Alexander Hughes
EXECUTIVE SEARCH CONSULTANTS
European Newsletter

MAURIZIO ZOLLO
Post-acquisition Talent Retention: Art or Craft?
PAGE 2

CHRISTIAN MERLE
Creating a Model in Italy
PAGE 3

SEARCH

N° 24

EDITORIAL

Post Merger Talent Management

Companies that do a better job of attracting, developing, exciting, and retaining their talent can boost their performance dramatically, a twenty-two percentage points higher return to shareholders than their industry peers (according to recent research done in the US by Mckinsey). Only few companies have been managing talent effectively for some time.

In a merger situation, which can become a key aspect of the success, Companies need to fundamentally shift their perspective on every leader's job.

HR leaders have a much more strategic role to play in the merger, arguably one equal to that of the CFO. HR executives should partner with line managers who will need guidance in strengthening their talent pool. They should also help forge the link between business strategy and talent; people want and need to feel valued as a productive part of the institution. When they aren't, they become demoralized, they are more likely to leave the company, and their performance invariably suffers.

Every leader at all levels can and should be a people developer. Their companies should make people development a requirement for every leader. Managing talents in a merger period is crucial, and yet can prove difficult.

We at Alexander Hughes have developed a tool used by many of our clients to evaluate the management team of a company to be acquired, and we often come with a warning signal to our client.

Through many years of operations, we have experienced that a tight management of the merged team can save months of turmoil not to mention money. This is the theme of this news letter. Prof. M Zollo has gathered his knowledge on how to do it ideally and we then have interviewed Dott. Ch Merle to talk to us about his recent experience in Italy where he merged 3 banks of very different origins. ■

Michel Rosset
Amministratore Delegato
Alexander Hughes Italia spa

Post-acquisition Talent Retention:

MAURIZIO ZOLLO is Associate Professor of Strategic Management (INSEAD)

Anyone who has been involved in a post-acquisition integration process does not need any convincing: the retention of talent is one of the hardest parts of the process, and one for which we have probably the least amount of guidelines. From a personnel standpoint, acquisitions are essentially a huge hiring exercise, with thousands of simultaneous recruits without any interview, without any evaluation of skills and attitudes, and in most cases without any clear idea of what all these people will be supposed to do once the merger is finalized. A nightmare for any discriminate HR manager.

Now add to this the well-known fact that the best people in the acquired company will be the most attractive on the labour market, and will therefore be the first ones to leave, should they decide to do so, leaving therefore the worst behind (a phenomenon academics call "adverse selection"), and one has a sense of the magnitude of the challenge. The extreme example of this situation, is when the acquirer selects the functions of the acquired company that are deemed to be redundant (and therefore rapidly dismissed) but cannot keep the people in the functions (such as R&D, in this case) which are the key reason for the acquisition.

What can be done, therefore, to limit the risk of finding out one day that the key value creators in the acquired company have left and the remaining ones are those that you were not quite sure to keep.

It can be summarized as follows:

1. Make keep/drop decisions superfast to minimize uncertainty and anxiety in the acquired company's personnel

2. Build highly powered incentives for those you decide to keep and cannot afford to loose

3. Communicate frequently and rapidly in order to show goodwill, further reduce anxiety, and build momentum by leveraging examples of early successes.

Some of the problems with fast decision-making processes are pretty obvious: the quality of the selection process is directly dependent on the quality of the information on which decisions are based. Gathering high quality information about people's skills and relationships, requires time and dedicated efforts. Also, the quality (and the speed) of the results in the implementation phase might be inversely related to the time invested in the decision-making process.

Other problems related to decision-making speed are less obvious. Tailoring the highly powered incentive systems to the interests and profiles of the key staff is by no means a fast (or easy) process. Even more importantly, one of the best way to retain people is to credibly show that they have a voice and that their opinions are paid attention to. Hard to do when the priority is to get all decisions done within a few weeks.This requires time and the investment of skilled resources.

"From a personnel standpoint, acquisitions are essentially a huge hiring exercise."

The second piece of "common wisdom" lies with the resulting diversity that this creates within the combined organization. Can the acquirer afford to reward people differently depending on whether they were "acquired" or internally bred? How much tolerance for diversity really exists within the acquiring organization so that these differences are more likely to be considered "business as usual"? Finally, how much of a focus on collective performance exists within the acquiring firm, so that differences in individual rewards can be accepted as long as they are balanced by corresponding advantages in performance for the combined company?

These questions betray one of the least appreciated facts in the management of post-acquisition integration processes: success depends more on the acquirer's traits than on the acquired company's ones. It is not only a question of the acquirer's cultural traits, but also, and perhaps primarily, on the acquirer's integration capabilities. For example, an important factor that influences talent retention lies in the acquirer's capacity to anticipate the design of the integration process (including the new organizational structure, the degree of alignment in the operations, the overall timeline of the expected events). This is only possible, however, if the acquiring firm has developed procedures and specialized skills related to the management of the integration phase. Have they developed a process, an effective communication plan, an adequate set of performance metrics, which would allow them to control the process as it is being implemented and capture the

Maurizio Zollo

Art or Craft?

ALEXANDER HUGHES EUROPEAN NEWSLETTER
Editor in Chief. Maurice Rozet
Editorial Committee. Richard Aeschmann, Gérard Arnold, Robert Baldwin, Miguel Codina, Michel Garretta, Dick Hawkes, Tony Inglis-Arkell, Michel Rosset, Elizabeth Thomas
International Coordination. Emmanuelle Denis
57, bd de Montmorency – 75016 PARIS
Tel.: +33 (0) 1 44 30 22 00
Fax: +33 (0) 1 42 88 33 95
www.alexanderhughes.com
e-mail: info@alexanderhughes.com
Offices in Europe. Amersfoort, Barcelona, Berlin, Brussels, Frankfurt, Geneva, London, Lyons, Madrid, Milan, Paris, Rome, Seville, Turin, Zurich
Printed August 2002 • n°24
graphic designer **tetienne@club-internet.fr**

key learning points afterwards?

The other major message that comes strong from some recent empirical studies is one of tailoring. There is obviously no one best way to manage the complexities of the post-acquisition phase, particularly when subtle issues such as talent retention are of primary importance. Each key decision making up the integration approach, whether it is about the degree or the speed of integration or the decision-making style adopted, needs to be tailored to the primary mechanisms for value creation, to the business and cultural characteristics of the acquired, as well as of the acquiring, company, to the level of expertise in the management of the integration process developed by the acquiring firm.

Talent retention will probably never become a "non-issue" for any acquirer who rely on revenue enhancement as an important source of value creation. It is clear, however, that many acquirers such as Cisco, 3Com, GE Capital and Banc One, have mastered the "art" of retaining the wanted talent and have been able to turn it into a learnable managerial process, much more of a craft than an art. By paying attention to tailoring their integration approach and devoting sufficient resources to the post-integration learning activities, therefore, any acquirer can become sufficiently skilled to avoid major surprises in both the quantity and, even more importantly, the quality of the personnel targeted for retention who actually stays and actively contributes to the success of the combined organization. ■

[INTERVIEW]

Creating a Model in Italy

Interview by M. Rosset and S. Orlando, June 19, 2002

Christian Merle is Amministratore Delegato for the Group IntesaBCI

You've carried out a number of mergers to create IntesaBci. Can you tell us about the difficulties you encountered?

IntesaBci was created between the end of 1997 and the beginning of 1998 by merging CARIPLO and Banco Ambrosiano Veneto; COMIT (Banca Commerciale Italiana) joined the group a very short time after (i.e. in the spring of 1999), following a stock market warfare.

For a long time, COMIT had been considered the "jewel" of the Italian banking system, because of its dimensions and its international mentality and projection. It had all the characteristics to become the main actor in a merger operation; but, as a matter of fact, things went differently.

When COMIT joined the Group, it became clear that the federal model we had used to integrate CARIPLO and Banco Ambrosiano could no longer work: a real merger was the only viable solution to create a new identity – the identity of IntesaBci.

Of course, by deciding to merge the three banks, we accepted the risk that people who could not adapt to the new situation would gradually leave the bank. For sure, the last two or three years marked a turning point for all the banks in the Group.

We had many problems to solve and many difficulties to overcome, but we also had great satisfactions – first of all, that of creating the largest banking group in Italy, and the first one organized according to a modern divisional model.

And what about at the international level?

The events on September the 11th clearly complicated the scenario, but there are few doubts that IntesaBci has never enjoyed the status of a global player – even Crédit Agricole, which is ten times bigger than IntesaBci, could not be defined as "global".

We have to concentrate in Europe: there is little scope in being present in Latin America, if the bank is not strong enough in the domestic European market.

This implies a realistic re-definition of the company's identity and plans, in line with its characteristics and possibilities – a difficult exercise, since it has also to be demonstrated that refocusing does not mean downsizing the company's role and image.

How did it translate into people management?

The initial reaction was trying to ignore the fait accompli and continue acting as if nothing had changed, yielding to the temptation of the "reverse takeover" – that is to say: "Ok, we have merged, but in reality we are still in command in our internal fortress".

We are in the process of coping with this attitude, to create a truly new and integrated company.

Even if it could sound like a paradox, the resignation of some senior managers could help overcome the "fortress problem".

At present, we probably still have some key vacancies in the specialized divisions, since a few people left to join e-banking start-ups.

Did you put in place the resources to retain human potential?
Generally speaking, we have been successful in retaining the executives we were most interested in. Mostly, losses in human resources were due to market conditions; it is not easy to retain people whose professional profiles are very much in demand, especially when they feel uncertain about their future in the company. We currently have enough "generalists" – but need "specialists" to manage the divisions we have created.


Christian Merle

Have you created a reservoir of talents?
Yes, we have a reservoir of young graduates to perform centralized and specialized functions; to this scope, the world of consultancy proved an interesting basin of talents.
The real difficulty is in the retail network. Young people at the branch know much more about the Internet, for example, than the branch manager himself; moreover, it is difficult to find exactly the kind of managers we need, since we (and other competitors) are creating a model that is absolutely new for Italy.

Do you have a system whereby you delegate responsibilities to managers to create a reservoir?
This is obviously our goal – to create management skills but also to effectively manage a huge and widespread group of people and activities.
At the dimensional level of the typical operating unit, managerial responsibilities are delegated, not only with regard to human resource management.
For instance, the M.D. has to be sure to have appointed people who can take the right decisions; top management must ensure that carriers do not depend on being "near the sun" (i.e. on being part of the M.D.'s staff).

> "This means that every manager must build and manage a talent pool"

Has the rate of departures changed over these last few years of turmoil?
We had a certain acceleration, but not of unmanageable proportions; we also did some recruiting, as I explained earlier.

Is the management of a talent pool among the criteria you judge your different grades on?
This is a sensitive area, since young talents joining the bank have high expectations.
Evaluation is a delicate problem. Giving senior executives the impression that they had been selected to be part of an elite does not improve performance; we "deify" them.
Evaluation is a subject we are paying great attention to.
Reforms are under way; the systems are probably not as detailed and constraining as in the consulting job, but it's still a major objective.

It's also linked to variable pay.
Yes, and this principle is well established, both for the front desk and the staff personnel.
There has always been variable pay. The problem is to make it really variable, not only for managers but also for future managers – and this means that every manager must build and manage a talent pool. In doing this, each department is autonomous.

All this took several years?
Certainly, but it is essential to keep in mind the context.
First, the internal context: acquisitions and mergers – to accelerate the process, we had to turn to consultants for assistance. Second, the external one: in the Italian banking system there have been more changes in the last few years than in the preceding forty (privatisations, deregulation, consolidation, etc.).
Consider also that interest rates fell from 12% to 3% in two years, in order to align to core-European levels and enter the Euro area, putting pressure on banks' profits.
Italians sometimes forget that these goals (i.e. convergence and the transformation of the system) have been reached in France, for example, in ten years; doing in just three or four years what others have done in ten is bound to create some turmoil.

> *"Creating the largest banking group in Italy"*

What are the areas on which the merger had a negative impact?
The main difficulties are with the clients, who initially perceive only the external aspects and drawbacks of the changes (such as changes in procedures, etc.); this can lead to losing some clients. But it is only a matter of the time needed to complete the reorganization and cultural change. Having said this, I want to add that Italian people proved very efficient in managing the complexity of the integration process. I have an explanation for this, maybe too simplistic: having this lucidity, this creativity, Italians can reach remarkable performances in a context that is highly organized – like the Anglo-American model.
It is a kind of safeguard, which allows them to control their individualism, so they can use it to serve the structure.
Leveraging on this – let us say – "disciplined creativity", we have been able to reach important results in a very short tikme span: by merging the three banks, we created a single and modern institution, multispecialist and with the largest multichannel distribution network in Italy. ■