

Banking talent acquisition and retention for private equity

For private equity firms looking to invest in banks, these lessons in attracting portfolio company executives are critical

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Wall Street has provided the general business world innumerable lessons over its storied history: from the natural check-and-balance of a free market system to the role regulation and risk mitigation play, when implemented correctly, in ensuring the former promote and protect the healthy economic growth of the latter.

Leadership, and the questioning of its shape, quality and existence in our current financial malaise, is a hot topic of discussion. Unfortunately, these discussions have overwhelmingly taken a negative tone, offering little in the way of constructive conversation and even less in the way of building better companies and solutions.

What cannot afford to be lost amid the current drumbeat of blame and political posturing is the central role that leadership plays in all aspects of the economy's overall success, especially within financial services and the private capital firms who now play integral roles in restoring the country's fiscal health.

As private equity looks to capitalise on these unique market conditions, it will have to work together with the current administration to find the best way to mold capitalism and financial innovation around an onslaught of federal regulations and restrictions. More than ever, it will fall on the shoulders of C-level executives within banking to provide guidance, design strategy and execute against a raging current of negative forces and populist bureaucracy.

The positive news for private equity in this regard is threefold – the potential acquisition opportunities within community and regional banking are at an all-time high, the valuations of these businesses and their assets (deposits and physical infrastructure) are near true lows and the senior talent needed to successfully guide private equity through unfamiliar territory (leverage, regulations) is readily available.

The identification and assessment of business opportunities and the subsequent ROI analysis are the lifeblood of private equity. To ensure success, private equity firms must attract and retain senior operating talent. But recruiting this talent demands more than a well stocked Rolodex.

Not all talent is created equal

Proven leadership in consumer and commercial banking has always been difficult to find and even harder to attract. True leaders are few and far between; most are wed to their companies due to compensation parameters or geographical constraints.

Three seismic shifts in the competitive landscape have altered this state of affairs: the collapse of money centre stock values, massive reorganisations, and a severe drop in morale at storied companies unused to such turmoil.

The stock value of the nation's top banking centres was down an average of 44.7 percent in 2008; the first month of 2009 alone brought about a staggering 17.4 percent decrease on top of 2008's brutal results. Banks, which have for generations fostered an environment of loyalty and reward for performance, have spent the last quarter dismantling a generation of talent and bench strength, most of it in the name of cost reduction.

While the market availability of people with C-level financial services experience has increased, this does not neatly equate to an increase in talent. In fact, it dilutes the talent pool and challenges those involved in the assessment process to sift through often inflated resumes and career achievements.

There are a number of proven competencies a C-level banking executive must bring to private equity. Among those are:

- **Deep experience over multiple cycles** – Success in a bull market often comes easily. Private equity firms must locate the executives who drove value pre-Greenspan and not only survived, but took advantage of, prior crises such as the Savings & Loan debacle. A track record of guiding proven “old school” innovations with a steady hand, combined with long years of experience, are in high demand.
- **Community banking experience** – Both community banking experience and national money centre experience are desirable, although it is not clear which is superior. One cannot simply paint all super regional and national money centre executives as out-of-touch corner office dwellers, nor are

all community or regional banking executives able to successfully work within the environment of private equity. Many of the super regional and money centre executives boot-strapped themselves up from smaller regionals, and through acquisitions and a career of hard work, earned their way to their current positions. There are certain attributes necessary to success in community and regional banking that are a great asset to the private equity model, in fact. These include:

- The ability to clearly communicate across all levels and responsibilities, from branch bankers through to finance and technology. There is nowhere to hide at a community or regional bank. You are your own mouthpiece, expected and required to work face-to-face with internal teams and external clients.
 - High energy level and enthusiasm. Community and regional banks typically have a hands-on culture where intangible assets are consistently measured as objective signs of the company's health. Charisma can carry the day at these institutions; force of personality is an exceptionally important trait of success.
 - True service orientation. The element of service is a major differentiator in community and regional banking and often the major selling point. Many claim to have implemented service-enhancing initiatives; few have actually gotten under the skin of the metrics and rolled up their sleeves
 - Humility and confidence, in that order. The emotional maturity and industry intelligence needed for success in today's market starts with humility and acceptance of a great challenge.
- **Community and regional banking sensibilities** – Green Acres was funny because Zsa Zsa Gabor had no clue how to interact in an unfamiliar environment; it's less funny for private equity and the employees and customers of community and regional banks when their executives fail to assimilate into their cultures. Knowledge of the community, the region, and the local culture are all success factors. There are definite unique traits that separate Northeast community bank leaders from their Midwest and Western counterparts. Private equity owners must recognize and respond to the unique universe in which their clients live.
 - **Specific hands-on banking skills** – As the economy continues to struggle, community and regional banks will see increased opportunities in consumer deposit and loan growth as well as commercial lending and cash management. With these opportunities come risks that need to be mitigated, and skills such as underwriting, risk management, and managing yields become mandatory for the C-suite. The key is to ensure that executives possess these skills, as opposed to just managing others who possess those skills. The limited infrastructure of community and regional banks demands a player-coach.
 - **Due diligence and teamwork** – The ability to partner with management ahead of the deal is paramount. When one considers the complexity of these deals and the potential downside to a bad investment, the pressure to bet on the right management team is enormous. Working with the other management beforehand on the identification and due diligence cycle provides an invaluable “dating” period for both potential suitors.

Foreign territory

Traditional private equity is built to work within dynamic environments that are subject to limited regulation. Banking, which is inherently leveraged and highly regulated, requires patience and specific leadership skills to guide the investment through a very different landscape.

The market will continue to provide many opportunities for private equity, including more fire sale deals and numerous healthy community and regional banks looking for capital to acquire and expand. But private equity and banking leadership teams have to fully grasp two new realities in order to take advantage of these opportunities.

The first is recent changes in regulatory behavior. Regulatory winds continually shift. Important trends to watch include the increase in “loss-sharing” deals and the success and acceptance of shelf charters as a path through initial regulatory hurdles.

The second is revolves around issues of “control” and “influence”. While there are objective measurements built around the amount of voting stock private equity may control before they become subject to banking holding company regulations, it is too early in the game to predict the right percentage of ownership vis-à-vis a guaranteed and/or acceptable ROI.

The FDIC, OCC and OTS have all signaled a willingness to discuss the flexibility of the current regulator environment. Regardless, operating decisions stem from the C-suite. This simply underscores the dramatic need for experienced, trusted leadership at the helm of these investments.

Setting expectations

There is a track record of success within private equity and community and regional banking. Belvedere Capital, run by former banking executive Richard Decker, has two successful funds in this space. Corsair Capital Partners, whose five senior investment professionals are all former global banking executives, possesses an impressive investment portfolio of banks and has proven savvy in ensuring its investments are well-protected.

Private equity should take advantage of this time to meet with C-level talent. Outside of managing a portfolio company, these executives may potentially prove a fit within private equity itself. Most seasoned banking executives have a litany of due diligence and mergers and acquisitions experience. Pair that skill set with a keen eye for the balance sheet and private equity may find its next investment professional.

The new administration in Washington has at least sent signals that it is open to innovation and creativity in the private sector, as it becomes actively involved in developing solutions to the current problems. No one has a crystal ball on where this exactly will all settle in the long term, so the best bet is to take full advantage of what the short term is providing – C-level talent with the experience and appetite for private equity. ■



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