

Building the **global bank**: An interview with Jamie Dimon

The CEO of one of the largest US banks discusses postmerger integration, risk, and leadership.

Clayton G. Deutsch

J. P. Morgan Chase (JPMC) ranks among the world's leading financial-services businesses, boasting \$1.3 trillion in assets, a major US consumer-banking franchise, and operations in more than 50 countries. Created from a succession of mergers over recent years, JPMC prides itself on legacy institutions—Bank One, Chase Manhattan, Chemical, First Chicago, J. P. Morgan, Manufacturers Hanover, and National Bank of Detroit—that evoke a colorful history of entrepreneurship and banking innovation going back more than 200 years, to the founding of its earliest predecessor, in 1799.

With a corporate headquarters in New York City and retail- and commercial-banking operations run from Chicago, J. P. Morgan Chase covers most of the main banking segments: investment banking, consumer financial services, small-business and commercial banking, financial-transaction processing, asset and wealth management, and private equity.

The \$58 billion merger with Bank One, in July 2004, was among JPMC's most ambitious deals to date, marking the return to Wall Street of Jamie Dimon, Bank One's former president and chief executive officer, who took over as president and CEO of J. P. Morgan Chase in early 2006.

Jamie Dimon is well known for his roles at Citigroup, its subsidiary Salomon Smith Barney, and its predecessor Travelers Group, where his energy, eye

Article at a glance

In this interview, Jamie Dimon, the CEO of J. P. Morgan Chase (JPMC), discusses the challenges of postmerger integration, dealing with risk, and the traits of successful leaders.

Dimon also discusses the \$58 billion acquisition of Bank One, in 2004, and, more broadly, the advantages of very large companies, noting that JPMC's "size and scale allow us to find ways to deliver those products better, faster, quicker, and cheaper to the customer."

As for risk, Dimon believes the key is to recognize that the market will change and that "the only thing that is unpredictable is the timing."

On the subject of leadership, Dimon feels that fostering the exchange of ideas is crucial to getting the most from employees: "If you don't create an open environment you will fail."

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for detail, and firm approach to cost cutting first attracted attention.

In this *McKinsey Quarterly* interview he spoke with McKinsey director Clay Deutsch about the benefits and disadvantages of scale, the challenge of integration, the difficulty of balancing acquisitions and organic growth, and what he expects from the people who run individual business units.

The Quarterly: *How would you describe the business model of JPMC?*

Jamie Dimon: It's large. It's global. It's diversified. We have six business lines—investment banking, retail, card, commercial banking, treasury, and asset and wealth management—and I remind people that not one of those lines of business is worse off by having the other five. So start from that vantage point. In fact, I'd go the other way around: every single one is better off because of the other five.

The Quarterly: *Which business lines tend to collaborate?*

Jamie Dimon: Card and retail do a lot of business with each other. And for all our middle-market clients we have retail branches, which actually service small businesses and the middle market too—kind of like a back office for their payroll and cash and collection and things like that.

The commercial bank does a lot of business with the investment bank. In fact, I think they both give each other a fairly large competitive advantage, which we're working on now. If you look at our last quarterly release, for the second quarter of 2006, you can see they do a lot of business together. There is a lot of business that the investment bank alone couldn't do, because it didn't have local relationships in places like Indianapolis and Tucson, which the commercial bank has. And there was a lot of business that the commercial bank couldn't do alone, because it didn't have the products that the investment bank has.

The Quarterly: *What is the logic behind this combination of businesses? Is it a conglomerate?*

Jamie Dimon: No. I separate the idea of a conglomerate from what I call a natural set of related products, which is what we are. Most regional banks around the world do all of our businesses, so we didn't artificially put them together. The business grew up this way, and it grew up for a good reason. When you're a consumer, you walk in and you expect a certain kind of retail product set. When you're a small or middle-market business, you walk in and you expect a certain kind of financial-services product set. It's the same when you're a large corporation. And the fact is, the average regional bank provides cash-management services, private-client services, small-business services, retail, and middle market. So when we organize across these six business lines, it's really for three sets of customers—consumers, private companies, and large companies and institutions—and we provide a natural product set that we are always trying to expand. And the reason this works is that our size and scale allow us to find ways to deliver those products better, faster, and cheaper to the customer.

This is what Wal-Mart has done. Who would have thought that Wal-Mart, which has extended its product line forever, would be selling tomatoes and lettuce? And it adds more and more because it can do things quicker



Jamie Dimon

Vital statistics

- Born March 13, 1956, in New York City
- Married with 3 daughters

Education

- Graduated in 1978 with degree in economics from Tufts University, Massachusetts
- Earned MBA from Harvard Business School in 1982

Career highlights

- J. P. Morgan Chase/Bank One (2004–present)
 - CEO (2005–present)
 - President, chief operating officer (2004–05)
 - Chairman and CEO of Bank One prior to merger (2000–04)
- Held various senior-executive positions at Citigroup; its subsidiary Salomon Smith Barney; its predecessor Travelers Group (1986–2003)

Fast facts

- Serves as vice president of board of directors of United Negro College Fund
- Serves on board of directors of National Center on Addiction and Substance Abuse and Harvard Business School
- Served on board of trustees of New York University School of Medicine and University of Chicago

and cheaper and because the customer is going there already and can get more and save a trip and spend less.

The Quarterly: *With assets of \$1.3 trillion and 170,000 employees, JPMC is very large. What role does size play in your strategy?*

Jamie Dimon: We get many benefits from our size: capital, brand, funding, cheaper purchasing, better ideas, software development, data centers, utilities. But there are weaknesses—for example, the bureaucracy that can come with size. I think bureaucracy is the disease that kills businesses. It slows you down. It demoralizes people. It drives out good people. It kills innovation.

It can also breed hubris, greed, arrogance, a lack of attention to detail, and politics. You have all these meetings, and people come and see you privately afterward and say, “Well, I know what we said there, but here’s what I really think about it.” And my reaction is, “Hey, am I your messenger? You couldn’t say it in the meeting?” The response is, “Well, I thought so-and-so would get upset.” And I say, “I don’t care whether he or she gets upset. Say it next time.” I have no problem with someone coming in and saying, “Hey, we met. We don’t agree. Here are the facts on which we agree; here are the things we disagree on. Can we talk about this now?” That’s what mature management does.

When I got out of business school, I thought big business was going to be logistics and linear programming and decision management. Sometimes it is more like grammar school—all the cliques and the second-guessing. You can get overwhelmed.

The Quarterly: *How much larger do you think JPMC will get? Can you become too large?*

Jamie Dimon: No, I don’t think so. Not yet. It may be true one day, but you have to look at the size of the businesses and what “large” is. If you have retail banks that do exactly the same thing, like a McDonald’s, you can get larger and larger and larger, but you’re not adding that much complexity to the business, provided you have regional managers who really know the business.

Some businesses, like retail brokerage or even credit cards, now are fairly well consolidated. But some have a long way to go—in retail banking there are still 8,000 banks in this country, and in most other countries it’s not even remotely like that. We’re just far more fragmented because of interstate banking. Now those laws have come down, but we still have a way to go before we’re back at the natural state.

The Quarterly: *You've done a great deal of M&A over the years. How do you strike a balance between organic growth and growth through M&A?*

Jamie Dimon: It is hard. You can certainly do both where acquisitions are plug-ons. But if you have two big companies and put them together, by the nature of the acquisition you've got to get the overhead out, in addition to spending time on new products and new services and on growing sales forces. You've got to consolidate the product sets, you've got to consolidate the back offices, and it does distract you. Is it possible not to drop the ball and continue to grow? Yes. I think at J. P. Morgan Chase we have not stopped growing. It's a little more of a struggle—more resources going into consolidation than into growth, and that's natural. There are embedded conflicts between doing acquisitions and trying to grow organically. You shouldn't do acquisitions unless you can run your businesses well. Organic growth earns you the right to do an acquisition.

The Quarterly: *Which do you enjoy more?*

Jamie Dimon: I enjoy both. The beauty about the conversions that take place after a merger is that they create such knowledge and such teamwork and such camaraderie and such a “can do” attitude. If you interviewed people who've been through it, wow! They're so proud of what we accomplished and what we got done. We were having a call about the big Texas conversion we did about a year ago, and the woman who runs the private bank there was on this call and said, “You know what? I know more about our product, our business, and our services than I ever knew before. It's amazing.” And it's going to make her much better at running her business. She also knows how to get stuff done in a way she never knew before.

The Quarterly: *What role does cost cutting play in postmerger conversations and in your overall strategy?*

Jamie Dimon: Real cost cutting is just waste cutting, because companies are wasteful—too many people, too much empty space, too many decisions that are completely inefficient, data centers in corporate headquarters that don't need to be there. We just started to track all our phone lines—50,000 phone lines that are not being used, but we're paying for them because people just didn't track them. That's waste. That is completely different from running a lean and efficient operation. And eliminating waste helps to pay for more salespeople, traders, and bankers who can fuel growth.

The Quarterly: *Postmerger integration often involves massive change. How do you approach that?*

Jamie Dimon: Even a very good person can become completely overwhelmed. When I first came to Bank One, the word was, “Don’t touch the board. Don’t touch Chicago. Don’t touch the charities. Don’t put too much pressure on the managers. The place is very fragile.” It’s almost as though you can’t do anything. You know, you have to do stuff, and some people aren’t going to understand it. You’ve got to have a lot of fortitude to say, “We are going to do the right thing. And, yes, I know a lot of people aren’t going to like it, but morale will change when the company’s doing better.”

You also learn from your managers. You learn which managers have real leadership skills and which ones constantly make a big deal out of everything. I used to look at these surveys on morale. People come in and say, “Well, Jamie, the morale in my group’s not particularly good, because the company’s not communicating clearly and people don’t know what the vision of the company is and blah, blah, blah.” Well, I’ll tell you a secret about those surveys. When morale’s bad in your unit, whose fault is it? It’s yours! If we weren’t communicating clearly, you should have come up and said, “Hey, Jamie, I’ve got to tell my people something better.”

The Quarterly: *Given the global nature and breadth of JPMC’s business, you are exposed to so many types of risk. How do you think about risk? How do you cope with it?*

Jamie Dimon: Go back to 1975, when I had my first job out of high school. Since then we’ve had multiple wars, multiple terrorist attacks, multiple countries going bankrupt—three times for Argentina—and multiple recessions. We’ve had interest rates as high as 21 percent and as low as 1 percent. These things happen. So when you’re running a business, you have to run the business maturely, knowing that things are going to happen. The only thing that is unpredictable is the timing and, sometimes, where the punch is coming from. But you know it’s coming, and nobody, in my opinion, has ever really picked the inflection points.

The Quarterly: *How can this affect JPMC’s performance?*

Jamie Dimon: If unemployment in this country goes up 3 percent, our credit card loss is going to go up 150 basis points. That would cost our company, all things being equal—of course, they’re not—but all things being equal, \$2 billion. Now, I should know that and I should be able to tell my shareholders, “That might happen, and if that happens, yes, we’d survive. And here’s how we’re prepared. Here’s how we’d mitigate it. Here’s what we’d do.” And you’ve got to do that in trading; you’ve got to do it in wholesale credit; you have to do it in interest rates; you have to do it for all these various exposures. And part of the answer is the analytics. It’s the really good

reporting. And it's transparency of issues and problems. You know, problems don't age well. You've got to raise them quickly. People shouldn't always be looking at the bright side of stuff but at both sides of stuff. Remember, the market did fall 25 percent in one day in 1987. If the market falls 50 percent, should you go bankrupt? Well, no, you shouldn't. It's one thing to say to your shareholders, "We had a really, really, really bad day." But it's another thing to say, "We filed for Chapter 11 last night."

The Quarterly: *Can't you also benefit from these situations?*

Jamie Dimon: Earnings will go down in certain environments. That's fine. We're still a healthy company. I think we may be so prepared that we will benefit from such an environment. We'll buy other companies cheap. We'll continue investing in people and systems and technology that other companies can't. And you've seen a lot of companies do that. Their stock goes down, their earnings go down, but they actually pick up ground. They pick up more ground in the bad times than they pick up in the good times.

The Quarterly: *You've run a number of companies—Travelers, Salomon Smith Barney, Bank One, and now JPMC. What do you view as the key to successful leadership?*

Jamie Dimon: I think there are a lot of management style differences—a lot of ways to manage—but if you don't create an open environment you will fail. If you sat through one of my management meetings you wouldn't know who was the boss. Sometimes the youngest kids know the most because they're actually using the credit cards and systems. It's an environment where brains are used to win in the marketplace, to help the customer, to figure things out, to share, to get to the next level. They're not used to justify bad decisions, to politicize an issue, to get yourself promoted.

The Quarterly: *How do you create and maintain such an environment?*

Jamie Dimon: You know, the environment starts at the top, but if every business head feels that way, thinks that way, and was taught that way, it filters right through the company. So we don't have such an environment because I say we do; we have it because there are a lot of people working in this way. And sometimes it's obvious that you don't have this kind of environment, and you've got to make management changes or coach and train. Some people are coachable and trainable. Some people are not—their attitude about decisions is, "Isn't it my decision? Doesn't that person work for me? Don't I get to decide?" As I often say, "Well, your job is to make the best decision, not to decide." And very often you can't make the best decision unless you have the right people in the room.

I think 80 percent of the time the best decision is waiting to be found. You're not guessing; you just do your homework, get the right people, and you find it. It just kind of surfaces out of the work and the analysis and the thought.

The Quarterly: *What if the right decision doesn't emerge?*

Jamie Dimon: You come up with a bunch of reasonable options to test and try and go back again. I always talk about good failures. A good failure is when you've really thought something through and you tried it and you tested it and it didn't work. In a bad failure—and you don't shoot people for a bad failure, either—but in hindsight, you didn't have the reporting in place; you didn't get the right people involved; you didn't think it through. It was a little “shoot, fire, aim,” and you learn from that. But you don't punish. You learn.

The Quarterly: *What do you expect from the people running a business?*

Jamie Dimon: If you run a business—I think it's true on almost any level—once a month you sit down and go through it. What are the facts? What are the numbers? What did you say? What happened? What can you learn? What is the competition doing? What's working? What's not working? You spend a lot of time on people, learning, reading, traveling, getting out to do the reviews, getting out just to meet clients, constantly coaching and training people.

The Quarterly: *How do you assess performance?*

Jamie Dimon: I believe I should pay for performance, but I don't think performance is a simple thing. If you're running a business, you have to do marketing well, hiring well, training people well. You've got to do your ops well, your systems well. You've got to invest in new branches and new sales and new traders. It's the whole package. In a lot of businesses you can get a lot of profit, but you've taken on too much risk and you're not investing enough for the future. You see that happening all the time.

And I'll give you another step. What if I ask you to take on my toughest problem? A problem where I don't think anyone would look good after four or five years. Don't you want your best person to go there? Doesn't that person going there have to say, “Jamie, I trust you. I know you understand what you're asking me to do and I know that it's not going to look that good, but I owe it to the company to do the best I can.” Should I shoot that person after four years? Should I pay that person more or less for taking on such a challenge? That's why I'm saying that performance is a very complex thing. There has to be that trust and faith in the institution. “Hey, if it doesn't work, I've got a bridge back; if it doesn't work but we made a good

effort, you'll treat me fairly anyway." That's a real evaluation, and we cannot, in any way, shape, or form, oversimplify the complexity of human nature.

The Quarterly: *Your management style seems to put great emphasis on people and their development.*

Jamie Dimon: Yes. Sometimes, there are people I pluck out—not one of my direct reports, maybe two or three levels down—and I find a way to spend time with them because I think they're great. I think they're part of the future. They could be running this company one day, so I hang out with them.

And there are probably ten kids like that, people I know. I also want to move them around to have different experiences. I'll invite them on a trip with me. I'll make sure I see them in a lot of situations. We'll see them when they're under stress and strain, and we'll really get to know them well. And I want some of our HR people to be thinking that way, and I want my direct reports to be thinking that way and to say, "Jamie, this is the person I need you to get to know." And I'll take that person to breakfast or lunch.

The Quarterly: *Is this outside of the formal HR structure?*

Jamie Dimon: We do talent reviews, but this is outside of the structure. It is also a way for me to know what's going on. I'll say, "I think you're doing a great job. Will you do me a favor? If something's going on, call me personally. I'd love you to describe it to me. Good or bad. We'll have a cup of coffee together." And these people will call me, by the way. Just so I'm not losing touch with them. These people are real culture carriers. They really know what's going on, so you learn from them. But all this is predicated on the open environment I have been talking about. None of this can happen without that.

The Quarterly: *What would you like your legacy at JPMC to be?*

Jamie Dimon: I'd like to leave J. P. Morgan Chase much stronger than I found it. I didn't build all this. Sometimes I feel like I'm criticizing a wonderful institution with all the things we have to fix, which I think is the CEO's job, but I also say that I inherited it. It was built by hundreds of thousands of people before me—some of the best names, best brands, best products, best services. So I would like to leave it better, to leave it in the best shape it could possibly be. **Q**

Clay Deutsch is a director in McKinsey's Boston office.

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