Who Do You Keep After A Merger?
Staffing strategies for smarter acquisitions.

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Mergers have become a big part of the banking landscape. The number of banks and savings institutions in the US dropped by 10 percent between 2004 and 2009, due to a record number of struggling banks either closing or merging with financially healthy ones. Increasing regulation could lead to more consolidation among community banks as well. The upturn in activity has continued in 2011, and is expected to increase through 2012. This merger and acquisition strategy is posing new questions for today’s banking leaders. Determining which employees to keep in a bank merger is no easy task. In most cases, there are different cultures that exist within the two banks; yet, there is a need to leverage the best practices of both organizations. Your goal is to ensure retention of key intellectual and relationship capital while maintaining business momentum.

At the core of determining your employee retention strategy is to establish a 100 day plan that enables you to take action as quickly and organized as possible. “Once executive recruiters hear of a merger, the light bulbs start going off,” says Chris Gottlieb, a partner at KPMG who runs a group advising clients on business issues related to mergers and acquisitions. “The pressure is on the management team because that is a time when, on average, companies are vulnerable to losing people. Employees will overthink what this merger means for them. It’s common knowledge that in the first six to eight months of a deal, companies who do not effectively communicate their goals are at a risk of losing some key people.”

70% to 80% of all mergers fail due to the company’s inability to successfully combine and resolve the people issues. A study published in the July/August 2008 issue of the Journal of Business Strategy suggests that mergers and acquisitions destroy leadership continuity in target companies’ top management teams for at least a decade following a deal. The study found that target companies lose 21 percent of their executives each year for at least 10 years following an acquisition – more than double the turnover experienced in non-merged firms. If the businesses of the acquired and acquiring companies overlap, such turnover is to be expected; after all, there can only be one CEO, CFO, COO and other key executives at a time. In that case, making the transition for the senior people who will not survive is just as critical as retaining key executives.

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A merger is a time for extensive communication.

It’s important to realize that it is a very stressful time for people on both sides of the merger or acquisition. Frequent individual and group communications provide a forum for concerns, issues, and opportunities to be shared rather than tabled for later review. During a merger and acquisition, it is more important to over-communicate to all involved. In many cases, management plays a major role in a merger or acquisition. "Management is key to the acquisition targets of private equity today." says Carl Streck, CEO of Mountain Seed Advisors, an advisory and appraisal management company that has done valuation work on Central Pacific Financial, Bank of Hampton Roads and others. "In our business, valuation is the driver of the transaction pricing, but if great management isn't in place or can't be put in place a deal never gets to us".
Timing is also important, since many merger and acquisition deals move quickly. Retaining the right people, even if it’s for a transition period is important to be handled swiftly as well. Carlos Eduardo Orozco President of Strategic Support.co who has helped many companies through this transition says, “I have concluded that the overriding factor in these cases is to decide quickly, even at the risk of making some mistakes. In the dilemma between speed vs. correctness, I strongly favor speed, as the damage of appearing to be indecisive is immense.” Decisions need to be made quickly in order to swiftly re-focus on the needs of the overall company that is being formed by the merger. You will need to design an attractive retention and departure incentive package, to ensure motivation and enthusiasm for a task that will soon end.

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In one recent situation, a bank acquired a competitor with the objective of consolidating operations, branches and other services. The CEO of the acquired company was 58 years old and was originally looking forward to benefiting from the bank’s supplemental executive retirement plan that paid out benefits at age 65. The acquiring bank was able to work with Meyer-Chatfield who was able to fund the balance of the seven years until retirement. This did not increase the already accrued benefit liabilities. The CEO agreed to stay on for six months to help with the transition, and was happy to receive this benefit as part of his departure. The plan also paid his benefits to him outside of the reach of the acquiring company’s creditors, so he didn’t have to worry post-merger.

Develop a process to help.

Success in developing a retention plan relies in building a process. A number of CEO’s with merger and acquisition experience provided guidance on this topic.

1) Before entering the deal, have an idea of the types of skills, experiences, structure, and culture you want to have in place after the deal is done. Know what you expect of the new company.

2) Prior to meeting people, get a resume and HR file on each person and a report on how they have performed vs. the objectives they were given and the objectives of their role/department. The point here is to distance yourself from the personalities to look at the characteristics that you need within your organization.

3) When you meet the people, have a well-planned list of interview questions that range from understanding what they have done to some behavioral case studies based on their experience. This enables you to judge both their work skills and people skills in defining the type of culture/environment you want to create after the merger. Know the corporate culture you are creating and find the people who can best perform in that environment.

4. One of the first areas to focus on, are those employees who bring valuable technical skills to the organization. These skills typically are not easily duplicated and therefore represent skills that could be more difficult to replace.

This approach enables you to get a better glimpse into your potential resource pool. You’ll better understand what each person brings to their role and how it fits into the overall bank goals. However, keep in mind that even those people you want to keep may already be exploring other options.
A direct by-product of the merger and acquisition process is an increase in employee turnover. It’s a fact of life that, whether planned or not, there will be merger casualties. It will be important for the bank to design retention programs to retain those executives and personnel whom you know you need in order to achieve the goals of the merger or acquisition. These programs come in all shapes and sizes and must be designed around the bank’s objectives.

The importance of retention incentives.

Financial remuneration and retention incentives during a time of merger or acquisition are very important. You want to make it difficult for the competition to hire the people you have selected away, especially during the critical time of integration. Similar to a sign-on bonus for new employees, a retention incentive provides an incentive for the existing, retained employee to be motivated to stay and perform in the same or different position. This approach encourages quality personnel to stay at the bank during this critical transition period. One way to do this is to establish a nonqualified deferred compensation plan, or amend your current plan. In a recent plan designed by Meyer-Chatfield, they structured a plan with the employer contributing a percentage of the executive’s salary. Typically, this is between 25%-50% of their salary and includes a payout plus the earnings thereon to be paid after four years.

The plan allowed the executive to make an election one year prior to the payout and to re-defer for at least five years. There was an added incentive beyond the tax deferred growth, as well. The program was funded to make the cost nominal to the bank’s shareholders and attractive to the employee. The plan clearly showed value to the shareholders.

Most of the time, merging companies can survive operating with fewer people, but not fewer quality people. Don’t just sit back and let nature take its course so far as turnover is concerned. Act quickly. Know your intended results. Have a plan and process in place to communicate and motivate the staff to ensure that you will successfully be able to navigate through the complication of a merger or acquisition.

Your customers and attrition.

Finally, there is one other key component to consider when determining which employees stay and which employees go. According to a Deloitte 2010 survey on bank mergers and acquisitions, customer attrition is also heavily impacted during a merger. The chart below indicates the likelihood of customers moving at least one account with a 12-month period after a merger.

![Switching behavior post-acquisition chart]

- **Switched banks**
- **Likely to switch**
- **Somewhat likely to switch**
- **Non-switcher**
A customer attrition rate of 20-30% or more after a merger represents a major loss of potential value. The loss could potentially be greater because respondents who switched accounts tended to have more banking products and more assets. Those customers who switched -- on average -- have almost six financial products across their banking relationships; compared to four among those who did not change their banking behaviors.

Research indicates that those who have switched accounts are more likely to have investment and load products in addition to checking and saving accounts. 66% of survey respondents who had moved their accounts to another financial institution had investable assets of more than $100,000, compared to just 28% of those who had not switched. Simply stated, your wealthier customers are more likely to move accounts.

**Keep employees who hold relationships with key customers.**

These findings underscore the potential value at risk in any acquisition. A large share of bank profits is usually generated by 10-20% of customers who provide your bank with a greater share of wallet. If these important customers switch accounts after a merger or acquisition, a significant portion of the expected value of the deal can go with them. That is why it’s critical to retain employees who retain the strongest customer relationships, and to incentivize them to stay with the new bank. Who owns these relationships? In the community bank world, these key people could be outside directors who have influence, as well as internal relationship managers who impact positive relationships with your most valued clients.