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Merger Aftershocks

Surviving the people challenges of a post-merger integration

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Introduction

The announcement of a merger or acquisition typically sends shockwaves of anxiety rippling through an organization. Employees worry about losing their jobs. Managers struggle to maintain control in an environment where everything is shifting. Leaders agonize over the tough decisions that need to be made. And, people at every level may even lie awake at night wondering about their role in the new organization.

This initial shock is often followed by a series of aftershocks. Unexpected defections of key talent. Bouts of organizational panic caused by rumors and innuendo. Sharp declines in productivity and morale. And in some cases, the loss of customers and poor market performance.

Organizations that are unprepared to tackle these challenges quickly and decisively are likely to find themselves watching helplessly as their merger benefits – and chances for achieving desired results – rapidly slip away.

Here are six critical actions to consider that can help you stabilize your organization after a merger announcement.

Leadership alignment
Effective merger integration begins at the top

An aligned leadership team sets the tone for the rest of the organization. When key leaders from both sides of the merger are actively engaged in the integration effort – and behave in a positive and consistent manner – employees are more likely to engage and follow suit.

The foundation for leadership alignment is set with a common vision, purpose, and strategy. These shared elements can give leaders a personal reason to pull in the same direction.

A clear integration strategy is particularly important. By identifying potential barriers to change – and mitigating their impact – an effective integration strategy can accelerate the integration process. It can also help facilitate a smooth transition during the first 90 days.

Keys to achieving results:

- **Get leaders involved.** Create meaningful opportunities for involvement and ownership by engaging key leaders and stakeholders in development of the integration strategy as well as the post-merger operating strategy.
- **Make it personal.** Align personal goals and working styles with the overall goals of the organization. Create a compelling vision to excite and energize leaders.
- **Follow a structured approach.** Use time-tested approaches and tools to foster alignment and to implement shared objectives, goals, and plans. Hold a formal "summit" meeting to get leaders aligned and on board.

Organizational design
More than lines and boxes

An effective merger hinges on deploying the organization's diverse and critical talent to meet changing business needs. Good organizational design can help address this challenge by creating a clear reporting relationship structure and well defined roles. It can also help address the merger-related questions that often keep employees awake at night. How will the merger affect me? Will I have a job? Where will I work? Who will I work for? What about my friends?

Effective organizational design is more than simply drawing some boxes and lines on a page. It requires a comprehensive approach that encompasses all functions, cross-functional areas, and geographic regions. It also requires clear objectives and a robust implementation plan that minimizes disruption to the business.

Keys to achieving results:

- **Take inventory.** Identify the capabilities required to support the new organization's objectives. Conduct a thorough evaluation of employee skills, competency, and performance. Identify top talent and design the organization to harness their full potential.
- **Seek input.** Interview key stakeholders from both sides of the deal. Talk to people at every level – and from each major function.
- **Explain "how" and "why."** Clearly communicate the new organizational structure, explaining exactly how it will work, why it was designed the way it was, and how roles will be staffed.

Talent retention

Holding on to your most effective people

Although a merger might be a great opportunity for the organization, employees generally view it as a threat. Even your most effective people – the ones who should have the least to worry about – are likely to start making contingency plans. And in this period of uncertainty, it's all too easy for other organizations to swoop in and steal them away.

Organizations need an explicit strategy for retaining talent during a merger. This is especially true for deals where people and talent – rather than products, financial assets, or market position – are at the heart of the merger strategy and benefits.

An effective talent retention strategy can help you hold on to the people, knowledge, and focus you most want to keep. This can help enhance business continuity and lay the groundwork for a high-performance culture in the new organization.

Keys to achieving results:

- **Act quickly.** Talented people are decisive, action-oriented, and highly marketable. Be sure they understand they are valued and have nothing to worry about. Don't give them a chance to even think about leaving.
- **Build commitment.** Take specific steps to involve, engage, and empower employees at every level. Help them understand where the organization is headed – and how they fit in.
- **Work with HR.** Collaborate with Human Resources to establish retention strategies that help keep people, transfer knowledge, and maintain focus.

Communications
Fighting rumors with facts

A merger – or even the possibility of a merger – is sure to get people talking. And when they aren't talking, they are probably worrying in silence. Either way, the negative impact to productivity and morale is undeniable. Even worse, the damage can easily spread beyond your workforce, poisoning customer relationships and undermining the organization's reputation and brand.

A 360° communications program can help reduce these risks by replacing rumors and half-truths with facts and information. A comprehensive and strategic program should target all of an organization's key stakeholders – including managers, employees, customers, suppliers, shareholders, board members, and the media – with messages and communication tailored to their specific needs and concerns. Such an approach requires a significant investment and deliberate effort, but the investment generally pays for itself many times over during the integration process and beyond.

Keys to achieving results:

- **Don't wait too long.** Executives are often reluctant to share information about a merger until all of the integration details have been nailed down. But unless the organization's leaders communicate with the workforce, there's nothing to keep the rumor mill in check. And in most cases, the resulting rumors and imaginary fears are much worse than reality.
- **Provide frequent updates.** Merger communication is an ongoing process, not a one-time event. Communicate early and often, providing information updates as the integration unfolds. Strive for consistent messaging over time – and across stakeholder groups – but don't feel as if you need to be perfect. Mergers can be challenging, and people understand that.
- **Establish a two-way dialogue.** Give individuals a chance to voice their concerns and to provide input. People are more likely to get on board when they feel as if they are involved in the process.

Culture

Culture clash is often the most significant obstacle to an effective merger

Corporate culture might be difficult to quantify, but its impact on a merger is very real. Some organizations make the mistake of ignoring culture-related issues. Others carefully design an "ideal" culture and assume that employee behavior will automatically fall in line. In our experience, neither of these approaches is effective.

Corporate culture can be incredibly tenacious, resisting any and all attempts to modify its underlying values – and associated behaviors – even when such modifications would clearly improve things.

Accept the fact that culture and employee behaviors are difficult to change and plan your strategy accordingly.

Keys to achieving results:

- **Pick your battles.** Focus on areas where cultural differences are likely to have the most significant impact on post-merger results, such as the critical business interfaces between the two organizations. Don't try to change culture overnight; it can't – and won't – happen.
- **Work with culture, not against it.** Encourage new behaviors that are a natural extension of the current cultures, and then help employees understand how to apply the new behaviors to their day-to-day activities. Build a new cultural "brand" that supports your strategies and that people can identify with.
- **Link cultural issues to business value.** Business leaders often have trouble understanding the value and impact of culture. Get their attention by showing a clear link between cultural issues and critical aspects of business performance.

Day one
The end of the beginning

The first day of combined operations – often referred to as "Day One" – is a critical merger milestone that should be acknowledged and celebrated. It's a chance to help employees understand what is expected of them and to show them how they fit in. Even more important, it provides an opportunity for the organization's leaders to shift attention to the future, to talk about the challenges that lie ahead, and to build excitement about the organization's strategic goals.

Given the importance and visibility of Day One, it's essential that it goes smoothly. That means setting the appropriate objectives, and then designing and delivering a Day One experience that brings the two organizations together – boosting morale, engaging the workforce, and creating positive momentum for the future.

Keys to achieving results:

- **Celebrate.** Day One is worth celebrating, both as a major achievement and as the start of even better things to come.
- **Set the tone for the future.** Use Day One to reiterate the organization's vision, aspirations, and strategy – and to generate excitement.
- **Don't let up.** Day One is merely the end of the beginning. The most significant challenges – and accomplishments – are still ahead.

Putting together the pieces

These six actions might seem straightforward, but in the frenzy of activity that usually follows a merger announcement, even simple things can be difficult to remember and execute. Moreover, each of these people-related actions must be closely coordinated with other merger integration initiatives that touch every part of the organization – from business strategy and operations to administrative functions, information systems, and all of the above.

Given these immense challenges, it's no wonder that most mergers end up destroying more value than they create.[1] To overcome the odds, you need a simple, practical and time-tested approach for tackling the organizational aftershocks associated with post-merger integration. Addressing these issues quickly and decisively can help you capture all of the merger benefits your shareholders expect.

1 "Solving the Merger Mystery: Maximizing the Payoffs of Mergers & Acquisitions" Deloitte Reseach, 2000

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