Change Management in Merger Integration

How to overcome people issues and culture clashes in mergers to build a better company.

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The value in mergers and acquisitions is undisputed. Bain & Company analysis of deals over an 11-year period has shown that as a group, companies that engaged in M&A activity averaged higher shareholder returns than inactive companies. But while they may have the best of intentions to use M&A to supplement their organic efforts, many executives get derailed in merger integration. Business leaders put people, culture, change management and communication as the top reasons for integration failure, yet few companies completely understand how to tackle those issues head-on.

That is one of the reasons why analysts often ask hard-nosed questions following a merger announcement. They know that executives still struggle with proactively managing the change that comes with an acquisition, and they want assurance that the company has a solid plan in place. In our experience, executives share a host of questions, too: What do I actually do to get started? What approaches and tools do I apply, and when? What matters most?

In many cases, there's much talk about making people and change the top priority. Then reality kicks in, and the topic of change is no longer a priority or somehow feels less relevant. After all, management must deliver on the base business, align the strategies, put a new organization in place, and realize synergies—right away and all at once.

Fortunately, there's a systematic approach that can help guide the change. We've taken this approach with hundreds of clients across a number of industries but the experience of one industrial goods company serves as a strong example. Following a major acquisition, the newly appointed CEO summed up the issue at hand when he told us: "I have no doubts about the strategic rationale and the synergies. However, I need to build a new company now. How do I engage thousands of people globally and align them behind our ambition, while keeping our customer focus and delivering on our budgets?"

The CEO laid out a plan that followed three general principles we see as critical for successfully managing change in merger integration: embedding change management into the integration, co-creating the foundation with the top team, and systematically cascading the change throughout the organization. We'll look at them one by one.

Embed change management into integration

Managing change during an integration must be tailored to the specific situation. This may sound basic, but too many executives make the mistake of treating all mergers and all employees the same. The approach should vary, for example, according to the sources of synergies, the time available, the cultures, the geographic footprint or the integration's magnitude of impact on different employee groups.

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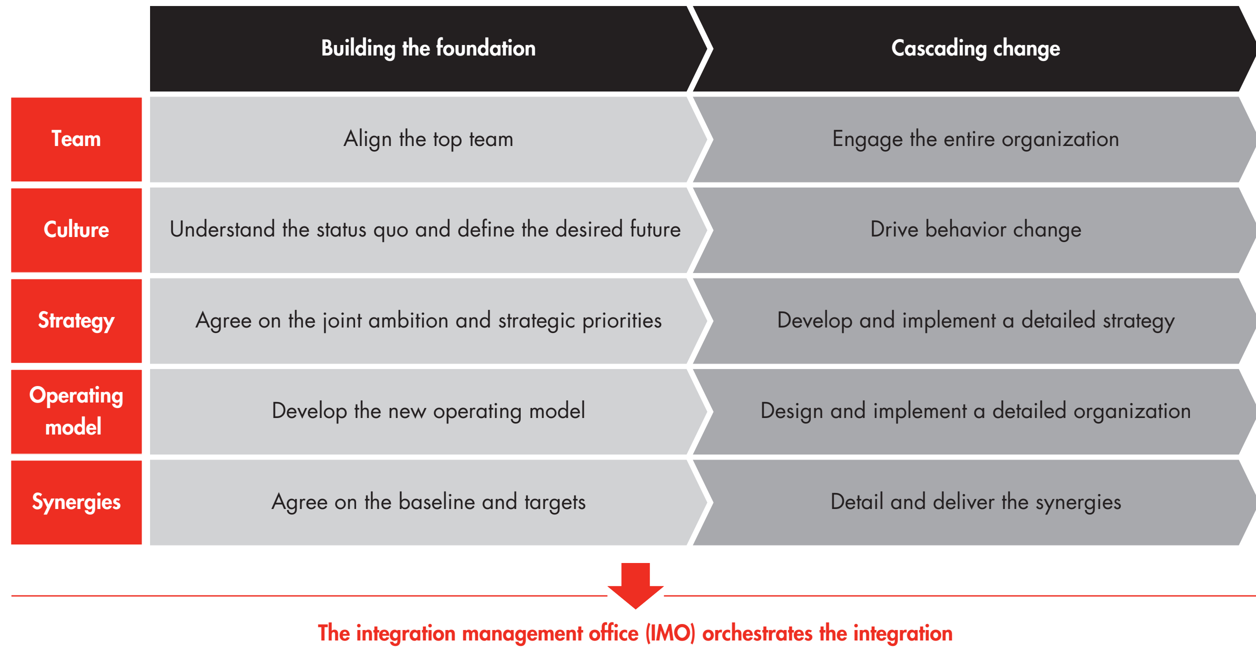
However, experience from hundreds of integrations provides general change-management guidelines that companies can apply in almost all situations. These guidelines are particularly critical in transformational integrations that significantly affect both companies, which was the situation facing the industrial goods company.

Figure 1: Merger integration requires establishing a foundation and cascading change in five critical areas



Source: Bain & Company

First, resist the urge to make change management a separate work stream or a standalone activity. It is not just a collection of tools and techniques or an HR-led exercise. In fact, when it's not a broad effort personally owned by top executives, change management can quickly become a matter of empty concepts or useless slogans. The reality is that change must be part of the executive agenda.

The key is to embed change management deeply into the design and execution of a merger integration. Consider it an underlying force that helps to spur business results, first by building a strong foundation together with a small team, then enabling the change to flow throughout the broader organization. We refer to this mobilization as "cascading." The industrial company took this view, focusing on managing five critical dimensions at the direction of a newly appointed chief integration officer and his team: aligning the top team, building the new culture, creating a joint ambition, developing the new operating model and delivering the synergies *(see Figure 1)*.

Second, don't wait to start managing the change. We see that the most experienced companies start identifying key change risks during the due diligence phase, based on interactions with the target's team. In most cases, the heavy lifting should start as soon as possible after signing and well in advance of closing. Consider the time between signing and closing as a gift that can be used to build the foundation of the integration. The length of time between signing and closing will vary based on the nature of the transaction and the required regulatory government approvals. Regardless of the timing, we've found that management often underestimates what it can accomplish before closing.

Co-create the foundation with the top team

Change management always starts at the top. Each member of the executive team should be personally

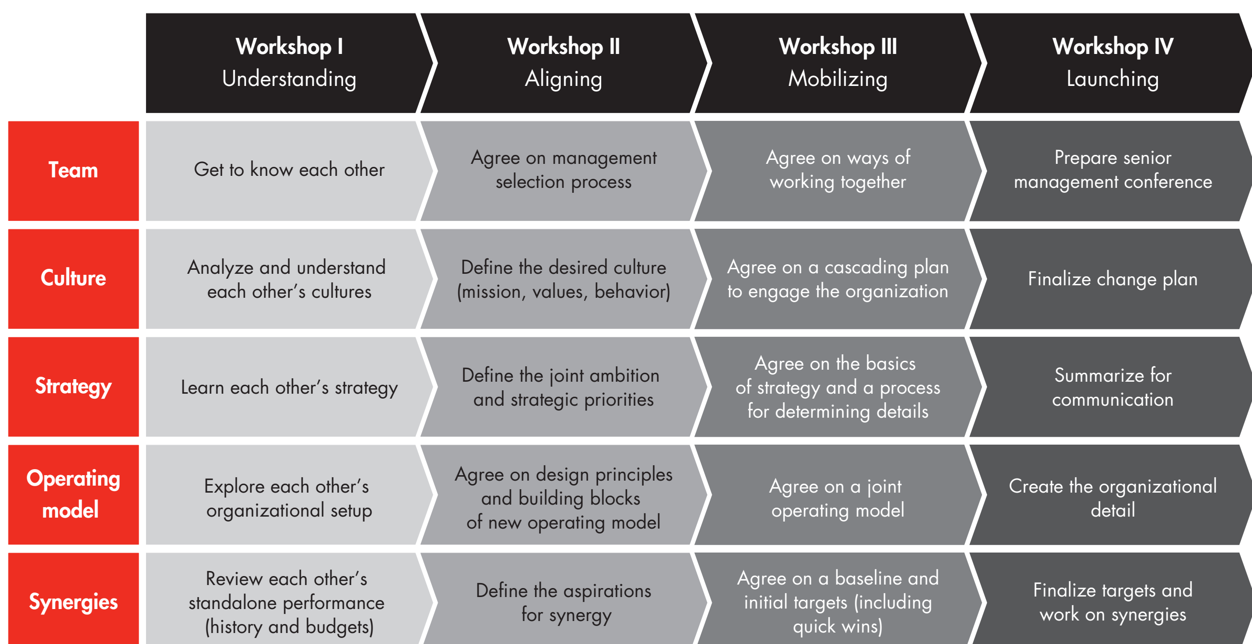
involved in defining the main aspects of the new company, jointly with their peers at the acquired company.

Shortly after signing, the industrial company CEO scheduled four multiday workshops over a period of three months with his newly appointed management team (see *Figure 2*). The objective: co-create the foundation of the new company. It is worth pointing out that three of the workshops took place prior to closing. That means that strict adherence to antitrust law was required. For example, certain information could not be shared as both companies still needed to act as competitors. Despite these limitations, in our experience much ground can be covered prior to closing. In almost all integrations, the time can be used to establish the foundation of the joint company.

Each of these workshops was designed to jointly work on solutions in a truly interactive way. There's a fundamental reason why such collaboration is critical for building trust and alignment among leadership teams from both companies: What people hate most about change is the potential loss of control. As most merger integrations involve a significant amount of change, it is invaluable to give control back to people wherever possible.

The first workshop carried the theme of understanding. Sessions included activities designed to help participants examine each other's business, organization and strategy—and start to understand each other as individuals. Participants reviewed facts, figures and organizational charts, while also discussing the respective cultures and how they support different processes and decision making. Anyone can read an org chart. But in order to build deep mutual understanding, it is more relevant to discuss why the organization looks the way it does, and how it has evolved over time. Based on our experience working with clients on hundreds of merger

Figure 2: A series of four workshops with clear agendas helps leaders take control of the integration process



	Workshop I Understanding	**Workshop II** Aligning	**Workshop III** Mobilizing	**Workshop IV** Launching
Team	Get to know each other	Agree on management selection process	Agree on ways of working together	Prepare senior management conference
Culture	Analyze and understand each other's cultures	Define the desired culture (mission, values, behavior)	Agree on a cascading plan to engage the organization	Finalize change plan
Strategy	Learn each other's strategy	Define the joint ambition and strategic priorities	Agree on the basics of strategy and a process for determining details	Summarize for communication
Operating model	Explore each other's organizational setup	Agree on design principles and building blocks of new operating model	Agree on a joint operating model	Create the organizational detail
Synergies	Review each other's standalone performance (history and budgets)	Define the aspirations for synergy	Agree on a baseline and initial targets (including quick wins)	Finalize targets and work on synergies

Source: Bain & Company

integrations, we find that most companies underestimate the effort required to build a joint vocabulary. Senior leadership must invest considerable time to learn one *another's* language as a first step toward building a *common* language.

The second workshop was designed to foster alignment. Leaders defined the combined company in terms of shared costs, customers and capabilities. This provided the basis for thinking deeply about the best operating model for the joint company, one that would support the needs and characteristics of the different businesses. In addition, the team developed a five-year ambition, a shared mission, and a set of core values for the joint company and its aspiration for synergies.

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As the executive team worked to become 100% aligned on all these matters, it took the process a step further by adding a personal and team dimension to the discussions. The CEO often referred to this as complementing the "it" (subject matter) with the "we" (team dimension) and the "I" (personal dimension). For example, participants deliberated how to deal with disagreement and how to provide feedback to each other, thus accelerating the team-building process. Most important, this early alignment prevented lengthy disagreements down the road and contributed to accelerated synergies and other positive business results. (See the sidebar "Three techniques to build the foundation for high-performance teams.")

In the third workshop, the executive team developed a master plan for the integration. The team focused on rapidly mobilizing the broader organization by creating a cascade—systematically engaging and enrolling all employees in the change plan, level by level and country by country.

The fourth workshop took place after closing, meaning that antitrust restrictions no longer were an issue. Among other agenda items, the executive team discussed a plan for engaging the broader organization and laid out details for a joint senior management offsite with the top 100 leadership team.

Overall, the workshops covered a lot of territory. The goal was to build the foundation for a better company, starting with the establishment of a strong executive team. Participants got to know each other better, worked to develop a unique style for decisions and, in the words of one participant, pledged to *"have a good fight once in a while."*

Three techniques to build the foundation for high-performance teams

- **Introductions.**
  Ask participants to go beyond their positions and résumés. Who are the participants, what are they proud of, what matters most to them and why? Keep in mind that you don't have to limit introductions to the first few minutes, and you can go deeper over time.

- **Work in pairs.**
  Split up group workshops into subgroups. For example, form pairs in which participants will explain to each other their legacy businesses, and swap roles when debriefing to the group. Or design short one-on-one feedback sessions to foster an open culture, and create bridges between individuals early.

- **Lifeline.**
  Have the courage to accelerate getting to know each other and go beyond the trivial. "Lifeline" is an exercise where people share the two most formative events of their life that have made them who they are. Others listen and do not comment. Results are never the same, but always have a profound impact on executive teams.

Cascade the change through the organization

Once an aligned top team has jointly built the foundation, it is in a perfect position to execute its plans by engaging the broader organization. After all, real change happens only if the entire organization has a chance to digest the new normal, work on it and make it theirs. Too often, companies fall short by relying simply on polished presentations attached to an email and sent to all global leaders of the company or broadcast in town hall meetings. In the best case, this type of communication is adequately informative. More often than not, though, it triggers negative reactions. People experience loss of control. Among the responses we hear: *"I should have been involved in this earlier!" "This does not work here." "They should have asked for my opinion."* In some cases, employees simply do not understand or are left with dozens of questions that remain unanswered. (*"What does this mean for my department?"*)

At the industrial company, the CEO acknowledged that buy-in and commitment are created in personal interactions, not through one-way communication. Thus, he committed to a full cascade and enrollment process for his organization. The cascading process is so engaging and personal that a senior leader in a merger integration appropriately described it as a "contact sport."

The same approach to managing change that leaders from both companies take in their foundation workshops can be used by divisions, geographies or functions during the cascading process—the same principles apply. That's why, a few weeks after closing, the industrial company brought together the top 100 leadership team from both companies for a three-day program that featured similar themes to those experienced by the executive team: understanding, alignment and action. (See the sidebar "Selected tips for designing engaging workshops.")

Selected tips for designing engaging workshops

1. **Check in/check out.**
   Offer a short platform for participants to have the first and the last word. The workshop is for them, not for you.

2. **Interactive.**
   Limit presentation time to approximately one-fifth of the agenda. For the remainder, vary the formats: change groups, use a pin wall or flip charts, propose outside walks, and build in enough breaks.

3. **The "how" as important as the "what."**
   Design how to share content and how to collect input and feedback.

4. **Focus equally on content and people.**
   Workshops are about work (the "it"). But don't forget that people must get to know each other (the "I"), and build connections and trust as a team (the "we"). People aspects should be part of the workshop design.

5. **High-velocity feedback.**
   Ask for evaluation and comments in an anonymous survey right after the workshop; share the feedback and reflect it in the next workshop.

On the first day, the teams spent time getting to understand one another's cultures through an interactive exercise, and getting to know one another's businesses and products through a guided marketplace tour.

The second day focused on their goals, starting with a collaborative exercise to define and bring to life a combined ambition and mission for the new company. This mattered because of the two firms' different heritages and cultures. The new mission was not simply presented to the broader team. Instead, to give control to the top 100, they were asked to vote interactively on two options. The option with the higher number of votes won. One choice that triggered many discussions: whether the firm's mission would primarily target end customers or equally important channel partners. This exercise gave the team a sense of control—they could see their input shaping important strategic decisions.

Top 100 participants also reviewed and critiqued the new operating model, and finished the day by providing input into the values and leadership behavior required to succeed in the new combined business. One example: In an industry whose go-to-market model was shifting from channel partners to direct sales, it would be critical to foster an environment that encouraged leaders to ask questions and inquire about customer-specific challenges.

On the final day, the top 100 prepared for action. The objective was to determine whether the newly established financial targets were achievable. The agenda included live voting, working in small groups to define specific governance aspects, or identifying and planning mitigating actions for the three biggest implementation risks. One key risk was the lack of executive sponsorship in locations with new reporting lines. In

response, the management team created the role of "site head," assigning the responsibility to an executive member for each location.

For the industrial company, the next challenge was to support not only an executive team of 10, but a leadership group of 100 or more to cascade the change further. The company reached the next wave of business leaders via a series of smaller enrollment workshops on local or business-specific integration priorities. People could discuss the emerging policies, provide their input, work on topics and ask questions: What does the new financial calendar mean for me as country head? Who is in charge of product launch packages in the new model? The executive team also established a routine for town hall meetings. Every month, these meetings provided an opportunity for selected groups of employees to ask questions and engage in a dialogue. Regular communications (including an intranet and a social media tool) underpinned these efforts.

For all these interactions, the company encouraged robust discussion and healthy conflict. In our experience, this was a wise approach. In integrations, differences of opinion are best handled face-to-face. Otherwise they either get buried or, worse, become difficult to resolve.

It's critical to keep up the momentum throughout the process and track results. To that end, the best companies select a chief integration officer to orchestrate and execute an integration. He or she oversees the integration management office (IMO), a team charged with planning the cascading and enrollment, providing objectives and targets—such as determining synergy ambition by function, geography and over time—and supporting the progress.

At the industrial company the IMO played the roles of both referee and coach, providing three types of support. First, support of the synergy initiatives such as procurement. Second, support of functional integration—building the joint processes, systems and infrastructure for finance, IT, HR and other functions, for example. Finally, the IMO supported change management jointly with the executive team and HR. The IMO's time was spread about equally across all three dimensions.

The IMO typically also provides support through a disciplined drumbeat—a regular cadence of meetings and deadlines to ensure fast and efficient decision making. It may sound counterintuitive, but this tight process doesn't consume excessive amounts of resources. Instead, it creates clarity and avoids waste, allowing the overwhelming majority of the organization to focus on the base business. It's a critical step, especially during an intense change such as an integration.

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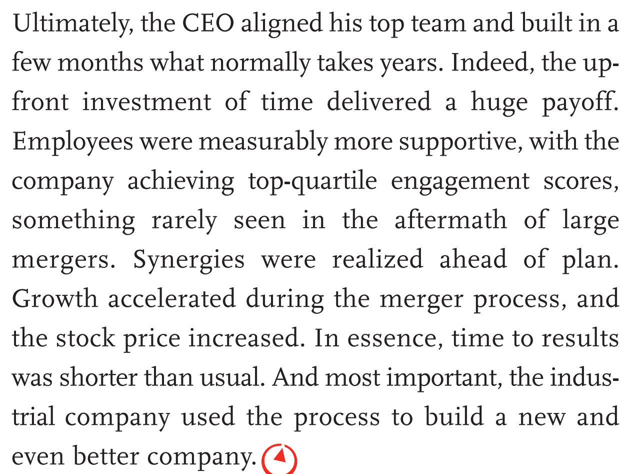
This cascading process must be monitored closely. One battle-tested method: conducting a monthly risk assessment, where a handpicked group of change agents routinely interviews people who are close to the front line and critical functions. The risk assessors bring key risks to the surface before they become major issues and help to focus executive attention and support when they encounter critical roadblocks. The underlying mindset is to quickly identify and mitigate implementation risks. To emphasize this point, the industrial

company's chief integration officer told his team: "Let's maintain a healthy sense of paranoia. If you show me a red traffic light, I will ask what I can do to help you. If you show me only green traffic lights, I will get suspicious and challenge your ability to evaluate the situation."



The industrial company found that applying three principles—embedding change management into the integration, co-creating the foundation with the top team, and systematically cascading the change—was critical to delivering a successful integration.

Ultimately, the CEO aligned his top team and built in a few months what normally takes years. Indeed, the up-front investment of time delivered a huge payoff. Employees were measurably more supportive, with the company achieving top-quartile engagement scores, something rarely seen in the aftermath of large mergers. Synergies were realized ahead of plan. Growth accelerated during the merger process, and the stock price increased. In essence, time to results was shorter than usual. And most important, the industrial company used the process to build a new and even better company.

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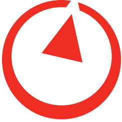

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