How to Destroy a Bank
by Charles B. Wendel

Not long ago it was one of the most respected banks in America. It had demonstrated years of consistently strong earnings and housed an enviable list of clients. Some clients even saw banking with them as a rite of passage that proved their professional success.

But in a remarkably short time both the bank's performance and reputation fell into decline.

The bank's management had avoided acquisition offers in the past, but finally a foreign bank made a Godfather offer, one that had to be accepted by the management and the Board. Beyond the price the age of the smaller bank' top management also played a part as did the opportunity for all shareholders to cash out with a sweet profit. In some cases, management also was given multi-year contracts to remain in place and help with the transition to the new management. And perhaps the management sensed there were some potential problems that might require bigger pockets to solve them.

The new owners were BIG, well more than ten times the size of the acquired bank and, apparently, with at least ten times the bureaucracy. In their much smaller market, the BIG bank was a monster player and well respected. However, many analysts viewed their previous venture into the US as far short of a success. This time, however, results would be different. They had bought a high-quality player with a team that had proven its success.

Initially, the acquisition appeared to go well. At first the foreign owner kept its hands off the bank, allowing the existing management team to operate as it had in the past. Inevitably, however, the owner began to exercise its ownership rights, requiring new and more detailed reporting and beginning to seed its own people into the staffing mix. Perhaps it saw some warning signs it felt the need to address.

And time was passing. Many of the senior executives, some having put in decades at the bank, saw the light of wealth at the end of their work tunnel. Once their contracts were up, the exit began. For various reasons the people who had created and fostered the successful culture were no longer there. The BIG bank replaced many of these people with its own staff or reached out to some of the largest U.S. banks for replacements. Some of those new bankers brought their support staffs with them, both adding another bureaucratic level and, potentially, a level of infighting with silos at which bigger banks excel.

Worse, some of the new employees from the big banks seemed to view current employees with a degree of condescension. After all, the bank they were joining was much smaller than their old home and, in their view, may have lacked the necessary sophistication. The net result: some employees were pushed out. Others, either reading the tea leaves or feeling alienated from a bank they once considered unique, retired, or jumped to other players. At one point it had been difficult for competitors to attract top performers from this regional, but no more.

In summary the situation at the acquired bank included:

- Old leadership gone
- Internal credit and risk experts retiring
- New but inexperienced top leadership that brought in its own bigger bank approach

- Other new managers joined, some lacking a strong understanding of and perhaps respect for the smaller bank, its people, and culture
- An increasingly alienated employee base with multiple attractive career alternatives outside the bank
- Insufficient communication between internal groups
- A foreign owner possessing undeserved confidence in running a U.S. bank
- And a fiercer regulatory environment in the face of economic volatility

What could go wrong? Of course, quite a lot. Regulators have been focusing on the bank. Because of ALM and credit issues, without the big banks support, some observers now think the U.S. bank’s future would be in doubt.

Today, the BIG buyer finds itself in a turnaround situation. It should likely change some of its initial hires, break internal silos, and work hard to create a culture that can even come close to the strength of what has been destroyed. At the same time, they need to manage regulators who see blood in the local water and a weak local bank supported by a deep-pocketed owner.

Did this have to happen? Of course not. A more detailed due diligence process (in part with greater independent focus), better hiring, and a more culturally sensitive transition plan, among other actions, would have gone a long way to avoiding this problem.

By the way, there is nothing wrong with bringing former big bank personnel into a smaller institution, but the selection process requires more rigor and less focus on a “name” bank and greater concern with the fit of potential hires with what made the bank successful in the past.

This bank will survive, but what may have been destroyed is its unique value proposition and the close relationship it once had with clients. If that’s gone, they’re just another bank.

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