



PEOPLE SKILLS: EFFECTIVE HUMAN RESOURCES MANAGEMENT IN CARVE-OUTS

DRIVING PERFORMANCE IMPROVEMENT

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As most investors would tell you, carve-outs are designed to spin off strong, independent organizations from the moment of divestiture. However, with most financial transactions being conducted within tight timelines and so many activities occurring simultaneously, how can management prepare employees for the transition?

It may be surprising to consider that questions around the “people” element are often overlooked and underemphasized in carve-outs. Management should maintain a focus on keeping its workforce motivated and intact amidst a change in ownership to help employees overcome increased workloads, as well as any potential anxiety. While the thought of a merger with a high probability of redundancy can be daunting for employees, a carve-out can be just as unsettling because it often means employees will separate, cease to work together and / or possibly need to relocate. Keeping staff morale high, while driving a likely unsupported transaction, is always a challenge, but can be successful with effective change management.

STARTING AT THE TOP

In carve-out transactions, decisions must be made across organizational boundaries. Therefore, a cross-functional steering body is paramount to accomplish goals.

A functional steering committee and an executive steering team for the umbrella transition plan are critical to ensuring all components of the integrated strategic plan are fully executed. Even with the enormous work volume and fast-paced activity necessary to complete the transaction, leaders must make visibility a priority to show they are open and accessible to employees. Executives should be able to clearly articulate the company's strategy, the reason behind the business move, and continuously provide updates on progress throughout the process and solid reminders of the benefits of the transaction. It is at this point that “WIIFM” (What's in it for me?) becomes very important.

Clear and honest communication around the amount of work involved and the likely timing and outcome for the spinoff helps manage employee expectations. Firsthand messages from leadership that outline employees' roles in transition activities, acknowledge their efforts and recognize the challenges they face is critical to success, but reminding them that the team will complete the work together is key. Special appreciation events scheduled strategically throughout the transaction, as major milestones are achieved, provide a way for managers to express gratitude and for employees to share concerns; these events also serve as a forum for interdepartmental communication.



Focus on People: Sensitive Topics in a Transition

- If offers must be extended at different times, be mindful that, while many employees will be excited about the future with the company, others will be preoccupied with job security.
- If retention agreements are in place, those who do not receive offers are essentially placed in an uncertain work environment during the transition period. Managing this situation is crucial.
- Utilization of temporary offers may be a victory for the transition team, but not for the employee who still faces an uncertain future.
- Remember that every employee is asked to complete additional transition duties on top of his or her normal duties.

WORKING TOGETHER: THE IMPORTANCE OF A PMO

The most effective carve-out strategies involve full-time, dedicated resources to lead separation activities, as well as the formation of a steering committee that has oversight and responsibility for the transition process. Collaboration begins with the executive steering team and, at this stage, the functions need to become accountable to work together and not just focus on their respective pieces of the plan.

A Project Management Office (PMO) can be an effective vehicle for executives to focus on the transition by holding meetings to foster integration and comprehensive knowledge across the organizations' top level. This is where the process behind the plan becomes critically important.

A PMO can bring order to the transaction by immediately establishing guiding principles for integration teams to follow. PMO-led Transition Team meetings provide the opportunity to make timely issues priorities. For example, leadership can use this time to focus on employees' skills and how they can best fit into the new organizations. This forum allows discussion among leadership to gauge morale and discuss how to improve employee engagement. Identify the top five to 10 items that are absolutely critical to the success of the project, and develop the plan around these items. This is where the majority of resources should be concentrated, with an accountable party named for each one of these projects.

IT downtime, for example, has the potential to be problematic in the overall startup process; additional resources can be deployed by the PMO, in collaboration with the CIO, to complete the critical migration task. The PMO can organize the process around the functional plan established by leadership to allow the transition of IT infrastructure between companies to happen almost seamlessly.

The PMO's utilization of sub-teams is another effective tool for cross-functional task areas. During an entity change, contract management involves approvals from a multitude of functions, levels and geographic locations. Each contract the entity held must be changed for operations to continue as necessary in each of the go-forward entities. This is no small undertaking. Some contracts are so critical that they have the potential to delay the transaction. The PMO should closely monitor the status of these significant contracts through the members of the sub-team, who each see the company from a different perspective.

ENGAGE YOUR EMPLOYEES

A well-built communications program should be developed and put into place as early as possible. Proactive communications can build understanding, alignment and trust, which, ultimately, lead to support from valued employees. It will also help to preserve the culture you have worked so hard to build. Communications within the steering team and across functional teams, as well as frequent communication with the employee base, are absolutely critical; no news is not necessarily good news. Get ahead of rumors with frequent communications. The way in which a company manages its relationships during a transition period can make or break employee morale and set the tone for the future.

Providing several avenues for employees to seek information, ask questions and voice concerns decreases uncertainty and ambiguity, which can quell employees' uneasiness. Messages can be released in letters or memos from top executives and business unit leaders or in town hall settings, where employees can share their concerns in person. Depending on the subject matter, small group meetings and



Major Pitfalls to Avoid

- Investors will analyze external communications with additional scrutiny when a transaction is pending, so be sure to closely coordinate internal communications with external communications.
- When decision makers are splitting time between two companies or interviewing for new jobs, finding time for approvals is challenging. A defined approval process can help to prevent delays by delegating authority in the absence of the decision maker.
- New leadership may require special training, depending on their level of industry expertise and prior experience. Such training is hard to find, but it is beneficial to ensure knowledge transfer takes place with incumbents before the transition.
- Leaders of post-spin businesses need to be involved in transition efforts as soon as possible to re-establish credibility, and gain the confidence of employees and investors.
- Employees will be tempted to focus on their new roles and may become disengaged in their current jobs. Encouraging them to stay focused on the task at hand, while looking forward to the future, is a delicate balance.
- Retention bonuses can be given to ensure employee commitment.

one-on-one conversations can be effective in allowing managers to gauge the pulse of the audience. Regardless of the vehicle, the message and timing must be clearly defined and coordinated with both internal leadership and external audiences.

THE ART OF KNOWLEDGE TRANSFER

It is almost a given that training is rarely at the top of the priority list during a carve-out transaction. Appointing dedicated, full-time resources to ensure completion of knowledge transfer activities is critical. Take steps to prepare employees for their future jobs and prove that the company values their contributions and is committed to their success. Provide adequate training to show employees how to succeed in what may be an entirely new job and build confidence. It is equally important to clarify roles, responsibilities, new reporting relationships, and how employees will be evaluated and rewarded to generate enthusiasm for the transaction, help to mitigate turnover and ensure high productivity going forward.

Begin by conducting job impact analysis to best determine transition training requirements. Consider each employee's current and future roles, as well as the business needs of the new organizations to assign high-, medium- or low-impact processes. A high-impact process is needed when an employee at one of the new organizations possesses no knowledge of a critical process. The result would be two matrices reflecting readiness to execute all business processes: one for each company.

To close the knowledge gap exposed by job impact analysis, prioritize processes, develop a process documentation plan and ensure that time is being spent on the most critical processes first. Since this can be a daunting assignment, it would be advantageous to task an objective executor — a third-party who brings varying perspectives on the most prevalent piece of the process that makes it work.

Process documentation alone is not sufficient. You must ensure that materials have been transferred and read, and all questions have been answered. The plan must identify individual “pitchers” and “catchers” of key processes. Gain sign-offs to promote accountability and ensure that employees can perform critical processes in the new entities.

Special attention should be paid to leadership training. Since carve-outs create potential opportunities for new leaders, there may be a gap in knowledge and experience, if such services were previously provided by corporate.

GOVERNING EMPLOYEE PLACEMENTS

There is a significant opportunity to reorganize during the transition — often with the least resistance. The flip side is that staff is as busy as the executive overseeing the reorganization. Optimize efficiency to execute the staff and key management changes required to support the organizations' reformed overall strategy, which is critical to the success of the new organization.

A strong governance process must be in place to formalize organizational design, redeployment, retention and release efforts — and must be conducted in a timely manner. A formalized placement process creates a unified message to employees and discourages mixed messages. Open and regular communication in meetings is an effective way to combat backroom deals and serves as a quick and efficient update of what occurs in various actions throughout the transition process. Confirming the top

level as early as possible ensures thorough knowledge transfer and helps build employee confidence and enlist new employees. Late hiring decisions compress a great deal of work into the very end of the spin-off, when activities are more likely to be overlooked.

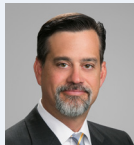
When following a timeline and a transaction is at stake, the company cannot afford to lose key employees. A defined retention strategy to keep valued employees in place through the transition is essential to success.

Effective utilization of human talent is critical to both entities. Evaluating the skills of any unplaced employees before recruiting externally is an important step in a transition process. Internal job postings can support this effort and provide employees with a chance to take action for their future. Unlike mergers, carve-outs potentially create additional and unique opportunities, rather than redundancies. The treatment of employees not placed during the process is significant, and it sends a message to current and future prospective employees. This must be handled tactfully and managed well.

CONCLUSION

No matter how seamlessly a transaction is executed, change inevitably presents the possibility of losing valued employees. Ensuring that management stays focused on the task at hand, communicating with employees early and often, earning employee trust, and maintaining a high level of engagement are crucial to the success of any carve-out.

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