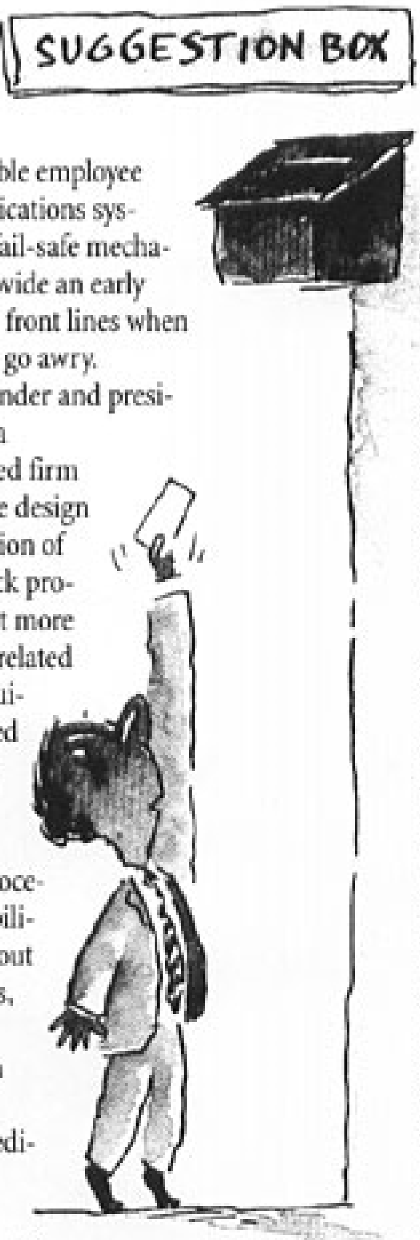
INTERNAL COMMUNICATIONS ARE KEY TO M&A SUCCESS

In the flurry of activity among banks to consolidate, improve profitability, and expand services, one board member responsibility is too often ignored, according to executive consultant Peter Lilienthal. That obligation, he says, is assuring that there is an effective, credible employee internal communications system in place—a fail-safe mechanism that will provide an early warning from the front lines when change initiatives go awry.



Lilienthal, founder and president of InTouch, a Minneapolis-based firm specializing in the design and implementation of employee feedback programs, warns that more than a few bank-related mergers and acquisitions have stalled or been derailed due to culture clashes, flawed decisions, and procedural incompatibilities. Almost without exception, he says, these problems should have been easy to identify and address expeditiously. So why weren't they?

"In most cases, it's because boards and senior management failed to consider the importance of [having] a viable strategy in place to gauge the impact of top-down-driven change on the organization," Lilienthal says. "It's a pretty fundamental issue, but, unfortunately, one that tends to be misclassified as operational and unworthy of board due diligence."

The employee perspective

Consider the front-line employee who works for a company that has just announced plans for major job cuts or yet another reorganization. How willing, Lilienthal asks, would you expect such an individual to be to step forward and provide feedback that might be perceived as critical or unsupportive of management? How enthusiastic might this employee be to discuss his or her concerns with a manager or pick up a phone and share frank observations with the human resources, audit, or legal departments without fear of reprisal?

To expect employees to use such conventional communication mechanisms as internal hotlines, e-mail systems, and suggestion boxes means that workers must have a great deal of trust in the organization as well as a willingness to take personal risks. "Unfortunately," he says, "these employee attitudes are rarely the norm. To the contrary, in most change-intensive companies, there's a sense of wariness and preoccupation with job security."

Simply look at the results of your organization's most recent employee survey, Lilienthal suggests. The odds are great that the data indicate employees don't feel empowered to share their perspectives and that management has little interest in their views.

A safe, simple solution

Against this backdrop, how can directors and senior managers assure that the emergence of organizational issues is being monitored? Lilienthal recommends switching to an externally administered communications system that is specifically designed for this purpose. Such outsourced systems are typically easy and comfortable for employees to use—and most important, he explains, they generate a significantly greater amount of candid feedback.

In addition, having a third-party communications system can provide an important level of protection to both corporations and board members personally. "As your corporate counsel can affirm, a growing body of case law, including the landmark 1994 *Caremark* decision, reinforces the desirability of having a safe, easy-to-use, and trusted communications channel of the kind that's extremely difficult to develop internally."

Get to know what can hurt you

At the very minimum, bank directors are well advised to make certain they understand how corporate change and its resulting impact are being monitored. It is much easier, Lilienthal says, to discover ineffective, unreliable communications channels at a time when they can be repaired in a proactive manner.

A strong internal communications system is the backbone of any organization. A successful one requires commitment from management and a reliable method for feedback that facilitates timely solutions. The bottom line: If you aren't aware of problems, you can't address them, and what you don't know can hurt you—and your bank. IBDI

Pocket Advice

In a climbing interest rate environment, what should directors be thinking about in terms of balance-sheet management?

Higher rates typically lead to lower loan demand, hence less balance sheet growth, but it varies depending on local economic conditions. Higher loan rates also can mean a decline in credit quality, since some borrowers, especially those with variable rate loans, may begin to experience debt service problems. Directors should keep a close watch on trends in loan quality and take quick actions to address loan-quality problems. They should also avoid extensions of maturities in either the loan or securities portfolio, since these assets are subject to large declines in value if rates continue to rise.

—DON MULLINEAUX, *DuPont chair in banking and financial services and director of the School of Management in the Gatton College of Business and Finance at the University of Kentucky.*

ILLUSTRATION BY STEVE BJORKMAN