2016: GENERATIONS OF GROWTH

Merging Organizations, Cultures, Boards and Teams

The ongoing trend of mergers and acquisitions within the Farm Credit System and the agricultural cooperative sector is creating larger, often more efficient and diverse, organizations with greater opportunities, but only after overcoming a host of legal and operational challenges.

In 2000, Farm Credit had 156 lending associations; by 2015, that number had dropped to 75. The System has seen seven mergers in the past three years, with three more announced this year. The size of the merged organizations is also increasing: one three-organization merger currently underway will create the third largest association in Farm Credit. The agricultural cooperative sector is seeing similar consolidation as production agriculture itself is consolidating and the ag economy is in a period of fluctuation.

“Cooperatives in the arenas we serve are proactively considering how to meet the evolving needs of their members, which in some situations will be better served with an increase in the scope and scale of their operations,” says Scott Binder, President and CEO of FCC Services.

The drivers behind mergers vary, but frequently center around increased diversification and efficiencies; for Farm Credit organizations, growing regulatory requirements and CEO retirements are also considerations. Increased scale within Farm Credit to meet growing capital demands, and within the agricultural cooperative sector to support growing production enterprises is also a key driver.

“Geographic diversification alone is a key driver behind many Farm Credit and ag cooperative mergers,” says Bill Wilson, Director of Agribusiness Consulting. “For Farm Credit organizations, it spreads risk across more ag sectors and helps protect against weather issues; for ag coops, it also helps protect against the unpredictability of localized weather events and can provide other operational benefits, such as access to a second rail line to support distribution.”

A decision to merge often starts with informal conversations between CEOs, followed by more formal discussions within both boards of directors and initial investigations of each others’ operations. If both boards recognize sufficient advantages to merging, the due diligence process will be initiated by completing a financial and business analysis and exploring the potential benefits and pitfalls of a merger.

“The importance of the due diligence process can’t be underestimated,” says Bill. “Organizations need to accurately identify the realistic efficiencies and advantages that can be gained through a merger to determine whether there are sufficient, meaningful benefits.”

Once due diligence is complete, the boards formally vote on whether to proceed, and if this passes, the vote is then taken to the stockholders. For Farm Credit organizations, the funding banks also need to approve the merger, and Farm Credit Administration (FCA) will need to provide preliminary approval before stockholder vote, and the final approval afterwards. For ag cooperatives, the merger needs to be approved by their lenders.

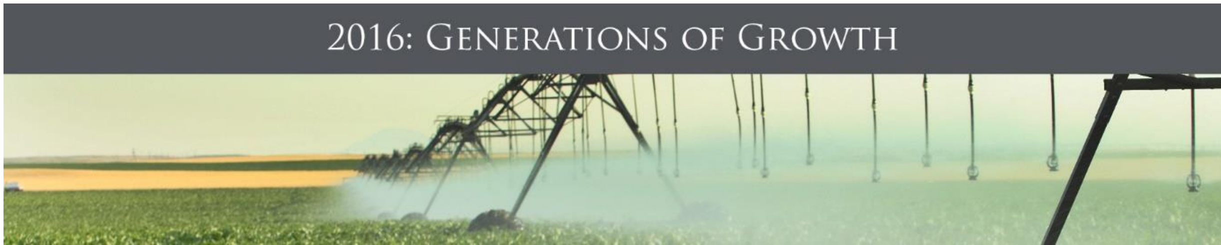
After all approvals are obtained, the process of combining independent organizations ensues and a myriad of decisions must be carefully considered, from what the new entity will be called to what technology systems will be employed to ensuring continued employee engagement while defining a new corporate culture.

A plan for merging the organizations from the top down is a key early step in a merging process, and this plan often begins with the boards of directors. “Merely combining the two boards results in too many directors for effective governance so a board reduction plan is frequently implemented,” says Greg Buehne, Consultant and Corporate Counsel at FCC Services. “If the plan requires each board to decide who is going onto the new board before the merger takes effect, difficult decisions must be made in the boardroom.”

Perhaps the biggest impact of any merger is felt by the employees. Uncertainty about job security, reporting structure and corporate culture can impact morale and ultimately service to customers. In addition, says Jay Lux, Vice President of Organizational Effectiveness Consulting, “When one of the organizations is significantly larger, or when one organization’s name is going to be used for the merged organization, employees of the smaller organization may feel like they’ve been taken over rather than merged.”

Overcoming these concerns is best accomplished with clear, honest and frequent communication. Lone Star Ag Credit took this approach seriously when it merged with Texas Land Bank in 2014. “We decided to retain the Lone Star name, and knew that could cause concern,” says Troy Bussmeir, who was selected to be CEO of the merged organization. “The Texas Land Bank CEO and I made a point of visiting every branch office together and inviting employees to ask any questions and raise any concerns they had. If we didn’t know the answer, we told them we’d get back to them, and then we did.” [Please see related Customer Spotlight article for more on the Lone Star merger.]

“Such communication and follow through is essential to building trust,” says Jay. Another pitfall to avoid in communicating with employees is not to overpromise while still displaying compassion and support for employees who are facing a stressful situation. “It may be tempting to assure employees that no one will lose their position, but the reality may be very different,” he says. “A better approach would be to tell employees that every effort will be made to reduce the impact of any job losses, and let everyone know that assistance will be provided to find new positions, and/or that a severance package will be offered to facilitate their transition.”



Stress can also arise from process integration as the merged organization implements a single approach to job functions that may have previously employed disparate approaches. A single set of policies and procedures will need to be developed that will likely impact everyone, as the organization pulls the strongest approaches from each organization for every process and policy. A single corporate culture will also need to be consciously defined, covering questions such as, whether competitiveness or collaboration will be endorsed, or the approach to professional development and performance reviews. “A dedicated, senior manager should oversee the merger process,” Jay says, “and their regular job responsibilities should be handed off so he or she can focus on the many intricacies of the merger.”

Also impacting employees is the complex technology integration required in today’s business environment, not just for the IT staff charged with data conversion but also for the employees who rely on the many computer systems to do their jobs. When the merging organizations are on different platforms for all or some of their systems, the process becomes even more complicated: one system in each case will be selected to move forward with, and one group of employees will need to learn a new system.

Howard Bruck, CEO of Financial Partners, Inc. (FPI) which supports five Farm Credit organizations, including four of the largest five, points out that deciding which systems to move forward with should be done early, and carefully. “In making the early process and technology decisions, the more business-oriented and less emotional they are, the better off the organization will be,” he says. “There will be a lot of hard calls, but the focus should be on long-term benefits, not avoiding short-term pain.”

Mike Smith, Vice President of Applications Development at AgVantis, a chartered Farm Credit service organization supporting System organizations, recommends that these decisions start being discussed and made as soon as the merger is approved. “Getting the two organizations face-to-face to discuss their processes early and often is key to managing a smooth transition,” he says. “Organizations should not underestimate the time that analysis and retooling will take, and they also need to keep in mind new FCA gap reporting requirements that further complicate the process.”

Once the complex merger process is complete, in addition to efficiencies, diversification and other anticipated benefits, the new, larger organization may also be in a better position to enhance services to its member-owners in both the short- and long-term.

“A larger organization can develop more employee specialization to better serve both customers and the organization itself, and can also provide a deeper bench of talent to strengthen succession planning,” says Scott. “In addition, a larger organization can provide a more dynamic environment where employees have more opportunities, which can help attract and retain high-caliber employees in an increasingly competitive talent market.”