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CEOs as Leaders and Strategy Designers

Explaining the Success of Spanish Banks

Kimio Kase

IESE Business School, Spain

and

Tanguy Jacopin

IESE Business School, Spain

CIFF Fundación, Spain

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To Mercedes and my mother, and in loving memory of Gabriel and my father

To Maite and my parents, Josiane and Louis, for their love and support

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Acknowledgements

It was unthinkable twenty or thirty years ago that the benchmark for operational efficiency would be provided by Spanish banks; particularly when Japan and France, the authors' home countries, used to boast some of the world's outstanding financial institutions.

This piqued our interest in the emergence of Spanish banks as world-class competitors and in why they have done so well, especially when compared to the relatively poor achievement of Japanese and French banks. We turned our attention to the speeches of Spanish banks' top executives and were surprised to find that they relentlessly hammered home the need to focus on day-to-day management and cash-flow generation, exhibiting a management approach identified as 'Profit Arithmetic' by one of the authors in his previous study of four excellent CEOs (Chief Executive Officers).

In conducting this research, special thanks are owed to the many bank executives and specialists whose names we are unable to mention here, due to reasons of confidentiality.

We owe our gratitude to a number of top level executives including Juan Arena and Pedro Luis Uriarte (who spent a long working session with us, recounting his management experience and approach as well as taking the time to review our theoretical framework).

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While every effort has been made to ensure the accuracy of the text, any inexactitude should be entirely attributed to the authors.

KIMIO KASE
TANGUY JACOPIN

Foreword

I must confess that writing the prologue to this book is a great pleasure for me. Firstly, I am grateful that professionals as prestigious as the authors consider it appropriate to write a book explaining the great success of the Spanish banking sector. Secondly, I am delighted to be able to lend my support to the theories in this book regarding the reasons for this success.

To summarize these theories, albeit from my own personal viewpoint, the success of Spanish banks is based on three essential factors:

- 1) An appropriate regulatory framework which promotes and drives competition at the same time as firmly monitoring the solvency and solidity of the banks.
- 2) Excellent management teams with extensive experience and extraordinary training.
- 3) A strategy based on the relentless search for short-term, recurring profit as the best means to ensure the long-term, sustainable value creation for shareholders; the future being merely an extension of the day-to-day task of generating results.

The combination of these factors has given rise to a unique banking business model, the traits of which are:

- Continuous emphasis on operational efficiency and cost containment.
- The intensive and strategic use of information technology.
- Client-focus.

Banks have been able simultaneously assess the importance of size and growth in the global economy, as well as incorporate it into their strategy, not as an aim in itself, but rather as a way of meeting profitability and efficiency targets.

I would like to highlight the perfect fit of the strategy and business model with the personality of the leaders and management teams at these banks. Indeed, it could not be any other way because the strategy and business models have been designed and day after day meticulously put into practice by these leaders. This is neither an accident nor the product of academic speculation; rather it is the result of long and extensive experience at the helm of the banks.

I would like to add two further comments.

The authors neatly summarise the historical transition of the Spanish banking system, from one of the most over-regulated and inefficient in Europe in the early 1980s to its current status as one of the most competitive and profitable banking systems in the world. My first comment is on the importance of Spain's accession to the European Economic Community in 1986 and Economic and Monetary Union in 1999 played in this process. Both facts are at the root of the transformation of the financial system's regulatory framework, and the change in the way economic policy is made in our country. The Spanish banks quickly grasped the magnitude of the challenges and opportunities that this created.

My second comment is on the long cycle of prosperity which the Spanish economy has been enjoying since the mid-nineties. Without doubt, this has supported banking activities and constitutes a basic factor in the explanation of the excellent results achieved by the banks. At the same time, it should be highlighted that the efficiency, competitiveness and solidity of the banking system has been equally influential in fostering and maintaining the strength of the economy.

It only remains for me to congratulate, firstly, the authors on their work and, secondly and above all, the readers who have the good fortune of losing themselves inside the pages and reflections of this book.

MIGUEL MARTÍN FERNÁNDEZ

President

Asociación Española de Banca (AEB)