

Creating a Culture

By Ann Monroe

It was the bow seen round the world: when Japanese regulators closed Citigroup's Japanese private banking unit last September for abuses, the company summarily fired the three top executives with responsibility for the bank. Two weeks later Citigroup CEO Charles Prince [チャールズ・プリンス] flew to Japan to make his own apology. The photos of Prince and Citigroup Japan CEO Douglas Peterson [ダグラス・ピーターソン] bowing deeply hit the front pages of all the world's financial media.

The bow was unusual enough. Most U.S. companies go into circle-the-wagons mode when scandal strikes. But Citigroup has gone much farther. Prince and his board recognize that the problems at the company went beyond the private bank scandal. "This wasn't simply something happening to three people," he says. "It was broader."

In response, he has embarked on a mission: to create a culture in which major scandals simply will not happen. To accomplish that, Citi rolled out a five-point plan last March that looks, at first glance, like what an HR veteran describes as "HR crap". Mouse pads emblazoned with the company's new mantra of shared responsibility, a glitzy CD documentary about Citi's history, and a grand goal: to be the most respected financial services company in the world. Prince believes he'll be judged largely on

whether he reaches that goal. "This is mine to own," he says

But will he make it? Citi is in the limelight for good reason. No other financial services company has had ethical lapses in so many areas in such a short period of time. But the financial-services industry is regularly hit by scandals ranging from insider trading to cheating customers to conflicts of interest. To a greater extent than any other business, the financial business--in particular trading and investment banking, in which Citi is more prominent than most other commercial banks--truly is all about the money. Aggression is prized, cynicism is endemic, and a certain amount of dishonesty almost goes with the territory. Ethics statements are easily written, and just as easily disregarded. As a salutary reminder of that,

Citigroup HR head Michael Schlein [マイケル・シュライン] displays in his office a photo of a fine set of ethical buzzwords, carved on rocks. Their creator? Enron Corp.

In this environment, can Prince--or any CEO--build the culture he says he wants: a culture of trust and responsibility, in which employees serve clients honestly, treat each other well, and put the company's long-term interests ahead of their own short-term gains? Citi's problems aren't Enron's, Prince insists. "We have always said we want to grow, and grow rapidly, and that earnings are important. We have never said, 'And if you're short in the middle of a quarter, go rob a bank.'"

Prince argues that Citi's problems spring from its explosive growth. The company was jammed together through the mergers of wildly disparate companies and cultures: bond traders from Salomon, investment

bankers from Smith Barney and Schroders, salesmen from Travelers Insurance and Associates Corp. The result was the world's biggest financial-services company, with almost \$1.5 trillion in assets and revenue last year of \$108 billion. (The second-largest, the combined Bank of America and MBNA, whose merger was announced last week, would have had some \$60 billion in revenue last year. Morgan Stanley, Citi's biggest investment banking rival, had \$24 billion.) Meanwhile, Citi's top management continued to operate in what Prince describes as small-company mode, presuming that their unspoken ethical assumptions were shared by all the troops.

The scandals showed just how wrong they were. When regulators point--as they did--to a lack of management supervision, it makes investors wonder whether Citi is "simply too big to be managed properly," says Richard X. Bove [リチャド・ボベ], an analyst at research boutique Punk Ziegel [パンク・ジューゲル]. Those worries are exacerbated by the fact that Citi's operating margin (16.8 percent last year) is dwarfed by--for instance--BofA's 34.7 percent. So the five-point plan and all the gimmicks and hoopla surrounding it have one aim: to prove the doubters wrong by speaking the previously unspoken so loudly that it can't possibly be missed.

But imbuing 300,000 employees in 4,500 offices in 100 countries with a single set of cultural and ethical assumptions is no cakewalk. So before he did anything else, Prince gave himself and his top executives a crash course in developing corporate culture. He met with 37,000 employees in a dozen cities around the world to talk about Citi's problems (meetings he considers so

successful that he plans to repeat them annually). He picked the brains of CEOs at respected companies like General Electric, Johnson & Johnson and Dell. He met with HR and ethics experts and retained some of them as consultants. And he himself wrote the paragraph on the responsibilities he wants all Citigroup employees to feel they share--to clients, employees and the franchise--that's at the core of the message Citi's trying to put out.

The plan itself, a far-reaching amalgam of the latest thinking in everything from employee training and motivation to standards of audit and control, uses a collection of carrots and sticks to push Citi employees to put the long-term best interests of the company above their own short-term career goals. One carrot is Citi's first-ever company-wide performance appraisal (until now, each unit handled appraisals differently). Among the behaviors for which it gives Brownie points: sending clients to other Citi businesses (helping to build the franchise), nurturing subordinates' careers and serving clients with "integrity, judgment and ethics." For employees who find themselves under pressure to get results, the company's offering multiple escape routes: anonymous hotlines, conversations between management and lower-level employees, and--as a regular part of performance appraisals--anonymous assessments of superiors.

Citi's also making use of the biggest carrot of all: money. To keep employees' interests aligned with the company's, Citi will start basing a big chunk of business heads' compensation on Citi's overall performance instead of that of their units. In addition, the top 3,000 managers will have to pledge not to sell more than 75 percent of the Citi stock and options they accumulate during their careers till they retire. (If they sell more, they'll be fired.) The top 120 managers aren't

allowed to sell more than 25 percent.

The sticks start with additional compliance supervisors to catch bad apples, including an entirely new global compliance unit. Citi's also inviting guest reviewers in to look at its compliance procedures and beefing up its internal audits. Perhaps the most effective stick is the one Prince (against the advice of his lawyers) persists in calling "the woodshed." Any senior manager whose risk-control audit shows he hasn't got the proper controls, checks and balances in place has to explain himself personally to Prince and

Citi President Robert Willumstad [リチャード・ウィ

ラムスタッド]. There have been three or four such

meetings since the beginning of the year, about which Prince will say little except that they have been "quite complicated--though probably more complicated for the people on the other side of the table than they are for me." And if somebody came back a second time? "They'd be more complicated," Prince says.

One of the questions Prince gets asked over and over--both inside and outside the company--is what kind of a hit on profits it's willing to take from this push for ethics and culture. His response? "The place makes enough money; we don't have to reach." The profits from last year's scandals, he adds, "were rounding errors" in terms of Citi's overall profits. They were also dwarfed by the scandals' costs. So far this year, Citi has agreed to pay out roughly \$4.5 billion--roughly a quarter of last year's \$17 billion in profit--in fines and settlements over its trading activities in London and its role in the Enron scandal.

The company's stock also took a big hit. Last September, after the Japan scandal hit, Citi lost \$12.5 million in market value, notes business-strategy

consultant Norm Smallwood, who's been advising the company on its program. "If they keep having reputation flaps, and then at some point have earnings problems too, the market is going to kill them."

"Shareholders were afraid all these problems raining down represented a breakdown in the business," says Bove. But Citi has to walk a fine line, he adds. Investors don't want scandals distracting management--but they don't want building a culture to become too distracting either. And with Prince spending more than half his time on the project, that's a danger. So is too much caution, he says. "Being ethical doesn't mean you can't make money. But the company and its management have to go back to being risk-takers." And that may be the biggest risk of all.