Lessons Learned

Mergers – Part 4: Lessons Learned in Integration Planning

Stabilization Central
CREDIT UNION

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This is the last in a series of four papers sharing lessons learned in the credit union merger process. The first paper in this series focused on deciding whether a merger could facilitate your credit union's strategy; determining the attributes your credit union needs in a merger partner; and seeking a partner opportunity. The second and third papers covered the stages for due diligence through to a member vote, including project planning, stakeholder engagement, and regulatory applications.

This paper carries on to the next stage, integration, where the credit unions join together after a successful member vote.

Introduction

While the integration plan is the final stage of a merger, it should not be considered a final deliverable. Rather, it's developed in tandem with the due diligence and business plan. In fact, it is part of the application that must be submitted to the regulator prior to the member vote.

The integration plan is the manifestation of how the credit unions will come together as one. If the merger is an acquisition, then the focus is on integrating the (typically) smaller credit union(s) into the larger partner. If it's a true merger of two or more credit unions into one new entity, integration is more complex, as the partners must build a new organization by deciding what to adopt from each partner and what to create from scratch.

We suggest there are six key areas to consider: organizational purpose and culture; Board and governance; technology; operations; employees; and members. The integration plan will detail dozens of decisions and transitions under each of these areas – a few are highlighted in *Figure 1*.

Bear in mind that the intent of this paper — and all of the Lessons Learned resources — is not to provide a "how-to" guide. Rather, it highlights the "aha" moments, potential pitfalls, and best practices learned by past merger participants.

Lesson 1: Integrating Purpose, Vision, and Strategy

It can be tempting to simply adopt the purpose, vision, mission, strategy, and values of one of the merger partners (particularly if one is much larger). However, you pursued the merger because it opened new opportunities — so reassessing who you are, where you're going, and how you'll get there is essential for realizing those opportunities. Neither credit union is the same entity it was before the merger, so it follows that the new organization should reassess things.

This process can also be a powerful team-building exercise for your Board and management team. Both will have new members, and a review of purpose, strategy, and culture is a meaningful way of collaborating to align on where to take the credit union, together.

Figure 1: Examples of the Elements of an Integration Plan

Organizational Purpose and Culture	Board / Governance
• Mission, vision, and values • Strategic plan • Policies • Code of conduct • Building a cohesive team • Community focus	• Job descriptions and compensation • Composition: who is on the Board; what committees will be formed? • Orientation program • Board policies and procedures • Transition of authority and institutional knowledge

Technology / Systems	Operations
• Banking system • Digital banking platform • Financial systems (accounting, procurement, payroll, HR) • Treasury operations and platforms	• Branches: locations; hours; in-branch systems; resourcing • Procedures and management standards • IT platforms and software • Signage, stationery, online forms • Procurement processes, update of vendors
Employees	**Members / Potential Members**
• Compensation model • Benefits plan • Essential training / refreshers • Recruitment / onboarding / development programs • Job descriptions • Change management	• Products and services • Brand / value proposition • Channels of communication and marketing • Voice / tone of member communication (in branches, in correspondence, online) • Public / member website • Change management

In the third paper of this series, we discussed the importance of a "shadow Board" — the new organization's Board of Directors working parallel with the "old" credit union Boards, up to the point of integration. This collaborative review is work the shadow Board would typically lead.

Your credit union exists to serve its members and community. This starts and ends with a purpose, vision, and strategy that employees will believe in and bring to life for the members.

Lesson 2: It's a Matter of Trust

Even if everyone agrees the merger is the best outcome, it is inevitable that Directors, leaders, and employees will have different views regarding the path to take for integration. There will be difficult decisions about what to "keep" and what to "let go" in everything from technology to culture to products and services. Conflict is inevitable — but most would argue it's also essential to good decision-making.

In the words of one Board Chair: "*In a high-trust environment, conflict is productive. If trust is low, conflict is toxic*." The Board Chairs of the merging entities should be building this trust with one another and the other Board members throughout the merger process and should continue to foster it during integration planning and execution. Set expectations: everyone must be open to change and new ideas and must respect the final decisions of the Board. Take on difficult conversations about differences early; use a facilitator, if necessary. Allow challenging and awkward moments to surface and be addressed, rather than letting them build up over time. Create opportunities for Board members and leaders from the merging credit unions to socialize and find connection as both leaders and people, both early in the process and throughout integration. Every demonstration of transparency and good faith builds trust and reinforces everyone's shared purpose. This pays dividends throughout the merger process and particularly during integration.

> **"As credit unions, we all value consensus, but that can mean many things. In our partnership, we clarified very early that consensus meant encouraging diverse views and concerns so we could have open, respectful debate about them. Once that dialogue was complete, we agreed that a motion would carry if the majority of the Steerco supported it."**
>
> ***Alan Chell, Board Chair, Revelstoke Credit Union***

Lesson 3: Your Culture is Your Foundation

If we consider the duo of purpose and strategy to be the "north star" that guides your Board and team, then the culture is the foundation beneath their feet. Aligning the culture of two or more merging organizations is one of the most complex elements of integration.

Culture is comprised of many elements. Some are “big picture,” such as the values that guide the organization, its people, and its operations. Some are more functional, such as the way business decisions are made, or how performance assessments are carried out. Culture can also show up in more granular ways, such as the employee dress code, language in employee communications, or brand execution. Lack of integration of these cultural elements can quickly cause confusion, a sense of inequity, or simply silos of people doing things the “old” or “new” way.

Take the time up front to really assess and understand the culture and nuances of the merging credit unions. This isn’t work that should be rushed. Identify where the cultures clash and clarify the way forward. What systems and processes perpetuate the identities of the past organization(s)? Will elements of each organization’s culture be adopted, or will everyone align to one of the existing models? Will any new values or cultural norms be adopted? Employees are essential participants in these discussions.

Another key decision is what must change immediately, and what can be phased in. For example, you’ll likely want to align compensation philosophies, evaluations, titles, job descriptions, and pay scales as quickly as possible, to avoid a sense of inequity among new versus legacy employees. To perform at their best, people need clarity about their roles and their employer’s expectations.

Conversely, a focused but less urgent approach might make sense for some processes. For example, one credit union had to adapt to a different methodology for problem solving and pursuing new initiatives. As a small organization, they were accustomed to quick, top-down decision making. The larger credit union they merged with approached projects with a combined bottom-up / top-down process, involving more groups, more planning, and a lot more dialogue up front. They believed this created greater alignment and structure for the project, which ultimately made execution much faster. This was a challenging cultural adjustment for the leaders and staff of the newly merged, smaller credit union, who considered their old process more efficient and nimbler. It took trust, guidance, and experience for them to fully understand the benefits and adopt their new organization’s approach. Anticipate these types of cultural shifts, and build them into the integration plan timeline. Transparent and frequent communication of the “why” with all impacted employees will help make these types of changes smoother.

Some signs that employees are not adapting well to the change in culture can be low morale, disengagement, reduced productivity and employee turnover. The change management plan should build in metrics that surface these early warning signs and address them, with communication, leadership and ongoing dialogue.

Finally, we suggest having tangible, immediate demonstrations of some of the cultural norms you’re adopting. For example, if a more relaxed dress code was promised to employees, implement it immediately and have your executive team lead the way. Or, if a high degree of collaboration is a new cultural norm, take immediate steps to communicate that expectation, and create the time and space for it (literally and figuratively).

Lesson 4: Show Your Team the Value of Change

We discussed the value of change management expertise in the second paper of this series; nowhere is it more important than in the integration plan and process. Every employee will experience change at some level during a merger. Some are working at a new location or with new colleagues; others may be losing leaders or colleagues they’ve loved as the organization shifts; some have to learn new systems. All of them are potentially grappling with a new strategy, changed culture, and unfamiliar ways of doing things.

Ultimately, persuading employees to believe in (and follow) your purpose, vision, and strategy starts and ends with member experience. They need to see that the integrated credit union is going to help them help more members, in more communities, in more ways. Clearly demonstrate how every change aligns with the overarching shared purpose. Help team members understand how the path you're on will lead the organization to the destination and outcomes they believe in.

The more ways you can engage team members in shaping and executing the change, the more successful it will be. Find ways to bring employees together in large and small ways — from advisory committees to focus groups; from interest groups to all-employee town halls and social events. Identify influencers from each of the merger partners, and seek their help in planning for and communicating the benefits of change. Highlight and integrate the values and culture you're pursuing into every interaction. Another consideration is that often, a merger involves a much larger credit union bringing a smaller partner into the fold. This may mean the employees from the smaller partner must adopt all of the larger credit union's practices, which can leave them feeling marginalized. It's important to emphasize how valued the new team members are, particularly as they adapt to so much change. The merged credit union now has more resources, capital, and opportunity than either partner had before — leaders need to convey that this is a win for all involved.

> **"Some changes can be absorbed and executed more quickly than others. Know what can happen fast and what has to be slower. Bring people along with phases and practice rather than a single rollout."**
>
> ***Launi Skinner, Chief Executive Officer, First West Credit Union***

Lesson 5: Closely Manage the Member Experience

When you proposed the merger, you promised members a better, stronger credit union. The integration plan should deliver benefits to members as early as possible — or at least ensure their experience is equal to what they enjoyed before. The benefits or "quick wins" detailed in the member voting package should be rolled out on day one, as well as communication about when to expect the other benefits to be phased in (such as new locations or technology enhancements). Communicate to members the progress you're making with integration, what tangible improvements they can expect, and when.

Despite your best efforts, in reality, some members will be inconvenienced as you proceed through integration. Anticipate this by bringing them in on your journey. Ahead of integration, invest time in small gatherings, lunches, or other touchpoints with a range of members and your senior leaders, wealth management team, commercial banking leads, and so on. Communicate with impacted members early through all the channels available to you — and make sure, once again, to emphasize the end benefit of the merger (the "why"). If members know and support what you're trying to accomplish, they're more likely to be patient and forgiving as you manage growing pains.

There are also ways to limit negative member experience, particularly in the first 6–12 months. For example, if you are changing banking systems or closing branches where there is geographic overlap, consider waiting until members (and the employees who serve them) have had time to adjust to other aspects of the merger.

Lesson 6: Avoid Technology Band-Aids or Shortcuts

Sometimes, you're fortunate to merge with a credit union that uses the same banking system, IT platform, payroll system, or other technology. More often, at least some systems will be different, a choice will be made, and member, business, or employee data will have to be migrated from one system to another. Even credit unions with the same systems may need to make changes to specific customizations and features. This work is not always straightforward, and it can be tempting to do "for now" patches and workarounds to make the systems work together.

Dragging legacy issues from former systems can be problematic for something as simple as a future banking system upgrade. One credit union had workarounds in its system from past mergers, and the complexity of mitigating them later delayed an essential banking system upgrade by years, costing millions of dollars. Such issues can also be major obstacles if you pursue another merger at a later date. Do the due diligence: allocate the resources to mitigate these issues and have a clean transition, even if it means a new technology solution that's better suited for the larger credit union. Assume the technology and system mismatches will be there, even if they aren't readily apparent.

Lesson 7: Prepare to Operate in "Crisis Mode"

You can try to plan for every possible scenario and put teams in place to roll out detailed tactical plans… and still be hit with the unexpected. Such bumps can be disorienting if you don't anticipate them, so think in advance about how you'll handle those challenging moments. For example, how will you address conflict or concerns at the Board or CEO level? How will you address member concerns as inevitable technology glitches happen? Normalize an expectation of problems, stay nimble, and expect you will have to pivot. These considerations and contingencies should be part of the integration plan, including the allocation of staff, budget, time, project management, and governance processes. Your plan should anticipate financial storms in particular, with clear KPIs defined and closely monitored, along with the short and long term mitigation strategies you'll enact if the credit union is falling short of them. The Board should also have line of sight into how this work is managed, ideally via a Special Committee with proper minuting and reporting procedures, and to whom the management team is accountable.

Lesson 8: Celebrate Your Legacy and Your Future!

Integrating two or more credit unions takes a lot of work, from almost every person in each organization. Plan for milestone communications, recognition, and celebrations along the way and when the integration is complete.

Milestones and celebrations help keep the focus on the new future, the reasons the merger has happened, and the opportunities and benefits for members and staff. However, many employees may also feel they are losing the former credit union(s) they served and loved, so it's also important to honour that legacy and the employee contributions that went into building it.

As an example, the day before integration, some merger participants have created opportunities to "sunset" the original credit union(s), celebrate their achievements, and say goodbye to provide a sense of closure. Then, on day one of the new organization, they held a "sunrise" celebration, focused on embracing the bright future and opportunities for the new credit union.

Conclusion

This concludes our four-part series of Lessons Learned papers on credit union mergers, which has sought to share best practices and tips from experts who have navigated this process multiple times.

However, just as every credit union is unique, so is each merger or amalgamation experience. Stabilization Central is here with the in-house expertise, relationships, and resources that can smooth the path for credit unions considering this journey.

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Your Merger Journey: Ways Stabilization Central Can Help?

Facilitating initial strategic discussions	**Conducting due diligence**
Business and integration planning	**Facilitating regulatory relationships**

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