DPO-119-E
April 2008

Carmen García (A)

Managing a Dismissal

Juan López-Cotarelo
Javier Quintanilla

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> Pablo, this is getting out of hand. I want you to get the ball rolling on Carmen Garcia's dismissal right away.

Santiago Ortega, director of corporate banking Madrid at Commercial Bank España, made an angry call to Pablo Pérez, the human resources manager for his department. A few minutes earlier, José Fernández, head of the proposals department, had come into his office at his wit's end:

> Santiago, it won't be possible to get your urgent transaction with the electricity company out today. My people are overwhelmed. The department's three supervisors didn't show up for this morning's meeting. They want to know if we're jerking them around. They've been working until 9 or 10 at night every day for three months. And they mentioned Carmen García again. I've told you before, that woman is a serious problem. On top of being short of staff in the department, I have to deal with her. She drops her pencil at 5 o'clock and disappears whenever she feels like it. And of course, the others are paying attention.

Carmen García had once again been absent without notification notice?. At 10 a.m. on Tuesday, June 19, 2007, she'd been reached at her home and had told them she was leaving for Bilbao and wouldn't be back until Monday because her mother-in-law had an operation at the podiatrist's office.

Fernández pointed out that García had missed days practically every week for the last three months, almost always without notification. The problem wasn't just that her repeated absences affected the pace of work in the proposals department; it was also an example, clear to all, of a lack of commitment, at a time when the business was demanding a special effort of the department.

As for Ortega, he wanted to take urgent, forceful and exemplary action. In his view, the distractions of the merger had led to a period of indecision on human resources issues that some had interpreted as permissiveness. This was an opportunity to make it clear to the staff from Banco del Centro what disciplinary rules they were subject to.

Ortega expected Pablo Pérez to act quickly so that he could present García with a letter of termination on the day she returned to work.

This case was prepared by Juan López-Cotarelo, research assistant, under the supervision of Professor Javier Quintanilla. April 2008.
IESE cases are designed to promote class discussion rather than to illustrate effective or ineffective management of a given situation.

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Last edited: 24/3/23

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The Company

Commercial Bank was one of the top five banks in the United Kingdom. In 1976, it established a representative office in Spain and started using the name Commercial Bank España (CBE). In 1982, it entered the commercial banking business by acquiring a regional bank in crisis that had some forty branches. Starting with this small network, CBE pursued a growth strategy based on specialization in three customer segments: prime retail customers, SMEs and large companies. When Commercial Bank acquired Banco del Centro in April 2005, CBE had a network of 180 branches.

In 2005, Banco del Centro was a medium-sized bank with 350 branches throughout Spain and a strong presence in the capital, Madrid. With over a hundred years of history, it had remained untouched by recent waves of consolidation in Spanish banking and achieved a good level of organic growth. Its main business was with retail customers, but its position in corporate banking,[1] built on the close relationships it had traditionally maintained with the Madrid business community, was also important.

One of Commercial Bank's stated objectives in announcing the acquisition of Banco del Centro was to leverage the latter's strength in corporate banking to compete directly with the large Spanish banks.

Another objective was cost reduction. The plan presented to investors envisaged savings in overhead costs, but the main chapter focused on a reduction in personnel costs based on an adjustment of the workforce.

This adjustment posed a particular challenge as it had to be reconciled with a commitment to employment continuity that the bank made to the unions to ensure that there would be no labor disputes during the merger process:

> In processes related to the restructuring or reorganization of the new entity, only natural attrition and voluntary procedures will be used. Labor force adjustment plans will not be used. Nor will contracts be terminated on economic, technical, organizational or production grounds.

In accordance with this agreement, early retirement and voluntary redundancy were the only remaining tools for workforce reduction.

Corporate Banking

In most international banks, such as Commercial Bank, corporate banking teams performed two functions: On the one hand, they managed their own income statement, with basic risk products (loans, credit, guarantees, etc.) and transactional products (collections and payments); and on the other, they provided tailored support to large corporate clients, a role that required an in-depth knowledge of each client and its overall relationship with the bank in order to coordinate the business of other product areas in all the geographical areas where the bank and the client were present. The commercial structure was generally made up of industry teams, in which an industry manager supervised several account managers who dealt directly with clients.

Prior to their integration, there were some significant differences between the corporate banks of Commercial Bank España and Banco del Centro.

[1] Corporate banking is a type of banking that provides financial services to large corporations and businesses.

The first was size. Banco del Centro achieved an operating income[2] of €87 million in this business, 80% more than the €48 million achieved by Commercial Bank. However, CBE's corporate banking growth had been above 20% per annum in each of the last five years, while Banco del Centro had grown by an average of 8% per annum over that period.

The second difference was that Banco del Centro's corporate banking arm generated most of its income through lending, while Commercial Bank received a significant portion of its fee and commission income from transactional business and business generated in other areas (markets and investment banking).

Finally, the banks differed in terms of the profile of their managers. Banco del Centro's corporate banking arm was heir to a tradition of bankers, and many of its managers had illustrious last names and high-level social relations. CBE, in contrast, was composed of professionals with a good technical profile and outstanding commercial management skills.

The Merger

Corporate banking was one of the first business areas to integrate the teams of the two banks into a single unit. Although CBE was the acquiring entity and Banco del Centro the acquired one, they opted for a merger of equals when combining the teams to minimize loss of human and relational capital.[3]

Accordingly, a few weeks after the acquisition was finalized, CBE's corporate banking team moved into Banco del Centro headquarters on Calle de Alcalá, a magnificent early 20th-century building surrounded by other historic Spanish bank headquarters. A single chain of command and joint management boards were immediately established, responsibility for providing tailored support to clients was redistributed among the various managers, and a single brand name combining Banco del Centro and Commercial Bank was introduced.

The merged division had a staff of 156 people, of which only 36 had commercial or managerial functions. The distribution of staff is shown in Exhibit 1.

In terms of management positions, Enrique Falcó, former director of corporate banking at Banco del Centro, continued as director of the division, while his counterpart at Commercial Bank assumed responsibilities in another area of the bank. The organization chart in Exhibit 2 shows the result of the merger in corporate banking.

Santiago Ortega

Santiago Ortega, director of corporate banking Madrid, was a typical CBE manager. Aged 48, he had spent his entire career in banking. After completing several years of a degree in economics, he joined the commercial network of a large Spanish bank. There his responsibilities grew and eventually included corporate banking. In 1997, he joined CBE thanks to his long-time mentor at the bank where he previously worked, who had joined CBE to head its large corporate business.

[2] Operating income is the sum of net interest income (from the difference in interest rates applied to assets and liabilities), fee and commission income, and net trading income. In banking, it is the measure that is comparable to a company's revenues.

[3] Relational capital is a bank's capacity to generate business through customer relationships. In the corporate banking business, this capacity usually derives from personal contacts between the bank's senior management and clients.

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