



Austin Adams, CIO, JPMorgan Chase on Making Mergers Work

Austin Adams has seen almost ninety mergers in his three-decade IT leadership career in financial services. But in his new role as CIO of JPMorgan Chase, he's a key player in the granddaddy of all bank mergers—the integration of Bank One, where he was previously CIO, into a new entity with over \$1 trillion in assets and a \$7 billion IT budget. Here's what Austin told us about leadership, mergers, competitive advantage, and what gets him up in the morning.

On the merger's big picture:

"The merger of Bank One and JPMorgan was legally consummated 18 months ago. This is one merger—and [CEO] Jamie Dimon would be the first to say this—that just clearly had huge strategic value. I can't tell you that there was months and months of due diligence. It was more of a philosophical meeting of the minds between Bill Harrison and Jamie Dimon, saying 'here's a large, money center kind of bank, and a very large retail bank, banking centers, and credit card, and, gee, wouldn't that make a lot of sense to put the two together.' Plus, the chemistry between the two CEOs was very strong.

We have the most visible bank systems conversion in 20 years taking place over the next 18 months here in Tri-States. Legacy Chase is the largest bank in this market in terms of retail customers, small business, middle market. We'll have six million customers that will be going through a conversion to a new system ... a daunting data point I think about almost daily ... 81 of the Fortune 100 firms will go through a systems conversion here the second quarter of next year."

On mergers and costs:

"Our technology costs are too high, our spend proportionate to our major competitors is higher than it should be. If you look at the listing in our trade publication, The American Banker, in December 31, 1995, of the ten largest banks in the

About CIO Leadership Notes

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United States, five of them are our bank today! It's Manufacturer's Hanover, Chemical, Chase, Morgan, and First Chicago—that merged in '98 with Bank One and assumed the Bank One name.

Each of those transactions was a merger of equals, which isn't bad, based on the ultimate financial outcome. But by the nature of MOE's, it's a serious impediment to the ability to drive singularity of application systems, and immediate cost savings in technology ... there are lots of organizational compromises. To oversimplify, the senior business person on the Chemical side could say 'Gee, I like my application system, my clients like it, and my relationship managers like it, and we're going through this merger and everybody's really nervous—the last thing I need to do is tell them they got to give up their system and their process to go to another one.' And sitting across the table is the person from Chase saying exactly the same thing. And so we've ended up with significantly more application systems than would be ideal."

On making decisions quickly:

"In a merger, it's important that systems decisions be made very quickly. We have roughly 10,000 developers, and on the day of the merger, there were very few of those developers who didn't ask 'Do I have a job? And what's it going to be? Does my project still continue?' The timeliness of systems decisions is extraordinarily important ... in an integration kind of environment, the deadliest thing that can happen is to not have the business focused on timely, crisp, and, very importantly, final decisions.

One anecdote: when Jamie Dimon got to Bank One in March of 2000, they had yet to decide which major applications systems were going to be used after the '98 merger of First National Bank of Detroit and First of Chicago. Jamie in his usual style said, 'We got to get on with this,' and so he made a decision. One of the first discussions that he and I had, he asked, 'Austin, did I make the right decision between the two?' I responded: 'I think so, but more importantly, you made a decision. A bad decision is better than no decision.'

I'm a great believer in hammering out the decision process up front, trying to get executive management (the CEOs, COOs, or the Merger Steering Committee) to agree. Take our demand deposit system, for example. JPMorgan Chase had 600 branches and Bank One had 1,800, but in terms of assets and deposits, it was closer because there are huge deposit branches in New York. So how do you decide? There are advocates on both sides, thousands of people they perceive to be involved. I believe in hammering out a very simple matrix that says: 1) what's the decision to be made; 2) who's the individual driving the decision; 3) who gets input to the decision; 4) who is the final decision maker; and 5) what's the time frame to get the decision made?

The hardest part of the matrix to fill out has been who has input to it. You start thinking about all the people and geographies, products and sales, all of service, and you end up with dozens or hundreds of people. I can tell you stories for hours about senior people who ... if they don't like a decision, they go back to their boss, who escalates it, and the Chairman gets a call saying, 'Now wait a minute. You know that meeting they had last week? Not all the information got on the table. We need to sit down and talk about that again.' Try to have all those tough and dirty and ugly conversations first, and then you just roll out the matrix and say this is it."

On the people side of mergers:

"The biggest issues are the people issues, not the systems issues. After going through some eighty or ninety mergers, I believe strongly in a practice that starts with giving the acquired entity an opportunity to be heard.

In a merger, throughout the smaller entity, you absolutely assume the worst. In this transaction, Bank One was the smaller entity. John Schmidlin was the CIO here at JPM. He and I agreed quickly that what would really play well would be for his team to get on the plane, come to Chicago, and sit down with the Bank One team. And he did that.

My model was always to spend the first day with the technology group of the acquiree. You keep your mouth shut, they get to make a presentation, they talk about what they're proud of, what they've done, their application systems, etc. The message is: your applications systems may be going away, but that doesn't mean you haven't created value or that you as an individual may not be of value. As simple as it sounds, starting out with the attitude that they've achieved something of value and that they, the individuals, are of value.

Nomenclature, experiences, background, those are always challenges. Given a Manhattan-based bank with a Midwestern-based bank, it's everything from people like me, who sound a little funny up here, to just the fact that there are different product lines—we're a big investment bank, and the investment bank is seen and viewed, and the skill sets and the background are dramatically different than people running credit cards in Wilmington, Delaware. A lot of it is just the size and the complexity of our firm and sorting through that.

Far and away, the most disastrous system conversion in banking history was of two West Coast Banks ten years ago. It was an unfriendly take over ... a long story, they paid a big premium. But the acquirer decided they really didn't need the systems and operations people at the target. So they fired most of them early on. It's just the extreme of stupidity or lack of logic or egos running rampant when an acquisition is being done without working the people issues."



On competitive advantage and horizontal leverage:

"Here's what I have on our laminated cards for our technology and operations group—it's very simple: 'In the financial services industry, competitive advantage is gained when technology is developed and maintained in a cooperative, synergistic way throughout the firm.' If you visualize each of the lines of business, what are the appropriate horizontal slices?"

We have six major business lines: the investment bank, asset/wealth management, credit card, retail, and so on. Other than the day-to-day challenges that you read about in the Wall Street Journal, like the flat-yield curve, one of our biggest opportunities is the ability to be able to leverage relationships—for example between our treasury services group and the executives who might be private bank customers of ours.

Three years ago at Bank One, only 12% of the retail banking customers that did business at our branches had our credit card. So the fundamental question became ... is the credit card group a stand-alone entity? In this case it was a legacy, First USA, that begrudgingly became Bank One. Technology is an enabler. The horizontal opportunities are an enabler, if not a requirement. Thanks to very good retail business leadership, today that penetration has almost doubled.

In terms of the 'financial services supermarket,' we've made progress, but there's no large financial services company that's optimized that model. We as an industry have yet to take full advantage of opportunities like the amount of customer information or cross-line-of-business relationships that we have. The first question is: have we incented all the business senior leadership to look at the value, the total customer/client relationship? And then what's our ability on the technology side to really help the business understand the value of some of the shared utilities and shared customer databases, and to give them the right tools to take advantage of that?"

On the CIO's role in framing strategic dialog:

"I don't think we've historically done a good job in framing this discussion. It was later in my career than I would have liked before I focused on the following simple truth: People, certainly leaders, ultimately act in their own personal best interest. That's just human behavior ... certainly in the large corporate world. Our head of credit card isn't going to give up development resources or shared utility resources just to help the mortgage company or some other part unless, ultimately, his group is rewarded for that. That's very understandable.

Where we can add value is helping the businesses understand why it's in the business units' best interest to share information and compromise on development priorities. There's a real shortage of technology leadership that can effectively interact, deal with business issues, craft technology issues in business terminology.

We have both a business construct and a single technology organization built around our customer information. There are people at the table from the investment bank, treasury services, retail bank, and so on, looking at what were seven customer databases from legacy JPMorgan Chase, and one from Bank One. We've put the technology people together

with the line of business decision makers and they have the tough task of saying ‘OK, when we want to provide additional fields of information about the client—who gets the priority to do that?’ The private banker might want different information, or populate different fields than would the credit card person, right?

But this is working pretty well. There’s a recognition that it’s in the personal best interest of the commercial banker to be sitting at the table with the credit card group, and the small business group, the private banking group. They may not get every priority they want, but ... for example, if the commercial bankers whose clients are \$10 – 250 million annual sales are able to view private bank or investment bank relationships: they’re more knowledgeable, and can service their clients better.”



On matrixed reporting and accountability:

“There are people who report directly to me and have corporate-wide responsibility for things like global data centers, mainframes, network, telephones, and all the desktop support. We also have CIOs of the six lines of business who report jointly to the line of business head and to me. I’d be the first to say that the lion’s share of those CIOs’ time should be devoted to the line of business, to driving the line of business objectives.

Each of those CIOs has a seat at the business table. Charlie Scharf is the head of our retail bank. Every staff meeting, every strategy session he has, Chris Sieve, his CIO, is at that table. The most important part of good support, development, and execution of technology is making sure the technology person has the skills and is seen as important in the line of business organization.

While at least 80% of the CIOs’ time is spent with the line of business, I have the opportunity and responsibility to be an active joint part of the evaluation process, up through the annual-bonus process. I report out to my peers on the operating committee about what I think the relative performance of the CIOs has been. While any matrixed organization obviously is a challenge, ours does have some teeth in it.”

On linking compensation to business outcomes:

“A key to being an effective change catalyst is having a vested interest in the business success. For example, three years ago at Bank One, I literally had 10% of my personal bonus opportunity and the bonuses of four of my direct reports, was based on whether the retail bank met the goal of the net new demand deposits or checking accounts for that year.

You can imagine the feedback I got: ‘it’s not my fault if we don’t hire enough tellers, or their pricing is bad,’ or whatever. But it was amazing the interest that we had in the business agenda, and the dialog, and the innovation. Are there things we need to be doing to provide better information to retain the clients? Are there servicing issues? It’s both understanding the business agenda and being incented in business terms, if that makes sense.”

On master calendars ... especially in a merger:

“A group reporting to me maintains a master technology calendar and color-coded ratings of each of all technology projects. This is a requirement ... we now have 221 technology initiatives on the master calendar for 2006. That’s everything from big events like conversions to building a new data center, major real estate moves. One of the key things—and the master calendar helps here—is understanding the interdependencies. The businesses as well as the technology people get a chance to look at the sequencing as we make changes and to say ‘Gee, that’s too much concentrated change in our employee base, in our retail branches, our client base,’ or whatever.

[CEO] Jamie Dimon meets with us periodically and we review the status of those 221 projects. So the CIO has the accountability, and I try not to get them caught too much between the line of business head and me. Each of us brings

different things to the table. But we do a lot of the common reporting, enterprise reporting, through the centralized group, and the CIO is also accountable to his peers at the table, and to me on the enterprise initiatives.”

On security and privacy:

“A sensitive subject. We haven’t—knock on wood—had significant issues. But our business is nothing but trust: public trust. So data privacy and security are huge. If you’d said to me two years ago I would have spent as much time over the last nine months talking about a single stolen laptop somewhere in our organization, whether it was encrypted or not, was there customer data on it, the requirements to notify our client base about the status, and were they at risk, and all that ... those are just huge issues. Any material financial losses to date around what we call IT risk are almost less than nominal. It’s the question of reputational risk. And trust. That’s a huge issue.

I met with our chief regulator this morning and, fortunately, we’re behaving as they would want us to. But one of the key upcoming examinations is information security and I keep going back to how you do it in a firm this size ... we have a head of technology risk management, who reports to me. And he has a group of experts at the core that are doing penetration tests and looking at all the phishing kinds of things. For big banks a significant issue is the number of phishing attempts. We continue to spend a lot of effort around it.”

On scale, innovation, and outsourcing:

“I’m extraordinarily jealous of Linda [Dillman, Wal-Mart’s CIO] and the simplicity of her IT organization. She’s told me how many developers it is, and it’s a fraction of ours.

I would not take any credit for being a highly innovative, creative technologist at all. It’s more about the organizational construct to enable that. Here’s the perfect behavior I would like to see from a technologist: At Bank One, we had four CTOs of lines of business that required some level of credit authorization to be able to grant an extension of credit. Each of these businesses was on its own, enhancing and building new systems. And this group was really good enough to get together—and really, to me, that’s the definition of innovation—and say, ‘there’s enough common in what we’re doing here, let’s build a business case to go build a better credit origination system than anybody [alone] can, but we’ve got to convince our lines of business they need to play in the turf with each other, and let’s be skilled enough to do that.’



I do have a history of not outsourcing major infrastructure arrangements. I would differentiate that from opportunities we continue to look at on the application side. Are there industry solutions that are appropriate for us to use? We made a big announcement with SAP ... we happen to be the largest U.S. financial services SAP client now, and I’ll just leave it at that. We’re trying to leverage major applications like that. The challenge for us is if you’re in software development business, how many firms in the marketplace are going to be clients if you’re developing a system that has the complexity and the volume that a JPMorgan Chase would need for example in their wire system?”

On excitement ... :

“The most exciting thing about my job is being a part of a large organization with an enormous upside. We spend \$7 billion on technology, and we shouldn’t be spending more than \$6 billion. We think we can reduce our costs, we think we can help the business dramatically improve service levels.

Last week we had the 350 most senior people in our firm together and, I believe there isn’t a single person sitting in that room who is not more dependent upon technology for the success of their group today than they were a year ago. That isn’t because of our IT group, that’s just today’s world. A year from now, some will only perhaps be 2% more dependent,

some will be 15% more dependent, but every one will be more dependent. Being a part of a function that's so important to the success of the firm is exciting."

... and surprises:

"The positive surprise over the last 18 months has been the quality of people and the work ethic. This is going to sound very judgmental from a person from the South: we didn't always know if people in Manhattan worked really hard! (You probably shouldn't quote me on that!) But there are just a lot of talented people here with a very strong work ethic and corporate loyalty. The negative has been the frustration of the complexity and lack of singularity in our technology world—just having multiple systems from those legacy organizations.

There's nothing major I would do differently ... of course we now know what we didn't know 18 months ago. For example, that we have 4,700 application systems. I'd just keep challenging myself and our team to help the businesses understand how they are failing to take full advantage or being competitively disadvantaged if they have five systems and their competitor only has one. And why is that such a business disadvantage, and it is. How can we be more skilled in helping the business understand that? So we can help drive to a less complex, more cost effective technology organization."

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