banking.

The lack of integration among Polar Bank entities was also evident in its day-to-day operations:

- There were no common human resource group processes and tools.
- There were no cross-entity moves.
- Senior level vacancies were filled by external headhunting rather than by internal moves.
- External branding and corporate communications reflected the perception and culture of each national entity instead of a common vision of Polar Bank as a whole.

The international presence of different and separate Polar Bank subsidiaries in the same city is a further example of the disparate nature of Polar Bank. For example, London had a Polar Bank Ländesbanken, a Polar Bank London and a Polar Bank IBD, while New York and Dublin each had a Polar Bank Ländesbanken and a Polar Bank Norway.

On the positive side, however, one could argue that Polar Bank, in that period, fostered differences in company culture as a source of diversity and business development as opposed to a more harmonized US corporate model.

Redefining Cultural Strategies at Polar Bank: 2003

Carl Jonsen played significant management roles in the Ländesbanken and the Polar Bank Group, and had been CEO of Polar Bank since 1999. He now recognized both the necessity and difficulty of creating a strong, unified company culture with integrated management procedures. Carl Jonsen presented an ambitious new strategy to the group at the end of 2003. He stated:

After having successfully organized a holding company as a parent company – Polar Bank SA – for the three main geographic entities of Sweden, Norway and Denmark at the end of 1999, we must now move towards a fully consolidated group. We must have a single vision and corporate strategy and implement management rules and procedures for the whole group. The core ambition of the strategy is to maintain control of our destiny.

There was increasing pressure in the financial industry toward consolidations based on efficiency and it would be necessary for the group to not only integrate on paper but also in terms of the actual management practices of the group. Carl Jonsen's plan emphasized the business lines rather than the geographic entities. The four business lines would be the two main ones, PPF and PFS, as well as Investment Management and Insurance Services (IMIS) and Treasury and Financial Markets (TFM). The heads of these business lines together with the CEO, CFO and group operations and technology officer would form the management board (*refer to Exhibit 2 for Polar Bank's Management Structure: Organization Built Around Six Poles*).

In addition, Carl Jonsen moved the key support functions – audit, compliance, human resources, internal communication, and financial and institutional communication – up to group level status with the heads of the functions reporting directly to him. He stated, “These functions will work horizontally across the whole organization,” and expressed the hope that this would lead to “harmonization of the rules for appointments, transfers, promotions or remuneration of top executives,” in the case of human resources.

Carl Jonsen also created a new management board position – chief operations and technology officer, whose main task would be to:

...define and implement consistent strategies and policies in areas like IT or back offices across Polar Bank as a whole. This should help make the most of the operational synergies that could exist throughout Polar Bank among different countries and different business lines.

Future Strategy at Polar Bank

In October 2004 the board announced that as of 1 January 2005, Karsten Hansen would succeed Carl Jonsen as Polar Bank's CEO. Karsten Hansen had joined Polar Bank in May 2001 as a member of the management board, in charge of legal affairs, audit and integration of the newly acquired Norwegian bank. In January 2002, he joined the Polar Bank management board, of which he became chairman in January 2003. At the same time, he also assumed leadership for PFS.

Karsten Hansen believed in the main objectives outlined in Carl Jonsen's 2003 strategic plan. He chose to pursue the efforts made by his predecessor to promote significant changes not only in the way in which the group did business but also in the culture of the group. He recalled:

It still was a collection of three companies that had not integrated, not in terms of strategy, operations or anything. There was only a thin corporate level, which mostly focused on finance. When I joined Polar Bank, I focused on the integration efforts in Norway in 2001 and then joined the management board in Norway. 70% of our efforts focused on local matters and maybe 30% on the operation of Polar Bank as a whole. When I became head of the Norwegian bank in 2003, the PFS business line was an organization expressed more on paper than in actual practice and remained only Norwegian. It was always Carl's intention to minimize the geographic entities and make the business lines a reality. [...] We started with discussing the business lines in terms of risk management, but we did not look at running Polar Bank in a coordinated way. There was little information sharing and no overall strategic direction. Few synergies could be created. We focused on maximizing our own profit. Basically the motto was "Don't come into my shop and I will not come into your shop!"

The results of the 2004 organizational culture survey supported these impressions. Respondents did not see Polar Bank as having a clear vision and strategy. It was still primarily an internally oriented organization, with little cooperation and collaboration between the geographic entities and business lines, little team orientation, and no serious attention given to redefining and creating a single, overarching culture (refer to **Exhibit 3** for the 2004 Organizational Culture Survey).

The notion of "remaining the masters of our destiny" still appealed very much to Karsten Hansen, especially in light of the consolidation going on in the banking industry. As he put it, "This pressure to consolidate should not guide our choices and decisions. The moves we will make will have to be guided by the creation of value and not simply by fashion." He believed it would be important to get the organization to truly focus on the core business lines and not on the geographic entities as he believed the lines would enable the development of synergies, the creation of value and would ultimately result in greater independence in the market. He also knew, however, that this same goals had been on the agenda of his predecessor, Carl Jonsen, and that little had in fact changed.

Karsten Hansen also appreciated the leadership vision that the Polar Bank Corporate University Council had developed. It stressed five leadership dimensions: customer orientation, vision, innovation, people management, and cross boundary collaboration. He knew, however, that the adoption of this leadership vision would be a big stretch for many of the entities within Polar Bank.

The silo mentality that had characterized Polar Bank from its creation in 1996 would be very difficult to dispel. The company had relied on a top down hierarchical leadership since its inception and the ideas of “taking ownership and responsibility” and “mobilize and develop the team” were easily said, but much less easily implemented. The fact that the power to make significant decisions rested in Sweden and Norway, with little influence given to other Polar Banks was also a barrier to any kind of significant organizational change.

It was clear to Karsten Hansen that Polar Bank needed a clear vision and strategy, a mean of bringing the different parts of the group closer together, increasing customer focus and stimulating the ambition of and changing the leadership style of the company.

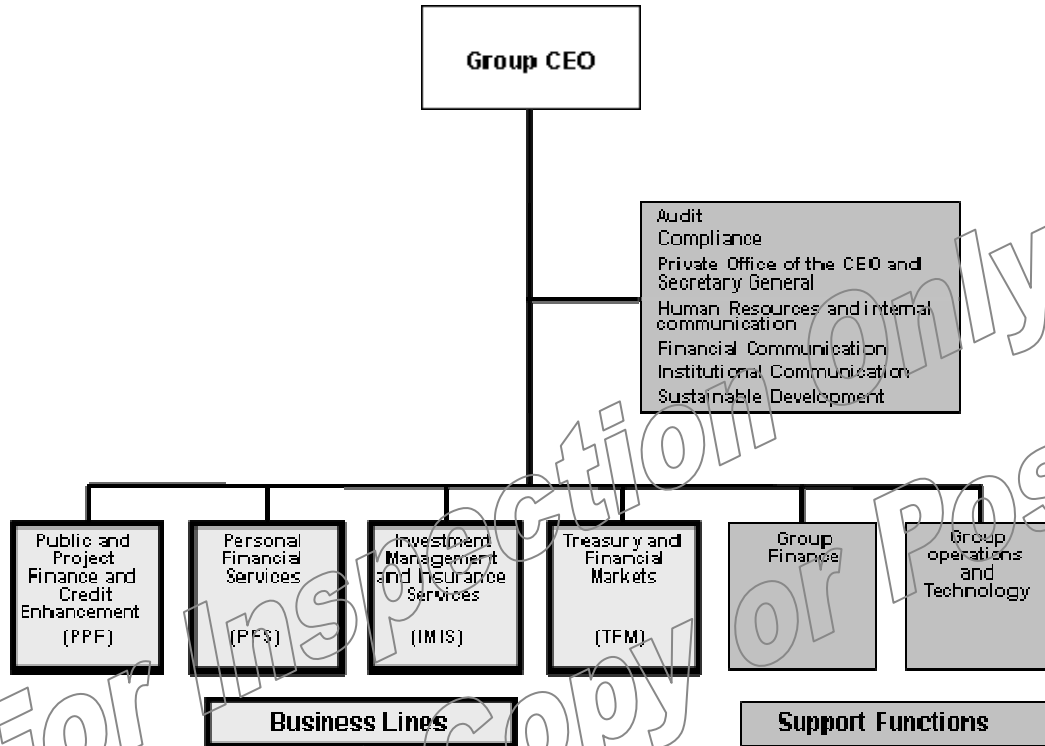
How could he best prioritize and accomplish these goals?

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**Exhibit 1
Polar Bank Financials 2002–2004 (€millions)**

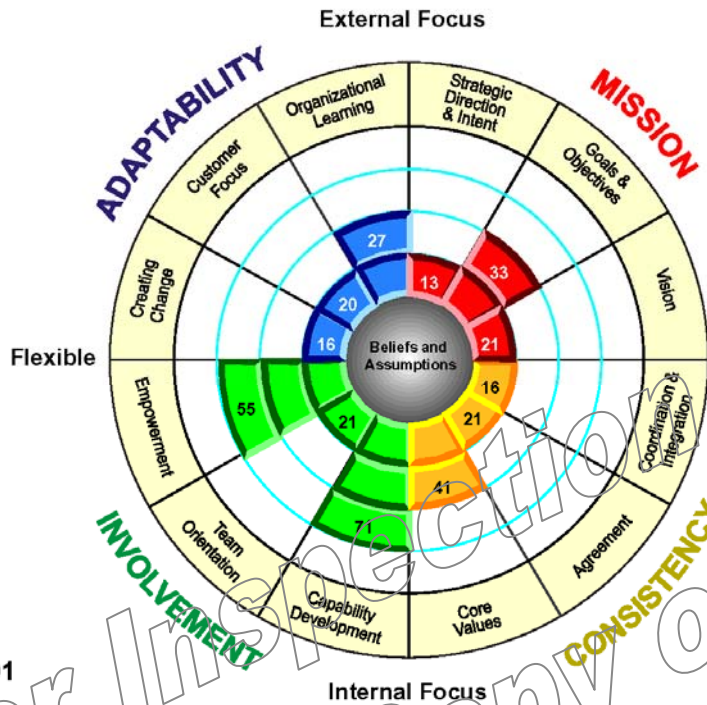
POLAR BANK	2002	2003	2004
as published			
Total Revenue	11,868	12,402	13,745
Pre-tax-profit	4,184	5,074	6,199
Net profit	3,291	4,076	4,687
PPFCE	2,002	2,003	2,004
as published			
Total Revenue	4,294	4,630	5,182
Pre-tax-profit	2,654	3,074	3,374
Net profit	1,801	2,075	2,318
PFS	2,002	2,003	2,004
as published			
Total Revenue	4,057	4,405	5,104
Pre-tax-profit	909	1,196	1,380
Net profit	658	826	966
IMIS (=asset management + investor services + insurance)	2,002	2,003	2,004
as published			
Total Revenue	2,102	1,960	1,612
Pre-tax-profit	662	711	637
Net profit	469	545	529
TFM	2,002	2,003	2,004
as published			
Total Revenue	1,086	1,221	1,120
Pre-tax-profit	748	860	718
Net profit	605	651	614

**Exhibit 2
Polar Bank's Management Structure: Organization around Six Poles**



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Exhibit 3 2004 Organization Culture Survey



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Highest Scores

91	The knowledge and skills of our employees are constantly improving.
83	Important details are often overlooked or forgotten when making decisions. *
78	Leaders set goals that are ambitious, but realistic.
75	Business planning is ongoing and involves everyone in the process to some degree.
74	The capabilities of people are viewed as an important source of competitive advantage.

Lowest Scores

2	There is a "strong" culture.
4	Innovation and risk taking are encouraged and rewarded.
4	It is easy to coordinate projects across different parts of the organization.
4	We have a shared vision of what the organization will be like in the future.
7	There is a clear strategy for the future.