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Creating A 'Win-Win' in M&A, Part II: BB&T's Approach to Negotiation, Integration

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When the potential partner was interested in discussing price, we shared our analysis of the economics of the merger from both our and their perspective and how we had arrived at the price we were willing to offer. One important area was to discuss potential cost savings. Some of our competitors in the acquisition business would justify paying higher prices by assuming very aggressive cost savings. We would point out that their cost savings looked as if the merger partner's employees would be losing their jobs. Also, we would ask what would happen to their business and their customers if such aggressive cost savings were implemented.

Our experience indicated that an acquirer who paid too much for one company would pay too much for the next company and would be forced to cut costs too aggressively, which destroyed the business it had acquired. If the shareholders of the first acquirer held onto the stock of the acquiring company, which many community bank shareholders would do, partially for tax reasons, they would be worse off in the long term. For example, First Union was a very aggressive acquirer; the sellers ultimately were sorry in the long term.

In general, we were not interested in bid acquisitions in which price was the primary criterion because that type of mindset often represented a cultural difference between BB&T and the potential merger partner.

Our calling effort was very systematic because we were selling the culture and long-term performance of BB&T, not the maximum short-term gain. Burney [Warren] and I would call on companies every quarter and let them know we were interested, following their performance, and keep them up-to-date on BB&T. In the case of one of our larger acquisitions, we called on three different CEOs over a period of almost 15 years before they chose to sell. However, when they chose to sell, they only talked to us.

The post-acquisitions process is as important as the pre-merger strategy. Some mergers fail because they are intrinsically destructive deals. More mergers fail because of how the employees are treated after the merger is announced. It is critical to understand that the most valuable asset a company has is its employees. We systematically refined our process through a Total Quality Management procedure as we learned from each of our mergers.

On the date a merger was announced, we would hold an all-employee meeting in smaller companies and an all-manager meeting in larger businesses. Where it was not practical to have all employees attend, we would prepare a DVD for viewing by all employees the next morning.

At this meeting, the leaders of our merger partner would outline the reasons they had chosen to sell to BB&T. I would then discuss BB&T's strategy and culture with a primary focus on what it looked like to work for BB&T. We were very transparent to the employees about the benefits and the negatives of the merger from their perspective. Our goal was to eliminate as much ambiguity as possible. Ambiguity is more difficult to handle than bad news.

Our focus was primarily on how to make the merger work for the employees of the company we were acquiring within the context of the economics of the transaction. For example, when mutual thrifts (depositor-owned institutions) were acquired, we committed to keep all the employees of the thrift regardless of their job because these mergers were very beneficial to our shareholders.

In the typical community bank acquisition, we would commit to keep all the client-contact employees even if the merger was in a market where there were overlapping branches with BB&T, some of which would be closed. We knew we might have extra staff when the merger was consummated, but normal turnover would take care of this problem. The positive morale of the client-contact employees of the company being acquired would be transmitted to the client, and client retention and goodwill would more than offset the fact that it would take more time to realize the potential cost savings.

In the case of home office employees, it was not practical to guarantee everyone a job, as a number of functions would need to be centralized. Nevertheless, the goal was to provide as many opportunities as possible to potentially displaced employees. For example, we would offer positions to all satisfactorily performing home office employees who were willing to move. There was enough turnover in the total BB&T system to find positions for these mobile employees. Any home office employee who was willing to be trained to fill a client contact role would be given the opportunity to do so.

In a number of larger mergers we placed home office functions in the headquarters city of the company we were acquiring. For example, in the case of United Carolina Bank, we chose to locate our systemwide call center in the bank's headquarters city, Whiteville, North Carolina, even though this is a small town. When BB&T acquired One Valley Bank, we moved a number of home office style functions to Charleston, West Virginia. Even though on the surface these might not be cost-optimizing decisions, the morale benefits and the psychological impact in the markets were easily worth the cost. One interesting aspect is that the quality of employees in these locations was excellent and they were experienced bankers, so we were staffing functions better than if we were to hire marginal employees in BB&T's existing locations.

One humorous aside about the Whiteville location: when Bill Clinton was president, he wanted to encourage the expansion of the Internet to rural markets. He chose to visit Whiteville. However, because of our systemwide call center, Whiteville already had a world-class sophisticated technology hub. He did shake hands with our employees, and they loved it. He said their names, which impressed everyone. Of course, our employees wore name tags.

In addition to trying to find job opportunities at BB&T, we also had a first-class outplacement service for those employees who could not find a fit. Our goal was to find a job as good or better for the displaced employees than the one they had at the merger partner. We did not always have 100% success, but a large portion of displaced employees found comparable or better jobs.

BB&T offered a very generous severance package to any displaced employees. When [BB&T acquired Colonial Bank](), which was a transaction assisted by the Federal Deposit Insurance Corp., we were not required to pay any severance to displaced employees. However, we voluntarily chose to incur approximately $25 million in severance cost. The general principle is that the employees who stay will very closely observe how you treat the employees who leave. If you do not treat the displaced employees fairly, the employees who stay will assume you will not treat them fairly.

There are a couple of other aspects regarding how employees are treated that are critical to success. First, the primary reason employees fail in their new jobs is because they have not been trained properly. As indicated earlier, employee education is one of BB&T's hallmarks. In mergers we focused on training the employees from the merged companies so they could be successful in their new roles. When the conversion to BB&T's computer systems would take place, we would send experienced, high-performing BB&T employees to every new branch for a couple of weeks to deal with any issues with the system that the new employees might be unfamiliar with. The details are hard for individuals to remember when they move from training to the real world. These "buddy" relationships would often continue for years after the BB&T employees returned to their normal responsibilities.

Even though the Colonial acquisition was an FDIC bid deal and we did not know whether we would be successful or not, BB&T sent several hundred employees to the Colonial market the Thursday before the winning bid was announced. When we won the bid from the FDIC at 5 p.m. on Friday, a BB&T employee went to each Colonial branch to reassure the Colonial employees that we wanted them as part of the BB&T team. We expressed that we knew they were important and that their executive management may have made some bad decisions but that did not mean that the individuals in the branches were not excellent bankers.

We also tried to keep both employees and clients fully informed as we moved through the merger process. Because of bureaucratic red tape, it typically took six to nine months from announcement of a merger to consummation. This delay created much anxiety. I wish bureaucrats had to suffer the same unnecessary heartache. Anyway, we worked hard to keep everyone updated to reduce uncertainty.

In addition to a very rigorous process for employee integration, we had an extremely rigorous process for the system's conversions. A real disaster occurs if the clients' accounts are negatively impacted because of system mistakes. We had a "10,000"-step set of procedures to drive system conversion issues to zero. By the end of my career, system conversion errors were practically nonexistent.

John Allison is the president and CEO of the Cato Institute and a former chairman and CEO of BB&T. This article is adapted from his latest book, "The Leadership Crisis and the Free Market

Cure: Why the Future of Business Depends on the Return of Life, Liberty and the Pursuit of Happiness."