

**How did Dutch companies structure  
their expanding activities in the United States?  
A comparative study of  
Algemene Bank Nederland and Nationale Nederlanden  
1970-1990**

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WORK IN PROGRESS

## **1. Introduction**

The Dutch bank Algemene Bank Nederland (ABN Bank) and the Dutch insurance company Nationale Nederlanden (NN) started to build up a presence on a large scale in the United States (US) from the 1970s on.<sup>1</sup> At that moment they both already had a large international network. Soon the problem arose how to manage the expanding business in general and in the US in particular. Already in 1968 NN addressed the problem of how to control its foreign activities.<sup>2</sup> It was argued that ‘companies that expand abroad have to find a balance between local autonomy and central control’ and ‘finding the right balance between tasks delegated to the local management and tasks reserved to the central management can be hampered by distance’. Problems that may arise because of distance are related to differences between countries in for example communication, language and mentality and in the way of doing business. This suggests that companies in organising their business abroad have to deal with differences between countries.

Richard Whitley has analysed the problem of working in different countries.<sup>3</sup> He introduced the concept business system, meaning the organisation of business at a national level. Whitley argued among other things that business systems can be analysed in terms of three general components which vary between institutional environments: the nature of companies as economic actors, the level and

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<sup>1</sup> Algemene Bank Nederland (ABN Bank) and Amsterdam-Rotterdam Bank (Amro Bank) merged into ABN AMRO in 1991. In 1964, ABN Bank arose by the merger of Nederlandsche Handel-Maatschappij and Twentsche Bank and in the same year AMRO came into existence by the merger of Amsterdamsche Bank and Rotterdamsche Bank.

Nationale-Nederlanden (NN) and NMB Postbank Groep merged into ING Groep in 1991. In 1963, NN was created by the merger of Nationale Levensverzekering-Bank and De Nederlanden van 1845.

<sup>2</sup> BA NN, Memorandum “Foreign countries” and our Foreign business, March 1968.

<sup>3</sup> Richard Whitley, ed., *European business systems: firms and markets in their national contexts*, (London: 1994)

type of market organisation and authoritative coordination and control systems. This paper focuses on the last component, being authoritative coordination and control systems. Hall & Soskice have contributed to the debate on different business systems.<sup>4</sup> Interesting in their model is the distinction of two ideal types at the poles of a spectrum. One of them being liberal market economies (LMEs), the other being coordinated market economies (CMEs). In LMEs companies coordinate their activities primarily via hierarchies and markets, whereas in CMEs companies depend more on non-market coordination or networks. In general the US and Great Britain are seen as a LMEs and Germany and the Netherlands as CMEs. It is not argued that one market economy is better than the other, which makes it difficult to say something about success. However, in a study concerning the organisation of international companies it is important to stress that companies of two countries may differ and that international companies have to deal with these differences.

The organisation and control of work is one important factor that differs between national business systems. It refers not just to decentralisation versus centralisation of the organisation structure. Also, it focuses on the cohesion and integration of activities within the company as opposed to companies being run as portfolios of weakly connected business units. An example, which Whitley has given, will clarify this difference: many British companies control their operations through financial procedures and reporting systems and tend to treat each unit as a separate profit centre, whereas German companies practice a more centralised and integrated form of planning and direction.<sup>5</sup>

Questions that can be derived from this and will be analysed in this paper are the following ones. How did ABN Bank and NN structure their American activities in relation to the parent company? And how were the different American companies organized; how did their mutual relations look like? Why were certain organisation structures chosen? And what were the reasons for possible changes? Of course, it would be very interesting to find out if there were problems with the growing organisation or with the management in the US. Maybe ABN Bank and NN changed their policy towards the US. The questions will be analysed therefore over the period 1970-1990; possible changes in an expanding and growing organisation become visible. By answering the above mentioned questions we will get a better insight in the main problem of how to manage a company's growing business in the US.

After a short introduction of the concepts structure and control and their relation to the American and Dutch business system in section 2, most important American acquisitions and participations of ABN Bank and NN for the period 1970-1990 will be given (section 3). In section 4 the relation between the Dutch NN parent company and American subsidiaries will be analysed, followed by the relation between the American subsidiaries themselves. The same analysis will be

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<sup>4</sup> P.A. Hall and D. Soskice, *Varieties of capitalism. The institutional foundations of comparative advantage* ((Oxford), 2001)

<sup>5</sup> Whitley, ed., *European business systems*,

done for ABN Bank in section 5. The paper will be closed with a comparison of the two financial companies.

## 2. Structure, control and national business systems

A company tries to select a combination of structure and control systems that are most effective for pursuing sustainable competitive advantage (organizational design). The role of structure and control here is twofold: first, they coordinate strategy implementation and secondly they motivate and provide incentives for superior performance. A growing company can be structured by differentiation (vertical or horizontal) and by integration. Since more differentiation involves more managers and more integration involves more coordination, both can lead to more complexity. Growing of organizational complexity can increase the bureaucratic costs, which will affect the performance of the company negatively.

There are many possible ways of *horizontal differentiation*. A well-known one is the multidivisional (M-form) structure, which was discussed by Chandler in his famous work 'Strategy and Structure'.<sup>6</sup> Other structures are the functional structure (people and tasks are grouped together on the basis of their common expertise and experience), the geographic structure, which uses regional basis for organizing activities, the product division structure (with a focus on products or product groups) and so on.

*Vertical differentiation* has to do with the division of authority within a company. It is well known that there exists a relationship between company size and the number of hierarchical levels. This is the larger a company becomes, the more levels are introduced. Too many organizational levels, however, can lead to bureaucratic costs, because of motivational and coordination problems and information distortion. So, the company's aim is to maintain a hierarchy with the least number of levels of authority needed to achieve its strategy. Then, there is the problem of centralization versus decentralization. These terms have been used in many different ways. Here the terms are related to authority, or where the power over decisions lies in the organization. Henry Mintzberg says the following:

"When all the power for decision making rests at a single point in the organization, we shall call the structure centralized, to the extent that the power is dispersed among many people, we shall call the structure decentralized".<sup>7</sup>

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<sup>6</sup> Alfred D. Chandler, *Strategy and structure. Chapters in the history of the industrial enterprise* (Cambridge e.a., 1962)

<sup>7</sup> Henry Mintzberg, *Structure in fives. Designing effective organizations* (New Jersey et al, 1983)

Lastly, *integration* refers to the extent to which an organization seeks to coordinate its value chain activities and makes them interdependent. In general, the higher the company's level of differentiation, the higher the level of integration needed to make organizational structure work effectively.

So, there are different ways in which subsidiaries and divisions of an organisation can be organised. Following Whitley's approach of national business systems, organisations vary between societies. How do the organisation structures look like in the American and Dutch business system? Many US corporations develop market-like relationships between the different parts of their organisation. This is reflected in the greater use of the multidivisional structure form in many American organisations. The decomposition of large companies into profit centres is made possible by another characteristic of the American company. That is the standardisation of organisational roles and the reliance on their coordination and control through formal procedures. Therefore, American companies can coordinate a large diversity of economic activities.<sup>8</sup> Based on these generalisations, this paper starts with the assumption that American companies are decentralized and hierarchical in structure, in which managers are used to work with a clear company strategy and defined goals and to formal procedures of control and financial reporting systems afterwards.

For the Netherlands it is not so clear how companies usually structure their organisations. As we have seen in the introduction, comparisons are often made with Germany. German companies are generally speaking more centralized than US companies and planning and control is more integrated. Van Iterson and Olie stressed that decision-making in the Netherlands is characterised by consensus.<sup>9</sup> Managers are more used to a pragmatic way of coordination and control, instead of the formal procedures that we see in American companies. So, the challenge for ABN Bank and NN was to organise and structure their expanding companies in these two different business environments.

### **3. Expansion to the United States: a general overview**

#### 3.1 The case of Nationale Nederlanden

NN was created through the merger of Nationale (founded in 1863) and De Nederlanden (founded in 1845).<sup>10</sup> The merger of the two largest insurance companies in the Netherlands took place in 1963. Before the merger De Nederlanden already had a large international non-life business, but in the field of life activities both companies were exclusively focused on the Dutch market.<sup>11</sup> The presence of De Nederlanden on the American market, at first small, dated back to 1888 in the form of a non-life

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<sup>8</sup> Whitley, ed., *European business systems*,

<sup>9</sup> Olie and Van Iterson, 'European business systems: the Dutch case', in: *European business systems: firms and markets in their national contexts*, ed. Richard Whitley (London: 1994), 98-116

<sup>10</sup> The full names of both companies were National Life Insurance Bank (Nationale Levensverzekering Bank) and The Netherlands Insurance Company est. 1845 (De Nederlanden van 1845).

<sup>11</sup> J. Barendregt and T. Langenhuyzen, *Ondernemend in risico. Bedrijfsgeschiedenis van Nationale-Nederlanden 1845-1995* (Amsterdam, 1995)

branch established in San Francisco.<sup>12</sup> Also, it had its own US branch and, since 1957, it possessed a minority participation of 10% in Peerless Insurance Co. This was an American non-life insurance company, of which the majority lay in the hands of the Mutual Fire Insurance Association of New England, a group of 24 mutual insurers (association companies).<sup>13</sup> Since World War II the focus of De Nederlanden had been on emigration countries, like Australia and Canada, which shifted in the 1970s to the US as well.

An important reason for De Nederlanden (and later NN) to expand abroad was the spreading of risks geographically. These were not only insurance risks, but also financial, monetary, political and investment risks. Secondly, it was expected that foreign activities would enlarge the profits. Thirdly, since NN was market leader at home, it had to expand abroad for further growth. Lastly, having an international image/ prestige was seen as beneficial to the business at home as well as abroad. In determining its foreign policy NN always considered the desirable balance between life and non-life and between international and national business.<sup>14</sup>

At the beginning of the 1970s, NN started to gain a foothold in the US. The insurance company realized that with its participation in Peerless it did not really built up its own business in the US. In 1974, therefore NN acquired a majority of 62% in the company, which was made possible because of Peerless' need to expand its capital (capitalization of reserves). NN decided it had to reduce the risks in the US by spreading its activities between the non-life and life sector. So, it explored the possibilities of expansion in life activities as well. Life insurance in the US was very profitable, since life insurance companies distributed fewer profits to the insured persons, so that more was left for the shareholders (low profit sharing). Secondly, the US was an interesting country for life expansion because almost 50% of the total life world premium income was generated here. Lastly, the US was seen as an important investment country because of its liberal market. First the focus was on the Midwest of the US, which was seen as an attractive market. NN acquired 97.4% of the shares of Wisconsin National Life Insurance Company (WNL) in 1975.<sup>15</sup> Not only was that the first life company acquisition made by NN in the US, also it was the first life insurance company in the US to be acquired by a Dutch insurer.<sup>16</sup> The participation in WNL was soon followed by the acquisition of Midwestern United Life Insurance Company (MULIC) in 1976 and of Security Life of Denver in 1977. NN's life expansion stopped for the time being after the acquisition of Life Insurance Company of Georgia in 1979. With the acquisition of Life of Georgia, the US share in NN's total life premium income rose from 9% to 20%.<sup>17</sup>

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<sup>12</sup> BA NN, Annual report North America, 1987.

<sup>13</sup> BA NN, Minutes Supervisory Board, 30 October, 1963 and 28 October, 1964.

<sup>14</sup> Barendregt and Langenhuyzen, *Bedrijfsgeschiedenis van Nationale-Nederlanden*

<sup>15</sup> BA NN, Minutes Supervisory Board, 21 April 1975.

<sup>16</sup> BA NN, Annual report North America, 1988

<sup>17</sup> BA NN, Minutes Supervisory Board, 8 February, 1979.

At the end of the 1970s NN had built up a network of life insurance companies in the US. However, the first half of the 1980s NN was confronted with the boundaries in the financial field. Consolidation was necessary to adapt the organisation to the new group position. Therefore the focus was laid on improvement of the operational quality. In 1979, the US Branch was domesticated and its name was changed into The Netherlands Insurance Company. Furthermore, in 1982 NN succeeded to acquire the rest of the shares of Peerless, up to 100%. However, the non-life business remained relatively small and geographically still not well spread. Non-life business needed a minimum scale to be able to bear the costs of automation. So, small acquisitions in the US had to be done in order to improve the quality of the existing companies. In 1981, therefore, First of Georgia was taken over. Intention was to create a combined action of First of Georgia and Life of Georgia, for example by working together in the sales organization. This acquisition was followed by the small acquisition of Excelsior in 1983, which was integrated in the Peerless Insurance Group.

From 1985 onwards NN decided that besides reinforcement of the existing companies, it was also necessary to enlarge the non-life business in the US with a large acquisition. In this light we can see the acquisition of the non-life insurance company Indiana Insurance Group in 1985. With this acquisition, NN enlarged its premium income of American non-life insurance with 50%.<sup>18</sup> Indiana operated primarily in the Midwest, which complemented NN's existing non-life operations which were mainly centred in the eastern US. In 1986 a small company was taken over: Associated Doctors Health and Life Insurance Company.

Only in 1989 the attention was again shifted to life insurance business with the acquisition of Southland Life Insurance Company. This was the last acquisition for that time because from 1990 on NN's attention was directed towards the national merger with the Dutch NMB Postbank into ING Groep.

*Table 1: NN's acquisitions and participations in the US until 1990*

<b>Year</b>	<b>Life</b>	<b>Non-life</b>
		US Branch
1957		Peerless (10% participation)
1974		Peerless (62% participation)
1975	Wisconsin National Life	
1976	Midwestern United Life	
1977	Security Life of Denver	
1979	Life Insurance Company of Georgia	
1979		US Branch = The Netherlands Insurance Company
1981		First of Georgia Insurance Company

<sup>18</sup> Barendregt and Langenhuyzen, *Bedrijfsgeschiedenis van Nationale-Nederlanden*

1982	Peerless (100% participation)
1983	Excelsior Insurance Company
1985	Indiana Insurance Group
1986	Associated Doctors
1989	Southland Life Insurance Company

Source: different minutes Supervisory Board NN

By 1990 NN possessed a total of 11 companies in the US. Its international strategy to the US had been directed towards acquisitions and sometimes participations. The minority participation in Peerless was as soon as possible extended to majority participation. In the 1970s the focus was on the acquisition of life insurance companies, whereas in the 1980s NN policy in the US stood in the light of consolidation or improvement of the quality of its non-life insurance companies. It did so by acquiring small non-life insurance companies that merged activities with the existing companies to gain some economies of scale. The 1980s were closed with two large acquisitions, one in the non-life and one in the life sector. By then, the NN companies in the US were well diversified, both geographically and by lines of business.

### 3.2 The case of ABN Bank

The predecessors of ABN Bank traditionally had been highly international. One of them, Nederlandsche Handel-Maatschappij (NHM), was active in the Dutch colony Indonesia. Independence of this country led to fewer possibilities for NHM. That is why it shifted its focus to Africa, but political instability on this continent made it difficult to practice banking activities. In 1968 ABN Bank acquired Hollandsche Bank-Unie (HBU), which had a strong network in Latin-America and an agency in Istanbul. However, also in Latin America political problems made it very difficult for banks to be active. The vulnerability of ABN Bank's international strategy became even more apparent with the reduction of its belongings to minority participations in Saudi-Arabia and Suriname. Because of these setbacks a new strategy was needed in the early 1970s.<sup>19</sup>

The new strategy was directed towards expansion to countries with political en economic stability, or more precisely to Western Europe and the US. Further expansion of the foreign business of the bank was of great importance for the potential of the entire bank. If ABN Bank wanted to survive as an independent bank, it had to become one of the largest banks in the world. Since there were limited opportunities left on the Dutch market, expansion had to take place outside the Netherlands.<sup>20</sup> Apart from the fact that the US was an economic and political stable country, other motives to expand to the US played important roles as well. The US was seen as a country with a

<sup>19</sup> Joh. de Vries, Wim Vroom, and Ton de Graaf, eds., *Worldwide banking, ABN AMRO 1824-1999*, (Amsterdam: 1999)

<sup>20</sup> AAHA, ABN, inv. nr. 4364: Minutes of Supervisory Board in presence of Managing Board, 19 March 1976

strong and convertible currency, a well-developed capital and money market and a liberal market economy. Preference for the US was also prompted by the desire of ABN Bank to have a dollar reservoir at its disposal.<sup>21</sup> Furthermore, expansion was needed because of increasing efforts of Dutch companies to establish themselves in the US (follow-the-client strategy)<sup>22</sup>

At that moment ABN Bank only possessed an office in New York, which had started during the Second World War in 1941 and at first was active in import and export business between Indonesia and the US. In the 1970s the number of ABN Bank offices increased to seven, located in different states. By 1980 the bank had spread throughout the US and it exploited activities in wholesale banking. With this network of branches in some of the major cities of the US, one of the objectives of ABN Bank had been met. The other one, starting retail banking activities, was more complicated. ABN Bank had three options to build up its retail banking activities. First alternative was expanding under the company name ABN Bank. Major disadvantage of this option was that the average American did not know this brand name. A second option was setting up an entire new bank, which would be very costly. Third option was the acquisition of a small bank, which could be risky as well.<sup>23</sup> The Managing Board decided to buy a local retail bank preferable in the states of New York or California. However, the amount of available banks on the east coast was limited and the prices were high. Reason was the fact that every international bank was trying to establish in this region. Therefore ABN Bank decided to focus the attention on the Midwest.<sup>24</sup> The state of Illinois was one of the largest industrial areas of the US with a considerable amount of large companies and the region was not over banked yet. Soon ABN Bank's Board discussed a proposition of LaSalle National Bank (LaSalle). It was a small, but efficient and well managed bank. On 14 August 1979 ABN Bank bought LaSalle. Since US regulation was very complicated, with lengthy procedures and long negotiations with the American authorities, it took almost a year to close the deal.<sup>25</sup> The new subsidiary would operate as an entity on its own, separate from the other ABN Bank offices in the US and it would continue to operate under its own name.

*Table 2: ABN Bank's network in the US*

<b>Year</b>	<b>State</b>	<b>City</b>	<b>Sort*</b>	<b>Name</b>
1941	New York	New York	Branch	
1975	Illinois	Chicago	Branch	
1975	California	Los Angeles	Agency	
1977	Texas	Houston	Representative office	

<sup>21</sup> AAHA, ABN, inv. nr. 4364: Minutes of Supervisory Board in presence of Managing Board, 19 March 1976

<sup>22</sup> AAHA, ABN, inv. nr. 4364: Minutes of Supervisory Board in presence of Managing Board, 10 June 1978

<sup>23</sup> AAHA, ABN, inv. nr. 6216: Notes of Europe and North America: report on America, October 21, 1975.

<sup>24</sup> Vries, Vroom, and Graaf, eds., *Worldwide banking, ABN AMRO 1824-1999*,

<sup>25</sup> Vries, Vroom, and Graaf, eds., *Worldwide banking, ABN AMRO 1824-1999*,



1978	Georgia	Atlanta	Agency	
1978	California	San Francisco	Agency	
1978	Pennsylvania	Pittsburgh	Branch	
1979	Illinois	Chicago	Subsidiary	LaSalle National Bank
1980	Illinois	Chicago	Integrated with LaSalle	Hartford Plaza Bank
1982	Washington	Seattle	Branch	
1982	Florida	Miami	Agency	
1986	Illinois	Chicago	Subsidiary of LaSalle National Bank	Bank of Lisle
1988	Illinois	Chicago	Subsidiary of LaSalle National Corporation	Lane Financial Inc.
1990	Illinois	Chicago	Subsidiary of LaSalle National Corporation	Exchange Bancorp. Inc.

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

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

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

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

Source: different minutes of Supervisory Board and Managing Board

After the acquisition of LaSalle, the Board more than once stated that ABN Bank's position in Chicago should be strengthened by taking-over another bank. LaSalle did quite well, but still remained the sixth bank of Chicago. Especially the larger companies in Illinois found LaSalle too small to start a banking relation with (low legal lending limit).<sup>26</sup> In 1980, ABN Bank acquired Hartford Plaza Bank. This was not more than a bank office, which was integrated with LaSalle. In the following years some propositions were not working out for different reasons. Only in 1986, Bank of Lisle was taken over, just a small bank in Chicago. Still, it was not until 1988 that a large American bank was acquired, Lane Financial Inc. With the acquisition of Lane, which was a bank holding of four banks in different suburbs of Chicago with ten offices, ABN had become nearly the largest bank in the state Illinois.<sup>27</sup> In 1990, ABN Bank took the opportunity to acquire Exchange Bancorp. Inc., which was also a holding

<sup>26</sup> AAHA, ABN, inv.nr. 2624: Memorandum 'American National Bank and Trust Company of Chicago', 26 February, 1981.

<sup>27</sup> Paul Frentrop, 'ABN slaat grote slag in Chicago', *NRC Handelsblad*, 26 October, 1987

consisting of four banks, of which Exchange National Bank was the most important.<sup>28</sup> From then on the focus was on the integration of LaSalle and Exchange National Bank and with the internal growth of the organisation. This meant that proposals for possible other take-overs were not made for the time being. Besides, the Managing Board of ABN Bank by then had to focus on the merger with Amro Bank to ABN AMRO.

In short, the American policy of ABN Bank in the 1970s was focused on the building up of a network of offices throughout the US. At the end of this period, in 1979, the first acquisition took place, namely that of LaSalle in Chicago. Only in 1986 the second acquisition was realised, followed by one in 1988 and 1990. ABN Bank always acquired (almost) the complete amount of shares of the companies. In comparison to the Dutch insurance company NN, the bank acquired fewer companies in the US. Besides, the acquired companies were all established in the same state of Illinois and were therefore less geographically spread than those of the NN.

#### **4. Structuring the expanding activities of Nationale Nederlanden in the United States**

In section 3 it has become clear that NN as well as ABN Bank had expanded rapidly in the US. How did both companies structure their growing business? How did they find a balance between local autonomy and central control? And did they experience any difficulties because of differences in communication, language, mentality between the Netherlands and the US. In this section I will first analyse these questions for the NN and in the following one for the ABN Bank.

##### **4.1 The relation between Dutch parent company and its American subsidiaries**

In due course NN had grown autonomously as well as by taking over other companies, first in the Netherlands and later abroad. The company had a product division structure, which in 1979 was replaced by a hybrid structure (see figure 1).<sup>29</sup> Because of fast expansion of the company's foreign activities, horizontal differentiation had led to a structure of activities by region (domestic and international activities) and of activities by product (life, non-life, reinsurance activities).

NN had historically developed towards a holding with autonomous subsidiary companies. The subsidiaries had a so called 'freedom in restraint'. They had for their day-to-day business their own managements and kept a certain amount of autonomy, while the Managing Board of NN focused on strategy, planning and control of its subsidiaries.<sup>30</sup> So, as a collectivity, the Managing Board had direct responsibility for the holding company, since it was responsible for the continuity of the enterprise in the interest of all stakeholders, and a more distant responsibility to its subsidiaries.<sup>31</sup> The Board

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<sup>28</sup> AAHA, ABN, inv.nr. 5943: Memorandum 'Agreement in principle to acquire Exchange Bancorp. Inc.', 26 July, 1989.

<sup>29</sup> See also: Pieter K. Jagersma, *Multinationalisatie van Nederlandse dienstenondernemingen* (Tilburg, 1994).

<sup>30</sup> Barendregt and Langenhuyzen, *Bedrijfsgeschiedenis van Nationale-Nederlanden*

<sup>31</sup> The individual members of the Board had more influence on the operational activities of their own portfolios.

created the climate and framework within which the operational units operated with managements acting under delegated authority.

Since the Board took an active part in the decision making process, it was consequently in constant dialogue with the managements of its Dutch companies. In practice, we can see the division of tasks between Managing Board and subsidiaries in the planning systems formalised since the mid 1970s.<sup>32</sup> Every year the Dutch subsidiaries drew up a three-year planning and budget, which were tested against the central group objectives by the Board. After its approval the planning became the guideline for the individual companies. The coordination and unity was safeguarded by diagonal connections in steering committees and working groups.

So, communication lines were short between the relatively autonomous Dutch subsidiaries and the Managing Board. Communication with NN's subsidiary companies abroad was more difficult. Geographical distance, differences in language and mentality were hurdles that had to be taken to reach a clear common understanding. The solution was found in the creation of an International Division in 1960 by the Nederlanden. It was seen as an efficient way to deal with the problems of remote control in the international operations. The specialty of this Division was coordination of all foreign activities of the Nederlanden; it forged links between specialist at home and in other countries. After the merger to NN, this department became a NN body which operated from The Hague.<sup>33</sup> The Division assisted the Managing Board in implementing its corporate policies and strategies. It provided support and assistance to NN members wherever located. It was seen as the centre of communications to and from affiliated companies worldwide.<sup>34</sup> It has to be stressed that the Division had no hierarchical task; the foreign companies and branches reported directly to the Managing Board in the Netherlands.

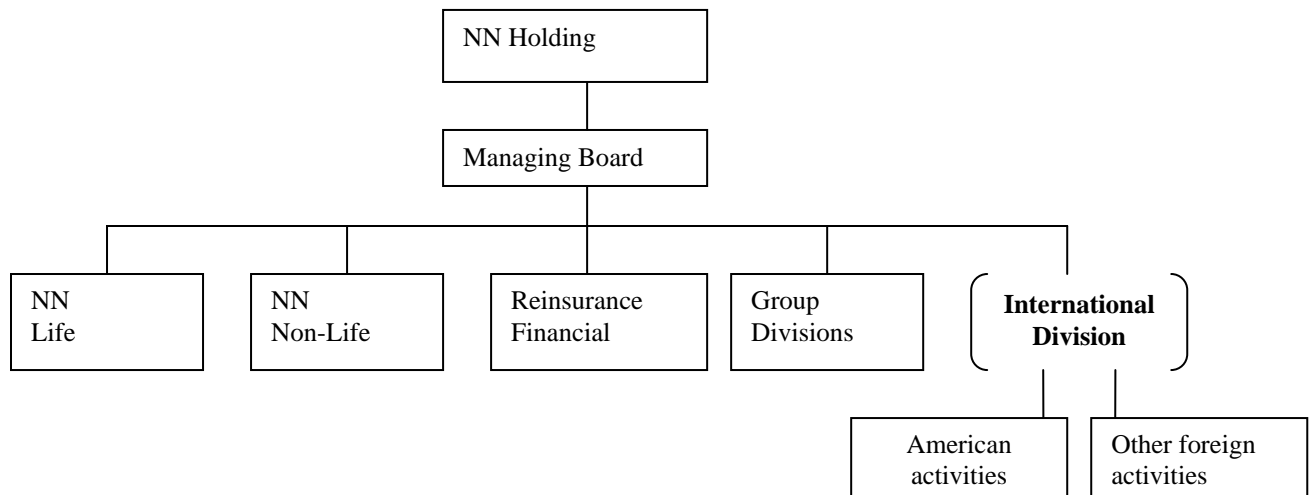
*Figure 1: NN simplified organisation structure and place of American activities, 1969*

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<sup>32</sup> BA NN, Planning memorandum, February 1985.

<sup>33</sup> BA NN, Minutes Supervisory Board, discussion paper 'Foreign Division and its foreign activities', March 1968.

<sup>34</sup> BA NN, Annual report North America, 1987.



Source: BA, NN, Minutes Supervisory Board, 1969.

The formal managerial structure remained broadly speaking intact until the mid 1980s. By then NN's strong expansion of the 1970s led to changes. The Managing Board became too much involved operationally since all managements reported directly to this body. A reorganization of the corporate structure was designed to release the Board and to give greater freedom to focus on broad strategic issues. Therefore, in 1986 a General Management for the Netherlands (Hoofddirectie Nederland) was installed (see figure 2). The major tasks of the General Management were policy formulation and coordination and supervision of the Dutch subsidiary companies. This new hierarchical level between the Managing Board and the Dutch managements decreased the direct involvement of the Board with the Dutch subsidiaries. The position of the International Division didn't change; it kept its coordinating (instead of hierarchical) task. Hence, the foreign offices and subsidiaries still were directly responsible to the Managing Board in the Netherlands.

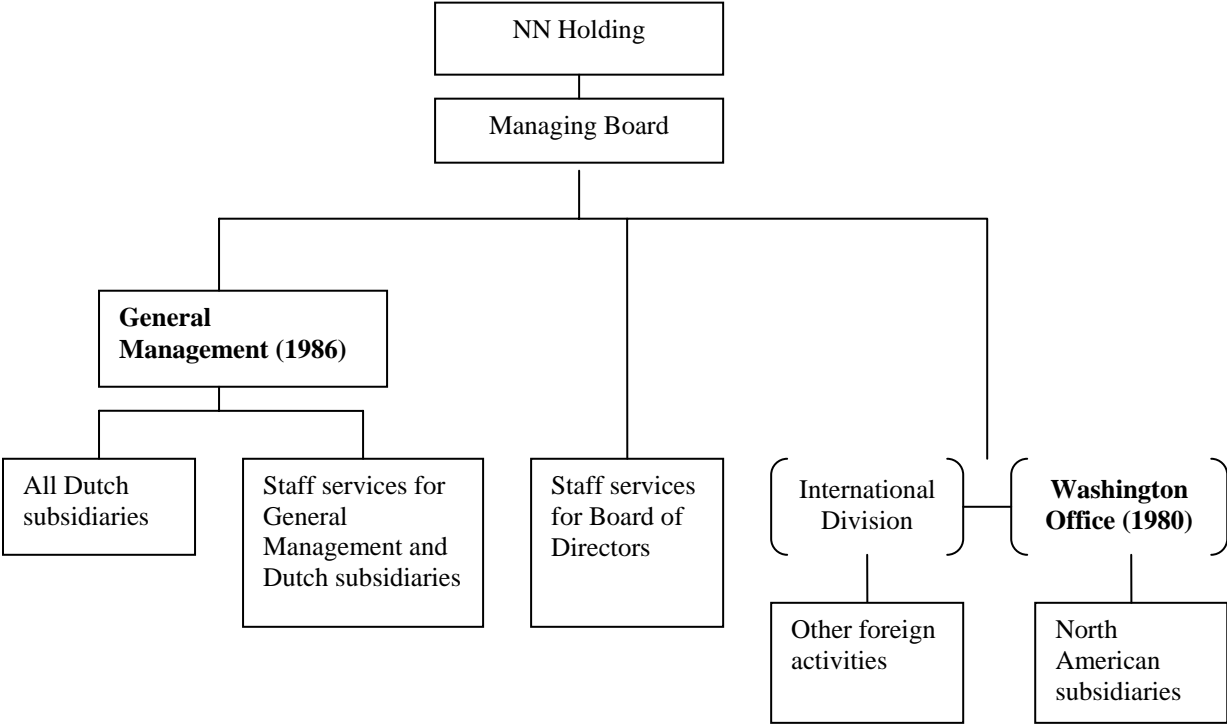
Because of the growth and size of NN's interests in North America, where in 1980 it had interests in two life insurance companies in Canada and in six life and non-life insurance companies in the US, the Board of NN decided to install a detached post of the International Division in the US. Especially after the relatively large acquisition of Life of Georgia this was felt necessary. In fact, the post existed of the same Dutch manager with the same responsibilities as in the Netherlands, but from then on he employed his activities from a small office in Washington.<sup>35</sup> The office worked closely with the managements of the North American companies. It reviewed and coordinated the individual results and corporate plans of the companies and evaluated prospects for acquisitions. The staff also encouraged the sharing of resources and information on products, automation and marketing.<sup>36</sup> The Washington office cooperated with the International Division in The Hague and with the member of the Managing Board that was responsible for North America. It was an absolute requirement that it

<sup>35</sup> BA NN, Correspondence, 12 July, 1979.

<sup>36</sup> BA NN, Annual report North America, 1987.

took care of excellent communication with the office in The Hague to be sure that `they marched both to the same drumbeat´.<sup>37</sup> On the one hand the office would contribute to an efficient contact with the local companies´ managements (`to speak the same language´) and on the other to keep NN informed on the latest developments in North America. With the creation of the coordinating Washington office the local managements remained autonomous in the sense that they reported directly to the Managing Board, but nevertheless at the same time had a direct contact with the principal shareholder on their continent. This representative with derived authority was easily accessible and supported their activities constructively. So, maximum room was given to the entrepreneurial spirit of the local managements.<sup>38</sup>

Figure 2: NN simplified organisation structure and place of American activities, 1986



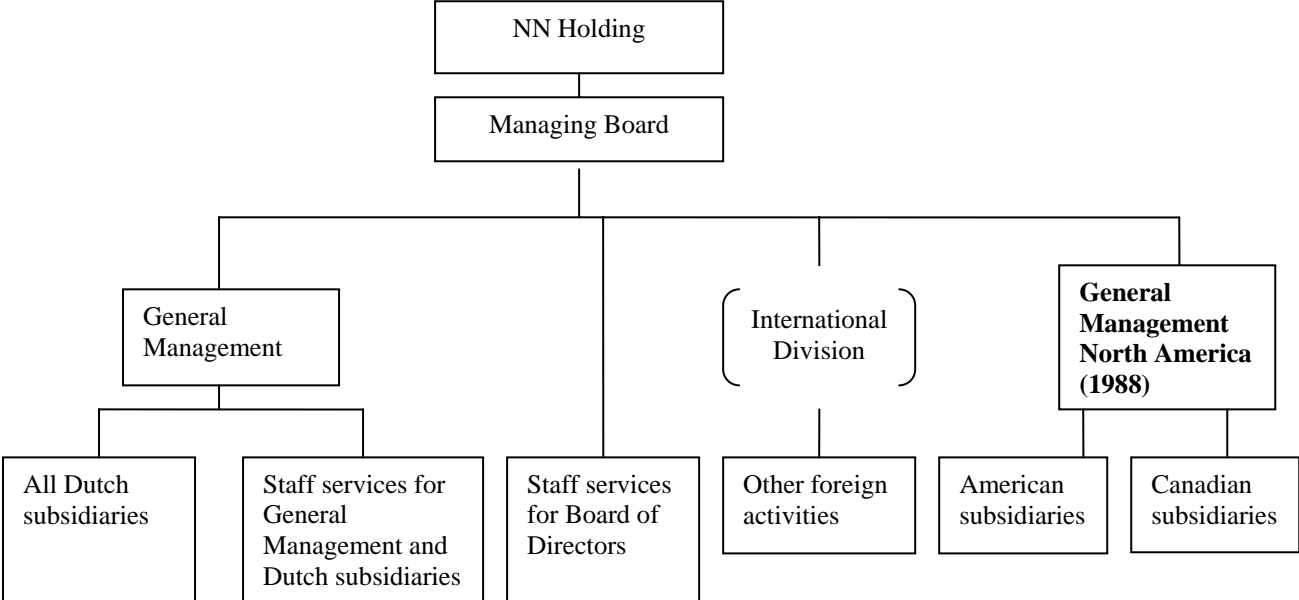
Source: BA, NN, Minutes Supervisory Board, 1985.

Only in 1988, a general leadership of the North American activities was formalised and passed on to a newly created General Management North America (GMNA) in Washington (see figure 3). The GMNA was indeed another hierarchical level, since the American subsidiaries had to report to this body instead of the Managing Board in the Netherlands. The objective of the reorganisation in the

<sup>37</sup> BA NN, Speech on the activities of Washington office by Mr. G.F. Jonckheer, Executive Vice President of NNUS Corp, 30 November 1983.  
<sup>38</sup> BA NN, Retreat Board of Directors, 3-5 October, 1987

long run was to integrate the companies of each sector and to take advantage of the opportunities for synergies between them.

Figure 3: NN simplified organisation structure and place of American activities, 1989



Source: BA, NN, Different minutes of Supervisory Board.

In conclusion, NN was traditionally a loosely connected organisation, in which not only the national subsidiaries but also the foreign ones had some play. Each subsidiary was seen as a profit centre and the necessary control was provided for by a system of checks and balances.<sup>39</sup> In practice, we see this in the financial reporting system, in which every company was treated separately. Of course this kind of autonomy required a strong central body that supported the coordination and supervised it, which was embodied by the Managing Board in the Netherlands. There existed short communication lines between the Dutch managements and the Managing Board. NN’s expanding company was first structured by horizontal differentiation; this is the change from a product division to a hybrid structure. Next, vertical differentiation was used to lighten the task of the Managing Board. This was done by the introduction of the General Management for the Netherlands in 1986.

NN’s philosophy of maintaining local autonomy also can be seen in its American activities. American managements were not removed after the acquisitions. They stayed in tact and were only filled up with one or two Dutch managers. Or as Odo Hattink stated in 1980: “...that its name, image and management will be left intact and we are interested solely in supporting and assisting the growth

<sup>39</sup> BA NN, Planning memorandum, February 1986, p.15.

and development of the companies which join our Group”.<sup>40</sup> It was thought that this long-embraced concept created an atmosphere in which the motivation for management to seek innovation and development could exist along with the support of a large international organization. At the heart of the international operations was the International Division in The Hague with a coordinating office in Washington. Only in 1988, when the American organisation became too large a hierarchical level was introduced, the General Management North America. The NN case confirms the generalisation that the company’s aim is to maintain a hierarchy with the least number of levels of authority necessary to achieve its strategy. The hierarchical level of 1988 was created relatively late, because a new level always leads to more bureaucratic costs. So, only when the company became too large and management got too overloaded in information and activities NN introduced another hierarchical level.

#### 4.2 Relation between the local American subsidiaries: expansion and integration

Besides the relation between parent and subsidiaries, it’s important to analyse the relation between the subsidiaries themselves. Until 1975 NN’s American activities were focused on non-life companies (Peerless and The Netherlands). With the acquisition of life companies from 1975 onwards, the company differentiated to a product division structure (life and non-life activities; see figure 4). The product division structure remained in tact, sometimes with little differences, during the studied period.

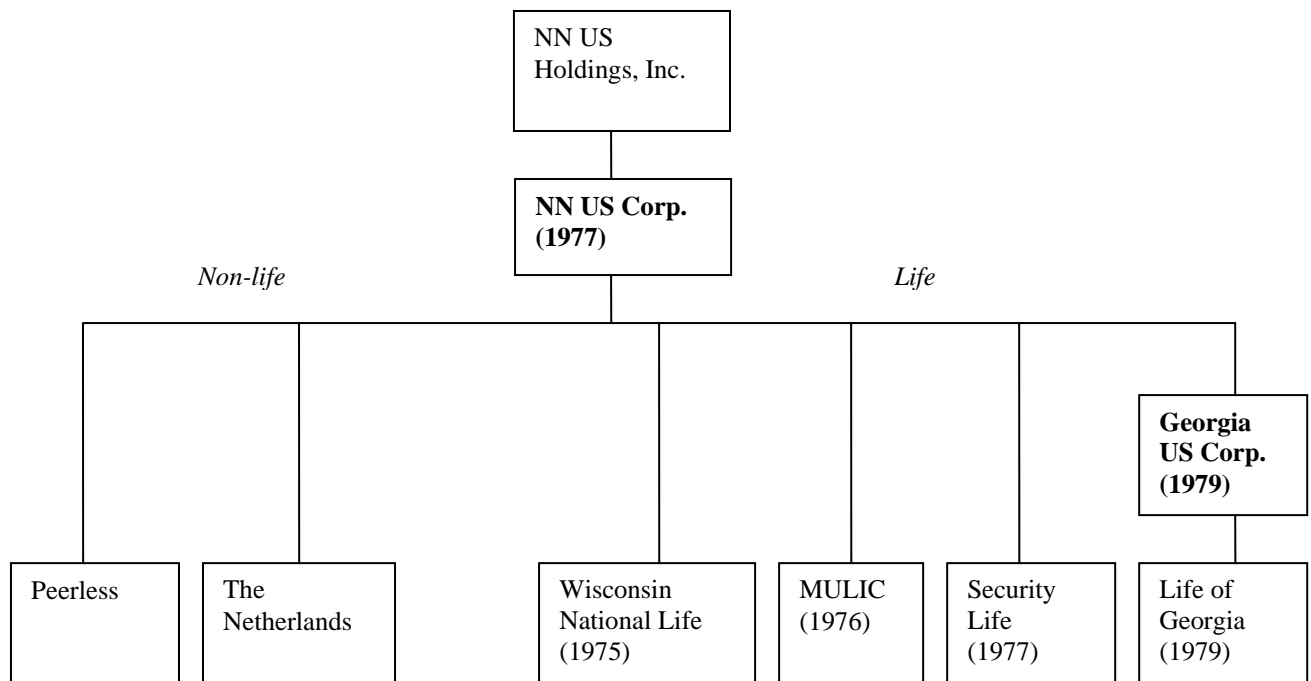
In 1977 a holding was created in Delaware, the so called NN US Corporation, in which the life insurance companies WNL, MULIC, and Security Life of Denver and the non-life insurance companies Peerless en The Netherlands were placed.<sup>41</sup> Every company, newly acquired by NN, would fall under this umbrella holding. The creation of this holding had most of all fiscal reasons. The most important one was the fact that the interest charges on dollar loans, necessary for financing acquisitions, in the US were tax-deductible by compensating them with the profits of the underlying insurance companies. In the Dutch tax system these interest charges on loans were not deductible.

*Figure 4: NN organisation structure in the US, 1980*

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<sup>40</sup> BA NN, Introducing Nationale-Nederlanden, Excerpts from presentation given by Odo Hattink (Member of the Executive Board of NN), May 1980.

<sup>41</sup> BA NN, Minutes Supervisory Board, 19 April, 1977



Source: BA, NN, Different minutes of Supervisory Board.

NN had focused in the US on the acquisitions of relatively small companies which were geographically spread, with the exception of the two latest acquisitions. The small insurance companies together demanded more attention than one larger company. But this disadvantage could not offset the advantages of lower management risk, lower financial risk and the fact that the regional and small companies were more flexible and had a great attraction in their territory.<sup>42</sup> Besides, exactly the smaller American companies preferred to be acquired by a foreign insurance company.<sup>43</sup> They were afraid to be taken over by large US companies by which they would lose their own identity. However, during the 1980s when the non-life sector performed less than the life sector, it became visible that exactly because of local autonomy the individual companies did not cooperate on their own initiative. Especially, NN's non-life sector, which consisted of relatively small companies, needed a minimum scale to become profitable. Therefore, cooperation was needed, which was essential to create some synergy.

An example of this consolidation process was the creation of the NN US Property & Casualty Corp. (1985). This group managed the following regional non-life insurance companies: Peerless Insurance Group (consisting of Peerless, The Netherlands and Excelsior), First of Georgia (1981), and later, in 1984, the large Indiana Insurance Group. A limited functional integration in the NNUS Property & Casualty organisation was pursued. Each company had its own Chief Operating Officer (COO), who reported to one Chief Executive Officer (CEO) of the holding company, and each was

<sup>42</sup> BA NN, Minutes Supervisory Board, 10 April, 1977.

<sup>43</sup> BA NN, Minutes Supervisory Board, 25 November, 1975.



responsible for its own policymaking and implementation. While the own identities were maintained, cooperation was aimed for where it was seen useful. This meant that some functions were done by the central holding, like the introduction of a uniform administration system and concentration of the automation activities.<sup>44</sup> So, the strategy provided the operating companies with decision-making authority and at the same time they benefited from group coordination, shared experience and special expertise.

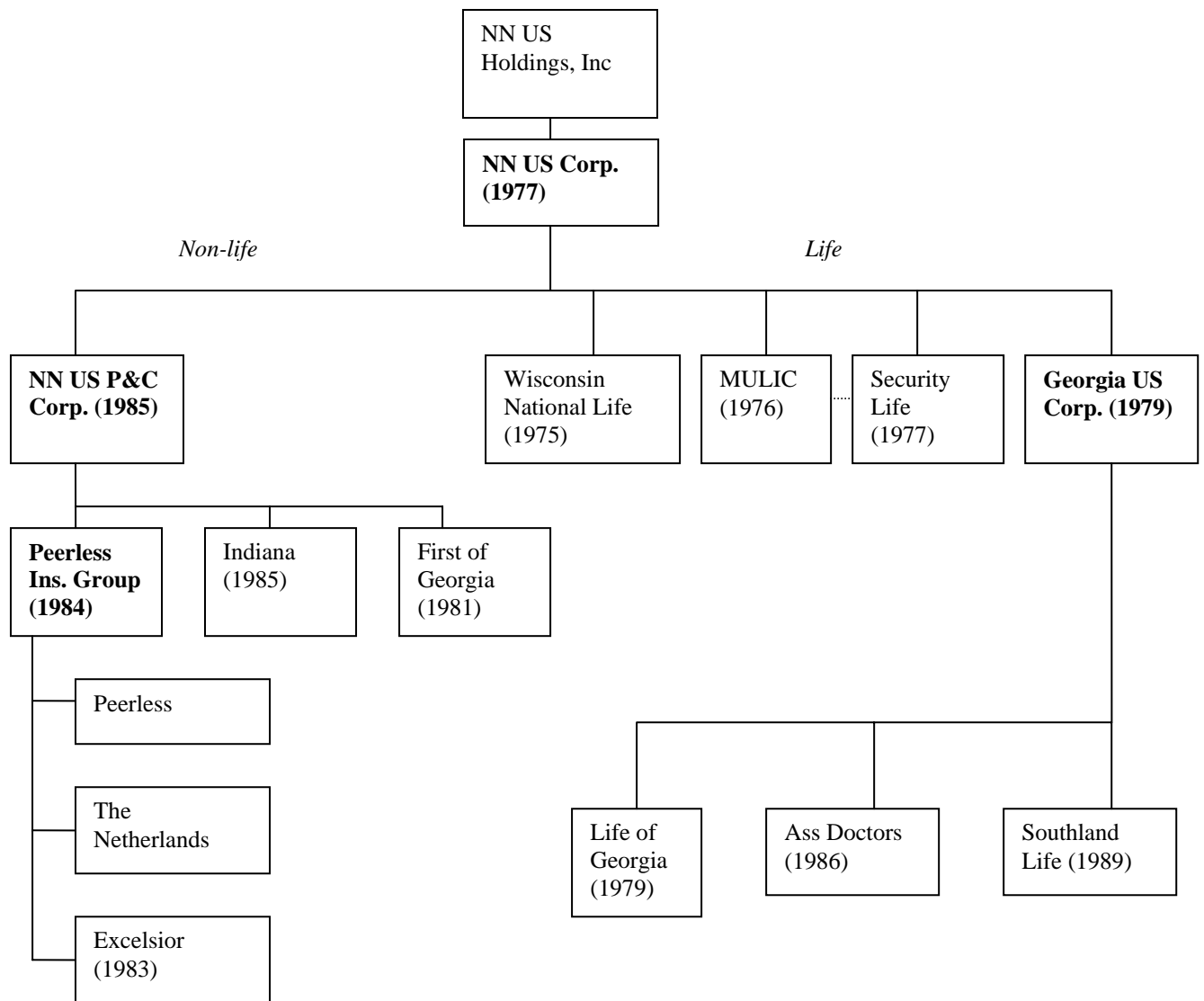
Also interesting is the integration of the top executive levels of Security Life and MULIC. In this case no new hierarchical level was introduced, only the top managements were merged. The individual identity of each company retained, while they could benefit from each other's experience in the areas of marketing and administration. The overlapping of marketing activities led in 1988 to the conclusion that it was preferable to integrate most of the operations of MULIC in those of Security Life. Last example is the life insurance company Life of Georgia, which was placed in Georgia US Corp, which later on would be joined by Associated Doctors (1986) and Southland Life (1989).<sup>45</sup> So, umbrella or coordinating organizations were created (vertical differentiation), which linked operating companies together and supported them. Authority was centralized to a few CEO's, who headed the holding companies (see figure 5).

*Figure 5: NN organisation structure in the US, 1990*

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<sup>44</sup> Barendregt and Langenhuyzen, *Bedrijfsgeschiedenis van Nationale-Nederlanden*

<sup>45</sup> Georgia US Corporation is also the parent company of Georgia US Data Services Inc. (a computer services company) and The Investment Centre Inc. (a company that provides investment management services to US based companies in the NN Group).



Source: BA, NN, Different minutes of Supervisory Board.

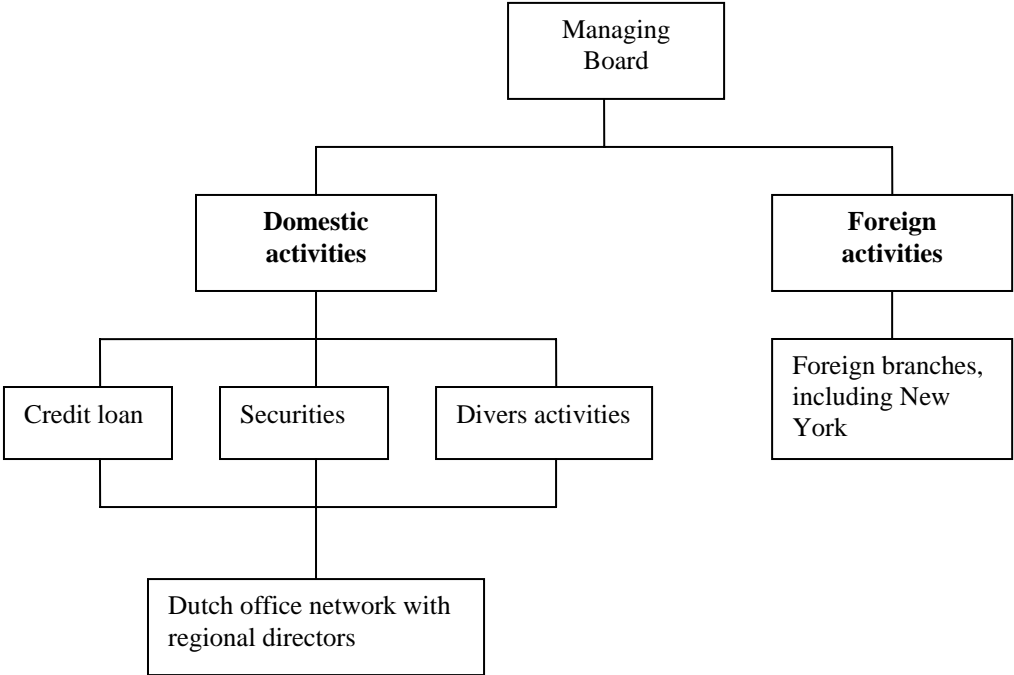
The case study of NN has made clear that an expanding company needs to integrate its activities to minimize the costs and remain profitable. The case shows also that external factors had influenced the decision to integrate activities; the economic recession in the 1980s had had negative effects on the non-life insurance sector. To integrate the company's activities some coordination was needed, which led to vertical differentiation. Power of authority was centralized in the CEO's that headed the few holdings, to be able to coordinate better the new activities and make decisions faster. Because of NN's philosophy of local autonomy, companies were not fully merged and integrated. They retained their name and identity. And moreover they kept decision making power in issues directly related to their clients.

## 5. Structuring the expanding company of ABN Bank in the United States

5.1 The relation between Dutch parent company and its American subsidiaries

As we have seen in section 3 ABN Bank and its predecessors were traditionally highly international. Before 1970 it had already an extensive international network. This had its effect on the organizational structure of the bank: a geographical one, existing of a domestic and international division, was the most logical (see figure 6).<sup>46</sup>

Figure 6: Simplified ABN Bank organisation structure and place of American activities, until 1973



Source: Pieter K. Jagersma, *Multinationalisatie van Nederlandse dienstondernemingen*, Tilburg 1994.

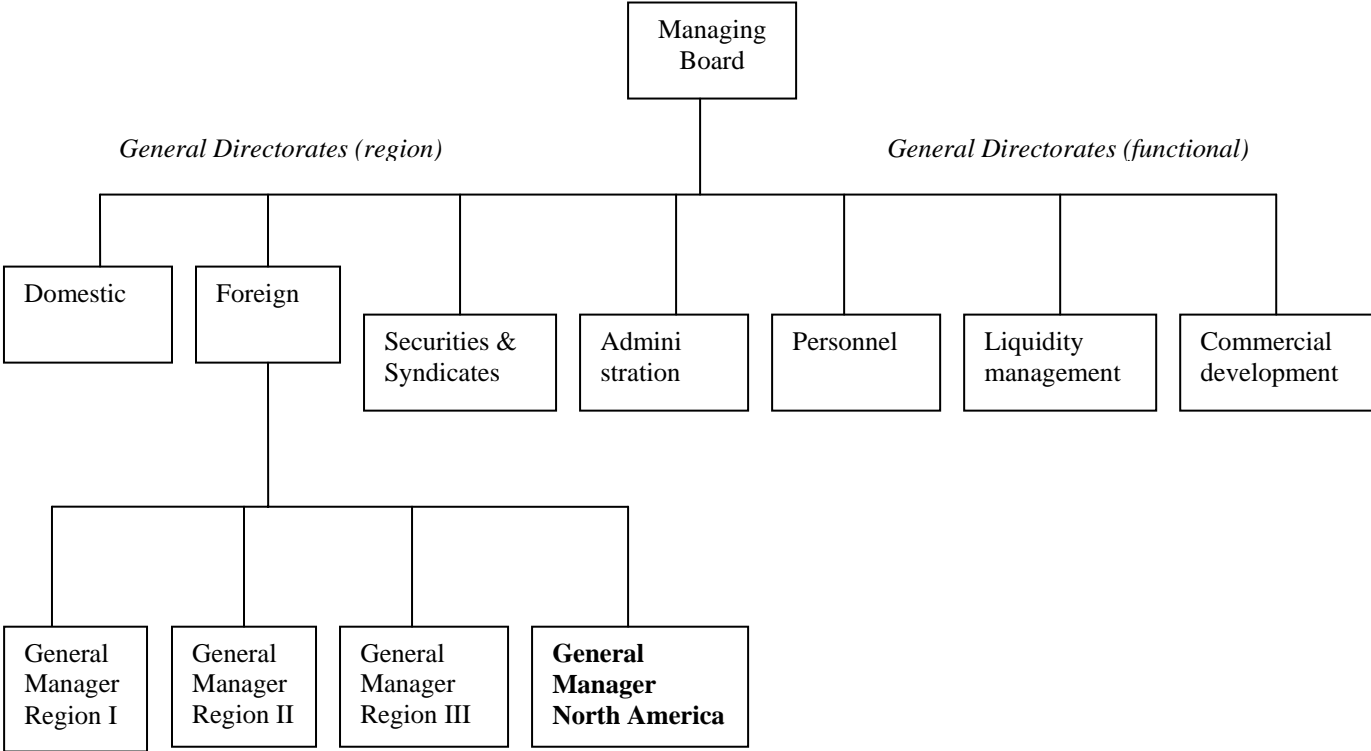
The geographic structure of ABN Bank changed into an international division structure. In contrast to NN, where only in 1986 a General Management for the domestic activities was installed, ABN Bank already in 1973 introduced a hierarchical level for all activities directly under the Managing Board. On the advice of consultant Arthur D. Little this new level of General Directors was set up (see figure 7).<sup>47</sup> The larger delegation of authorization or decentralization here was needed to enlighten the task of the Managing Board. The Board had become overloaded with work and information because of the growing organisation. The General Directors were responsible for the operational management and for the final results of the banking activities. The Managing Board drew up the long-range plan, while the Directorates made its one-year plans and corresponding budgets, which had to be approved by the

<sup>46</sup> Jagersma, *Multinationalisatie van Nederlandse dienstondernemingen*

<sup>47</sup> AAHA, ABN, Annual report ABN, 1973.

Managing Board. However in a policy document by the Foreign Directorate (1975) it is clearly stated that the Directorates were not considered as separate profit-centres; only ABN Bank in full was seen as a profit-centre.<sup>48</sup> One of the Directorates was responsible for the operational management of the offices of ABN Bank outside the Netherlands; this was the so called Foreign Directorate.

Figure 7: Simplified ABN Bank organisation structure and place of American activities, 1973



Source: AAHA, ABN, inv.nr. 4492, Policy document Foreign Directorate, April 1975.

So, at a relatively early stage, in 1973, the organisation structure of ABN Bank had become decentralized. This involved the introduction of a hierarchical level of General Directors (vertical differentiation) to relieve the Managing Board.

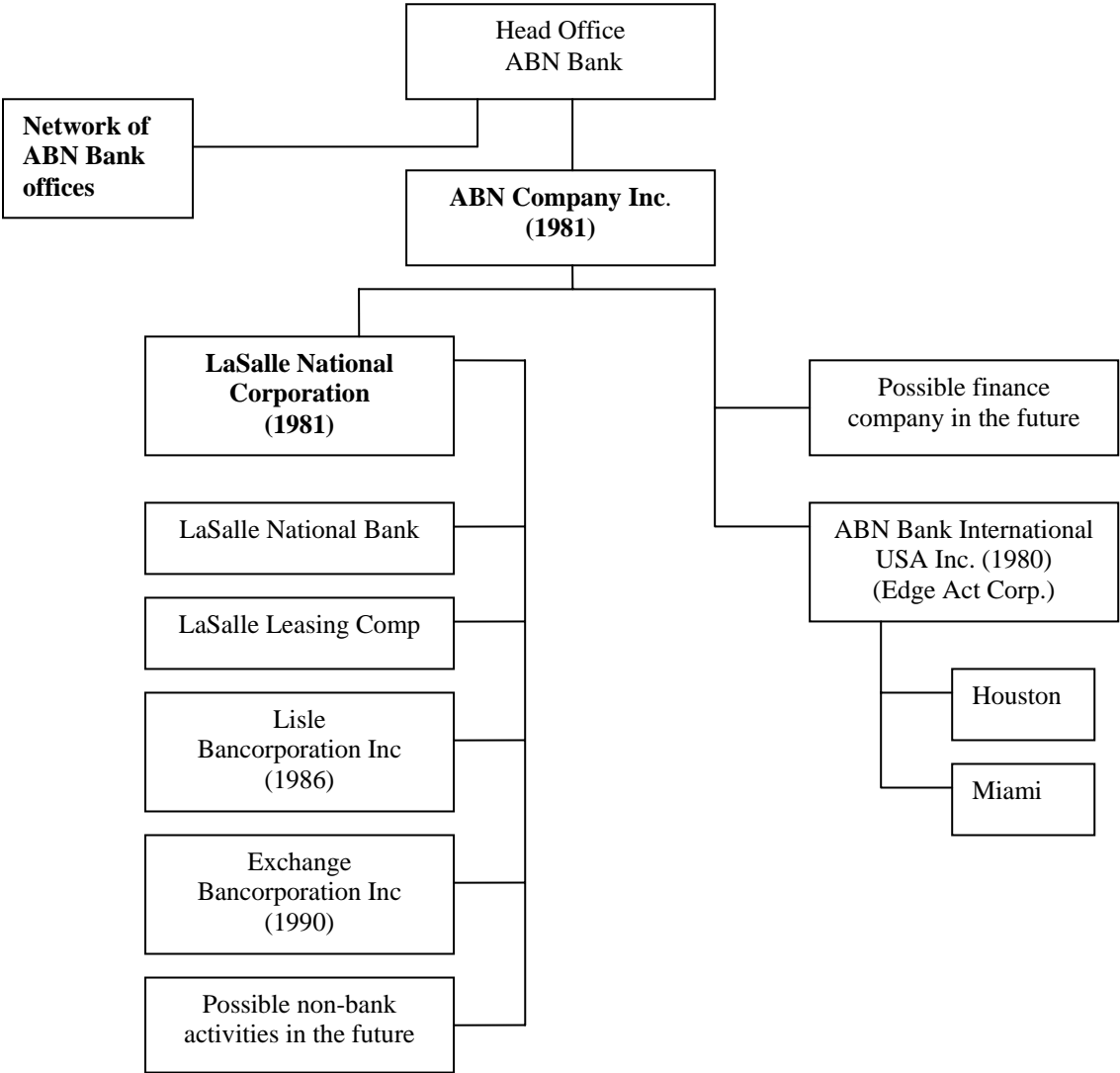
Like NN (NN US Corp), ABN Bank created a domestic holding company in the US in 1981, soon after the acquisition of LaSalle, necessary for future expansion.<sup>49</sup> A domestic holding company had some advantages in the light of ABN Bank’s wish to expand further in the US. First advantage was the fact that the structure in the US would become more flexible. Second, additional capital increases and acquisitions could be financed with funds borrowed in the US, which was attractive fiscally. Third, possible financing with dollars borrowed in the US could reduce the exchange risks. Finally, it had the advantage of dealing with other banks and/or regulatory authorities through a

<sup>48</sup> AAHA, ABN, inv.nr. 4492: Policy document Foreign Directorate, April 1975.  
<sup>49</sup> AAHA, ABN, inv.nr. 6006: Country dossier, 13 November, 1980.

domestic entity rather than a foreign one. So, application processes would be less complicated. Since ABN Bank wanted to control its activities in the US, for example about the decision of buying a finance company or acquiring another bank in the future, the Board of ABN Company Inc. was composed of Dutch ABN Bank representatives only. The created ABN Company Inc, wholly owned by ABN Bank, became the owner of the other holding: LaSalle National Corporation (see figure 8). This holding would be used for the expansion of LaSalle in the region.

The acquisitions of Lisle and Exchange, respectively in 1986 and 1990, situated in the same state of Illinois, were placed in the existing holding, LaSalle National Corporation. So, expansion in the case of ABN Bank didn't go hand in hand with differentiation. No new holding had to be added. Reason was that, in contrast to NN, the expansion of ABN Bank to the US included fewer companies which were all active in the same product of banking. Also, these new acquisitions ABN Bank were all located in the same state of Illinois.

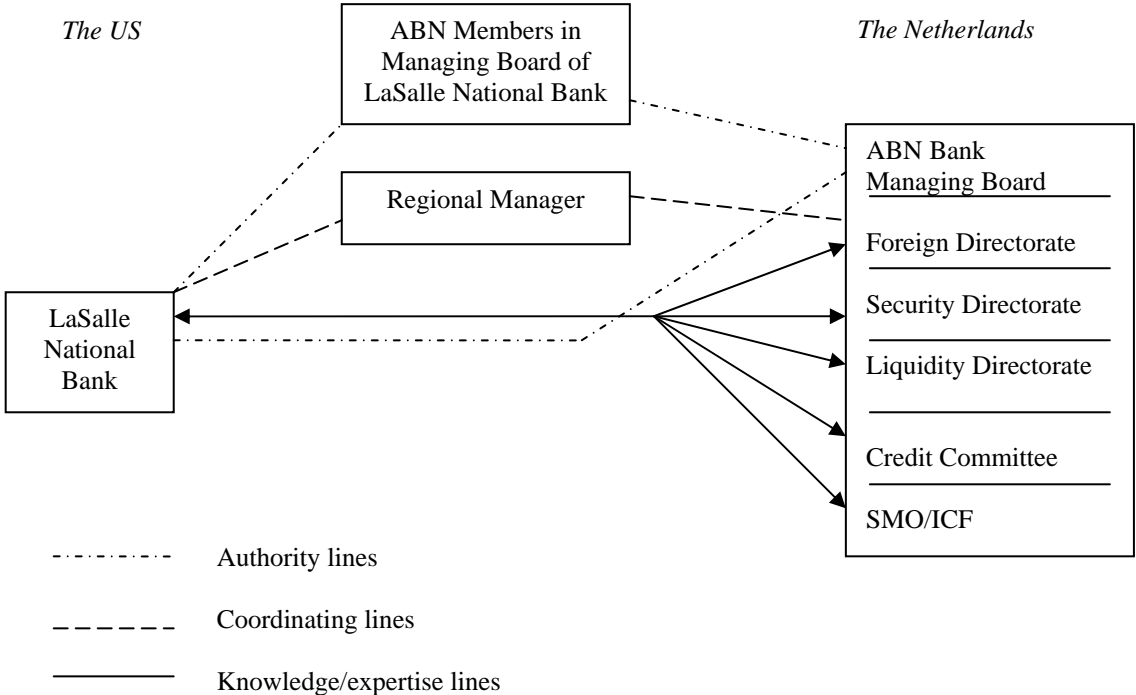
Figure 8: ABN Bank organisation structure in the US, 1980



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

Until 1986, the parent company had to deal with only one subsidiary (LaSalle National Bank) and with the network of ABN Bank offices. These offices, operating under the ABN Bank flag with a decentralized management, were a fully integrated extension of Amsterdam and reported directly to the Managing Board. On the other hand, LaSalle kept its own brand name, which had its roots in the local community, and its American management. LaSalle was responsible directly to ABN Bank's Managing Board. To be able to control the American bank four Dutch ABN Bank representatives were appointed in the Board of LaSalle.<sup>50</sup> One of them resided in the US and was also appointed as Regional Manager. He had to coordinate the activities between LaSalle and all the ABN Bank offices. It was stressed that this Regional Manager had strictly a coordinating task; that is he was not in the hierarchical line between ABN Bank and LaSalle. The Regional Manager was situated in Chicago.<sup>51</sup> This was another way of exercising some control over LaSalle for ABN Bank. Next to the above mentioned lines, LaSalle also had contact lines with different Directorates and Credit Committees in the Netherlands (see figure 9).

Figure 9: Different lines between LaSalle National Bank and ABN Bank in 1979



<sup>50</sup> AAHA, ABN, Inv.nr. 2624: Memorandum `LaSalle National Bank`, 4 September, 1979.

<sup>51</sup> AAHA, ABN, inv.nr. 4365: Minutes of Supervisory Board in presence of Managing Board, 10 August, 1979.

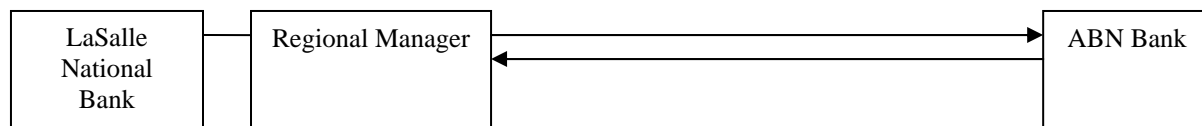
Source: AAHA, ABN, inv.nr. 2605: Memorandum 'LaSalle National Bank', 16 December 1981.

Already in 1981 ABN Bank experienced the difficulty of managing a large company at a distance. Immediate cause were the disappointing results of LaSalle. Of course this had to do with the economic recession at that time, but there were also some internal factors that played a role. Firstly, with the acquisition of LaSalle the seated Chairman and the President had resigned. They were replaced by two internal candidates and they showed problems with the existing relation between LaSalle and its Dutch parent company. The new Chairman and the President were used to short and direct lines and not to the many different lines as we can see in figure 9. This led to some frustration and de-motivation. Secondly, control from the parent company was not sufficient. Three of the four ABN Bank representatives in the LaSalle's Managing Board lived actually in the Netherlands and attended the monthly meetings only in rotation. So it was hard for them to really get complete insight in strategies and to put into practice some authority. All this led to disappointing results for LaSalle and at the same time proposals for improvement by the Dutch Foreign Directorate were disregarded by LaSalle's Board.

A temporarily solution to the problem was found in the Dutch Regional Manager in the US, who received more responsibilities. He did no longer only have a coordinating task, but was instructed to interfere more in the management of LaSalle. In November 1981, the increased task of the Regional Manager was being formalised. He should play a central role in the relation between LaSalle and ABN Bank, in order to reach a coordinated policy. Together with the two top managers, he was obliged to report the results more often and on a regular basis, in order that the Dutch Managing Board would have more notion of what was going on. He had the complete confidence of Amsterdam, and became the only ABN Bank contact for LaSalle (see figure 10). To be able to fulfil this task, the Regional Management team was reinforced with an expatriate in the position of an agent.

So, the supervision by the parent company enlarged, because the Regional Manager should from now on have complete insight in all the policy problems of LaSalle. At the same time with just one short and direct line between LaSalle and ABN Bank the Board gave in to the objections of the American managers. Still as a separate subsidiary LaSalle operated semi-autonomously from ABN Bank and the ABN Bank office network remained under the guidance and control of the Regional Management. The only organizational integration of the ABN Bank office network and LaSalle remained through including the Regional Manager on the Board of LaSalle.

*Figure 10: Different lines from LaSalle National Bank and ABN Bank in 1981*



Source: AAHA, ABN, inv.nr. 2605: Memorandum `LaSalle National Bank`, 16 December 1981.

In spite of the efforts to decrease the number of lines between the US and the Netherlands, the problems with LaSalle's management remained. Now it was concluded that the two-headed management was not functioning well, because it had become less motivated since in their eyes there did not exist a clear philosophy for the American activities.<sup>52</sup> One of them, the present Chairman, was being replaced in 1982 by an outside strong American banker, as non-executive Chairman. The other was being offered the position of CEO, next to his present position as President. However, he did not accept the proposal and resigned.

A new CEO had to be hired. With a head-hunter the search for a new CEO started and finally, at the end of 1983, a well-rounded banker was chosen. After a meeting in Amsterdam the impression was that he would not be an easy and obedient President. He had an autonomous point of view and method of working, and stipulated some conditions concerning the future expansion of LaSalle.<sup>53</sup> Also, his financial conditions were high. Next to a high salary, he wanted a share in the profits. On the other hand he would be the right man for the necessary reorganisation and expansion of LaSalle. In the end, the advantages outweighed the obstacles for the Board, and the top banker was hired. So, in 1983, the management of LaSalle was replaced and at the same time ABN Bank adopted a new philosophy of decentralization vis-à-vis its subsidiary. LaSalle became fully responsible for the results of its operations and ABN delivered the tools and still exercised control. The Board stated that:

“...ABN will provide the moral, operational (resources and authority) and financial support to LaSalle necessary for achievement of these objectives. LaSalle and its new CEO will, on their part, justify any implementation...for final approval by ABN Bank. More importantly,..., the adoption of this philosophy will mean that ABN Bank's organisation in the US will become more “domestic”, undoubtedly meaning that the parent will have to relinquish some degree of authority but not control.”<sup>54</sup>

So, more authority was delegated to the new CEO, but the Dutch Managing Board kept the last word in important decisions. The Dutch Regional Manager, from now on, focused more on the ABN Bank office network and the office was moved from Chicago to New York.

<sup>52</sup> AAHA, ABN, inv.nr. 4406: Secret minutes of Managing Board, 17 September, 1982 and 14 June, 1983.

<sup>53</sup> AAHA, ABN, inv.nr. 3049: Memorandum `Succession of President LaSalle`, 26 October 1983.

<sup>54</sup> AAHA, ABN, inv.nr 3049: Memorandum `Future direction of LaSalle`, 26 September, 1983.



In conclusion, due to discouraged management and the economic recession, which was shown in disappointing results for LaSalle, ABN Bank decided to decentralize some authority, but strengthen its control. ABN Bank was well aware of the fact that if it wanted to expand in the US and become a bank of importance a strong American CEO was needed, which involved more autonomy than ABN Bank was used to give. Strong leadership was necessary to be able to overcome the problems LaSalle faced at that moment. Moreover, the new CEO was needed for integrating the ABN Bank offices and LaSalle into one American company in the future, as we will see in the following.

## 5.2 The relation between the local American activities: integration

Apart from finding a balance between American autonomy and Dutch control, there existed an organizational problem within the US organization. The first years of the 1980s had shown some changes affecting the American banking sector, like the growth of non-banking competition, the recession, a political climate favouring deregulation and the growth of foreign banks. Naturally, these competitive pressures affected the results of LaSalle as well. ABN Bank realized that to remain successful it had to expand its service package and offer its clients a sophisticated selection of services.<sup>55</sup> So, the bank had to reconsider its strategy in the US. It formulated an overall objective of achieving an acceptable level of future profitability within acceptable risk parameters. To realize this LaSalle had to become a medium sized “domestic” US bank with a head office in Chicago and multiple locations.<sup>56</sup> The ABN Bank offices and LaSalle had to work together more closely, in order that unnecessary duplication of functions and services could be avoided (saving costs). However, the two organisations were quite different. On the one hand there existed a network of offices headed by a Dutch Regional Management in New York, which was directly responsible to the Dutch Managing Board in Amsterdam. On the other hand there was LaSalle in Chicago managed by a strong American CEO. Multinational and international corporations accounted for approximately 90% of the clients of the ABN Bank offices. By contrast, about 90% of LaSalle’s clients were domestic in nature and it had an important retail component which was non-existent in the offices.<sup>57</sup>

A number of steps had to be taken. The first one was to evolve to a Unified Management for all its American entities, to support and facilitate the overall objective.<sup>58</sup> At first, it would consist of the Regional Manager and the CEO of LaSalle. Eventually the unified management team would be headed by one individual, responsible towards the Dutch Managing Board for all ABN Bank’s business.<sup>59</sup> The integration implied also the centralization of the administration of the existing small

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<sup>55</sup> AAHA, ABN, inv.nr. 6051: ABN in the United States, Directional strategy, December 1983.

<sup>56</sup> AAHA, ABN, inv.nr. 6051: Past and future of ABN’s position in the US marketplace, 1984.

<sup>57</sup> AAHA, ABN, inv.nr. 6051: ABN in the United States, Directional strategy, December 1983.

<sup>58</sup> Objective was to unify credit, marketing and operations only, because at that time regulations did not permit to have one legal identity in the US (limits on interstate banking).

<sup>59</sup> AAHA, ABN, inv.nr. 4408: Secret minutes of Managing Board, 13 April, 1984.

offices by transferring it to LaSalle.<sup>60</sup> Furthermore, the know-how of the middle market that LaSalle had, should be shared with the office network. So, LaSalle played a nucleus function in the American activities and therefore its base had to be broadened by acquisitions.

However, in the implementation stadium, the two-headed leadership consisting of a Dutchman and an American still operating from the two different offices in Chicago and New York gave some problems. In 1985 it was noticed that there existed tension: in the opinion of the Dutch Regional Manager, who suddenly had to work closely with a CEO with an American way of doing business, the unified management curtailed its working space.<sup>61</sup> The solution was found in the introduction of a formal management structure, instead of just an agreement of cooperation. Tasks and responsibilities were formulated for both. A Management Company ABN/La Salle North America Inc. was created on the 1<sup>st</sup> January, 1986. The American CEO became Chairman and the Dutch manager was appointed President.<sup>62</sup> So from now they had to work together and the cooperation between ABN Bank offices and LaSalle could be promoted.

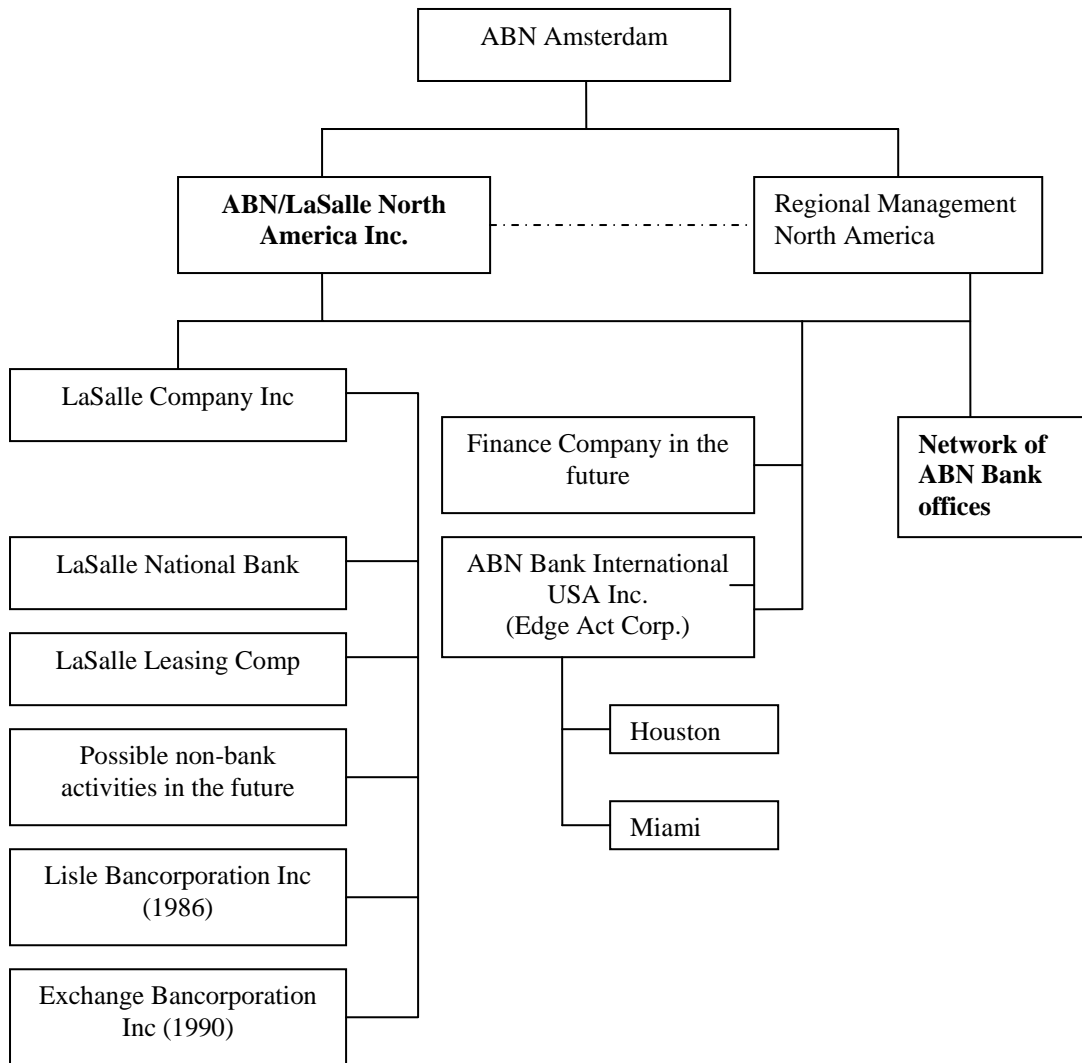
*Figure 11: Creation of a management holding, 1986.*

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<sup>60</sup> AAHA, ABN, inv.nr. 4408: Secret minutes of Managing Board, 26 November, 1984.

<sup>61</sup> AAHA, ABN, inv.nr. 4408: Secret minutes of Managing Board, 19 July, 1985.

<sup>62</sup> AAHA, ABN, inv.nr. 4408: Secret minutes of Managing Board, 1 October, 1985 and 15 October, 1985.



Source: AAHA, ABN, inv.nr. 6011: 'Management situation USA', 29 April 1988

Already in 1987 problems arose again, this time between the American CEO and the Dutch Managing Board. According to the CEO, ABN/LaSalle North America Inc. was troubled by the extent and the way in which the Board interfered in the LaSalle business. The CEO of LaSalle had written a letter in which he stated that LaSalle was entitled to more autonomy. Also, the American objected to the fact that too many credit proposals, important for the performance of ABN Bank in the US, had been rejected by ABN Bank's Board. He probably was used to taking more risks. Also, there still existed friction between the American CEO and the Dutch President, with which he formed the joint management. It is difficult to find out what the exact reasons were. However, in minutes of the Managing Board one possibility was given. It was recognized that the policy philosophy of an American concerning the management of a company did not fit with the management philosophy of a Dutchman. It was said that:

“An American expected complete freedom within the stated objectives and budgets, whereas the Dutchman employed a pragmatic approach with control from above from time to time.”<sup>63</sup>

This is a clear example of the possible conflict because of differences between the American approach on the one hand and the Dutch approach on the other. ABN Bank was used to consultation now and then and not to the formal procedures of planning and control. However, the bank realized that if it wanted to be successful in the US, it had to choose the American approach of formal procedures. Therefore, it was decided in 1987 that the Management Company received yearly targets from the Foreign Directorate. On the base of these targets the Management Company could make a policy plan dealing with things like commercial activities, branch networking, personnel and credit policy and automation activities. The plan had to be approved by the Foreign Directorate. Approval of the Managing Board from now on was only needed for larger decisions like acquisitions and the opening or closing of branches, transfers of expatriate staff, budgets, credits over 10 million dollar and major changes in products. The creation of a separate management for the American activities with a great autonomy with all the disadvantages which are inherent to a parallel organisation within a company was not self-evident for ABN Bank.<sup>64</sup> The philosophy of the Managing Board had never been directed to having one or more autonomous managers, who determine their own policies. But it was found necessary to be able to integrate the American organisation and for LaSalle to expand further and to be successful in the US. Already in 1988 LaSalle acquired Lane Financial Inc, which by 1990 was fully integrated with LaSalle. And in 1990 expansion of LaSalle became possible by the acquisition of Exchange Bancorp. Inc., which had also to merge fully with LaSalle. So, LaSalle was strengthened considerably.

## **6. Conclusion**

In the period 1970-1990, NN as well as ABN Bank expanded in the US most of all by the acquisition of and majority participations in American companies. Besides acquisitions, ABN Bank built up a network by starting its own offices in different states. The strategy of buying other companies implied that the Dutch companies had to work with American ones and with their communication methods, language and way of working. How did they organize and manage their growing American activities?

The case studies of ABN Bank and NN showed that when a company increases in size, greater differentiation between units finds place and more levels are added to the hierarchy. Usually, differentiation goes hand in hand with the delegation of decision power down the chain of authority. This decentralization of power needs to be coordinated and controlled.

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<sup>63</sup> AAHA, ABN, Inv.nr. 4409: Secret minutes of Managing Board, 3 April, 1987.

<sup>64</sup> AAHA, ABN, inv.nr. 4407: Secret minutes of Managing Board, 14 June, 1983.

In the Netherlands, the Managing Boards of the two financial companies both introduced a new hierarchical level directly under the Board and delegated some authority to it. Most important reason was reducing the information overload of the Board. In the relation between Dutch parent and its American subsidiaries authority also was delegated. For NN this was a common philosophy, historically determined, which it used for all its subsidiaries, domestic as well as foreign ones. Besides tradition, other reason for decentralization with respect to the US subsidiaries of NN and ABN Bank was the difficulty of transmitting and comprehending information at a distance. Moreover, it was necessary for the American subsidiaries to be able to respond quickly to local conditions. With faster decision-making, they could better service their clients. Lastly, in the case of ABN Bank and its relation with LaSalle, decentralization meant a stimulus for motivating the management.

So, while decentralization between parent and subsidiaries was common for both companies, we saw a centralization process taking place within the American organisation. NN expanded rapidly and differentiated the organisation structure by the creation of holdings. Because of the economic recession in the 1980s profits decreased, especially for the American non-life business. The relatively small non-life companies of NN could only survive by integrating activities like automation, to share the costs. To coordinate the integration process, authority was centralized to the CEOs of the few holdings. So, centralization was needed to coordinate better organizational activities and to make the process of decision making and response faster in times of crisis.

The expansion of ABN Bank gives a similar picture. Its expansion in the US led to two different organisations: LaSalle, situated in Chicago, focused on domestic clients from the middle market and an ABN Bank office network throughout the US which most of all had multinational and international clients. Internal and external factors led to changes. From the start there were difficulties with the management and the succession of the top managers, who had resigned with the acquisition of LaSalle. The economic recession and the growing competition on the American market were external factors that led to a new strategy. The Board of ABN Bank decided that the two organisations should be integrated. After trial and error authority was more and more centralized in one CEO, one strong American. Centralization was seen necessary to coordinate the reorganisation activities and to react faster to changes, just like the case of NN had shown.

In the introduction it was mentioned that one national business system is not better than the other. It is however important to notice that NN and ABN Bank, two Dutch companies, expanded to the US and had to deal with a Liberal Market Economy (LME) and its characteristics, to speak in terms of Hall & Soskice. Then, the way an organisation is structured and managed becomes important, because of possible differences between American and Dutch organisation and management. It seemed that NN didn't have any problems with it. Traditionally, NN had seen its subsidiaries, Dutch as well as foreign ones, as separate identities. So, the company was loosely connected, decentralized and it gave its American subsidiaries relatively large autonomy, just like, generally speaking, the American

companies were used to. ABN Bank also had a decentralized organisation structure. However, the bank had difficulties with the American management and the degree of authority and control. The American management was not used to the pragmatic approach of ABN Bank with control from above from time to time. Finally, formal procedures between the American CEO and the Dutch Managing Board were formulated. This seemed a successful step, because from then LaSalle acquired two large bank holdings to strengthen its position again.

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## Company archives

### ABN Bank Archive

Minutes of Managing Board's meetings  
Minutes of Supervisory Board's meetings  
Minutes of Foreign Directors' meetings  
Diverse reports on International strategy

### Nationale Nederlanden Archive

Minutes of Managing Board's meetings  
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Minutes of Retreats Board of Directors  
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