Master of the Merger

An Interview with William B. Harrison, Jr.,
Chairman and Chief Executive Officer, JPMorgan Chase & Co., New York

EDITORS' NOTE *After earning an A.B. in economics at the University of North Carolina, Bill Harrison began his career with Chemical Banking Corporation in 1967. Over more than three decades, he held numerous positions, including district head of the Western Region based in San Francisco, head of the U.K. office in London, division head of Europe and head of the U.S. Corporate Division. In 1986, he assumed responsibility for the bank's global Banking and Corporate Finance group. He was named a vice chairman of Chemical in August 1990 and a director of the corporation in 1991. When Chemical Bank merged with Chase in 1996, Harrison was named vice chairman, and subsequently served as president, CEO, and chairman of Chase. When the firm merged with JPMorgan in 2000, Harrison was named president and CEO of JPMorgan Chase & Co., and assumed the chairmanship in November 2001. In 2004, when JPMorgan Chase merged with Bank One, Harrison was named chairman and CEO. Harrison is a graduate of Harvard Business School's International Senior Management Programme in Switzerland, a director of Merck & Co., and a member of the Business Council, the Financial Services Forum, the Business Roundtable, and the Financial Services Roundtable.*

COMPANY BRIEF *The new JPMorgan Chase & Co. (NYSE: JPM) was created upon completion of the holding company merger between JPMorgan Chase and Bank One. The company is a global financial-services firm with operations in more than 50 countries. With assets of $1.2 trillion at the end of 2004, it is the second-largest bank in the United States. JPMorgan Chase is a leader in investment banking; financial services for consumers and businesses; financial transaction processing; asset and wealth management; and private equity. A component of the Dow Jones Industrial Average, JPMorgan Chase is headquartered in New York, and its U.S. retail financial-services and commercial-banking businesses are headquartered in Chicago. Under the JPMorgan and Chase brands, the firm serves millions of consumers in the United States and many of the world's most prominent corporate, institutional and government clients. In 2004, the newly combined firm had total net revenue of $57 billion on an operating basis, and net operating income of $10.3 billion.*

How many mergers has JPMorgan Chase done, and which of them was the toughest?

We actually started, in many ways, the consolidation in the financial-services industry, when Chemical Bank merged with Manufacturers Hanover in 1991. Chemical and Chase merged in 1996, keeping the Chase name. After that, we made a few smaller acquisitions, including Hambrecht & Quist, a technology-focused investment bank, and Fleming, an asset-management and investment-banking firm. We acquired JPMorgan in 2000 and Bank One in 2004. In terms of the "hardest merger," mergers are always hard because they are about change, and people don't like change. I think you would get very different answers from different people, depending on where they sit. I can't say which was hardest, but I think all of them were challenging. The most important thing is that each deal we did brought a capability that we lacked. So from a value-creation perspective, each transaction helped strategically to build out our business platform.

Which did you like best?

I liked the last one – the 2004 merger with Bank One – best for two reasons. First, it gave us the major piece we were missing – a national retail franchise. We are now in 17 states with more than 2,500 branches, 6,600 ATMs, and 90 million credit cards issued. And we have leadership positions across all of our businesses. As I mentioned, that is what mergers should be about: creating value by building scale and leadership positions. The Bank One-JPMorgan Chase merger, combined with our wholesale platform, positions us extremely well as a highly capitalized, broad-based global leader in financial services. Secondly, one of the key responsibilities of a CEO is to provide for the next generation of leadership. This merger accomplished that, and the firm will have a smooth leadership transition from me to my partner, Jamie Dimon [president and COO of JPMorgan Chase].

Will consolidation continue?

Consolidation will continue. It has been a very clear trend in most global industries and certainly in the financial-services industry. It will continue because people see the benefits of scale and building leadership positions. We have plenty on our plate to digest. So you can be comfortable that we won't do another merger before this interview prints! Having said that, we'll continue to look at small acquisitions in our different lines of business that aren't disruptive, and that add value and fill in gaps in the firm's platform.

What will JPMorgan Chase do next in the retail field in the U.S. and abroad?

The priority for our retail business is to expand in the United States. It is still a very fragmented market; Bank of America, the largest retail player, has only 10 percent of the deposit market share, and we have around 7.5 percent. So it's still a very fragmented market with a lot of consolidation to come. Our goal is to execute the Bank One merger well and get our stock price up, so we'll have the currency to invest as the U.S. consolidation continues. In the future, we will look at opportunities in the retail business globally. But there is not anything we would do in the consumer space internationally, in the short term.

And what are your plans for wholesale banking?

We are very well positioned in wholesale banking. We sometimes get questioned about why we aren't looking at another major merger with a big securities firm. We would not be interested in that because the wide overlap wouldn't provide a value-added proposition. And most importantly, today, we have the necessary scale to win in the marketplace. So on the wholesale side we will look for fill-ins. For example, we just completed a joint venture with Cazenove, an established and respected investment bank in London. The venture is called JPMorgan Cazenove, and we are very excited about offering Cazenove's clients our global capabilities. In addition, we wanted to offer our high-net-worth investors a hedge fund alternative, which we did not have. So we partnered with one of the premier hedge funds, Highbridge Capital. The key here is that while we have a controlling interest, our partners at Highbridge are the experts, so they run the business. We will continue to look at small deals in our operating services business and other niche deals, but no major mergers are on the horizon.

And private banking?

Private banking is also very fragmented. As small situations come up, we'll certainly look at those, but we're very happy with our private banking business. We have relationships with over 40 percent of the people on the *Forbes* billionaires list. That data point speaks to the strength of our brand as well as the value we create for our clients. From an operating standpoint, our emphasis there is focusing on efficiencies and increasing our margins.

You've brought in a successor and it seems to be going smoothly. How did you pick your successor, and why has the sailing been so smooth thus far?

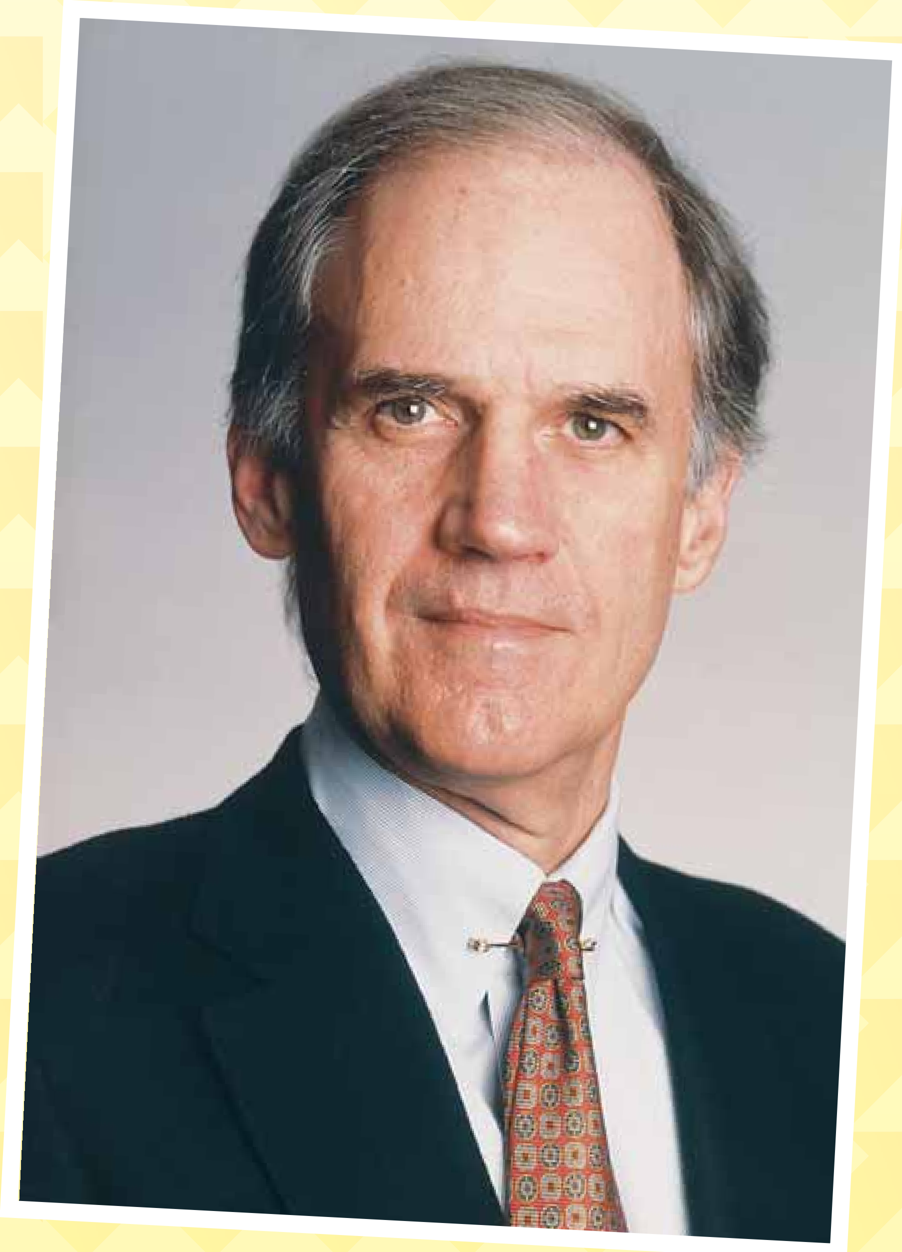
Well, we first looked at how we could expand our consumer and commercial banking footprint in the United States, and the Bank One merger was the best way to do that. Coincidently, Bank One was looking at how they could complete their platform, and decided that a merger with us was the best way to go. Jamie Dimon and I started discussions, through which I became very comfortable with him being my successor. He has an outstanding track record and reputation in the industry, and combined with his experience, he was a logical choice for the job. I couldn't be happier to have someone of his talent taking over. Two of the most challenging and important responsibilities of a CEO of a public company are creating a sustainable strategic platform and providing for the next generation of leadership. I feel that both of those responsibilities have been met. I have a great successor, and I want to facilitate the best transition possible. Jamie has demonstrated great respect for the structure we created. He has been a great partner, and we have a great deal of respect for each other and an excellent relationship.

How do the two of you divide responsibilities?

As president and COO, Jamie is the day-to-day operating executive for the company. He and I share any important decisions. JPMorgan Chase is a big, complex company, so there are always issues that need to be addressed. Jamie has a tremendous capacity for detail and engagement on any issue. He's an outstanding executive. So I feel very relieved and happy that we have someone like him taking over the company. In my opinion, Jamie should be the best executive in the industry for the next 15 years.

In a dog-eat-dog industry, you've always had the reputation of being a great gentleman. Is that just a natural part of your personality?

I think the press loves to stereotype people, and since I'm from the South, it's easy to stereotype me as the "Southern gentleman." I consider that a compliment, but I think it's way overplayed. I know all of my competitors really well, and they are



good people. I would also say that without both a competitive nature and the right set of values, it's hard for anyone to reach the top. If I were just a gentleman, I probably wouldn't have made it.

What are the biggest remaining challenges for the Bank One merger?

We have enjoyed a very good year from a merger-integration perspective. The first year is about getting the organization and the people aligned, deciding on a common set of operating principles and values, and beginning to work on the rationalization of staffs, systems, and real estate. We've made tremendous progress in all of those areas. For the rest of this year, we have huge execution challenges, particularly on the technology side. One of the biggest challenges is the Texas conversion, that is, converting to one technology platform for our retail branches and other businesses. In addition, we will be converting old "Bank One" branches to new "Chase" branches. To give you some idea of scope, we are changing 150 signs per day until March of 2006! Our team has developed an exciting advertising campaign for consumers that launched on May 9, 2005. So as you can see, we have accomplished a lot, but we have a lot more to do. However, our first quarter demonstrated the potential of the firm. On an operating basis, we had earnings of $2.9 billion. As we go into 2006, I think the company will be truly ready to maximize its potential.

Have you had to do much aligning of the two separate companies' cultures as a result of the merger?

I always get that question about mergers. In any big merger, the goal is to keep the best of both cultures. To describe a company's culture, you have to ask, "What do people believe? How do they operate? And how do they get things done informally?" The culture is a company's social fabric, and it just takes a while to get two cultures aligned. Some people think of "culture" as being the "values and mission statement" of the firm, but the truth is those are just the road map that shows you how to get to the culture you want to develop.

Earlier, you mentioned the firm's operating principles. How were they developed?

It is an interesting exercise that we've done in every merger. We bring our top management teams or executive committees together to agree on values and a mission statement. Usually the process takes a long time – two or three days with a small group – but at the end of it, the group is totally committed to the mission and values. The challenge lies in helping the people who weren't in the room to understand the mission and values and to commit to them in the same way the executives do. In previous exercises, we tried to come up with a mission statement that could be expressed in a few words. The problem was that after a while, no one could remember the words or catchy phrases. This time, we focused on how we wanted to operate and used that as a basis for a story that consisted of 14 statements. In a storybook format, we explain how we want people to operate. This idea came out of some work Jamie Dimon had done at Bank One. He had written all of this down, but he had never publicized it. The leadership team tweaked it and made it our own. Then we published a small book that was delivered to every employee on the day the merger was finalized so they would know from day one what was expected.

So what is the mission?

Our mission is to become the best financial-services company in the world! And we will accomplish this by working together and practicing our operating principles with each other, with our customers, and with our communities.

You mentioned "communities," which links to your interest in philanthropy. You received the Ron Brown Award last year for the ON_DEC Program at the Ditmas middle school in Brooklyn. What is that program?

ON_DEC is a program that we developed to help bridge the digital divide. Prior to the merger with JPMorgan, we were in a Chase Foundation board meeting, talking about giving a number of little grants to various organizations. We started talking about how other companies have donated technological equipment to schools, but then nothing happens. A year later, the technology isn't integrated into the school, and the equipment's outdated and doesn't work. I said, "Why don't we give one big grant in the technology area and really make it meaningful?" One of the focus areas of our foundation is pre-collegiate education, so we picked the Ditmas middle school in Brooklyn, which had a great principal who believed in change. She desperately needed technology integrated into the school. So we went in and did a total soup-to-nuts project. We got the unions to buy into it. We got the teachers to buy into it. We told the parents and the student body that we'd give them a personal computer for their home, provided that the parents came in and received six hours of computer training. The training was mandatory, and the computer was not delivered to the home until the parent or guardian completed the training. So we got the parents involved. We totally wired the school and then created a mentoring program through which 1,300 of our people helped install these computers in homes on the weekends, and worked with the families one-on-one. Our people achieved great social exposure through this mentoring program, and more importantly, it brought this school and its students across the digital divide. We're into the fifth year, and the program is going strong. It's a wonderful model that we may recreate in other communities. It's expensive – we have spent over $5 million – but it's wonderful. We're seeing great results in higher test scores, lower truancy rates, and better high-school graduation rates.

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Corporate philanthropy has changed a lot over the years. It wasn't always as high on the priority list as it seems to be today.

That is an interesting observation because we have always engaged in meaningful philanthropy, that is, supporting the communities in which we live and work. However, it is hard to get visibility for what you do without it seeming like you are tooting your own horn. The difference today is that corporate America has been under tremendous scrutiny. Many corporations are trying to raise their profile in this area to demonstrate to their constituents that they care, that they're engaged, and that they want to make the communities in which they live and operate more successful. As more and more companies do that, it puts peer pressure on the ones that aren't doing it, and that's a good thing. So I think you'll see more and more companies taking a more active role in philanthropic activities, and I think that's great. In fact, a recent issue of *LEADERS* magazine focused on corporate philanthropy.

So you read us?

Every single issue, cover to cover.

How do you decide how much money to give?

Last year, JPMorgan Chase donated over $140 million, which ranks us near the top in corporate philanthropy and first among financial-services firms. But as I said, all of corporate America is very focused on this. There is a group called Committee to Encourage Corporate Philanthropy that my predecessor, Walter Shipley, helped start. The committee is trying to establish standards for giving in the corporate philanthropy area. The goal is to convince firms to set aside a percentage of their pretax earnings, like 0.5-1 percent, for charitable giving. Our goal is to get more companies committed to corporate philanthropy.

When the time comes for you to step aside as the chief executive, will you stay on as chairman of the board?

When I retire as CEO in July 2006, it will be close to my 40th year in the industry, and I will be almost 63 years old. I will stay on as non-executive chairman provided Jamie and the board want me to do that. When I fully step down and retire, I don't think I'll take on another full-time job. I will stay involved in different things because I have a lot of outside interests. And of course, I have a lovely wife and two young daughters.

Will you stay in business or charity – or both?

I would do both. I see myself on a couple of corporate boards and maybe a couple of not-for-profit boards. But I have to keep a very open mind. It's very important to be driven by passion for something rather than just doing something to fill up your time, which I will not do. I will give myself time to figure out what's going to get me excited in the next phase of my life.

How would you most like to be remembered when you retire?

I'd like to be remembered as someone who helped put together, through our various mergers and acquisitions, a world-class, global financial-services company with the potential to be the best in the world, and as someone who did that with the right set of values along the way. ●