



The Four Pillars of Change Management in Mergers & Acquisitions

WHAT HEALTHY TRANSITIONS HAVE IN PLACE BEFORE DAY 1

How people manage, respond and adapt to change can determine whether a deal delivers on or fails to meet expectations. Yet as anyone experienced with transactions knows, the human element is underemphasized.

A deliberate, disciplined approach to change management improves your odds for a smooth transition. It also lays a solid foundation for optimizing post-close. The key is to incorporate change management as early as possible.

The following pages give a succinct overview of the four change management pillars that support healthy, stable transactions.

PILLAR #1

DETERMINE WHO IS GOING TO LEAD AND HOW THEY WILL DO IT

Change begins at the top. That's why delaying these decisions can create an uncertain and anxious environment where good will, patience and team spirit devolve into turf battles, distrust and dysfunction. Identify new leadership as early as possible.

A disciplined approach to change management improves your odds for a smooth transition—the key is to incorporate it well before Day 1.

Consider leaders with a combination of M&A experience to drive key integration activities and the ability to bring focus to the future culture and vision for the combined organization. Chosen leaders will need to understand the importance of analyzing both organizations to determine which cultural components should be maintained versus absorbed and developing effective strategies to enable these changes to make the process easier for key individuals.

Operating hand-in-hand with leadership is a strong merger integration team and a governance process to guide key decisions. The most effective merger integration strategies involve dedicating resources to lead integration activities and an established steering committee that has oversight, decision-making authority and responsibility for the transition process.

This allows for certain executives to devote all of their energies to running the day to day business, while others focus on the details of the integration. The CEO, steering committee and other key leaders should openly champion the effort to bring together the two cultures.

PILLAR #2

IDENTIFY THE REAL IMPACTS OF THE TRANSACTION ON STAKEHOLDERS

The investment thesis for most mergers is typically predicated on synergy achievements through business process improvements.

But the realization of synergies relies on acceptance and adoption of the new vision by individuals. For example, while integrating technology systems and the physical aspects of a company's supply chain can certainly present challenges, changing the way people do their jobs can be especially difficult.

The key to setting these changes up for success is identifying the real, tangible change impacts for each stakeholder group. How does a given system or process impact different employee groups? Does it change how someone will do their job? What will they be accountable for? Who will they interact with?

For each process or system, the change impacts to people must be identified and documented along with their receptiveness to absorb that change.

Take special care to identify how extensive the change impact is. Will it be a minor change that employees will shrug off? Or does it touch on cultural or process "sacred cows?"

Only once you understand the impacts of the integration changes can you plan for them with appropriate communication, training and incentives to make acceptance and adoption more likely.

PILLAR #3

DEVELOP A COMPREHENSIVE AND SEGMENTED COMMUNICATION PLAN

A strong communications program—internal and external—is another critical part of the process and should be developed and put in place at the earliest stages of the transaction.

The foundation for a successful communications program begins with defining agreed upon key messages around the questions you know are on employees', customers' and vendors' minds.

Define key messages for why the merger is happening, what the new business will look like and, in particular, what will change for each stakeholder group.

Be able to speak to whether or not there will be mass layoffs, plant closing, or department and management changes. Develop a comprehensive communication plan to ensure these messages are communicated at the right time to the right audience and by the right communicator. In some cases, the communication should come from top executives in the form of a town hall meeting or written memos, for example.

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In others, it may be more appropriate for the information to be delivered by the heads of individual business units through small group meetings or one-on-one conversations. And sometimes the best strategy is to combine multiple vehicles. Regardless of the approach, it is important for the communication to be consistent and coordinated, integrating key messages whenever possible. Finally, build in feedback loops whereby stakeholders can ask questions you may not have anticipated.

PILLAR #4

DEVELOP CUSTOMIZED, ONGOING TRAINING

Once management has determined how its business processes will operate as a combined company, it is then essential to provide employees with proper training on how to do what may be an entirely new job.

Don't assume that employees will "figure it out." And don't expect that one conversation or training session will be enough; this should be viewed as an ongoing process with a continuous, back and forth dialogue.

CASE IN POINT

A Fortune 150 independent refiner and marketer of petroleum products entered into two simultaneous asset transactions:

The purchase of 1) A refinery and brand/supply rights from a large oil company and 2) 140 retail stations from another large petroleum company. The client engaged A&M to assist in program and change management planning and execution for the integration of both assets.

A&M deployed change management team resources across functional areas to complete analysis and develop effective plans for a smooth transition of Day 1 operations.

The A&M team analyzed the cultural differences between the current and newly acquired organizations and incorporated these findings into the overall change strategy and approach. In a highly competitive marketplace, focus

was placed on ensuring that key employees were retained through effective job impact and retention planning; including development of onboarding and training plans for all employees. They executed a complex communication strategy and plan that addressed key messages for leadership, acquired employees, current employees, customers and vendors, and deployed training to all retail leadership and 150 retail store managers to minimize attrition and ensure operational stability.

The A&M change management team also developed a strategy to rebrand all company assets for Day 1, which ensured employees were aligned with the goals of the acquisition and the newly formed organization.

As a result, the client experienced minimal interruption to production, customers and employees and proceeded with a clear vision for post-Day 1 change initiatives to support transaction goals including the realization of more than \$6 million in annual synergy targets.

Training should be tailored to the needs and learning styles for each group. For each stakeholder group, describe what is expected of employees in the new organization. Clarify new reporting relationships and clearly explain how they will be evaluated and incentivized to perform.

The process can help mitigate turnover, ensure higher productivity and, in some cases, can even generate increased enthusiasm for the merger by making employees feel more valued and connected to the company than before.

As you design your training program, focus on prioritizing what training must occur for Day 1 operations to run smoothly, and what training can wait until after Day 1.

Don't underestimate the need to on-board new employees in a way that is positive and gives them what they require to function on Day 1. Prioritize common communication infrastructure (e.g. Email, phone and intranet access), access (e.g. badging) and resources to help new employees navigate the combined organization.

CONCLUSION

A company's workforce is often considered its most important business asset. In merger integration situations, as in all periods of change and transition, leaders must view employees as critical stakeholders in the process.

Employees will naturally be excited, nervous—or both—about what the future holds for them. For Day 1, the goal is to minimize disruption by having in place a strong, new leadership structure, making open and honest communications a priority and ensuring that the business functions as smoothly as possible.

The guidelines described here are only the beginning, but are an important first step to laying the foundation for post-merger activities to encourage and ultimately solidify the adoption needed to stabilize and optimize the new organization and realize the full value of the deal.

FOCUS ON PEOPLE: SWEAT THE SMALL STUFF

1. Change Management is overlooked surprisingly often in merger integration planning and execution.
2. Quickly determine who is going to lead the post-merger organization—and each of its business units.
3. Establish a clear governance structure and a Steering Committee empowered to make decisions.
4. Understand the real Change impacts at the stakeholder level, and build strong communications and training programs that focus on Key Messages and approaches tailored to each group.
5. Change Management doesn't end on Day 1, but the pre-merger efforts will lay the foundation for stabilization, optimization and full synergy realization.

KEY CONTACTS



Jennifer Schar

Senior Director

jschar@alvarezandmarsal.com

+1 214 438 1091



Megan Manning

Director

mmanning@alvarezandmarsal.com

+1 713 547 3765



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