Merging is no horseplay

Two million customers, 8500 employees, over 400 IT systems, two very different brands and a thousand ways that it could have gone very wrong. But, despite inevitable niggles, by any measure it was a smooth transition – the result of strong leadership. ***Amanda Schaake*** *speaks with ANZ New Zealand CEO David Hisco on integrating the ANZ and National banks...*

The most important phone call of David Hisco's career came just after lunchtime on October 27 last year. At the other end of the line was ANZ's chief operating officer Craig Sims. After two years of planning and build work by a team of hundreds of specialists across three countries, New Zealand's biggest Information Technology integration was as ready as it would ever be.

"Permission to go, Mr Hisco?" Sims asked the ANZ CEO.

The stakes were high. ANZ, New Zealand's largest bank, was moving more than 2.6 million customer records, 80 million transactions and $46 billion in funds onto a new IT system. With about half of all Kiwis having a financial relationship with one of ANZ's brands, the effect of getting it wrong would be felt across the economy.

But as he gave the green light for the conversion to proceed, Hisco was confident. "In the lead up to the change we kept going back to the six Ps," he says. "Proper prior planning prevents poor performance."

The IT integration was the successful conclusion to one of the biggest changes in the New Zealand financial sector in at least a decade.

A month earlier Hisco had announced that ANZ would be bringing the ANZ and National Banks together – in brand and in infrastructure.

Banks are, by nature, big and conservative organisations. They don't make change for the sake of it and don't usually have a reputation for innovative leadership.

But Hisco, 49, had arrived in New Zealand as ANZ's new CEO in 2010 with a reputation for making the hard calls. On a previous stint in New Zealand in the 1990s he sorted out UDC Finance and in Australia, he turned asset finance arm Esanda into a sustainably profitable unit. Strong strategy, backed up by clarity of message and ruthless execution.

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> **David Hisco, CEO, ANZ New Zealand, on the six Ps**

Merging ANZ and National Bank had been on the cards since ANZ bought the brand from Lloyds TSB in 2003. National Bank was a much-loved brand, well regarded for its strengths in customer service and internet banking.

At the time it was thought that operating the two brands would enable better market segmentation, capturing a greater share of the market. But over time the combined market share dropped from about 40 percent to about 30 percent.

"We had the ridiculous situation where we had branches across the road from each other with the brands competing against each other for customers and forgetting we had the same shareholder," says Hisco.

"The onset of the global financial crisis in 2008 showed that this strategy left us exposed. At a time when banks in Europe and the US were falling over, we realised that it was vital for us to be as strong as we could be – and we couldn't do that with two brands and all the duplication and cost that brought with it."

"The natural advantage we had of size and scale wasn't being used."

The road to simplification

The strategy was to be New Zealand's best bank by radically simplifying the business, stripping out duplication and focusing resources where they could be most effective in delivering better products and services for customers, achieving efficiencies, improving technologies, and making the bank lighter on its feet to respond to a rapidly changing banking environment.

Such fundamental change required the buy-in of about 1.7 million customers, more than 8000 staff, government and regulatory officials, media, unions and influencers. It also needed a leadership style that included a clear vision, an ability to engage across a wide range of groups and an understanding of the deep links people had with the brands.

Moving such a large group through a change curve couldn't be done single-handedly so a decision was taken early to have a de-centralised approach of engaging local leaders and managers. They – and not head office – were going to be the agents, the ambassadors, of change.

"If you want to deliver something big you have to trust your leaders," Hisco says.

"Having spent much of my career outside of head office, I'm well aware of what can happen when head office rolls out initiatives without proper engagement with the front line. You might get a result but you'll never really ignite a workforce from behind your desk.

"In all honesty, some days I did feel a bit out of control, but the sheer scale of the change meant we needed to de-centralise our engagement approach."

Hisco understood that the strong relationships the brands had with their customers were forged and maintained in the branches.

"The relationships customers had with the people behind the counter, the people they saw every week at kids' sports, and who they turned to for advice, was stronger than the colour blue or green. These relationships transcended brands because they were personal, and they are at the heart of an organisation such as ours.

"Having customer-facing staff engaged and believing in the change was vital. They – and not head office – had to be the heroes of our change." »

Sharing the vision

The de-centralised engagement approach is one that builds on research by Towers Watson (Towers Watson and Tom Lee, Arceil Leadership Communications). According to the management consulting firm, employees receive 61 percent of their information from leadership, 32 percent from systems and processes and only seven percent from formal corporate media.

The role Hisco and his executive team took was laying the groundwork. They covered the length of the country stopping at branches to meet the teams. They hosted road shows across the country's main centres (open to all staff, not just management) to share their vision for the change and to take time to listen to front-line staff's concerns and questions.

These sessions provided the first opportunity for many ANZ and National Bank employees, who had previously been deliberately kept apart, to meet.

"Some of our people had been living two doors down from each other for years and working across the road with a different coloured sign above the door, and they didn't know each other," Hisco says. "Once they started talking to each other they could see the benefit of working together. Sure, some people were really loyal to their own brand but when the majority are in favour of getting on with the change they help the others to get on board with it."

With the National Bank brand on license from Lloyds, and that license about to expire,

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employees had lived with the prospect of a brand change for some time. For many, the realisation that change was coming was a relief.

"I was pleasantly surprised. A lot of our teams just wanted us to make things happen. When we met the staff the overriding message they gave us was they were up for the change and just wanted us to get on with it.

"People smell indecision in leaders – it undermines you and the organisation."

Talking change, believing in success

That early engagement led to a catch 22 of sorts. While the brand change had been rumoured for some time, preparation work for the ANZ board's decision had to be kept within a tight circle to prevent competitors taking advantage.

Early engagement with leaders across the organisation meant non-disclosure agreements for 100 staff, but in the final week before the change that grew to a few thousand staff as branch managers were briefed. Hisco believes the fact so many people kept schtum so long was a testament to the fact they had bought into the vision and wanted the brand change to be a success.

What happened next was an accomplishment in logistics. Briefing packs were provided to all key leaders and relationship managers to guide them through potentially difficult customer conversations. The leadership team conducted phone conferences and online chat sessions with all staff.

In the 24 hours after the brand announcement, relationship managers made more than 100,000 phone calls to their key customers to talk through the change. Over 8000 hours were spent holding direct conversations with customers.

Hisco credits his optimistic leadership team with turning those potentially difficult telephone conversations into relationship-building opportunities. In addition, the outcome of the calls was not just customer awareness of the brand change, but an increase in product sales.

The brand announcement was swiftly followed by ad campaigns and relentless internal communications sharing the success stories.

"We developed the plan and made our decisions based on 30 years of banking intuition," Hisco says. "I changed the leadership team early on so we have the right team in place and then we put in the ground work to get closer to the front-line to understand what the change meant for them. Staff can see straight through the crap. They just wanted us to make decisions, be as open as we could be with them and get on with it."

Teething problems

A month later, the ANZ and National Bank IT systems were merged. Such an epic change

didn't occur without a few issues. Most core system changes take around two years, but the original plan was to merge the systems in late 2011 meaning the project would complete in under a year. The tight deadline galvanised many in the organisation into action, but it became clear as the deadline approached that much more testing needed to be done.

The drive to act as quickly as possible meant conflicts in priorities between New Zealand and Australian IT teams were overlooked, corners were being cut, planning wasn't as thorough as it should be and there was a lack of leadership in key parts of the programme.

Hisco and the team made the tough call to halt the merger.

The business regrouped and entered a stage of re-planning - strengthening resources in key areas, enhancing risk management and making changes to the project team. The changes, although adding intense pressure, paid off when the migration took place with almost no loss in system availability.

Combining the best of both banks

As expected, competitors tried to take advantage of the brand change to poach National Bank customers. ANZ was ready for this, to the point where its marketing team had prepared a series of fake competitor ads to show teams what they might be up against. And counter-attack plans were developed by the bank.

Despite fierce targeting by competitors, ANZ has minimised customer losses and avoided a dive in staff morale seen in many corporate mergers. In fact deposits and lending market share increased in the first quarter of this year, there has been no significant increase in staff turnover and staff engagement remains at all-time highs.

"We run a group engagement survey annually and measured employee sentiment regularly before, during and after the migration. It was by far the largest period of uncertainty and change and yet our people were supportive of the change. They told us that it felt like things were on the move and the bank was making progress. And we could see this in their behaviour.

"Communication and feedback from the front line was more open and frequent and new product sales were up."

So if getting leadership out from behind their desks was a key success factor for ANZ, how does Hisco feel it went?

"It was brilliant," he says. "I'm actually really proud of my executive team who took real accountability for their individual work streams; they got out there and got the job done without fuss. And I'm even more proud of our front-line people. They stood up to the fight, stood up to all the negative media and they held onto our customer base. They didn't do it because of the sign above the door but because they wanted to defend their turf and they're loyal to the customer.

"You can't ask for better than that really."

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Integration by numbers

One management structure

- 8500 employees and 17,000 shareholders in New Zealand.
- More than 130,000 training hours for staff members.
- No dip in employee engagement levels.

One customer approval process

- 2.4 million customer letters to advise of change.

One product set

- Over 320 products simplified to under 100 core items.

One brand

- 2.6 million customer records.
- 500,000 security records.
- 80 million transactions.
- $46bn funds under management.
- No loss in market share and customer numbers.

One technology system

- 290 pre-integration system updates released.
- 37,000 test scripts.
- Four dress rehearsals and one back-out rehearsal to get migration right.
- Over 400 core systems simplified down to 270.
- The bank was balanced to the cent.