

Maximizing value from an M&A deal.

Mergers and acquisitions are intended to create value for the merging organizations and their shareholders, such as greater financial strength, new technologies and capabilities, expanded market share and presence, or improved efficiencies. Many, however, focus on integrating the hard, tangible assets—finance, systems and operations—to achieve this value while neglecting the soft but equally important intangibles of people and culture.

The consequences are compelling. Over two-thirds of all mergers and acquisitions fail to produce the projected synergies and financial numbers. Nearly half of executives leave within the first year, and three-quarters leave within the first three years. And in the first four to eight months following a deal, productivity can plummet by half.

An integration plan that considers not only the hard assets, but also the soft ones of people and culture, can help avoid these pitfalls to realize the greatest value from the deal. And key to this plan is developing and executing an effective communication program that proactively addresses the dramatic changes an organization faces during a merger. Doing so successfully can result in a smoother, faster, more cost-effective transition that surpasses projections, maintains productivity and customer focus, and retains critical staff.

How change affects people, culture and business outcomes M&A activities spur profound, often difficult organizational changes, such as rapid growth, restructuring, reengineering and downsizing. Aggressive financial targets, short timelines and public scrutiny can intensify the effects, resulting in confusion, uncertainty, anxiety and conflict. The repercussions are potentially severe: eroded morale and commitment, decreased productivity, poor performance,

wasted resources, and difficulty recruiting and retaining top talent. These internal issues may then turn outward, leading to diminished quality, service, prospects and stakeholder satisfaction—failings that can damage credibility, reputation and revenues.

At the heart of these issues is the dynamic balance between an organization's people, culture and business outcomes, and the external conditions that can affect them. An organization is made up of people who share a distinct culture. This culture represents the commonly held beliefs, values and practices that drive both individual and collective behaviors. In turn, these behaviors shape the direction of business activities and results. External events and circumstances, such as a merger, acquisition or other business change, can either stimulate or disrupt this balance.

When in harmony, these elements can foster a strong organizational culture that aligns its people and mobilizes them to constructive action. When at odds, these elements may produce a splintered culture fraught with partisanship that incites malcontent, and impedes productivity and progress. Therefore, a significant change event like an M&A deal requires deep understanding and skilled management of the relationship between people, culture and business outcomes. A solid communication strategy is one tool that can help facilitate effective change management, achieve the optimum balance and foster value creation.

10 WAYS TO MANAGE CHANGE—AND FACILITATE A SUCCESSFUL INTEGRATION

Carefully planned and well-executed communications are instrumental in helping employees embrace the changes and opportunities a merger brings. Business leaders

must use communications to accelerate understanding, acceptance and engagement as the organization prepares for rapid growth and transformation. Engaged employees remain positive, focused and resilient. Energized and motivated, they put forth greater discretionary effort and do their best work. They also can become the newly merged organization's most passionate advocates, deeply invested in its success.

The following practices can help advance successful organizational change and value creation:

1. Expand due diligence.

Use the time between the deal's announcement and completion to audit and assess both hard and soft assets. During the analysis and planning phases, include risk mitigation strategies for people and cultural integration. Key questions to ask are:

- What are the cultural differences and similarities that could affect integration?
- How do we align and motivate our people behind the new organization throughout the transition?
- What changes to the physical environment would advance integration goals?
- What information transfer is needed? How do we best accomplish this?
- How can we avoid misassumptions, resistance or hostility about the merger?
- What communications can we initiate pre-deal to key stakeholders?
- What is the best method and medium for communication?
- What lessons from past integration experiences can we leverage?
- What cultural issues emerge regionally or globally?
- How can we blend top managers to optimize compatibility?

→ How can we optimally position human resources before and during the integration?

→ What are the metrics for success?

2. Identify culture change owners.

Appoint a task force of key players from both companies to focus on people and culture issues and participate in integration planning and implementation.

3. Develop a comprehensive communications plan.

Identify all stakeholder groups, and understand how the changes will affect them. Then establish communication objectives, strategies and messages that support integration goals. Additionally, plan and detail the vehicles and delivery methods that would best resonate and achieve the desired outcomes. Finally, align communications with the progression of M&A activities—before, during and after the integration:

- Pre-merger
- Day-one
- First 100 days post-merger
- 24 months post-merger

4. Talk about what people want to know.

Helping employees understand how changes will affect them can eliminate uncertainty and build engagement. By localizing and personalizing messages, the organization can reduce the risk of declining morale, productivity, performance and customer service.

5. Define and demonstrate clear leadership—at all levels.

Communicating clear lines of authority and accountability mitigates infighting and reinforces a "back to business" attitude. From frontline supervisors to senior executives, managers must also have the information and tools to address questions and concerns in real time, and manage performance effectively. How they communicate and execute the changes must relay transparency, confidence,

conviction and consistency. Modeling and instilling the right behaviors provide a calming, constructive influence and discourage dysfunction and dissent.

6. Communicate clearly, honestly and often.

Uncertainty, indecisiveness and rumors abound during an M&A. Constant and straightforward communication throughout the integration provides clarity and dispels rumors.

7. Focus on customers and other important stakeholders.

Shortly after a merger, many organizations experience lower sales and more customer service complaints. When sales and service suffer, people tend to blame the merger and question its viability. Customers frequently flee to competitors when they perceive that service has been abandoned or impaired. Therefore, it is critical to communicate a continued commitment to key stakeholders and act decisively to boost sales and service.

8. Convey tough decisions in a timely manner.

To avoid alarming the newly acquired organization or their own people, managers often delay tough but necessary decisions. This delay adversely affects morale, culture and performance. The organization must support and encourage managers at all levels to make and communicate tough decisions quickly. Otherwise, it may deliver the unintentional message that leadership is unorganized and indecisive.

9. Execute focused, well-planned initiatives.

When a deal closes, the organization should coordinate the communications and actions of all functional areas (finance, systems, human resources, operations, marketing, etc.) to demonstrate thorough, holistic consideration of the integration plan. Divergent, uncoordinated communications and activities may cause details to slip through cracks and result in conflicting or confusing messages.

10. Manage and diffuse resistance.

The degree of change associated with the integration may spawn resistance that can undermine progress. Providing information and knowledge before a merger and during integration can mitigate this opposition. Other strategies can redirect focus and energy to a more positive and constructive direction:

- Training that equips people with the skills to use new procedures, processes, tools and systems
- Culture-shaping and reinforcement activities, work shops, events and communications
- Incentives in the form of rewards, such as cash, stock, bonuses, gifts, trips and time off
- Recognition, such as publicity, letters and visits from executives, peer- and manager-level thank-yous and pats on the back, celebratory events, lunches and dinners, plaques, trophies and other awards

THE BOTTOM LINE

It is clear that the “soft” people and organizational culture factors are as critical to a successful integration as are the hard assets that are traditionally the focus. Identifying and addressing issues that may arise early in the due diligence process will ensure that an organization can proactively and effectively manage them. Not doing due diligence in these intangible though vital areas can threaten even the best-planned merger. As part of a comprehensive risk management plan, proactive communications that map to the various deal phases become powerful change management tools to integrate people and cultures, build engagement and stack the odds in favor of long-term success.

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