What Acquiring Banks Can Learn from the Mongols

by
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As most students of history would attest, the Mongols were perhaps the most successful conquerors of all time. At one point they controlled the landmass that ran from Poland to Korea and from northern Russia to Damascus. In some areas their rule spanned over 700 years.

There's no doubt that one of the main reasons for their success was their military prowess. They were the equivalent of today's armored cavalry. Their primary fighting mode was as horse-mounted archers. By the age of four Mongol boys and girls could not only ride bareback but also ride standing. Their basic sustenance was what they could hunt and even their "booze", Kumis, was fermented mare's milk, produced as their armies moved. Unlike their enemies, they didn't have to worry about a supply line, and because their sustenance was primarily protein based, they weren't as sluggish as many of their enemies whose primary food was carbohydrate based.

So what does all this have to do with acquiring banks? Perhaps the single most important reason for the Mongols' success was not the fact that they conquered so many peoples and empires but rather how they did it. The single most important aspect of their conquering style was that they honored and embraced the ways and customs of those they conquered. While they might have killed off the king, most of the leaders of those they conquered were kept in positions of power and authority. By doing so, they created great loyalty among the leadership as well as among the masses. These approaches demonstrated, by deeds not words, their great respect for those they conquered.

My firm has been working with banks and bankers for a quarter century. We have had clients acquire other banks as well as be acquired by other banks, and occasionally we are on both sides of the equation. Based on our very consistent experience and observations, acquiring banks could learn a lot from the Mongols.

When the initial acquisition announcement is made, the message to the customers and employees is virtually always the same: "Nothing will change and, if it does, it will only be for the better". While these lofty words are always designed to allay the fears of both groups, it's usually a very different picture when the dust settles and reality actually sets in.

We have observed a very consistent pattern in these transactions. While the senior management of the acquiring bank articulates a welcoming and embracing message, the picture is quite different when the "rubber meets the road". Often middle- and upper-middle managers seem to go out of their way to ignore and denigrate their counterparts at the acquired bank. Some of this behavior may be subconscious

self-preservation. While the pecking order at the top is well-established when a transaction is announced, those in power at the acquiring bank may be consciously or unconsciously worried about their new counterparts. As a result, their counterparts at the acquired bank can be ignored and made to feel like stepchildren, with the implicit message being "We acquired your bank, so nothing that you do can be as valuable or smart as what we do". While senior management might recoil in repugnance if aware of this attitude, often they are insulated from the reality of the dynamics of the acquisition.

So, what can the acquiring bank due to mitigate the demoralizing and destructive behavior that often sets in after the announcement? Here are some specific tactical suggestions.

In a nutshell, the three key fundamental actions are: Plan, Communicate and Communicate. The redundancy is not by accident.

Plan

Every bank acquisition includes the formation of an implementation team that is charged with the planning and execution of all the issues attendant to combining banks. Most of the planning process seems to focus on the issues of systems integration, financial and regulatory issues, and identifying redundant systems as well as personnel. While the foregoing issues are all critically important, little attention is paid to measuring the impact on the employees and customers of the acquired bank.

Ideally, the transition team should focus on and perhaps have a subcommittee dedicated to this issue. If not dealt with effectively, the combined bank will lose employees that it wants to keep, and, in many cases, accounts follow.

Communicate

This first iteration of communication is the communication to both the employees as well as the customers of the acquired bank. We have talked to countless employees of the "conquered" bank who feel that they are completely in the dark. They generally feel that they are totally "out of the loop", that they get most of their information from the rumor mill, and in many respects, that they are just waiting for the axe to fall. The great irony here is that the cost to actually communicate with these associates is zero, yet the cost of noncommunication can be immeasurable.

One situation that can exacerbate this lack of communication is the insecurity on the part of middle-management to which I referred above. In most bureaucracies, and banks are no exceptions, insecurity tends to be the mother's milk of bad decisions and reasonably good decisions poorly implemented. The hallmark of a good manager is when he or she identifies, cultivates and develops direct reports who have the talent and drive to replace them in a heartbeat. When managers are insecure, this rarely happens. Senior management should go out of its way to encourage the next level of management to continuousonly be developing their potential replacements.

Communicate

This second iteration of communication involves proactively seeking feedback from employees as well as customers of the acquired bank and truly listening to what they hear. Banks, like all bureaucracies, tend to have the "ivory tower syndrome" that insulates senior management from reality. The larger the

bank, the bigger this insularity becomes. The transition team should have a very formalized process of seeking and memorializing feedback from a cross-section of employees from the acquired bank. Not only will very important issues be brought to light, but the message that is given to those employees is invaluable. This message of "We care, we listen and we take what you tell us seriously", is an example of where actions speak so much louder than words. *(See related article "Why Bankers Should Treat their Customers Like Dogs" at http://www.expertbizdev.com/articles)*.

A corollary and just as important solicitation of feedback should be from the customers that always leave as a result of the transition. Even when the transition is executed with perfection, some customers will eventually leave. For this issue, I'm less concerned about the retail customers who come and go all the time than about the commercial customers, primarily business banking and middle-market, that represent the backbone of the bank's deposit and loan base. We also know that the cost, real or perceived,in time and aggravation for a business to change banks is so great that many businesses will put up with considerable pain before pulling the plug.

While many banks would consider this a best practice under any circumstances, it would be especially important to talk to business customers that choose to leave after an acquisition. Gaining insight from those businesses that leave the bank soon after the acquisition can help the bank fine-tune its post-acquisition behavior to help prevent future attrition.

The Proof

At this point I will stipulate that there are banks who have acquired others with very few problems and whose execution has been almost problem free. We have seen bankers who have anticipated and prevented many of the problems described above, but generally acquisitions become very problematic creating erosion of morale as well as customer base.

How do we know this? My firm develops commercial opportunities for banks by reaching out to business owners and CFOs who are open to exploring an alternative banking relationship, often out of frustration and disappointment with their current bank. We prosecute campaigns for banks of all asset ranges in all parts of the country and, by far, the most fertile circumstances for creating quality appointments is targeting, through UCCs, the customers of banks being acquired. There is an initial spike of interest created by anxiety about the future, followed by actual frustration and disappointment when reality sets in. One might suggest that the tactical advice offered above is just common sense, not rocket science. While very true, there are far more banks that stumble through acquisitions than sail through them. If your bank is going through an acquisition, or plans to do so in the future, hopefully the foregoing may help prevent losing key employees and the customers that often follow. Sometimes the best advice is the simplest and most obvious.

Ted Rosen is president of Expert Business Development, LLC, based in Bala Cynwyd, PA. The firm helps community and regional banks acquire, expand and retain small business and commercial banking relationships through professional calling programs and providing the advice and guidance to help its clients' overall sales process. Mr. Rosen is a frequent presenter at banking conferences.