European Foundation for the Improvement of Living and Working Conditions

EMCC company network

Managing change in EU cross-border mergers and acquisitions

Case example Santander and Abbey: Expansion enabling access to new markets

european monitoring centre on change

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The European Foundation for the Improvement of Living and Working Conditions organised a seminar for its company network on November 29–30, 2007, hosted by international bank Santander at its corporate headquarters in Madrid, Spain. In intensive discussions over the two days, 32 representatives from companies, trade unions, universities, research organisations and the European Commission discussed the management of change in EU cross-border mergers and acquisitions (M & A). The Santander-Abbey case was presented by Javier Bugallo, HR Director, Abbey and Juan Maria Gorostidi Pulgar, Director of Labour Relations for the Santander group.

Background to Santander and Abbey

Santander is a bank that has transformed itself: from being a middle player in the Spanish banking market 20 years ago, it is now a major global bank operating in Spain, Portugal, Germany, the United Kingdom and other European countries, as well as in Latin America. The group is currently the leading consumer bank in Europe and has over 10,500 branches globally (excluding those branches gained through the acquisition of Banco Real as a result of a deal with ABN AMRO). Santander is a technologically advanced bank, with an information technology platform that is regarded as a strong competitive advantage. Excluding Banco Real employees, the group currently employs approximately 130,000 people worldwide, of whom 50% are working in Latin America. There are also large numbers of employees working in the UK and Spain.

In terms of staff and human resources (HR), Santander has a global model; however, this model is adapted to local specificities and markets, and so is capable of being implemented successfully in many different countries. Strategically, the group strives to be a leader in terms of quality of life for employees, with a balance between work and personal life; it also seeks to provide opportunities for mobility and training throughout the organisation. Group members pride themselves on having an exceptional team of highly trained and strongly motivated employees as a result of this strategy.

Abbey is a UK bank that evolved from a building society. With 12 million customers and assets of GBP 177 billion, it is ranked the sixth largest bank in the UK by assets and the fifth largest by deposits (with a 9% share of the market). Reflecting its origins as a building society, it is the second largest mortgage provider in the UK, with an 11% share of the market. Furthermore, with 15% of the market, at the time of acquisition, it was the third largest provider of insurance protection products and has a large distribution network with more than 700 branches.

Background to the acquisition

Santander had significant previous experience in acquiring banks in other parts of the world, having undertaken acquisitions in Germany and Spain as well as Latin America. In addition, Santander had a strategic alliance with the Royal Bank of Scotland, which gave it knowledge of the UK market. The UK market is the third most profitable in Europe, after Switzerland and Ireland. Santander decided that moving into the UK market was desirable because it would make it possible to diversify and acquire a significant stake in one of the most attractive banking markets in the world. It was judged that the market itself had great potential for return and that this acquisition would enable the group to link its operations there to those in other countries.

The unit set up by Santander to manage its acquisitions is a compact team that searches for opportunities and is in contact with investment banks. Because of its small size and expertise, the team can respond rapidly to opportunities as they arise and work quickly on the integration and acquisition process. When Santander began the process of acquiring Abbey, a team of thirty people was put together in record time from a range of different departments across the company. Many of these people had experience in previous teams working on other acquisitions, giving them a solid grounding in what was required. Senior management was involved in the operations of this team on a daily basis, keeping a constant eye on the proceedings to ensure that developments were in the shareholders' interests.

The team looked at why Abbey would be a beneficial acquisition for Santander, and what value Santander, in turn, could offer Abbey. Santander's technological platform was an asset in the UK context, making it possible to increase the scale of banking operations there and build upon the group's exportable business model. Abbey, on the other hand, had a good franchise base that was not being used to its full potential; it was bureaucratically top heavy and its operational systems were not yet developed. It was concluded that the potential of Abbey's branches – in combination with Santander's business model and technological platform – made for a winning combination, giving the group a good entry point into the UK market.

The lead-up process

The lead-up process began with the approval of the initial takeover in 2004, and negotiations began in August of that year. The managing director in charge of the acquisition had a daily conference call during this period, in which between 15 and 20 people participated. The purpose of the call was to follow the operations closely and understand the process as it unfolded. Santander had to provide a great deal of documentation for the European authorities, develop a plan for the integration and reorganisation and show the full market implications of this acquisition. With the agreement of the Abbey board of directors, Santander continued to develop its plan over the next three months. The group announced the identity of Abbey's CEO in November and presented their proposals for issuing shares. The UK courts and the Bank of Spain gave their final approval to the deal at the beginning of November 2004. The entire process from initial interest to final agreement was completed in only 110 days. The final deal was worth €13.5 billion. This price gave a significant premium to Abbey shareholders, paying them almost 39% more than Abbey's price on the London Stock Exchange at the time that Santander announced its interest in the acquisition.

During the pre-merger process, Santander met with the Abbey staff trade union, ANGU, as soon as the group's interest in Abbey was published, in order to discuss employees' concerns. The first meeting, which took place 10 days after the Abbey board of directors had approved the group's bid for the company, focused on the issues raised by the union. These centred around pensions, premature closures of employee share schemes, job security, salaries and payments in 2004. The workers' representatives wanted to learn about the plans for wages and integration processes, and to what extent they could expect collective redundancies. It was suggested that Abbey employees should be integrated using incentives to ease the process.

The acquisition

After the deal was approved, Santander set about addressing the specific challenges that it had identified within Abbey, relating to the company's core activities, financial goals, potential cost synergies and cost–income ratios. A detailed timetable was drawn up for addressing these challenges, in a process which is still ongoing.

The second meeting held between Santander and ANGU also involved other Santander trade union representatives. This gave the two unions the chance to build relationships and work together. Most of the concerns addressed were very similar to those raised in the first meeting. However there was one significant addition: a request for the establishment of a European works council for the group. These meetings allowed Santander and the unions to exchange information and jointly define the priority issues for negotiation and agreement as the acquisition and integration processes moved forward. Throughout the process, Santander insisted that union cooperation was essential for the success of the acquisition and the transformation of Abbey, and the team worked hard to ensure that all relevant information was made available to the union as soon as it was legally possible to do so.

Challenges and how they were overcome

When Santander acquired Abbey it was losing revenue and struggling to retain its position in the market. However, through the implementation of Abbey's technological platform, the creation of synergies between the two companies and the development of new specialised services, Abbey has now regained a strong position in the highly competitive UK banking sector. It is currently growing at a rate that is above the market average. The bank is also on track to meet the three-year profitability target that was set after the acquisition.

Another challenge has been ensuring that relations with the unions and employees remain positive, while bringing about the comprehensive changes that have been planned. Parts of the bank (such as section dealing with insurance) were sold off and some synergies resulted in a reduction in overall staffing levels. Although this did entail some pain, the end result has been the creation of a lean, profitable bank with a stable future and considerable growth potential. The strength provided by Santander's balance sheet stabilised Abbey, giving it a solid foundation for the future. Abbey is now in a position to be able to invest in its employees to ensure their future development in the company.

Outcomes and lessons learned

Abbey has been able to disprove the myth that cross-border mergers and acquisitions do not create value and that the UK market is inaccessible to larger European banks. Although there are examples of cases where regulatory or legal barriers have prevented a merger from being successful, Abbey's performance after the acquisition shows that with a proper understanding of the local climate it is still possible to create value and profitability in foreign acquisitions. Santander emphasises that its success could not have been achieved if it had simply attempted to transplant a Spanish banking model to the UK; the group's detailed research into local conditions and culture and its willingness to change only what needed to be changed played a crucial role in the transformation of Abbey.

The implementation of a new commercial model by Santander has allowed the group to identify areas that can be improved and new markets into which it can move. The collaborative, multi-stakeholder approach adopted by Santander in its acquisition of Abbey has been vital for its success in weathering the difficult change processes that Abbey's management and employees have undergone and in achieving its strategic goals. Santander understands the importance of nurturing these relationships and has high hopes for Abbey's future as part of the group.

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