Going Above and Beyond

Optimizing Talent During M&A Integration

By Katherine LaVelle and Tyler Degenhardt
There is little doubt that amidst prolonged global economic volatility, the banking industry today is far different from what it was just a few years ago. The market is more competitive and more regulated than ever, while customers are more independent and less trusting. As banks navigate this new landscape, mergers and acquisitions (M&A) will increasingly be a significant contributor to growth. But ongoing pressure on banks’ profitability means that acquiring banks have no room for error in attaining merger benefits despite the tumultuous environment in which integration is occurring. A well-constructed human capital strategy—encompassing talent, leadership, culture and organization architecture—deployed during M&A can help a bank address its financial, regulatory and other challenges and position the institution for long-term competitive advantage.
As the landscape changes, mergers increase

The extended financial crisis has left customer sentiment at all-time lows. According to Accenture research based on interviews with at least 1500 global financial services consumers and an analysis of proprietary and public consumer data, only 25 percent of bank customers said they would stay with their existing provider as a result of the current economic environment, while 46 percent are openly shopping different providers.

In addition, two-thirds of the executives surveyed identified shopping around, decreased loyalty and price sensitivity as the key changes they had observed in customer behavior. Importantly, more than half of the senior executives Accenture spoke to had seen customer trust in banking brands drop.

Enduring such continuing fallout from the financial crisis, banks are readjusting to the new industry context through consolidation and restructuring. The crisis has forced banks to conserve capital, focus on liquidity, and improve risk management. The Troubled Asset Relief Program (TARP) in the United States has been re-paid by several large institutions, loan losses were addressed, and cash has been preserved. Now, banks that are weathering the crisis well or have already stabilized are scouting for distressed financial services institutions that can be acquired for a discount.

Some significant acquisitions already have taken place. For instance, TD Bank acquired South Financial and Chrysler Financial and Ford Financial invested in Pacific Capital. Private equity firms have invested as well, such as Warburg Pincus and Thomas H. Lee Partners in Sterling Financial. More mergers and acquisitions have been announced, including M&T’s acquisition of Wilmington Trust, Bank of Montreal’s acquisition of Marshall & Ilsley, and Hancock Holding’s acquisition of Whitney Holdings.

Fueling these transactions is the fact that regulators have grown increasingly assertive in urging distressed banks to resolve lingering capital issues or sell the company as evidenced by the recent wave of mergers in the banking industry. Banks under new leadership are also more inclined to sell the company—an option too culturally difficult to consider before.

Furthermore, new regulations hold considerable future implications for the U.S. banking industry. As regulatory standards are implemented, increased cost of compliance is anticipated to have a significant impact on the industry, including a major increase in M&A activity. Accenture estimates it will cost the U.S. financial services industry between $3 billion and $5 billion during the next three years to fully implement the Dodd-Frank Act. We believe the top and most systemically important bank-holding companies, insurers and mid-size banks will bear the largest expense, spending between $100 million and $200 million each in some instances. The most nimble and efficient retail banks, insurers and broker-dealers could prosper and pick up market share. Smaller banks may look to consolidate to increase their economies of scale and synergies and boost their market presence.

Certainly, the changing financial services landscape will continue to be accompanied by significant M&A activity. But under pressure to perform amidst a changing consumer, heightened competition, greater regulation and need for transparency, banks have a small margin for error as they integrate their newly acquired businesses. Accenture believes that Talent Optimization will be a key component of the merged entity’s future success in this environment. Thus, merger integration is an important time for banks to re-think aspects of human capital strategy to better position themselves financially, and with the skills needed to implement regulatory and industry change.
Why human capital strategy now?

At the pace of merger integration most firms undertake, integration teams naturally focused on areas fundamental to keeping the business running and achieving synergy commitments: integration of technology to make the combined business work, integration of product and service portfolios, branch rationalization, customer strategy, and organization structures from which to manage.

If talent is an immediate consideration, it historically has been to “cut the fat”: targeting areas such as risk management and regulatory compliance where firms could in the prior industry landscape operate on a “bare bones” basis by eliminating redundant senior resources and expanding spans of control over more junior resources performing the work.

But in today’s environment, the areas of risk and regulatory management, for example, are exactly those areas where talent will be a critical determinant of future success. In fact, more experienced individuals (accompanied by higher salaries) are those who will be invaluable in helping the company anticipate and respond to regulatory impacts.

Thus, as the pace of acquisitions, restructuring, and increased regulatory and media pressures accelerates in the banking market, the human capital implications become paramount to the success or failure of newly merged banks.

M&A presents banks with the potential risk of losing key talent, particularly during the integration phase of an M&A transactions. Organizations also must be fully cognizant that whom they retain and promote during a merger speaks volumes about the organization’s values. And greater scrutiny faced by banks under new reforms adds more pressure to the process of combining two organizations, especially with regard to talent, leadership, culture and organization architecture.

Addressing human capital strategy at the time of merger integration offers banks the opportunity to optimize talent management, obtain and retain critical talent, and build the risk management culture needed to thrive in the new financial services landscape. Doing so will make the organization stronger financially, more agile, better at risk management and more competitive as the industry consolidates and recalibrates the basics of financial capital and sound finance practices.
Creating a strong human capital balance sheet through M&A

There are a few seemingly simple questions to guide a bank’s human capital decision-making and get it moving in the right direction as quickly as possible post-merger: What talent and skills will be needed? Where will they come from? What sort of operating model and governance structures, leadership behaviors and culture are needed to thrive in the future?

But converting the answers to these questions into a strong human capital balance sheet requires decision-making in four key areas: organization design and operating model, repositioning talent, performance management and corporate culture.

**Organization design and operating model**

Changes in boundaries of the firm, such as through mergers and acquisitions, lead to dramatic and disruptive changes in the structure of the firm, causing turnover of executives and employees and altering the competencies and skills required for operations. When a company is merged or acquired, as many as half the managerial and executive positions become redundant, and the incumbents are virtually always let go. Organizational structures are reconfigured, and their job ladders are broken, as are the career paths of those on them.

Developing the new company target operating model and translating this into processes, organization structure, team and job descriptions and governance processes is challenging. Banks that begin to master merger integration at scale and speed by figuring out optimal organization models will have a unique competitive advantage in the new financial services environment. First and foremost, the operating model design of the merging and newly integrated company must be reconfigurable and agile. And human capital must be at the forefront as one of the main drivers of the agile operating model.

Agile organizations can change ahead of the curve when it comes to planning and developing a workforce with the right competencies and in the right numbers. They have deeper strategic insight into their human capital, and can use that insight to proactively put in place the right workforces that can effectively respond to urgent marketplace needs. (For further insight on this topic, see Accenture’s publication “Creating an Agile Organization”).

**Repositioning talent**

As talent and skill gaps gain greater clarity during the execution of the transition, talent sourcing and repositioning becomes a key component of the larger talent game plan. There are various options to consider based on what may have the biggest impact financially and competitively.

Many firms become complacent about the sourcing and location of their talent over time. Those firms going through a merger have the impetus to revisit these strategies to see what could provide a talent competitive advantage.

**New skill requirements**

New regulation, changing customer demands, and market and media pressures are forcing banks to provide greater transparency, and increase focus on data management and integrity, as well as risk management. Consequently, quantitative analytics, auditing and risk management skills are now in high demand. Furthermore, implementing reforms requires banks to hire employees with specific skill sets to help ensure they will meet compliance deadlines. These burdens are especially acute for merging banks.

Merging banks must quickly identify key areas of the business where talent gaps may exist and look across both organizations for solutions. Senior leadership teams must focus future efforts on retaining the talent who possess the critical skills in short supply and, in partnership with recruitment, develop talent-sourcing strategies to procure and import talent with these increasingly important skill sets. One leading U.S. bank has routinely embedded such a process in its merger integration. Rather than beginning by eliminating duplicate and expensive senior talent, in each acquisition the highest priority is placed on retaining the resources with the most strategic and hardest-to-source skills.
In today’s environment, those skills typically are found in highly experienced senior resources with expertise in compliance, risk management, investment banking front office, or technology. Once these resources are secure, remaining needs are filled.

Low-cost locations
To cut labor costs without layoffs, it may be an attractive option to consider hiring new full-time employees in an existing or new lower-cost rural or non-metropolitan area. Typically in these markets, labor costs are lower, inexpensive corporate real estate is available en masse, and municipalities scramble to attract new businesses with business development incentives. The run-rate savings between a high-cost metropolitan location like San Francisco and a low-cost rural cost location like Sioux Falls, South Dakota, for example, can be as much as 40 percent. Non-metropolitan areas also bring firms, city officials, and employees into more intimate, face-to-face interactions.

Success is dependent not only on defining what types of resources can be moved to lower-cost locations, but also identifying the requisite skills for those resources along with the supply of skillsets available in local markets. Ultimately, making the transition to a lower-cost location could be done gradually and without significant business disruption by hiring new employees at the new location without having to relocate anyone. The high-cost location could close eventually through attrition.
Junior and senior resources

Another consideration in talent sourcing and positioning is re-thinking the resource mix required across junior and senior talent. For many junior skill needs, high unemployment rates and the wide availability of talent make hiring, especially millennial college graduates, less expensive than before the financial crisis.

Certain skills that are difficult to find often can be obtained more easily or at lower cost via non-traditional hiring sources. For example, a possible engineering shortfall in the United States can be minimized if corporation leaders recruit from community colleges. Community college students have great potential as engineering recruits, if they receive the proper amount of help from private companies. In addition, the programs can be used to help increase diversity as community colleges educate more minority and non-traditional students.

Of course, when hiring junior resources, merging banks must revisit performance management, training and retention processes and implement mentoring for junior resources, supportive supervision, and role model relationships. Upon hiring, a bank can pair up the junior resources with more experienced employees who may be close to retirement. In addition, several knowledge transfer techniques can be adapted for more effective cross-generational knowledge transfer in a multigenerational workplace. For instance, this may include using social media as a means of sharing information and insight and providing coaching between roles. Instead of participating in a training course to learn how to provide a service or become an expert in a certain area, many younger workers prefer to have a network of experts readily available that they can tap into to get on-demand answers. These methods drive down the cost of learning programs, increase engagement, and foster an environment of obtaining and cultivating key talent in an era where talent is a prized commodity.

When considering senior resources, companies should think about recent retirees, who represent an increasingly fruitful labor pool. However, if employers expect to address labor shortages by encouraging retirees back into the workforce, they will have to implement HR practices that are important to this group. Research has found that these individuals are drawn to organizations that provide HR practices tailored to the needs and desires of older workers.

Contingent labor sourcing

Merger integration is also an important time to review the firm’s contingent labor mix and consider the best strategies for employing contingent labor. For instance, depending on the length of time contractors have been employed by the company, it may be cheaper to hire them as full-time employees.

One trend Accenture itself has embraced is establishing a rural onshore delivery center in combination with an Indian reservation. The Confederated Tribes of the Umatilla Indian Reservation (CTUIR) andAccenture have formed a unique business model relationship, creating the U.S outsourcing business Cayuse Technologies. Together, both entities fulfill mutually beneficial business goals. Accenture provides Cayuse Technologies technical and financial expertise, and management assistance. Cayuse Technologies provides Accenture the ability to deliver competitive, on-shore, information technology services within the bounds of the United States.
It also is important to consider near-shore (South America) or offshore locations (EMEA and Asia), as they can offer attractive sourcing options as well. Factors to consider in such a decision include time to market, cost, labor pool, foreign exchange risk, time zone, cultural compatibility, political and economic environment, language, education system, infrastructure, data and intellectual property security and privacy, global and legal maturity, government support and more.

And finally, for higher-value activities, deep expertise and skills that are needed immediately, a bank should consider consulting options—in particular, those that provide deep knowledge in risk management, an area in which many banks find it difficult to hire full-time employees.

It’s a good practice to go through an initial effort to identify key talent and skills needed to complete the merger, then provide performance management incentives (such as bonuses and expanded responsibilities) to those individuals to stay committed to the integration efforts.

**Performance management**

Banks working through integration activities must focus on the long term when designing human capital strategies and supporting performance management practices, but they must also focus on the short term. Given the priority of developing a strong risk management culture, a bank likely will need to make long-term structural reforms in the way high performers are compensated and incented, with an eye toward sustainable business performance and effective risk management practices. Banks also will need to forge stronger links between reward systems and improved performance management practices, talent-development practices, and leadership development.

Banks must make a concerted short-term effort to ensure the key talent they need to actually complete the merger—from both organizations—stays engaged and committed to the effort throughout. It’s a good practice to go through an initial effort to identify key talent and skills needed to complete the merger, then provide performance management incentives (such as bonuses and expanded responsibilities) to those individuals to stay committed to the integration efforts. Keeping key talent engaged and challenged during the early parts of the merger can help them see a chance at a strong position once the dust from the merger settles—therefore maintaining that key talent in house for the long term.
Conclusion

Mergers are challenging in the best of times. Determining how to put an effective human capital strategy in place as part of the process—and not after the fact—adds to the challenge and complexity of merger integration. After all, it is tough to focus on talent when there are many more quantifiable areas needing attention that can reap immediate benefits or cost reduction.

But a merger is a prime opportunity for a company to restructure its human capital strategy, retain the best talent available, and build the risk management culture needed for future success. A well-constructed human capital strategy deployed during M&A can help solve a bank’s financial and regulatory challenges and position the institution for long-term competitive advantage. Companies that figure out how to optimize the human capital balance sheet alongside the financial balance sheet during a merger will be better positioned to excel in their journey toward high performance.
References


About the authors

**Katherine LaVelle** is a managing director responsible for the Accenture Capital Markets management consulting practice globally with a specialty in talent and organization solutions. Katherine’s leadership experience driving large scale learning, merger integration, human resources strategy, operating model and workforce transformation projects has been instrumental in developing and implementing innovative solutions for many large financial services companies. She also specializes in implementing multi-country, large-scale and complex change programs in capital markets and retail banking. Katherine is based in Washington D.C.

katherine.d.lavelle@accenture.com

**Tyler Degenhardt** is a senior manager specializing in talent and organization solutions for clients in the Financial Services industry. In his work with six of the top eight US banking and brokerage companies, Tyler has managed mergers and acquisitions, stakeholder management, communications planning and execution, and training development and delivery. Tyler is based in Charlotte, North Carolina.

tyler.w.degenhardt@accenture.com

**Christian G. Ballerstaller,** an Accenture Talent & Organization Manager and **Ty Burton,** an Accenture Talent & Organization consultant, also contributed to this article.
About Accenture

Accenture is a global management consulting, technology services and outsourcing company, with more than 244,000 people serving clients in more than 120 countries. Combining unparalleled experience, comprehensive capabilities across all industries and business functions, and extensive research on the world’s most successful companies, Accenture collaborates with clients to help them become high-performance businesses and governments. The company generated net revenues of US$25.5 billion for the fiscal year ended Aug. 31, 2011. Its home page is www.accenture.com.

This document is produced by Accenture as general information on the subject. It is not intended to provide advice on your specific circumstances. If you require advice or further details on any matters referred to, please contact your Accenture representative.