5 Areas a Financial Institution Should Review When Considering a Merger or Acquisition

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Now might be the best time to consider a merger or acquisition (M&A) despite the uncertain environment. Technology is changing the way we bank daily, and financial institutions should be looking forward to meeting the needs of their accountholders. A merger or acquisition can provide significant benefits if the strategy is well thought out before any formal agreement is made. However, getting all stakeholders on the same page about what matters most can be challenging.

The top five areas financial institutions should examine when considering a merger or acquisition are highlighted below.

1. **Strategy Alignment**—All potential M&A parties should be in agreement with the direction of the strategy of the new entity. Making sure the board of directors, executives, and, in the case of credit unions, its members are all on the same page is the key to a successful agreement.

Merging for the sake of merging or doing it because, in the end, the transaction seems inevitable is not the best motive, and the decision may be premature. There are a few reasons some financial institutions decide that this is the best course of action. However, not all lead to the best solution for the accountholders.

To be successful with your merger or acquisition, a good strategy that answers the question "why" must be in place. For example, does your financial institution want a multi-state expansion? Do you want to serve your customer base better, or do you need to focus on acquiring certain assets?

2. **Community Impact**—What is the impact on the community, and are the parties in agreement? When considering any M&A activity, it is vital to ask how the community will be affected. For example, will the transaction create new jobs, or will the community lose jobs? Will service to its accountholders improve, remain the same, or deteriorate?

Are there any sensitivities to be aware of? For example, are you merging with another bank or credit union that wasn't valued or respected within the community? What will happen with the existing resources—will certain branches close? Will you have to deploy a higher level of technology such as interactive teller machines (ITM) to offset losing employees?

Know what the community will tolerate. What is the vibe? Are most consumers savvy tech-focused who will welcome ITMs? Or, are you looking at a community that enjoys and will continue to expect the small-town feel of working with someone face-to-face who knows their name? Once you understand this, you can then determine what operating model you will commit to moving forward.

3. **Cost Savings**—What are the exact cost savings, and who will benefit? What synergies can be created by combining vendor contracts and other critical relationships? In this situation, a third party is beneficial to guide you through the process. They have the expertise in this area and will be able to identify the available cost savings. Still, more importantly, they can help you realize any unknown opportunities that can be critical to the success of your merger. It sounds cliché, but you don't know what you don't know, and a third party can help you identify the cost savings and flush out additional opportunities.

4. **Expertise**—Is the transaction taking place to improve the overall expertise of the new organization? For example, Teachers Credit Union (TCU) purchased a bank in St. Joseph, MI, to acquire expertise in offering SBA (Small Business Administration) loans. Be sure to identify the reason for your merger. Is it to gain expertise, a footprint in the community, or both?

If you are acquiring a large institution, make sure you have a good reason. Can you serve your accountholders in Georgia when you've never been in Georgia before?

5. **Culture Change**—Your organization's internal culture and alignment are critical to the success of your transaction, yet leaders often overlook this important element. Be sure to address your current culture and what might be impacted by the merger. What are your expectations? Focus on the actions needed to combine operations and deliver value. Culture is the outcome of the vision or mission that drives a financial institution, the values that guide expected employee behavior, and the management practices and mindsets that characterize how work gets done. Set priorities and support any change needed and consider implementing a change management process to keep everyone on board.

Conclusion

The financial services industry continues to shrink for a variety of reasons. Therefore, before committing to such a long-term agreement, financial institutions should explore and evaluate all options and determine what is in their best interest. Some mergers and acquisitions do make good economic sense, but many times the process of considering the right reasons can be influenced in a variety of ways that may not be valid. Following the five steps above will ensure your financial institution is on the right path when considering any M&A activity.

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To schedule a time to speak with Jeff or one of our consultants about a potential M&A, please call us at (844) 415-7962 or click here to book a call online.

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