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Three Essential Ingredients of a Successful Integration

By: *Timothy Reimink* | AUGUST 16TH, 2017

A successful merger or acquisition involves more than just finding the right match and negotiating a good deal. As essential as those steps are, effectively integrating the two organizations is equally important—and equally challenging.

When participants in Bank Director's 2017 Bank M&A Survey were asked to name the greatest challenge a board faces when considering a potential acquisition or merger, 26 percent cited achieving a cultural fit between the two organizations as their top concern. Other integration-related issues, such as aligning corporate objectives and integrating technology systems, were also cited by many survey respondents.

Altogether, nearly half (46 percent) of the survey respondents cited integration issues as their leading concern—even more than those who cited negotiating the right price (38 percent).

Banks' Special Change Management Challenges

As employees adapt to new situations, they must work through a series of well-recognized stages in response to change—from initial uncertainty and concern to eventual understanding, acceptance and support for new approaches. One objective of change management is to help accelerate employees' progress through these phases.

In the case of bank mergers, however, there is a complicating factor—the required regulatory approval. Once a proposed merger or acquisition is announced, both banks must wait for some time—typically a period of five to nine months—before decisions can be announced and the transition can begin. These delays extend the period of doubt and uncertainty for employees, customers and other stakeholders, and can significantly impede employees' progress through the normal change management stages.

Three Critical Components

Successful post-merger integration involves hundreds of individual management steps and processes, and the board of directors must oversee the effectiveness of the effort. Directors can implement a few measures to help make the process a smooth one without micromanaging each step. At the highest level, directors should verify that management has established an environment in which success is more likely. Three organizational attributes merit particular attention:

1. Clear, continual communication. Management must develop a detailed communication plan to make sure merger-related stakeholder messaging is timely and consistent. It should provide employees, customers, the community and other stakeholders the information they need to adjust positively to the merger. This plan should spell out key messages by audience, provide a calendar of events, and use multiple communication tools for each of the stakeholder groups. One tool that has proven useful for customers is a dedicated toll-free phone number, staffed by employees specifically trained to answer customer questions. For employees, bi-weekly email messages that describe the integration process and answer questions have proven very useful.

2. Sound, timely decision-making. Basic decisions about how the organization will be structured, who is on the executive team, and how the post-merger bank is going to operate need to be made as quickly as feasible—but without rushing. Striking the right balance can be difficult. Decisions about key operational issues, such as which technology platforms will be used and how business and operational functions will be consolidated, also must be made promptly—subject to the regulatory constraints mentioned earlier.

3. Effective, comprehensive planning. Based on the key decisions regarding the future organization, management should develop detailed plans for the integration. It is tempting to shortcut the planning process and just "get on with it"—especially in organizations that have gone through a merger before. But overconfidence can lead to complacency and missteps. Successful integrations often involve more than 20 individual project teams. Take the time to make sure each team is capable and prepared, has clear timelines and areas of responsibility and understands its interdependency with other teams.

Finally, board members and executives alike should make it a point to see that there is adequate and active contingency planning. When unexpected challenges or conversion mistakes arise—as they always do—the bank must be ready to move quickly and effectively to address the issues.

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