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German *Finanzkapitalismus* : A Narrative of Deutsche Bank and its Role in the German Financial System

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Abstract:
This paper provides an account of the history of Deutsche Bank in the style of a narrative. Since more than 120 years, Deutsche Bank has been the most important German bank. Its history has been shaped by crises and efforts to overcome them. Moreover, throughout its history, the development of Deutsche Bank has been closely related to that of the German financial system, and as the paper tries to demonstrate, Deutsche Bank had a stronger influence on the character of that system than any other German institution.
The paper focuses on three additional aspects of the bank's history, which have repeatedly changed over time: (1) its degree of internationalization, (2) the extent to which Deutsche Bank has focused on investment banking (as opposed to commercial banking) and (3) the consistency of its business model.

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Contents

1. Introduction[1]

The case of Deutsche Bank is particularly well suited for a methodological approach focussing on „narratives" about Germany and crises. For many years, Deutsche Bank has been the flagship of German banking. This bank and even more so its role in the German financial system, economy, and even German politics have often been the objects of heated controversies. It offers a rich menu of dramatic events about which one can tell stories of ups and downs or of crises and attempts to overcome them. The evolution of Deutsche Bank is closely related to the development of the entire German financial system and, in fact, it strongly shaped the development of this system. Thus the case of Deutsche Bank may be of interest to many readers, not only to experts in banking and finance, and this makes it beneficial to use the form of a narrative to tell its turbulent history.

Narratives rely not merely on facts and figures[2] but also on the author's personal assessments and on what relevant people, actors as well as outside observers, have told him or others about the subject at hand. A narrative is neither an outright historical account nor a strict economic analysis, even though a clear line of separation between writing about hard facts and "story–telling" does not exist. Therefore, the following account of the history of Deutsche Bank is strongly shaped by my interpretation of what seems to be the raw facts and by informal interviews and other confidential conversations with relevant actors from Deutsche Bank, including four of its former CEOs.

One might be inclined to think that narratives are not what an economist is supposed to offer his or her readers. However, this orthodoxy is not appropriate, for it would exclude nearly all economic writing. In particular McCloskey (1985; 1990) has argued convincingly that even rather formal economic research is more akin to narratives–or, as she called it earlier, to rhetoric–than most economists believe. The following narrative of Deutsche Bank makes its history accessible to readers, its leaders' choices visible and logical, rather than diabolical as David Enrich depicts them in his recently published book *Dark Towers: Deutsche Bank, Donald Trump, and an Epic Trail of Destruction* (2020). The present paper focuses on four aspects of the bank's history:

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[1] This article is forthcoming in *German Narratives about Crisis and Ordnung*, ed. by Jill Twark, New York: Berghan. It draws on the first part of an unpublished study on the transformation of Deutsche Bank. I thank my co–authors Jan Krahnen and Marti Subrahmanyam for many discussions about Deutsche Bank, helpful comments on the present paper and their permission to use material originally written for our joint project.

[2] For the "facts and figures" on Deutsche Bank, see the homepage of the Historische Gesellschaft der Deutschen Bank (updated regularly; last update 17 January 2020).

(1) its degree of internationalization, which has varied greatly over time;

(2) the extent to which Deutsche Bank has focused on investment banking (as opposed to commercial banking), which has also varied greatly over time;

(3) the important role that UPS and DOWNS—or crises and efforts to overcome them—have played in the development of this bank, and

(4) the consistency of the bank's business model at different times.

2. The Early History and "Original Roots" of Deutsche Bank

After the victory over France in the war of 1870/71, Prussian Chancellor Otto von Bismarck proclaimed the new German Empire in the French Palace of Versailles. The creation of this "Second German Reich" coincided with Germany's ascent to the ranks of a leading export-oriented industrial nation, which had been preceded by a fundamental reform of the law of corporations and the establishment of a German stock exchange system in the 1860s. The new political, economic, and legal opportunities inspired the development of new technologies and the emergence of large industrial firms that wanted to use these technologies on a world-wide scale and benefit from the German stock exchange as a source of funding.

These developments fostered the creation of big banks in the legal form of joint-stock corporations, a form that had not existed in Germany up to that time. Deutsche Bank was founded in Berlin in 1870 by a group of bankers and industrialists. Two competitors established at the same time were Dresdner Bank (founded in Dresden in 1871) and Commerzbank (founded in Hamburg in 1870). Together with Deutsche Bank, they shaped private commercial banking for more than 100 years. Among them, Deutsche Bank soon became the uncontested leader.

Deutsche Bank was not created as just another bank like those that already existed in the mid-nineteenth century. It was supposed to add a truly novel element to the German banking system and to supplement the range of services provided by the existing private banks. Its original mandate was to support the new large industrial corporations in their efforts to internationalize and to access the stock market, two banking services that the existing banks were neither large enough nor sophisticated enough to provide. This origin explains why internationalization and capital-market orientation are "the roots" or "in the DNA" of Deutsche Bank, as it was often described metaphorically, and why, together with industrialists, private bankers stood behind the creation of Deutsche Bank.[3]

On the eve of the First World War, Deutsche Bank had established numerous branches and subsidiaries in various countries and assumed a dominant role in the German stock exchange system. Its most important clients were the newly created industrial corporations. Thus Deutsche Bank was essentially what came to be called a century later an international investment bank. Like the other German big banks of that time, Deutsche Bank also soon started to lend money to its corporate clients on a grand scale and thereby created close working relationships with them. Out of these transactions grew the system of "house banks." At that time, combining the provision of capital market–related services with lending to large corporate clients and therefore being their "house bank" was compatible and constituted a sound business model. "Investment banking à la 1900" was for the most part advisory–based, and therefore client–centered, rather than being based on trading, as investment banking was to become one hundred years later.

2.1 The German House Bank System as a Facilitator of Deutsche Bank's Rise to the Top

What exactly is a house bank? First of all, a house bank is the preferred bank with which a corporation interacts by having its payments executed by it, using it to issue securities, borrowing heavily from it, and, last but not least, employing its bankers as financial advisors. This multiplicity of services provided to its corporate clients gives the house bank access to much more information than other banks, let alone the general investing public, could ever acquire. This close relationship allows a house bank to lend more freely than other banks and also to continue lending in situations in which less–informed banks would hesitate to do so. The resulting close relationship leads to a mutual dependence with all its pros and cons. This form of relationship banking has been practiced for many years by banks all over the world. However, being a house bank is more than simply relationship banking. Three additional features of the bank–client relationship have supported and stabilized house bank relationships. The first one is that in many cases Deutsche Bank –along with its German peers – held large equity stakes in many of the corporations for which it served as the house bank.[4] The second is that

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[3] Among the numerous accounts of the history of Deutsche Bank, the most authoritative one is that by Lothar Gall et al. (2010), a group of highly reputable historians from various countries. Another extremely informative account is a book in German by the financial journalist Friedhelm Schwarz (2003). Other sources dedicated to specific aspects of this history can be found on the homepage of the Historische Gesellschaft mentioned above.

[4] In many cases, these equity stakes came into existence when a corporate client borrower had come under pressure and bank debt had to be converted into equity, or when a house bank had not been able to sell all shares in an Initial or Secondary Offering (IPO/SPO) and had to honor its obligation as an underwriter. In other words, rarely have house banks acquired their blocks of shares in the open market.

these banks possessed extensive voting rights at the corporations' annual shareholder meetings. These voting rights derived either from the banks' own shareholdings or they were so–called depository voting rights, transferred to the banks by shareholders whose shares it held in custody. The banks were essentially free to use these voting rights however they wanted, that is, in their own best interest.

The third and arguably most important feature of the house–bank client relationship was that top bankers used to be members of the supervisory boards of their partner corporations. In the German legal system, the Supervisory Board is distinct from the Management Board. It endorses the general strategy of a corporation, monitors the Management Board's actions, and appoints and dismisses its members. The role of the Chair of the Supervisory Board is particularly powerful. For many years, there had not been a single exchange–listed German corporation without at least one top banker on its Supervisory Board, and at times close to half of these boards had a banker as the chairperson. Deutsche Bank sent more members to corporate Supervisory Boards than any other German bank.

Even though the German house–bank system only reached its peak in the years after the Second World War in the form described above,[5] it is actually much older. As Rudolf Hilferding (1910) reported in detail, it was already in place around the turn from the nineteenth to the twentieth century, and Deutsche Bank was then already the paragon of that system. It was usually the house bank of the most important corporation in each line of industry.

2.2 The Interwar, Nazi, and Post–World War II Years

The era from its genesis in the 1870s until 1914 can be described as a nearly uninterrupted UP phase for Deutsche Bank. When the First World War ended with the total defeat of Germany, however, the nation entered a precipitous DOWN period, which affected Deutsche Bank along with its corporate clients. The Treaty of Versailles dictated in 1919 that Germany lose all it had come to own–in one form or another–outside of its pre–1871 borders, plus a portion of East Prussia. Deutsche Bank's foreign branches and subsidiaries were seized, its credit claims on foreign borrowers were declared void or simply became unenforceable, and it lost most of its international business connections.

Still, Deutsche Bank managed to recover quickly, initiating a decade that could, from the bank's perspective, be regarded as another UP period. Deutsche Bank also survived the great inflation of 1923 better than other

[5] At the end of the 1980s, the number of Supervisory Board seats held by Deutsche Bank Board members was reported to be around 400 (see Schwarz 2003:58).

German banks, and it soon built up a new network of foreign offices and connections. It also expanded enormously by taking over many formerly independent local banks. Even when the great financial and banking crisis of 1929 to 1932 struck, once again, Deutsche Bank suffered significantly fewer losses than other institutions. In Germany, the banking crisis started with the collapse of Nordwolle, a large textile company, and that of DaNat–Bank, Nordwolle's house bank. Other large German banks soon experienced serious difficulties as well. Deutsche Bank, however, seized the opportunity in 1929 to merge with Disconto Gesellschaft, for many years its biggest competitor, to assert its position as Germany's leading bank. From the perspective of Deutsche Bank, the interwar years until 1933 were another UP phase.

During the Nazi period from 1933–1945, Deutsche Bank–like the others mentioned above–cooperated willingly and shamelessly with the Nazi regime, financing war preparations and war activities, and continuing its policy of snapping up other banks (mainly those with Jewish owners) in Germany and in countries occupied by the German army. In business terms this was also a period with an UP trend, but morally a very deep DOWN.

After the Second World War ended, the moral DOWN continued, at least at first, along with the general economic DOWN experienced in Germany after it lost the war. When the Western Allied Powers investigated the war–related crimes of Germany's three remaining, large commercial banks, these banks were found guilty. The Allies therefore split each bank up into ten regional banks, with an additional one located in Berlin. The foreign operations of Deutsche Bank were once again discontinued, and foreign holdings, claims, and other belongings were seized, including the parts of Deutsche Bank located in East Germany, which was definitively separated from the nation of West Germany when both states were founded in 1949.

Despite the need to restructure and find new leadership for Deutsche Bank in the postwar years, it did not take long until a new UP got underway. When the tensions between the Western Allies and the Soviet Union intensified after 1948 in the lead–up to the Cold War, the US government started to regard Deutsche Bank and its peers as indispensable for the reconstruction of West Germany, which had become a new ally of the Western powers in this conflict with the Soviet Union. The reintegration of the big private banks started in 1953 and was completed by 1957.

2.3 The Post–War "Economic Miracle" Years

In the next twenty or so years, Germany underwent the so–called *Wirtschaftswunder*, the economic miracle. During these decades, Deutsche Bank and its peers managed once again to strengthen their ties to the large German industrial and commercial companies. They moreover systematically forged close connections within the financial sector in the form of cross share–holding and personal alliances. All these efforts resulted in what came to be known as "Deutsch–land AG" or, in English, "Germany Inc." Because the capital market in

Germany had not recovered from its decline during the interwar and Nazi periods, bank lending was more urgently needed than ever before for corporate reconstruction. This explains why banks were so important for German industry growth and why, for thirty years, Deutsche Bank remained at the peak of its "power and glory".

Two important differences stand out, however, in comparison to the bank's early years. First, capital market orientation was at a very low level, as the capital market was essentially dormant. Second, the degree of internationalization was once again very low, and much lower than that of big banks from other Western European countries.[6] Based on the experience of two World Wars and their respective aftermath, the long–time leader of Deutsche Bank during the 1960s and 1970s, Herrmann Josef Abs, was convinced that internationalization would simply be too risky. Thus, in the post–war period, the phrase "the roots of the bank" or "its DNA" took on an entirely different meaning than what had been appropriate a hundred years earlier: the roots of Deutsche Bank could now be seen as being strongly geared toward reliably providing credit to Germany's large and mid–sized corporations.

3. Deutsche Bank as the Center of the German Financial System

To understand fully how Deutsche Bank reached the peak of its success and influence during the post–war reconstruction years, one needs to take a wider perspective by looking at the entire German financial system. The term "financial system" is broader than those of the banking system and the financial sector. A country's "banking system" consists of all the banks in that country. The "financial sector" is made up of banks plus all other financial institutions, such as investment companies, private equity firms, other financial intermediaries, and organized capital markets. Thus the financial sector represents all economic institutions that offer and provide financial services to the other non–financial sectors of an economy such as private households and firms. The financial sector nevertheless does not encompass the entire financial system–or the entire market for financial services–because it only covers the supply of financial services. The financial system also includes the demand side, which is shaped primarily by the savings and investment decisions of households and the financing decisions and the resulting financing patterns of firms.

[6] The Dutch economist Alfred Slager was the first researcher to apply the so–called Transnationalization Index (TNI)–a measure of internationalization originally developed for non–financial corporations–to big European banks. As Slager reports, in the late 1960s, the TNI–value of Deutsche Bank was lower than that of all other comparable European banks, while 30 years later, this value exceeded that of its peers (see Slager 2006).

Three core segments make up a financial system: the financial sector, the financing patterns of large firms, and the corporate governance of corporations. Including corporate governance in describing any financial system is necessary, because the ability of non–financial firms to attract external financing depends on how funds obtained from others, the financial sector or from shareholders, bondholders and private creditors, are used and how the use of these funds from these various sources is monitored and controlled by the providers of funds or in some other way.

Until the final years of the twentieth century, the German financial system had an important characteristic: it was "consistent." A system is consistent if its main elements fit together well. The individual elements of the system must take on values such that their respective strengths reinforce each other and their respective weaknesses mitigate each other. A consistent financial system is more stable and more beneficial for the entire economy than an inconsistent one. As can be shown in detail (see Schmidt and Tyrell, 2004), shortly before the year 2000,

- the major German commercial banks dominated the entire German financial sector. Other parts, including the organized capital market, were largely bank–dependent and thus under the control of the big banks;
- as a source of funding for firms and an outlet for household savings, the capital market was underdeveloped and in fact almost irrelevant. This underdevelopment was apparently a consequence of the policy of the big banks, which wanted to keep competition from the organized capital markets as a source of funding for corporations at bay;
- large German corporations mainly used long–term bank loans, provided by the big private commercial banks, to finance their investments;
- corporations could rely on the support of their house banks even in difficult situations, which enabled them to pursue long–term strategies. These strategies were important for the banks, as they helped keep the banks' credit exposure risks within reasonable limits, in turn permitting them to lend on a grand scale;
- by law and in practice, the governance of most German corporations–both in the financial and non–financial sectors[7]–and corporate policies were not shareholder–oriented but stakeholder–oriented, which again is in line with what banks as an important group of stakeholders wanted and requested; and

[7] For a discussion of the corporate governance regimes of the various German banking groups, see Kotz and Schmidt (2016).

- the big banks played the central coordinating role in the stakeholder–oriented corporate governance regime of Germany's large non–financial corporations and thereby could obtain the information and exert the influence they needed in order to protect their loans.

To understand this latter point, one must know that since the mid–1950s German corporate law has prescribed a co–determination regime, according to which half of the seats and the votes of the supervisory boards of large joint–stock corporations are held by employee representatives. The people who occupy the other half of the seats–and who have the right to appoint the Chair of the Supervisory Board–are elected by the shareholders. This does not mean that these shareholder–elected board members are supposed to use their influence strictly in the interest of the shareholders, however. Instead, according to German corporate law, all members of both boards, the Supervisory Board and the Management Board, are supposed to act "in the interest of the corporation", which was understood for many years by almost all academic lawyers and most top managers to be different from the mere interests of most shareholders in maximum profits (Rieckers and Spindler 2004).

Between 1955 and the late 1990s, there were two highly influential groups among the supervisory board members elected by the shareholders: people representing the holders of blocks of shares (the strategic investors) and the representatives of large banks and insurance companies. Other shareholders did not play a significant role in corporate governance. Thus, the three main influential groups on the supervisory boards of German corporations used to consist of representatives of labor (i.e. the aforementioned appointed employee representatives), plus the elected block–holder and bank representatives. All three groups had a largely common interest in maintaining a healthy, steady development of the corporations for which they were responsible.

Among these three influential governing groups, banks have traditionally played the central role in making business decisions. The main reason for this is their position as mediator between company employees and shareholders. That labor is more interested in steady growth than high profits is obvious: it usually secures stable jobs and opportunities for internal advancement for the core employees. Although most block–holders also have a strategic interest in securing their lasting influence for various reasons, they are, of course, also interested in high profits. Being important lenders to corporations, banks are mainly interested in profitability and stable growth, because this ensures their loans will not be put at risk. Thus, German banks' dominant, fact–based interest was more similar to that of the employees than that of the shareholders. At the same time, bankers were socially and ideologically closer to the big shareholders and less so to the side of labor. This intermediate position made them ideally suited to holding a central position in the supervisory boards and bridging the gaps that might exist between the other two groups. It also explains why bankers were members and even chairs of most German supervisory boards.

Toward the end of the twentieth century, the German financial system was indeed a consistent system of complementary segments, and at least in this specific sense it was a good financial system. But what exactly was the role of Deutsche Bank in this context? Deutsche Bank was more than just one element of this system and more than merely one among several big banks. It was the central player in the system, the uncontested market leader among the banks and the trendsetter whose peers at that time, Dresdner Bank and Commerzbank, essentially imitated what it was doing (see Janssen 2009). Thus, the fact that Deutsche Bank had for a long time shaped and represented the system of house-bank relationships, embedded in a bank-based financial system with a stakeholder-oriented corporate governance regime for large corporations, was crucial in upholding the consistency of the German financial system.

4. The Fundamental Switch of Strategy Starting in the Late 1980s: Identifying Weaknesses

Apparent success often harbors the seeds of decline. In the mid-1980s, Deutsche Bank was still very successful. However, its success was based on a business model that continued to be shaped by the bank's post-war history: like its two peers, Dresdner Bank and Commerzbank, it was one-sidedly credit-oriented and almost fully Germany-centered, and, according to a widely held perception at that time, it had become an overly complacent institution. Being overly Germany-centered meant that none of the three big private German banks succeeded in supporting—nor did they even try to support—German non-financial corporations in their efforts to become more export-oriented and globalized.[8] Moreover, in the 1980s Deutsche Bank was still heavily decentralized, as it had been imposed on it by the allied forces after the Second World War. This had far-reaching consequences for the internal power distribution of the bank and its strategy.[9]

The most important decisions made at Deutsche Bank in the late twentieth century were lending decisions. They were made by the people at the helm of the regional centers—internally called "the regional barons"—and

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[8] Wolfram Engels, one of the academic teachers of the present author, often said in his lectures that, whereas German non-financial corporations were on their way to becoming "economic and technological giants" in the world market, German banks were, at least in relative terms and by international standards, merely "financial dwarfs."

[9] In an excellent book on Deutsche Bank written by a financial journalist, the author makes a similar point. In his view, Deutsche Bank was a federation of largely independent regional banks, rather than one single, integrated bank, and he explicitly states that this was the case until the end of the last century (see Schwarz 2003: 26).

not by the bank's Management Board at the bank's headquarters. Individual Management Board members merely had to sanction the general policy of those regional centers, for which they bore responsibility under the auspices of the entire Management Board. At least to a certain extent, the reputation of Management Board members also depended on the profits earned by the regional centers whose "godfathers" they were. In accordance with the allocation of decision–making authority, earnings from lending operations were booked as revenue at the respective regional center. Of course, Deutsche Bank did also provide capital market–related services to its corporate clients, even though the scale of these services was quite limited.[10] These services were important for maintaining stable, good and close relationships with corporate clients and indirectly served the purpose of making these clients borrow more from the bank. Thus they supported both the Deutsche Bank headquarters and its regional centers.

But which part of the bank provided these services and how were they recorded in the bank's internal accounting system? Headquarter units provided capital market services, and even though this may appear strange, the bank offered and provided these services almost for free and, as a compensation, the bank expected its corporate clients to accept slightly higher interest rates on their loans. In the internal accounting system, the regional centers were treated as profit centers, whereas the headquarters were merely a cost center. Thus, the cost of providing capital–market services was charged at the headquarters, and the indirect benefits increased the accounting profits of the regional centers–providing a clear case of internal profit–shifting. As a consequence, the headquarter account was notoriously in the red, and its deficit was in turn compensated by allocating the headquarter costs as an overhead charge to all regional centers, regardless of how much these regional offices benefited from the activities of the headquarters.

Understandably, the "regional barons" resented these overhead charges, and they often succeeded in enlisting their respective "godfathers" among the Management Board members to support their opposition to all headquarter activities, including those referred to today as investment banking. Much the same applied to all business conducted outside Germany, which would also have been coordinated at the headquarters. This structural state of affairs explains why Deutsche Bank shied away from capital market–related banking services and international activities, which had been the focus of its early years.

This policy bias became a serious burden for the bank in the course of the 1980s, however, when capital markets were waking up in Germany and in many other places, and several large European banks started to

[10] According to what the Historische Gesellschaft der Deutschen Bank (various years) reports on its homepage, the extent of these activities was, at least by German standards, not at all "limited."

become much more active in international markets. Observing these changes, Deutsche Bank leaders feared that they were about to miss out on these developments.

4.1. Getting the Bank Back on Track: Alfred Herrhausen's Vision

In 1985 Alfred Herrhausen was appointed as the new CEO of Deutsche Bank.[11] He had strong views of what had gone wrong and therefore wanted to overhaul the bank in a fundamental way, seizing the opportunities that had been neglected in the years before. According to his vision, Deutsche Bank should get much more involved in investment banking, become active on the international stage again, and stop being old–fashioned and complacent. In particular, he and his core team of forward–looking advisors were acutely aware of the profoundly conservative consequences of the existing power distribution in Deutsche Bank. He therefore wanted to take away the power of "regional barons" to block decisions made at the bank's headquarters. However, this was not an easy task, since it was an old rule of the Management Board that its decisions had to be made unanimously. Herrhausen's efforts to transform the bank met with strong resistance in the Board. Tragically, Herrhausen was assassinated in November 1989 by members of the militant German left–wing terrorist group "Red Army Faction".

Shortly before his death, Herrhausen had initiated negotiations to take over Morgan Grenfell, a leading British merchant bank, in order to strengthen Deutsche Bank's investment banking competence, and he had planned to buy commercial banks in Italy and Spain in order to expand the bank's international scope. Herrhausen's vision of strengthening its international orientation and investment banking activities, and his initial steps in both directions, were later often lauded as "bold." This positive assessment is justified, as what he aspired to do represented a fundamental break with the bank's business model since the end of the Second World War. His untimely tragic death meant that his successors inherited the task of implementing his vision and demonstrating its feasibility and strengths from a business perspective. Accepting this challenge, they adopted various strategies to carry out his plans. This corporate policy shift turned out to be an enormous challenge, for it was by no means clear that, and how, the challenge could be met.

[11] From 1985 to 1988, Herrhausen shared the role of being the Management Board Speaker with Wilfried Guth, in line with the recent tradition of the bank of having two speakers, and when Guth retired in 1988, Herrhausen became the sole Speaker.

4.2. The Organizational Challenges Behind Herrhausen's Vision

Herrhausen's push for a greater internationalization of Deutsche Bank was bold, but also timely, and thus does not appear controversial in retrospect. But as far as the aspiration of getting involved in investment banking on a grand scale– – and including all modern forms of investment banking[12]–is concerned, the assessment is less clear–cut. Would it be compatible with what, up to that time, had been the bank's mainstay, relationship–based corporate banking, which Herrhausen certainly did not want to give up? And how should the two parts of a restructured Deutsche Bank, with commercial and corporate banking on the one hand, and investment banking on the other, be organized in the time to come? Could both function as closely interacting parts of a single integrated institution in which resources such as equity capital, liquidity, and reputation are commonly used by both parts and shifted freely from one part of the bank to another? Or would a substantial expansion of the bank's investment banking activities require a holding structure with two largely independent divisions whose relationships would be governed by market–like transfer prices?

An integrated structure can create synergies that result from close cooperation and the common use of resources. But such a structure can also lead to conflicts and rivalry. Conflicts are especially likely to arise if one part of the bank provides substantial resources to the other one without having a well–defined, transparent transfer–pricing system in place. Transfer prices are a crucial determinant of the accounting profits of the various parts of any bank, and indirectly also of the power distribution within the bank and the allocation of the bonus pool.

As far as we know,[13] in the years after Herrhausen's death, when investment banking had indeed been boosted at Deutsche Bank, substantial resources were transferred from the commercial to the investment banking part of the bank, and these transfers were not accounted for by transfer prices which would have reflected market prices for the transferred resources. Moreover, when the bank expanded its investment activities, it began to be almost always plagued by internal power struggles between the traditional corporate bankers and the new breed of investment bankers, and over the years it established huge bonus pools. Thus, the preconditions for

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[12] The attribute "modern" refers to the fact that the focus of today's investment banking is on market trading and financial engineering, that is, on market–oriented activities, in contrast to the former focus of investment banking on advisory and security issues, i.e. activities that are more geared at solving capital market–related problems of individual bank customers. The development of Goldman Sachs, the world's best known investment bank, during the past 30 years, illustrates this transition from traditional to modern investment banking well. Note that Morgan Grenfell, the British merchant (or investment) bank acquired by Deutsche Bank in 1990, represents the traditional approach to investment banking, whereas the US–based investment bank Bankers Trust, acquired by Deutsche Bank about 10 years later, was a leading example of a market– and trading–oriented investment bank.

[13] "We" refers to the authors mentioned in the first footnote of this chapter.

serious conflicts were met. Still, despite often using the term "divisions" for its different parts, Deutsche Bank has always maintained an integrated structure. As Jan Krahnen recently argued in an address delivered to the Historical Society of Deutsche Bank, to think this arrangement would function well was not only "bold" but "overbold."[14]

4.3. Deutsche Bank under Hilmar Kopper: Increasing Size and Declining Profitability

Herrhausen's successor as CEO was Hilmar Kopper. He had cooperated closely with Herrhausen and was familiar with his plans. In a surprisingly short time, he succeeded in implementing many of these plans without meeting the resistance the other Board members. Under Kopper, who held office until 1997, Deutsche Bank purchased Morgan Grenfell, acquired commercial banks in Italy and Spain, and, most importantly, consolidated the power of the headquarters in Frankfurt over the regional centers. These steps were necessary for a bank with international ambitions and an increasing orientation toward investment banking.

During the Kopper years, the bank grew with breathtaking speed, becoming Europe's largest commercial bank and much more international (Slager 2006). At the same time, it was able to further deepen its ties with Germany's largest non–financial corporations and those with other important players in the financial sector. In retrospect, one can say that Hilmar Kopper was very successful in a way. He strove for growth in all areas above all, made inroads into investment banking, and at the same time expanded the bank's commercial banking activities. In this respect, the Kopper years seemed to be another UP period.

Growth came at a cost, however. The bank's costs rose even faster than its scope, scale, and revenue. Profitability declined, and with it the stock market value of the bank compared to relevant peer groups. In our unfinished study mentioned above, we compared the stock price performance of Deutsche Bank under the three CEOs who succeeded Herrhausen with that of two peer groups. One peer group comprised the leading international investment banks of the time, and the other was a group of large commercial (or universal) banks. We compared their performance both with and without risk adjustment. All four measurements yielded the

[14] This unpublished address was delivered in German on the occasion of the book launch of Friederike Sattler's impressive biography of Alfred Herrhausen (2019), which coincided with the thirtieth anniversary of Herrhausen's assassination. The German words "kühn" and "tollkühn" that Krahnen used might express his intention better than my translation as "bold" and "overbold." Raising the issue of how corporate and investment banking could be coordinated in a radically reshaped Deutsche Bank was not meant by Krahnen as criticism of Herrhausen, whose merits in having developed his vision and leaving behind a powerful legacy are well–established. It strikes us (see note 14 above) that neither the originator of the grand vision nor any of the top managers of the bank had been aware of the importance of this question for a long time.

same result: under Kopper, Deutsche Bank's *relative* stock market performance was poor and trailed that of the banks in the two peer groups by a wide margin.

It seems that Kopper was aware of this problem. Together with a small group of other Management Board members, in June 1994, he devised a detailed plan to focus much more than before on what at that time seemed to be the most attractive line of business for a large bank, which was investment banking. A stronger focus on investment banking also meant more internationalization, because investment banking is almost by definition international business. The plan was presented to the full Board the next day – and was accepted. Thus, as it seems, a fundamental reorientation was spurred by a looming crisis. Returning to the question of what are "the roots" or "the DNA of Deutsche Bank," one can characterize the decision to focus more on international (and) investment banking – and less on corporate (and domestic) lending – as a step back to the late nineteenth–century "roots of the bank" and away from what might have become the "roots" in the early post–war years. However, apparently a fundamental question was not given the consideration it deserved: Are the features and success factors that would make Deutsche Bank successful as the investment bank–features it wanted to strengthen–compatible with the features and success factors of the universal bank, which Deutsche Bank also wanted to retain, within an integrated institution? If this question had been asked– which I as an outside observer cannot know–the bank leaders who devised this plan would most likely have given a positive answer. In contrast, the stock market was not convinced that this was a good business model.

4.4. Turbulent Times for Deutsche Bank under Rolf–E. Breuer

Because of his age, Kopper resigned as CEO in 1997 as had been planned and thereafter took over the position of the Chairman of the Supervisory Board. Much of the envisioned bank restructuring was thus left to be implemented by his successor, Dr. Rolf–E. Breuer, who continued to internationalize the bank and to shift its focus more toward investment banking. The early Breuer years did not bode well for many corporate bankers at Deutsche Bank, who had been the most highly respected employees for many years, because corporate banking was indeed cut back. Investment banking was strengthened most notably by acquiring the American investment bank Bankers Trust and thus establishing Deutsche Bank as a "bulge bracket bank" on the international investment banking market. The stock market performance of Deutsche Bank, relative to the two peer groups mentioned above, was not good under Breuer's tenure, though better than under Kopper. However, the slight gain in relative performance did not make up for the earlier losses.

The Breuer years were difficult, both for the bank and for Dr. Breuer personally. What led to the end of his tenure as CEO in 2002 was his plan to change Deutsche Bank's business model yet again. Breuer had negotiated a merger with Mr. Walter, the CEO of Dresdner Bank (Germany's second largest), without involving any other high-ranking decision maker at Deutsche Bank. Because an important block of Dresdner Bank shares was held at that time by Allianz, Germany's largest insurance company, the CEO of Allianz had to be included in the negotiations. Breuer and Walter's plan was to merge the corporate and investment banking activities of the two banks, then spin off the entire retail business and give it to Allianz in exchange for its block of Dresdner Bank shares. When this plan was finally presented to the Management Board of Deutsche Bank, it was rejected mainly because of investment banker opposition in the Management Board. Dresdner Bank's leadership responded by revoking its earlier approval of these measures, and CEO Walter resigned. Though Breuer was not forced to resign, his position was weakened considerably when the Board decided to nominate Dr. Josef Ackermann as his soon-to-be successor.

How would Breuer's plan have fit the pattern of "the roots/the DNA" of Deutsche Bank if it had been accepted and implemented successfully? Giving up retail banking and concentrating on corporate and investment banking would have been a drastic strategic shift that would have made Deutsche Bank an extreme version of what it had been in its first 80 years: a "corporate bank" and no longer the universal bank into which it had transformed itself since the 1960s. It would have been a return to the bank's "roots" of the late nineteenth century and a turn away from those of the post-war years.[15] However, investment banking as it was developing around the turn of the millennium was quite different from the capital market-oriented type of banking from a hundred years earlier. Investment banking à la 1900 was not trading-oriented, but instead geared toward supporting the bank's core clients, and therefore compatible with corporate banking. Investment banking à la 2000 is trading-oriented, as is illustrated well by the primary activity of Bankers Trust, the American investment bank Breuer had purchased only a few months earlier. There are good reasons to question whether this type of "modern" investment banking accords with Deutsche Bank's traditional corporate banking strategy.

[15] Interestingly, the reason why Deutsche Bank's Management Board rejected Breuer's merger plan was not that it entailed shedding almost the entire retail division, but instead a controversy about how the investment bankers of Dresdner Bank would be integrated into the new entity. Deutsche Bank's by then powerful investment bankers purportedly rejected the idea of taking over Dresdner's investment bankers because they did not want to share their bonus pool with them.

4.5. Deutsche Bank under Josef Ackermann: A Smooth Start and a Hard Landing

4.5.1 An Overview

Herrhausen provided the vision to transform a complacent, Germany–centered universal bank into an international bank that was also competent in investment banking. Kopper contributed greatly to making this vision a reality, though he did not assign priority either to corporate and universal banking or to investment banking. Breuer pushed investment banking at the expense of corporate banking. Dr. Josef Ackermann, CEO from 2002 to 2012, went even further during his early years at the bank's helm, providing support for investment banking and bankers and shifting resources from traditional banking activities to capital–market fields. By the early twenty–first century, investment banking had come to shape the bank's image and self–image. Investment bankers gained influence, and most of the bank's sizable bonus pool landed in their pockets. Edson Mitchell and later Anshu Jain, the top investment bankers in Deutsche Bank, and their staff were the "rainmakers." In terms of (divisional) accounting profits, investment banking was the main contributor to corporate profits.

In contrast to the two CEOs before him, Ackermann, a Swiss national, had not spent his entire career at Deutsche Bank, instead transferring in from his former high position at Crédit Suisse. When he joined Deutsche Bank in 1996, he was immediately appointed to the Management Board and soon given responsibility for investment banking. In this role, he earned respect by integrating Bankers Trust into Deutsche Bank quickly and efficiently. After Breuer's failure to merge Deutsche and Dresdner Bank, the Management Board decided to appoint Ackermann as its "speaker" in 2002, and in 2006 his position was strengthened by changing his status from "speaker" to "chair," a position no other CEO of Deutsche Bank had ever held before.

Numerous events and developments show how Ackermann transformed Deutsche Bank into a leading international investment bank. Most of these events occurred from 2002–2004, the time of the Mannesmann Trial discussed below. All demonstrate the strong determination of Deutsche Bank to abandon the old house–bank regime. Being the house bank merely of some large German industrial firms was rightly considered incompatible with the business model of a modern investment bank. Because the close bank–client relationship in house banking allows the house bank to obtain considerable internal information, it would be difficult, if not impossible, to sell investment banking services to other corporations in the same industry for which it is not the house bank. One Management Board decision from the early twenty–first century illustrates how Deutsche Bank distanced itself from its former role as a house bank: its leadership agreed not to allow its members to assume a new position as chair of a client's supervisory board, and discouraged them from joining a client's supervisory board at all.

More important, however, was Deutsche Bank's decision to sell most of its industrial holdings. Over decades Deutsche Bank had acquired substantial blocks of shares in many important German corporations. Typically, they had been bought at prices way below those established at the turn of the twentieth century. Experts estimated that the value of Deutsche Bank's industrial holdings constituted at least half of its stock market value at the time when its leadership decided to convert it into an international investment bank. During this transformation, Deutsche Bank wanted to sell its industrial holdings, because being a major shareholder in individual corporations was also deemed incompatible with the "deal–based" business model of an investment bank of the twenty–first century. Huge capital reserves were moreover tied up in these holdings, and this capital was deemed necessary to fund the substantial investments required to build up the bank's investment capacity.[16] There was a major hurdle to selling the bank's shares for cash, however, in the German tax system. According to German accounting rules of the time, blocks of shares had to be carried on the balance sheet at their acquisition values. Thus, the industrial holdings constituted a reservoir of "hidden reserves," and selling them would have implied huge accounting profits with the corresponding negative tax consequences.

In this situation, Deutsche Bank received an extremely generous and certainly welcome "gift" from the German government under Chancellor Gerhard Schroeder: as a true surprise to everyone, including the top management of Deutsche Bank, the tax code was changed in 2003, allowing Deutsche Bank – and others who were in a comparable situation - to sell their industrial holdings without having to pay tax on the concomitant accounting profits. This tax revision was motivated by the desire to unravel the net of cross–holdings, which had been a cornerstone of the so–called Deutschland–AG described above, and it coincided perfectly with Deutsche Bank's plans at that time. Jumping on this unexpected windfall, it swiftly and substantially reduced its portfolio of industrial holdings. Within two years, this portfolio shrunk to about one third of its former size.[17] The proceeds from the sale of shares were close to 25 billion euros, and 17 billion were used in a share buyback program intended to raise Deutsche Bank's share prices. Thus only part of the proceeds were in fact used to fund the expansion of investment banking activities.

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[16] A possible third reason may have been that "unlocking" the hidden reserves might have helped to boost the share price which was much too low according to how the top management of Deutsche Bank saw it. However, the economic logic of this possible third motive can be questioned since the argument would have presupposed that "the capital market" was not aware of the value of the industrial holdings - an assumption which was certainly not correct, since the size and the value of the industrial holdings of Deutsche Bank were of course public knowledge.

[17] One might add that the timing of these sales was not well chosen, because they were made in the midst of a severe stock market decline.

During the early Ackermann years, as Deutsche Bank's investment banking activities were expanded, the investment bankers gained the upper hand in the internal power struggle that was taking place in the early 2000s. They succeeded in making Deutsche Bank an important player on the international investment banking market, and investment banking contributed the major part of corporate profits. In the league tables, the lists showing which bank holds which position in the various sub-fields of investment banking, Deutsche Bank was consistently moving upward.[18]And even the stock price improved substantially in absolute and in relative terms. Shareholders who bought Deutsche Bank shares in 2002, when Ackermann took over as the bank's CEO (or at a later date), and held them for any time period up to 2011, his last full year as the CEO, fared substantially better than investors who bought a portfolio of shares of other investment banks or large commercial banks. This is only true, however, if one ignores the fact that during the Ackermann years the bank's risk skyrocketed. Note that this time span includes the Great Financial Recession of 2007/2008 and the start of the Euro Crisis.

4.5.2. The Mannesmann Trial and its Implications for Deutsche Bank

The Mannesmann trial was the major event of the year 2004 for Deutsche Bank and also a turning point in its development and strategy. Together with three other people, Ackermann was accused of having misappropriated Mannesmann AG funds and tried in court in Düsseldorf, where Mannesmann was based. As is well known, the British telecom giant Vodafone had tried and finally succeeded in taking over Mannesmann, a former steel-making company that had turned into a mobile phone service provider, in the year 2000. The price Vodafone finally agreed to pay for Mannesmann was the highest price ever paid so far by a bidder in a takeover contest. What was truly remarkable about this contest was that Mr. Josef Esser, Mannesmann's CEO, had negotiated extremely successfully from the perspective of Mannesmann shareholders: the final price of 180 billion Euros was more than two times higher than Vodafone's initial offer.

Ackermann was a member of Mannesmann's Supervisory Board and also of that Board's remuneration committee. After the transaction was complete, the remuneration committee granted CEO Esser a special bonus of 30 million Euros. Compared to what he had achieved for his shareholders, a gain of more than 100 billion Euros, this bonus was small, less than one third of one percent. Nevertheless, the public prosecutor argued that giving this bonus to Esser was an abuse of corporate funds and thus a criminal offence. After many months, with much mass media coverage, the trial ended with the acquittal of all four defendants. During the trial, however, Josef Ackermann was vigorously attacked by the media and the general public. In my view and

[18] There are several providers of league table data; we have used Thompson-Reuter in our study mentioned above.

that of most of my colleagues the attacks were unfair. What matters, though, is that, as I see it, the trial and the related public attacks taught Ackermann a lesson: a bank as important as Deutsche Bank has some features of a public institution and as such it depends on political support in its home country. I assume that Ackermann also understood that the extremely one–sided investment banking orientation adopted by the bank under his leadership implied a turn away from its former supporting role for German clients, in particular for Germany's mid–sized and large corporations. By the turn of the twenty–first century, the international investment bank Deutsche Bank thus no longer appeared to be the German bank it had once been, and this invited a loss of political support on its home turf and of the respect of the business community of its home country, which even Deutsche Bank needed.

Ackermann's conclusion may have been that the turn to international investment banking and away from the bank's traditional focus on credit for German firms had gone too far. His actions support this assumption. In the years after the Mannesmann trial, Ackermann changed course and initiated a limited revival of Germany–oriented banking. Organizational structures were adjusted, Deutsche Bank acquired a stockholder majority in Postbank AG, a purely Germany–focused retail bank with a large branch network; and again the bank promoted high–ranking, Germany–focused and credit–oriented employees. This reversal was important, even though investment banking was not simultaneously downgraded. After all, the top management and many employees maintained the view that Deutsche Bank should become a leading international investment bank. The new strategic concept was to create more synergies between (Anglo–Saxon) investment banking and traditional (German) commercial banking. In particular, Anshu Jain emphasized how achieving synergies between the bank's investment and commercial banking divisions would be possible and how this would give Deutsche Bank a competitive advantage over other bulge–bracket investment banks organized as holding companies.[19] Other interpretations and explanations as to why this reversal of the bank's focus was merely half–hearted are, of course, also possible. Perhaps the investment bankers had become so powerful that they were able to resist a more drastic return to a balanced business model. There are also reasons for assuming that the "post–Mannesmann" reorientation of the bank's strategy, moderate though it was, caused tensions between Ackermann and the leaders of the investment bankers in Deutsche Bank. The events in the run–up to the Great Recession and during this severe crisis might serve as indicators that Ackermann lost full control of what was happening in the investment banking division before and during the crisis years.

[19] This was expressed by him in an interview we (see above) had with him when we prepared our study mentioned above. Jain called this "the platform strategy" of Deutsche Bank, which he evidently found promising.

4.5.3. Two Conclusions Concerning the Ackermann Years

The Mannesmann trial, the half-baked strategic reorientation, and possibly also his loss of control over the investment bankers weakened Ackermann's position in the bank. This became visible when he first considered stepping down as Chairman of the Management Board and instead becoming the Chairman of the Supervisory Board, as most of his predecessors had done, and tried to install Axel Weber as his successor. These plans failed, however, and Ackermann left the bank abruptly, on bad terms (see Knight 2011).

Any assessment of the Ackermann years must distinguish between what his leadership meant for the bank and what it implied for the entire German financial system. During his time as CEO, Ackermann did succeed in putting the bank back on track, restoring its profitability, and transforming it into a leading international investment bank. The first years of his leadership in particular were once more a long-awaited UP period. Moreover, Ackermann's policies made Deutsche Bank survive the crisis better than most other comparable big banks.

A big question mark must be added to this overall positive assessment, however, because during the post-crisis years and after Ackermann left, Deutsche Bank entered turbulent waters. US authorities became critical of the conduct of the bank and its investment banking division before, during, and after the crisis, and several US and European institutions filed serious claims against it that were extremely costly to settle. If these "costs of misconduct" had been reflected properly in the accounting system of the bank and in its stock market value, the Ackermann years would no longer appear financially successful. Equally, Deutsche Bank's short-lived rise to becoming a leading investment bank must be reassessed. Not much of its "interim glory" remains today. Thus, the second half of Ackermann's tenure must rather be assessed as a DOWN period, though this only became visible after he left the bank.

Turning to the German banking and financial systems, under Ackermann, Deutsche Bank definitely discontinued its support of, and participation in, "Germany Inc." It relinquished its former role as a significant provider of credit to large corporate clients; it stopped playing a central role in the corporate governance of large German corporations, thereby undermining the former stakeholder orientation of German corporate governance; and it voluntarily relinquished control over most other parts of the financial sector. In this respect Deutsche Bank was not alone. What happened to the other former big German banks? Dresdner Bank no longer exists. Soon after the failed merger with Deutsche Bank, it was acquired by Allianz, the largest German insurance company. Allianz failed to generate the aspired synergies between its old insurance and its new banking business and therefore sold its new subsidiary Dresdner Bank to Commerzbank virtually on the eve of the financial crisis. Dresdner's banking activities were then integrated into Commerzbank, which was hit hard by the crisis and rescued by the German government. After the crisis was over, Commerzbank changed its strategy and now focuses on retail banking and credit for small and medium firms. Thus, the "triumvirate" of the former big banks that had mainly served large corporations, cooperated closely in matters of corporate governance, and together dominated the entire German financial sector, no longer exists.

But even earlier, the two other big private commercial banks had developed a habit of largely trying, with varying success, to imitate what the market leader Deutsche Bank was doing. They also purchased British investment banks, cut back lending to large corporate clients, and pulled out of their respective roles of co-owning and monitoring large corporations and of shaping the entire financial sector. Thus, Deutsche Bank as the "prime mover," followed by its peers, indeed brought down the veteran German financial system. By now, this system is much less bank-dominated than it used to be, and it has lost its former vital feature of being a consistent system, as described above.

5. The "Post-Ackermann Years" under Jain/Fitschen and Cryan

Ackermann stepped down after he lost an open conflict with Clemens Börsig, then Chair of the Supervisory Board, and also, probably, in a not-so-open conflict with Anshu Jain and the bank's other leading investment bankers. One issue in this conflict was Ackermann's future role at the bank and on its Supervisory Board, another was who should be his successor. There was likely also a third conflict concerning the role and standing of the investment bankers. Ackermann wanted this role to be scaled back to a level similar to that of the late Breuer years.

Ackermann had two successors sharing the role of the bank's CEO: Anshu Jain and Jürgen Fitschen. Jain had been the leader of the investment bankers after Edson Mitchell died in a plane crash. Fitschen is an experienced corporate banker who had very good contacts with German top managers. Installing both as Co-CEOs may have been motivated by the idea of signaling to the outside world and to the staff that from now on investment, corporate, and retail banking would be nearly equally important parts of the Bank. However, this structure did not materialize. Investment banking remained the dominant focus, and Jain was clearly the dominant leader, while Fitschen's role may have been that of a German counterweight to the dominance of Jain and his London-based investment bankers.

Internal sources at the Bank with whom I have spoken stated quite frankly that Ackermann had wanted neither Jain nor Fitschen as his successor. His clear preference was Axel Weber, a former economics professor and later President of the Deutsche Bundesbank. The same sources said that the idea of making Weber the sole CEO of Deutsche Bank met with considerable resistance, presumably mainly from the investment bankers.

The joint leadership did not last long, and it is difficult in retrospect to recognize any substantial changes brought about by the Co–CEOs Jain and Fitschen. Investment banking remained at the same level as before and Fitschen did not reestablish the bank's former relationships with corporate clients. One thing did change, however: after the financial crisis, the heyday of investment banking was over and Deutsche Bank's investment bankers could no longer generate huge profits. At the same time, the bank had to pay substantial sums to settle the various lawsuits connected to the financial crisis years. The bank's operating costs were moreover quite high in comparison to those of the other big banks. As a consequence, profits fell dramatically and the stock price more or less stagnated at around 20 Euros. All of this, plus Jain's unwillingness or inability to establish a positive relationship with the German government, as well as with most people in the bank and on its two boards, led to the Supervisory Board decision to terminate him and Fitschen after only three years.

After the dismissal of Jain and Fitschen, the Supervisory Board under its new Chair Paul Achleitner[20] appointed John Cryan as the new, sole CEO. As I learned from various internal sources in Deutsche Bank, Cryan was welcomed there; he had some success in restoring order and internal peace, and he was regarded as a competent cost–cutter. However, he also did not achieve a full turnaround and the urgently required restoration of profitability. Profits fell even more and the stock price reached its lowest level in decades - and this led once more to the dismissal of a CEO after only three years.

Both the team of Jain and Fitschen and John Cryan did not give the bank what it needed most: a new orientation and a fresh start. None of these leaders could inspire enthusiasm like Herrhausen, Kopper, Breuer, and Ackermann had done at times. Given the resulting staff demotivation, a tarnished reputation, no profits for now and in the foreseeable future, and the unbelievably low stock price of around six euros, anyone becoming the next CEO would have a most troubled starting point.

6. Christian Sewing and the Return to "the Roots of Deutsche Bank"[21]

Christian Sewing is facing this trouble head on since he was appointed as the new CEO in June 2018 at the age of 48. Sewing has spent his whole working life at Deutsche Bank. After exactly one year in office, he proclaimed a fundamental shift of the bank's strategy after finally obtaining Supervisory Board approval. Its essential point is to cut much of the bank's investment banking activities. At the same time, those parts of the

[20] In his former capacity as the Chief Financial Officer of Alliance, Achleitner had pushed for the unfortunate acquisition of Dresdner Bank by Allianz.

[21] This section draws on Schmidt 2019a.

bank's activity portfolio that had been the mainstay of Deutsche Bank's business 25 to 30 years ago, in particular lending to large and mid–sized German and European corporate clients, will be expanded, despite a planned staff reduction of 18,000 full–time employees. This is indeed a profound transformation, because it will take power away from the investment bankers and return it to the commercial and corporate bankers. This change might well be exactly what the bank has needed for a long time to get back on track.

Sewing called this shift in strategy a "return to the roots of Deutsche Bank" at the press conference at which it was announced, without, however, making it clear to which roots he was referring. Did he refer to those of some 50 years ago, when Deutsche Bank was essentially a Germany–focused commercial bank, or those from the late nineteenth century, when the bank was founded with the mission to become an international bank with a strong capital market–orientation? In my view, what Sewing proclaimed as his vision is a return to Deutsche Bank's late twentieth–century format as a universal bank with a moderate dose of investment banking. This is why his plan indeed portends a fundamental reorientation. In any event, the press and many other observers were impressed by the reference to the "roots of Deutsche Bank" and keep quoting it despite its vagueness.[22]. This newly announced strategy shift raises three questions: Can it be successful? What does it mean for the bank and its shareholders, its staff, and its clients? And what does it imply for the entire German financial system?

Whether this proclaimed major strategy change can put an end to the many years of decline of a bank that had for a long time been regarded as a model of success, and even lead to a recovery, is an open issue. Its success is in no way assured. Deutsche Bank is perhaps still strong enough to succeed in making this turnaround. But it is also possible that the financial losses of recent years, the loss of the bank's former reputation and of its clients' trust, the tremendous cost of this restructuring, and staff frustration and demotivation at all levels weigh so heavily that its failure is inevitable. Despite all such doubts, there is no sensible alternative to what Mr. Sewing and his team are now trying to do, at least as long as one disregards the options of being bought by a foreign competitor or merging with another large European bank. The crucial issues at this time are how the turnaround will be implemented in detail: which parts of investment banking will be scrapped altogether, and if and how the remaining parts can be made to generate synergies, or at least be compatible, with the bank's primary business of serving German corporations and private clients. Several years ago, after Ackermann first considered leaving office, a similar strategy shift was already needed. At the latest, the

[22] Almost all German media quoted the expression „Zurück zu den Wurzeln" (back to the roots) evidently used by Sewing in the headlines of their articles reporting about the strategy shift announced by Sewing in the press conference of April 25, 2019. See among many others, Frankfurter Allgemeine Zeitung, Süddeutsche Zeitung and Deutsch Welle on April 26.

financial crisis of 2007/2008 made it clear that the heyday of investment banking is over. One example of an equally radical strategic reorientation, that of the large Swiss banking group UBS, which shed most of its risk-prone investment banking activities in 2012, suggests that a similar strategy switch at that time would also have been possible and successful for Deutsche Bank. Interestingly, the turnaround at UBS was initiated and implemented after Axel Weber, Ackerman's preferred choice as his successor at Deutsche Bank, had become the President of UBS. Because Anju Jain, Deutsche Bank's highest ranking investment banker, became one of the two new CEOs instead of Axel Weber, Deutsche Bank was not likely to cut back investment banking, even though this would have made sense at that time.

What will Sewing's planned fundamental strategy shift mean for the German financial system if it were successfully implemented? What makes this question interesting is the fact that the last fundamental change in Deutsche Bank's strategy, three decades ago, had a profoundly negative effect on the entire German financial system. The transformation of Deutsche Bank under Breuer and Ackermann deprived this financial system of its prior consistency. Several factors led to this loss of consistency, some external and some internal to the financial system. Among the external factors were the usual suspects: globalization, European integration, and advances in information and communication technology. By far the most important internal driver of change was the strategy switch that Deutsche Bank undertook under its CEOs Rolf-E. Breuer and Josef Ackermann. They rightly regarded the bank's former roles as the main lender and "house bank" of large corporations and as the pivotal player in the old corporate governance regime as incompatible with its new ambition to become an important trading-based investment bank. Thus the role that Deutsche Bank played in transforming the German financial system around the turn of the twenty-first century was in one sense equal to the bank's former role in the old German financial system: Deutsche Bank shaped this system more than any other institution. At the same time and in a different sense, the way it shaped the German financial system was fundamentally opposed to this system. Whereas it had formerly kept the system going, it later made the first and most decisive move to do away with it.

Would – and could – a successful turnaround of Deutsche Bank, which reversed exactly those developments that have led to the loss of consistency of the German financial system, help to restore this consistency? The answer is straightforward: even if Deutsche Bank succeeds in abandoning many segments of the investment banking market, its former house bank relationships with large corporations cannot simply be brought back to life. Deutsche Bank can no longer buy back its blocks of shares that were essential for the functioning of the old system, and other banks are highly unlikely to accept a revived Deutsche Bank again as a market leader and trendsetter. Large and mid-sized non-financial corporations can also not be expected to react with enthusiasm to more generous offers of long-term loans that Deutsche Bank might now be inclined to make. It is equally difficult to imagine that clients and other business partners would all of a sudden trust Deutsche Bank again if it pulled out of some areas of investment banking. There is moreover no reason to expect that its envisioned strategy switch – even if it were implemented successfully – would again make Deutsche Bank the leading force in the German financial sector and allow it to recover its formerly strong role in the governance of large non–financial corporations. Other players are not likely to give up the positional gains they have made in the course of the past two decades.

All of this can be summed up by saying that what has changed in the German financial system since the last turn of the century – with Deutsche Bank as the most influential change agent – is not reversible. For the bank itself as an entity, its shareholders, its clients, and its employees, the success of the top management efforts to "get back to the roots" would be of great importance. However, for the quality of the German financial system – and, more precisely, for its consistency as a determinant of quality – it is by now irrelevant.

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