

Interview with Cary Nordan, Triangle Capital Partners, Raleigh, NC

Cary Nordan began his career in the finance industry when he joined North Carolina Trident Securities as an investment banker specializing in mergers and acquisitions. This led to a transfer to Charlotte, where he shifted his field of expertise to the Information Technology (IT) industry. Shortly thereafter, he started his own consulting company, specializing in strategic marketing. He transferred back into the finance industry a few years later and worked for BB&T's asset management division, where he oversaw equities and mutual funds investing in industrial and technology sectors. Two and a half years later, he joined Triangle Capital Partners in Raleigh. He is also pursuing an MBA degree at Duke's Fuqua School of Business.

The interview took place over the phone on Thursday, November 18, 2004. The answers are paraphrased and made available with Mr. Nordan's permission.

A. Global-Local Presence

1. What is North Carolina's niche within the finance industry, both locally and nationally?

NC's finance industry has recently experienced a fairly significant and rapid shift of focus from financial products aimed at the manufacturing industry to the information technology industry. This did not come as a surprise, especially as more and more IT-related businesses have opened in North Carolina, and it seems that an increasing number of purely manufacturing businesses have moved either further south or even across the US border with Mexico. Accordingly, the financial institutions of North Carolina had to adjust to the market demand and start to focus on the more vibrant and growing parts of the economy, and that happens to be the IT and finance industry in North Carolina. Just to put a time dimension on this trend, and it happened extremely quickly, I started working for the finance industry less than 10 years ago, and I have noticed a clear shift in clients from several traditional NC industries, such as furniture and apparel, to very new companies entering mainly in IT, healthcare, and commercial services.

North Carolina's finance sector will continue to grow in the future as many of the large financial institutions, such as Wachovia and Bank of America, are expanding their market reach and product offerings to other regions of the United States. This can only have a positive effect on all of North Carolina, and I am thinking mainly twofold: it attracts more financial institutions to open up divisions in North Carolina; and it will attract more skilled workers into the finance sector. Overall, North Carolina is positioned very well for the finance sector in terms of the availability of intellectual property and capital availability. Just think of all those renowned universities in the area. Fortunately, both land and other capital are relatively inexpensive, and the government is encouraging the growth of the sector as well.

2. How has this changed over time?

The most significant change that North Carolina's economy had to adjust to over the past few years was the transition from regional competition to national and international competition in the manufacturing arena. Additionally, the agricultural industry is facing uncertainty over its competitiveness. This paved the way for other industries to develop in North Carolina, industries that have jump started largely over the past 5 years. I am thinking particularly of intellectual property-related industries, such as high value added IT products that are expected to grow significantly in the future. As I mentioned earlier, strictly from a geographical point of view, North Carolina is a very attractive location for a number of reasons, including the university offerings. As more international and national companies relocate within North Carolina, NC banks will continue to grow from their solid, home market foundations.

3. Why has Charlotte developed into the financial center of North Carolina?

Charlotte has historically been the center of North Carolina's private-sector economy, which explains why most of the major banks in this state originated in and continue to focus primarily on that same area. I really don't expect that to change, and I even predict that it will steadily approach the financial influence of Atlanta and other financially active southern cities. In addition to the public-sector economy, Raleigh and the Research Triangle Park (RTP) region have historical niches that we cannot discount. The significant number of renowned universities and the growing IT and biotech clusters in the RTP will surely continue to attract firms that will ultimately balance the economic activity between Charlotte and Raleigh. The finance industry cannot ignore these trends, and, presumably, these will force financial institutions locate close to these lucrative clients.

4. How important are North Carolina's financial institutions, both nationally and internationally?

North Carolina's banks fit into the national domestic financial economy on equal terms with financial institutions from other states. Local and regional presence will remain an important factor regardless of globalization and offshoring in the financial sector. However, the recent mergers and market expansion strategies that we have witnessed point to North Carolina's continued dominance in the retail aspect of domestic banking, and this is largely due to the intellectual property available in the state. Retail banking is quite commoditized, and that will continue to be a dominant fact. I can see North Carolina, or Charlotte in particular, becoming a hub for retail banking, but probably not the only dominant center. What will drive the type of financial activity that takes place in North Carolina will probably depend on the main economic themes and transitions

within the NC economy. The local and regional aspects of finance are fluid and determine the strategies that financial institutions need to pursue.

5. Who are the key competitors within these specific niches?

From the geographical perspective, I would identify Atlanta and any of the major Florida cities as major competitors. North Carolina is often seen as the gateway to the south, but Atlanta and parts of Florida are key regional competitors for economic activity in the south. Financial institutions like to locate close to their most lucrative clients, so North Carolina has faced significant competitive challenges in these areas. Virginia has matured as a financial center, but most activities continue to focus on Washington, DC-related activity. That portion of the state will surely continue to be a dominant financial hub. Of course, I need to mention New York City, which focuses on national and international finance with no great influence on local or regional competition, at least not in the Southeast. You may see Texas start to influence a portion of the Sunbelt and continue to grow especially as the labor arbitrage between the Far East and Mexico diminishes.

B. Competitiveness

1. What have been some of the key recent issues that your company has dealt with in order to remain competitive?

Well, the world is getting smaller and information moves faster than ever. Any time you're not competing in your backyard, location has less relevance. Competition will always continue to grow just because of the increase in the amount of information and the speed of its transmission. The NC financial industry in particular is not as fragmented as many other regions in the nation and in the world, which means that there is not a great deal economies of scale available relative to Washington, DC, New York City, or San Francisco. Thus, North Carolina will have a hard time competing with the rest of the country beyond retail banking. The case of Triangle Capital Partners is no exception, as we must maintain a strong presence in the Southeast through superior investment performance and marketing.

2. How have these issues affected your NC operations?

Cost is obviously a big focus, and we have continued to reduce any excess supply of experience related to finance and human capital. We just try to keep our operating costs low by strict supply chain planning and specializing in our high value added niches. Following the economic slowdown after 2001, structural transitions forced upon the financial industry have weeded out the weaker players in the business, and that holds true on both the industry level as well as on the individual level. Clearly, New York City will bounce back much faster than North Carolina from this slowdown in terms of employment and in

terms of business, simply because the finance industry is much more mature in New York City than in North Carolina. In the case of Triangle Capital, it has not been as affected by the increasingly competitive landscape due to its focus on long-term investment opportunities that require long-term relationships. There is still a lot of work to be done in this sustain and improve upon this competitive advantage; but we are on the right track.

C. Changing Skill Sets

1. The finance sector is known to be a fast-changing industry. How does this translate with respect to changing skill requirements of your employees?

The finance sector requires increased specialization where individuals know a great deal about a certain industry or a certain financial product. This is true for both horizontal knowledge in terms of product specialization, as well as for vertical knowledge in terms of industry specialization. Client relations continue to be vital for success in any portion of finance, but for the NC finance industry to be highly competitive, it will take greater and greater product and industry specialization.

The rate of specialization has just been astronomical in recent years and I think it will become even more pronounced and perhaps more stratified as we go into the local, regional, national, and international categories. Ultimately, that is where you want to be on your career track, specialized within a high value added area. This is true also for businesses as a whole; they need to specialize in a particular industry or product to remain internationally and domestically competitive.

The difficulty of this is identifying the high value added product stage. I think that unemployment during the economic slowdown was largely related to the enormous influx of non-specialized people into the financial space, so during the economic slowdown and the structural transition of 2001 there has been a great deal of attrition related to internationalization and regionalization of the field. To prevent this from happening again, we need to specialize as an industry, and as individuals.

2. How have these skill requirements changed over time?

Hyper employment and monetary expansion during the internet bubble allowed for unprecedented employment rates, but obviously, when it went bust, everything, including the employment rates, went bust. I think we need to be aware of that fact. High employment was highly coincidental with the internet and the economic bubble of the late 1990s. That was an incredibly artificial and overvalued trend, so we definitely can't regard that time as the benchmark. At this point in the financial industry, we are recovering from that shock, and it requires specialization.

Professionals and firms will increasingly specialize in financial products for local and regional markets in an effort to defend against the domestic and international labor arbitrage trends in place today.

3. What kind of work is kept in-house and what kind of work is contracted out or outsourced? How has this changed over time?

There has not been a lot of outsourcing in my experience within the finance industry. Maybe only on modest levels in spreadsheet-related, junior analyst-type work that can really be done anywhere. But, in general, the finance industry will be one of the last to be hit by outsourcing pressures.

4. How does your company ensure that it is able to meet the changing demands? Do you engage in substantial in-house training for its skilled employees?

Not really, employees are more and more responsible for their own welfare. I see no improvement in companies' commitment to specialization for its employees. Certainly, there is support for motivated employees, but the initiative comes from the individual. Frankly speaking, that trend will continue: if you want to improve your skills, then companies will support that if they can, but the focus will remain on the individual.

5. What will the NC finance industry look like 5 years from now?

The areas of finance that compete on a national or international level may not remain in North Carolina; it depends on the rate of innovation and specialization of North Carolina finance companies. There will definitely be continued vertical integration in the mutual fund industry. The buy-side industry is more and more responsible for its own success, and the sell-side industry is perhaps integrated or assimilated into the buy-side industry within public equities. There has been a deepening of integration in private markets. I think that integration is the key word; we will surely see all sectors of the financial industry work closer and closer together yet compete horizontally within specific products or niches. Financial products are maturing and specializing to meet specific client demands, so the key players need to adjust to meet that development.

6. Final comments

Generally speaking, the key words in the financial industry are product and industry specialization, industry experience, and understanding the supply chain. Products become more refined and defined, but the relationship between supply chain sections becomes more blurred. This will lead to vertical and horizontal integration and specialization in high value added sectors of the financial value chain.

Increased information flow creates an opportunity and threat to North Carolina's ability to grow in the financial industry, but, in general, it will be a hurdle for all regions and states just because of the ubiquity of the internet. We are in another stage of the economic maturation and information flow in this industry. Therefore, we will continue to see all state, regional, and local financial economies struggle to remain competitive. The solution is to focus on specialization in products and industries by leveraging the local and regional resources available.

Key players such as Bank of America and Wachovia are a very important asset to the NC finance industry, which will become even more competitive and strengthen their market position on a national basis, thereby adding a lot of value in terms of competitiveness of the NC finance industry. On a regional and national basis, there will be some move away from financial centers such as NYC. Most high value added opportunities may stay in NYC, but regional location is becoming more and more important.

INTERVIEWER COMMENTARY#1 – EMPLOYEE AND COMPANY SPECIALIZATION

I found Mr. Nordan's contributions on worker and industry specialization (see sections B and C), particularly useful and interesting, as he clearly has experience with working and managing in the context of recent industry developments. Mr. Nordan mentioned that the artificially high influx of un- and under-skilled workers into the finance industry during the internet bubble sustained an astronomically high rate of employment during the late 1990s. As a result, the NC finance industry is now not only faced with sluggishly recovering employment rates, but it also maintains an abundance of under-skilled and unspecialized finance workers who are in need of retraining in order to regain competitiveness and productivity in today's industry.

The data on employment rates in the North Carolina finance sector over the past decade collected throughout our research supports this finding, as annual average rates of employment growth in the NC finance industry were as high as 8.1% and 7.6% in 1996 and 1997 respectively.¹ As the bubble reached its prime and burst at the turn of the century, average annual employment growth rates in the North Carolina finance sector tumbled to -0.3% and 0.7% in 1999 and 2000, respectively.² What this means for the NC finance workers who find themselves struggling to maintain their competitiveness, according to Mr. Nordan, is that they need to retrain and specialize in a financial product.

The overriding approach is to specialize in those high-skill and high value-added segments of the value chain that the NC financial economy is transitioning to. Increased technological innovation, which helps to facilitate globalization and global outsourcing of low-value added, relatively expensive back office transaction processing, puts additional pressure on the local work force to maintain high levels of specialization and productivity. This trend, identified by Mr. Nordan, matches the company strategy

research on Bank of America and other major NC financial institutions. Bank of America continues to strengthen partnerships with Indian IT companies and to develop wholly owned subsidiaries throughout East Asia to gain a competitive edge in software development and offshore data processing activity.³

The question is where and how NC finance employees can obtain the necessary skills to remain competitive and productive. As Mr. Nordan pointed out, most major financial institutions remain hesitant to provide or significantly encourage retraining opportunities for their employees. It appears that employees must initiate and wholly support retraining opportunities, financially and on their own time. Based on his past experience, Mr. Nordan stresses that companies tend to support individual employees' self-initiative to retrain by accommodating their increasingly busy schedules. However, in terms of organizing or funding retraining schemes, Mr. Nordan expects no significant improvement. This places high demands on the individual employee, who needs to self-finance his retraining as well as find a way to organize his schedule to accommodate both his job requirements and his retraining schedule.

From a public policy perspective, the future competitiveness of the NC finance industry rests, in part, on the availability of the necessary retraining programs. Because the finance sector is growing in size, it would be in North Carolina's interest to provide those opportunities through the extensive community college network and to aim them directly at the high-value added activity skills. Again, such programs have to not only target the necessary skills, but also have to be financially feasible and attainable through evening and weekend classes that allow for full-time employment. Such programs can be jointly organized with financial institutions in North Carolina to both ensure effectiveness and demonstrate loyalty to employees. Given that such programs would be mutually beneficial, they can be encouraged with grants, tax breaks and other incentives.

Interestingly, Mr. Nordan notes that NC financial institutions also need to specialize in specific, high-value added activities of the value chain, particularly in the financial products of industry segments. This finding suggests that companies could benefit in the long run from increased competitiveness and productivity of human capital. This point provides evidence for the industry tilt towards specialization in retail banking.⁴

Public policy could encourage such mutually beneficial retraining programs by providing supplemental financial incentives through tax breaks and grants and by organizing the community college system appropriately. Only an interactive and cooperative specialization effort between major NC financial institutions, the state government, and the local financial work force can guarantee the sustained competitive advantage of the NC financial sector in the context of increasingly challenging domestic and global competitors.

INTERVIEWER COMMENTARY #2 – A MAJOR SHIFT IN NORTH CAROLINA
BANKING

In our interview, Mr. Nordan identified some crucial shifts that have occurred and are beginning to occur in the NC banking industry. The banking industry in Charlotte for many years has been the center of the state economy, providing much of the financing for the strong NC manufacturing sector. As Mr. Nordan pointed out, this control of the NC economy, along with the availability of intellectual property and capital, made Charlotte into a retail banking powerhouse. However, Mr. Nordan has identified that this simple description of the state's banking industry no longer suffices.

In the last 10 years, the manufacturing sector in North Carolina has declined in size, primarily because of low-wage foreign competition. The erstwhile mainstay industries of North Carolina, like tobacco, textiles, and furniture, are fading in importance, while other industries, like information technology and biotechnology, are fast replacing them in the NC economy. Certainly, these fundamental shifts in the North Carolina economy have major implications for the finance sector as well.

The finance industry has begun to shift its focus to new industries, which represent "more vibrant and growing parts of the economy." With so much uncertainty in traditional industries, these new industries are very profitable for NC banking because they take advantage of the intellectual property that the state possesses. As the NC finance industry adjusts to these new firms moving in, the industry will certainly find successful local avenues for profit and growth.

The trend in the finance industry from manufacturing industries to the newer biotech and IT industries may also lead to many geographic shifts in banking. Although some regional banks are based in the Raleigh area, the big, Charlotte banks like Bank of America and Wachovia, will need to establish a stronger presence in the Raleigh area. Mr. Nordan feels that this trend and the rapid growth of importance of the RTP area "will ultimately balance the economic activity between Charlotte and Raleigh." As the RTP area becomes a dominant force in the North Carolina economy, the finance industry will need to begin to relocate some of its services, especially those specialized in the biotech and IT industries, to the RTP area in order to successfully profit from these new industries.

As the North Carolina economy undergoes major shifts, the finance industry will have to adjust its focus, location, and services. The traditional form of the North Carolina economy no longer exists.

¹ Bureau of Labor Statistics. "North Carolina Economy at a Glance." *Regions, States, and Areas at a Glance*. [downloaded January 10, 2005]. Available from <http://www.bls.gov/eag/eag.nc.htm>.

² Ibid.

³ Robeiro, John. "Bank of America Sets Up Indian Outsourcing Subsidiary." *InfoWorld*, February 18, 2004. http://www.infoworld.com/article/04/02/18/HNbofaindia_1.html.

⁴ See Case Study on Bank of America in this site.