Change Management in M&A Integration

The seven critical drivers of a successful program

By Gregg Nahass

March 2017

At a glance

The approach to change management in an integration setting is often fragmented and commonly considers only one or a few elements of focus.

Designing an effective change management program in integration should include seven critical drivers, all in synch with the integration strategy, and centrally managed at the executive level.

The larger the deal and resulting integration, the greater the importance on adhering to sound change management principles in aligning and motivating people to deliver deal value.

pwc

Introduction

In the flurry of activity required to prepare for an M&A integration, companies commonly miss the opportunity to design and implement an effective change management program to align and motivate people in delivering deal objectives.

Integration strategy and structure may be well planned and organized at the forefront, and tactical implementation at the functional level may be designed for discipline and rigor over the long-term. But these may not be enough, particularly in large-scale or transformational transactions.

Even if a company shines a light on the need for change management, the approach is often "soft" and without a set of concrete and actionable items, or fragmented and addressing only one or a few of the critical drivers to succeed.

Companies that implement an effective change management program concurrent with the establishment of integration structure and launch of tactical implementation can significantly improve employee commitment and productivity, speed and effectiveness of decision making, and confidence in the direction of the integrated business.

Designing an effective change management program in integration should include seven critical drivers of success, all in synch with the integration strategy, and centrally managed at the executive level.

The Seven Critical Drivers of Change Management in M&A Integration

An effective integration process emphasizes the importance of getting the fundamentals of integration in place as quickly as possible to help minimize disruptions and achieve synergies. This includes the establishment of an Integration Management Office to coordinate integration activities across every function of the combined organization. This also commonly includes the establishment of centralized teams to manage significant cross-functional activities, such as synergy capture and tracking and business process and systems implementation.

These cross-functional teams play an important role, particularly in large-scale or transformational deals when scale of effort and uncertainty are high. And they often include executive leadership representation to free barriers and secure the support required to succeed.

While many companies have become better at recognizing the need to establish these centrally managed teams in an integration, commonly overlooked is the critical importance of establishing a centralized change management team. Too often companies relegate this to a human resource function that gets limited to no visibility or executive sponsorship. Or assume communications planning or cultural assessment alone make up a change management program.

Designing an effective change management program in integration should include seven critical drivers of success. Each element should be in synch with each other and in alignment with the integration strategy and set of objectives. These elements should also be centrally managed and include active executive level support. Figure 1 illustrates the seven critical drivers of change management success in an integration.

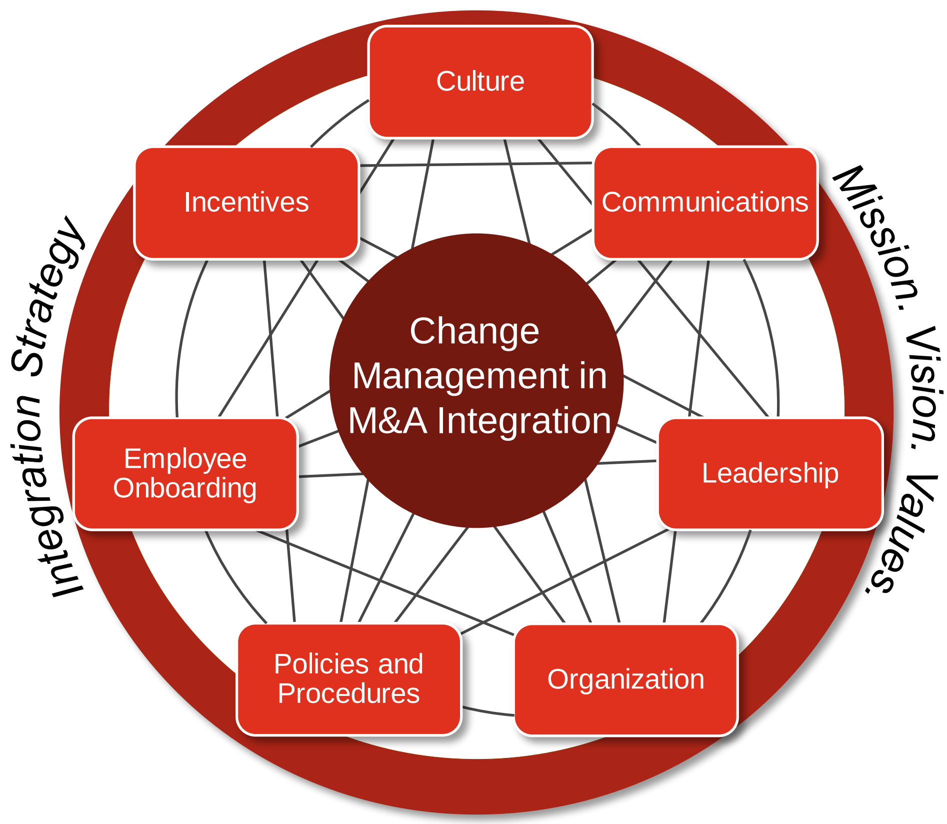

Figure 1. The PwC Change Management Program in M&A Integration requires a focus on seven critical drivers of success. The change management program should be centrally managed to drive consistency of results across each of the seven drivers, and include executive leadership involvement to free barriers and secure the support required to succeed.

Culture

Corporate culture is the set of entrenched behaviors that characterize how a company gets things done. Culture often becomes the scapegoat for failed mergers and acquisitions. But this is a fallacy. While cultural differences can present undeniable challenges, culture is rarely the culprit.

Changing cultures in an integration cannot be done by waving a banner and proclaiming common vision and values. Cultural integration is about behavior change – not rhetoric. Companies should proactively take steps to deliver on three critical areas that drive cultural change in an integration: 1) defining desired behaviors, 2) deploying key role models, and 3) providing meaningful incentives. Each of these areas should have clear and meaningful communications on what is expected and what has changed. These areas should also be managed for consistency across the remaining drivers of the change management program.

Communications

Communication is a stabilizer. It keeps people focused and energized rather than confused and perplexed. It builds support for a new business proposition, new leadership and organization, new ways of working, and other changes that are on the horizon. In effect, it is the voice of the change management program for the integration.

Communicating early and often with all stakeholders is an imperative for every deal. Companies should have a solid communications team in place that is driving a well thought out and proactive communications plan. The team should be working across all functions and management levels within the combined organization to identify communication requirements, and to anticipate and be prepared to prevent and address communication challenges. Feedback mechanisms should be included so the dialogue can be two-way. Communications should include key messages for each of the critical drivers.

Leadership

Simply put, people follow leaders. The sooner the go forward leaders are identified and assigned, the faster the combined organization can complete the change and integration. The company should put in place a swift and efficient process to rapidly select the right leaders for the right positions. Horse trading and negotiating that can sometimes accompany the early stages of an integration should be minimized to prevent delays.

In absorption or consolidation type transactions, this is generally straight forward as the acquiring company leadership tends to remain largely intact. But a transformational transaction, or one announced as a "merger of equals", can be more challenging. In these cases, communication is again the stabilizer. It is important to communicate that a selection process is in place and describe a decision timeline for selecting go forward leaders across all management levels. The communications can also describe new roles and planned organizational changes to support the transformation.

Organization

Changing roles and complex interrelationships are not clarified with the publication of a traditional organization chart. Organization charts say more about authority, status, power, and turf than about information flows and decision rights. People first want to know whether they will have a job and an efficient and transparent process for employee mapping, selection, retention, and transition should be in place. People also want to know what is expected of them, what they are accountable for, what decisions they own, and what decisions they share. This "need to know" is heightened during an integration, and boxes and lines alone do not answer these questions.

The combined company should describe the results for which each position is accountable, what decisions each position owns, what decisions each position shares, and the interdependencies between positions. The accountability and decision authority for each position should also be published, with a clear definition of how they support the creation of long-term, sustainable economic value.

Policies and Procedures

In addition to following leaders, people also follow policies and procedures. And these policies and procedures need to enable, not hinder, new ways of working. One of the unstated advantages of an integration is the opportunity it provides to enhance core work processes and practices that can enhance company performance. The workforce is often expecting change in policies and procedures to occur, and management is eager to get underway.

Organizations enter transactions and integration as fully functioning, self-contained systems of processes and practices. But swapping out a procedure from one organization and substituting a practice from the other organization may disrupt these systems in ways that are difficult to anticipate and even more difficult to correct. The combined company should clearly define how and where work will get done, and what policies and procedures require elimination or revision to achieve desired results.

Employee Onboarding

A change management program would not be complete without appropriate employee onboarding and training. The integration will likely have many changes in policies, procedures, systems, and processes that will alter the way people work, particularly if these changes require new skills, knowledge, or attributes that were not previously in the combined company.

To facilitate the changes required, people will need to be provided with the necessary tools and information to effectively carry out desired actions. Companies should identify areas that require formal training and design effective development programs. In some cases, this can simply be on-boarding a limited number of employees from one company onto another company's surviving systems and processes. While other cases can be more complex, requiring an extensive design and implementation of a comprehensive training program for hundreds or thousands of people to operate something new.

Incentives

Incentives play a key role in changing behavior. While incentives are commonly associated with compensation and financial reward, they can also be in the form of personal recognition and promotion or other non-monetary benefits. Some people would prefer to receive a plaque for a job well done and the recognition from peers and management in the workplace, over a financial reward. The incentive can also be a mix of both financial and non-financial that will change behavior.

During an integration, it is critically important to recognize the contributions of people that exhibit desired behaviors. The combined company should design incentive programs that support value driving activities and results, and identify role models to be showered with recognition. This will position them as people whose behavior should be emulated. The message will be further reinforced if other employees who engage in the desired behaviors are quickly and visibly recognized, rewarded, and/or promoted. This sends a signal to the rest of the company, and word spreads quickly.

Common requirements and outputs to manage change during M&A Integration

	Common requirements	Typical outputs
Culture	• Assess leader and employee cultural perceptions to determine compatibilities and differences • Identify key cultural elements and behaviors critical to success of the combined organization • Define actions necessary to model and lead change • Gain leadership commitment on the changes • Create and implement culture integration roadmap • Deploy employee engagement surveys to monitor progress throughout the integration	• Culture Assessment • Culture Integration Roadmap • Culture and Leadership Action Plans • Culture Dashboard and Key Measures (to monitor culture initiatives)
Communications	• Establish a communication strategy • Develop and agree on key messages • Develop Mission, Vision, Values • Establish communication processes, channels, frequency, and timelines • Define communication roles and responsibilities • Identify and analyze internal and external stakeholders • Anticipate stakeholder questions and provide answers (employees, customers, vendors) • Develop and execute communication plan	• Communications Strategy for Change • Stakeholder Analysis • Key Message Document • Frequently Asked Questions and Answers (FAQs) • What's Changing Guide • Communications Plan
Leadership	• Identify leadership competencies that will drive the desired behaviors and support the Mission, Vision, Values • Assess leader qualifications and competencies • Select, assign, and align key leaders for change • Communicate leader selections along with change messages • Educate leaders in deal strategy and link to specific deal actions • Adjust leadership governance model to enable effective decision making in line with deal strategy	• Leadership Competencies • Interim Governance and Guide for Decision-making • Leadership Selection • Leadership Change Messages • Leadership Decision Authority Matrix

Common requirements and outputs to manage change during M&A Integration *(continued)*

	Common requirements	Typical outputs
Organization	• Ensure clarity in the operating model and distribute guiding principles for the organization • Design the organization and document key changes • Align talent to changes in the model • Implement employee selection, retention, and transition process • Determine approach for employee exits • Define top-down metrics for each position/level • Develop and publish employee decision authority and information flow matrix • Develop and publish organization structure with roles and responsibilities • Perform assessment of stakeholder impacts across the organization as a result of each deal phase	• Organization Design Guiding Principles • Performance Metrics by Job Title • Employee Decision Authority Matrix • Talent Selection and Retention • Employee Off-boarding • Organization Chart, with Roles and Responsibilities • Change Impact Assessment
Policies and Procedures	• Inventory policies, procedures, and processes to change • Define how work will get done going forward • Update job descriptions, as needed	• Policy and Procedure Change List • Process Maps • Updated Job Descriptions
Employee Onboarding	• Map what each employee group should "know, feel, do" on Day One • Identify training requirements to support all organizational policies and procedure changes • Develop and deliver change training (policies, procedures, systems) • Deliver culture and values training • Develop and implement post Day One assimilation programs and monitor results (peer to peer, buddy programs)	• Day One Employee Experience Map • Change Training and Assimilation Program • Measurement Plan
Incentives	• Identify motivational triggers across the organization (financial and non-financial) • Implement short-term incentives aligned to deal strategy • Develop total rewards framework and compensation strategy to drive desired behaviors • Define metrics to measure incentive effectiveness and impact on people strategy (retention and attrition targets) • Identify role models, and recognize people for delivering on desired culture	• Incentive Plans and Metrics • Total Rewards Framework • Compensation Strategy • Champion Network • Recognition Calendar and Programs

Conclusion

Change management can play a critical and powerful role in fostering deal success, particularly on large-scale or transformational deals. But it is important to recognize that change management does not happen by chance, or by relying solely on a plan for communications or culture.

It is imperative to have a well-organized and recognized change management approach, to be centrally managed, include all the critical drivers that motivate and align people to deliver results, and be sponsored by executive leadership to free barriers and secure required support.

Contact information

For more information, please contact one of our practice leaders or your local PwC partner.

Gregg Nahass, Partner
US and Global Leader,
M&A Integration
310 200 2797
gnahass@pwc.com

Consumer Markets

Boston	Derek Townsend Michael Ross	derek.b.townsend@pwc.com michael.d.ross@pwc.com
Dallas	**Mike Giguere (US Leader)** Sushil Ahuja	**mike.giguere@pwc.com** sushil.ahuja@pwc.com
New York	Jim Smith Ali Furman Mike Pokorski Tony Filipe*	jim.smith@pwc.com alison.furman@pwc.com michael.pokorski@pwc.com tony.filipe@pwc.com

Financial Services

Boston	**Paul Kennedy (US Leader)**	**paul.g.kennedy@pwc.com**
Chicago	Josh Carter	joshua.carter@pwc.com
Denver	Vitaly Vishnitsky	vitaly.vishnitsky@pwc.com
New Orleans	Andrew Wooten	andrew.k.wooten@pwc.com
New York	Jay Remis*	jay.l.remis@pwc.com

Health Services

Atlanta	Robert Shuman	robert.g.shuman@pwc,com
Chicago	Angus Buchanan	angus.buchanan@pwc.com
Dallas	Matamba Austin	matamba.austin@pwc.com
New York	**Michael Wright (US Leader)** Sky Milch	**michael.r.wright@pwc.com** sky.milch@pwc.com

* Managing Director

Contact information (continued)

Industrial Products and Services

Atlanta	Joe Balog Marcus Simms	joesph.p.balog@pwc.com marcus.s.simms@pwc.com
Boston	Conrad Balejko Daniel O'Neill	conrad.balejko@pwc.com daniel.a.oneill@pwc.com
Chicago	**Lev Holubec (US Leader)** Lawrena Colombo Jennifer Farkas Manish Kumar Matthew McCurdy*	**lev.w.holubec@pwc.com** lawrena.clombo@pwc.com Jennifer.a.farkas@pwc.com manishk@pwc.com matthew.d.mccurdy@pwc.com
New York	Mike Fiore Kevin Kloske	michael.fiore@pwc.com kevin.kloske@pwc.com

Technology, Media, and Telecommunications

Austin	Barrett Shipman	barrett.j.shipman@pwc.com
Boston	Ed Jasaitis	ed.jasaitis@pwc.com
Los Angeles	**Gregg Nahass (US Leader)** Dries Bredenkamp Nitin Lalwani Ryan Keefer Amit Verma Chris Cook*	**gnahass@pwc.com** dries.bredenkamp@pwc.com nitin.lalwani@pwc.com ryan.keefer@pwc.com amit.j.verma@pwc.com chris.w.cook@pwc.com
New York	Christina Scherma Shungu Chigariro David Baral*	christina.r.scherma@pwc.com shungu.chigariro@pwc.com david.baral@pwc.com
San Jose	Marc Suidan Paul Hollinger	marc.suidan@pwc.com paul.j.hollinger@pwc.com

* Managing Director

www.pwc.com/us/deals