INTEGRATE, INNOVATE & ACCELERATE

MANAGING PEOPLE STRATEGY IN POST-MERGER INTEGRATIONS

CAPCO

a wipro company

INTRODUCTION

When seeking to define a successful merger, the discussion will tend to be drawn to hard quantitative metrics. Share price movements, revenue growth and synergy-driven cost reductions often serve as public record of success or failure and are relatively easy to measure. However, it is how effectively people and culture are managed during an integration which will determine whether a newly combined organization is truly set up for long-term success.

During an integration, ‘people’ is a topic that stretches far beyond just talent retention and the design of a new organizational chart. Bringing together two leadership teams, technology infrastructures, and cultures, creates complex challenges which need to be handled with care to mitigate disruption and negativity. Get it right, and the integration will be an opportunity to enhance all these areas.

However, the people aspect of integration is often overlooked (or at least underestimated), especially in the early stages of the journey. Below we set out six key people challenges which should be addressed when undertaking any major integration initiative and offer our recommendations to ensure organizations achieve their integration goals.

Our insights reflect the thoughts and experiences of key leaders from across our financial services clients, who have been involved in delivering major internal and external integration programs, including CEOs, COOs, HR Leads and Integration Program Directors.

1. EFFECTIVE LEADERSHIP

Building leadership teams is a delicate process – poor decision-making can have significant negative consequences. In a post-merger environment, you will immediately have two sets of leaders, adding complexity and demanding swift action to create an executive structure tailored for the new organization.

The temptation to work with a temporary system of 'co-heads' or 'interim' managers can be attractive, as immediate political issues may be largely avoided. However, this is only a short-term fix that allows critical strategic decisions to be deferred until a new leadership structure is established.

Moving quickly to a structure comprising single department heads brings you much closer to an operationally effective leadership team, with roles and responsibilities clearly delineated, enabling a focus on the future rather than navigating agendas developed in the past.

The need to ensure each position is filled by the best candidate available should be balanced with a secondary objective of having a mixed leadership team. Bringing together executives from both organizations might cause friction – but it also communicates a strong message (and expectation) of collaboration, and as such is key to a successful integration.

When deciding upon which leaders are best suited for your newly merged organization, seek out those individuals who possess the mindset and exhibit the behaviors and ways of working that you want to foster and promote. Leadership determines the future of your organization – and should be delivered by example. The goal is to nurture a workplace environment where innovation and collaboration are championed and drive adaptive delivery. This requires leaders with a growth mindset who think and act in terms of discovery (not certainty), and who come from a place of effective partnership rather than mere displays of authority.

2. EXITS: DIFFICULT BUT NECESSARY

Involuntary exits are an inevitable consequence of any merger or acquisition, particularly in respect of senior and/or leadership positions. Such exits are challenging enough at the best of times, but in a post-merger environment the morale of remaining employees can be impacted significantly. This unease is well founded, given that some 30% of roles at a company are generally made redundant post-merger[1]. Individuals understandably jump to conclusions about what may happen next unless the change narrative is clear and controlled – and brought to life by actions rather than just words.

For example, efforts should be made to ensure exiting colleagues are well treated and offered fair severance. Furthermore, where appropriate banks can look to support departing employees as they seek new opportunities both within, and potentially outside, the organization (e.g. at suppliers or partners). Depending on the market and an individual employee's skills, location, background, and salary expectations, such third party firms may well welcome the opportunity to acquire fresh talent, whether individuals or full teams.

Following a merger, all employees will usually need to recontract not only legally (though this depends on the jurisdiction) but also emotionally with their new organization – and vice versa. Considerate treatment of exiting staff is a visible demonstration that an organization is acting in good faith.

While many individuals will see a place for themselves in the future state organization, it does present an opportunity for those who may be considering leaving and/or retiring to depart on good terms. This also enhances feelings of good will among those colleagues who remain. The opportunity should not be missed to tap into and maximize the benefits of combining potentially diverse talents to realize growth plans and objectives – shift your perspective to viewing newly integrated talent as the foundations for future success.

3. RETAINING TALENT

Regardless of the nature of the acquired business, an organization's people are integral. The talent pool within a target company can be a key initial driver of M&A activity, as this route offers a far more efficient way of capturing skilled staff at scale compared to direct recruitment.

However, the value of the joint organization can be diminished if key talent is not retained. Success in this endeavor relies on keeping motivation levels high. In the case of startup acquisition, attrition within a year of the deal can be as high as 33%, twice that of regular joiners post deal[2]. It is critical to quickly define the specific skills required for the future organization and to reskill staff accordingly, with a view to identifying and retaining strong performers in those legacy areas which are no longer considered strategic but where capable workforce is required to ensure a safe run-down or sale. Moreover, these employees could then afterwards be deployed in other areas of the organization. We are of the view that talent is an asset to nurture and covet – as long as employees are amenable to change and to learning new skills, most skills in financial services can be taught or learnt if established in-house experts are suitably motivated to share their knowledge and experience. It is always worth carefully weighing the costs of recruitment against taking the opportunity to upskill motivated existing employees.

Different departments will react to an integration in different ways. For example, levels of brand identification or loyalty may be significant among front office and technology teams, resulting in heightened suspicion about mergers and acquisitions. Other functions may fear streamlining as the new leadership looks to avoid duplication of effort and capture cost efficiencies. As a result, it is inevitable that certain business areas or teams will demand more focus than others.

That said, if the above suggests a 'one size fits all' approach is not appropriate, consistency should still be applied when it comes to making guarantees to staff. If guarantees cannot be offered universally, or must be adjusted later, their value will be reduced or even destroyed. In addition, a balance should be sought between quick alignment of compensation/reward to ensure certain employee groups are not disadvantaged.

4. CULTURE TRANSFORMATION

A firm's culture is developed over time through the embedding of behaviors, traditions and working practices. A merger presents a unique opportunity to set a new direction. If left to grow organically, the culture of a combined organization can develop in undesired directions or generate significant friction. However, through proactive intervention, culture, values, behaviors, and outcomes can all be aligned across the merged organization and act in tandem as a strategic enabler.

One best practice is to carefully design both a target shared culture and a clear plan to get there. This may be an especially useful exercise in those cases where organizations that were previously competitors come together. A culture design canvas is a great tool and place to start – these can help you capture your current culture, outline a clear target, and map a way forward to an aspirational culture.

Once a clear culture vision is crafted for the joint organization, it is best propagated throughout the business via 'culture carriers' who will champion and reinforce any changes. Suitable individuals may be drawn from across different departments, geographies, and hierarchy levels – the selection criteria should be firmly based on what the culture carriers are meant to accomplish, rather than who they are. Ideally culture carriers will come from both organizations.

We find that adaptability, empathy, and resilience are key traits to drive change and should likewise inform the selection process. These individuals or teams must be carefully selected to ensure unwanted elements of legacy culture do not persist. Action should be taken quickly. Rebranding, for example, is most effective when executed rapidly, with clear and direct messaging about what the new brand is aiming to achieve.

While looking at culture holistically is important, small details can sometimes be the most crucial elements to focus on. For example, two organizations may have vastly differing etiquette when it comes to meetings. Failure to identify and address this quickly can result in an immediate point of friction that will be felt across the business in an area vital for the smooth running of day-to-day operations.

Some further thoughts. The change journey for the newly merged organization and its employees should be recognized and accepted. The organization and in particular the employees of acquired entities (if it is not a merger of equals) will likely experience initial denial followed by gradual realization, resistance, acceptance (letting go), understanding and then ultimately, if the change is managed well, excitement for the future. These phases are almost inevitable.

Navigating an organization through the change journey requires an understanding of emotions, active dialogue, clear, purposeful communication and genuine empathy. Only when new employees are properly integrated, a shared new culture can emerge and grow in a manner that 'bakes in' the strengths of both institutions.

It also cannot be forgotten that as culture evolves, talent will shape that culture, and not vice-versa. Culture cannot be developed at the drawing board, it needs to be created, nurtured and lived together. Culture is forged by productive relationships and working toward a shared goal, and brought to life by an individual employee's ability or freedom to demonstrate their specific skills and strengths. Culture is a living construct, something that requires active, focused and constant curation. As such it should be informed by a strategy to nurture personal growth, foster an environment to evolve skills and personal goals, and positively reinforce specific behaviors and attitudes.

5. EFFECTIVE COMMUNICATIONS

How an integration is delivered is of utmost importance. However, if not communicated well, those delivery efforts can be in vain. Any integration must have a detailed and thought-through execution plan that works in tandem with a comprehensive communications plan. This is an area of each integration effort that can and should be carefully controlled and actively managed.

There are different needs across the business and therefore a central and overall communications plan should incorporate the following facets:

- **Focus on the 'why'** – the foundations of any communication strategy should be to reinforce the value and benefits of the merger or acquisition and the related integration
- **A multimedia model** – different staff respond to different methods so a mix of channels should be utilized (including town halls, newsletters, direct mail, social media reinforcement/amplification)
- **Avoid oversaturation** – over-communication will diminish the impact of messaging as well as engagement levels if messages are just repeated over and over again without specificity and empathy. Communication should be focused for maximum impact – while ideally delivered via a regular cadence in a concise and genuine way, flexibility must be built into the comms strategy to ensure messages are always shared at the right time.
- **Mechanisms to facilitate feedback** (contact email details or even a clickable button) should also be embedded within comms to underline the company's

willingness to hear employees' voices at a time when they may be feeling disempowered.

- **Define your vision at speed** – momentum is strongest immediately after a merger, and that makes this period the perfect time to communicate your vision across the business.
- **Impacts are inevitable** – The phrase "nothing changes but..." is poor messaging. It should be recognized that any change will inevitably have an impact on someone within the organization, be it positively and negatively.

Beyond centrally driven 'corporate' communications, it is critical that divisional heads and line managers also dedicate ample time and diligence to communications. During the initial phase of uncertainty, it will be of particular importance that line managers spend time with their direct reports and teams to clearly frame and explain official/public statements, amplify key messages, listen to their teams' concerns and fears, and at all times demonstrate empathy. This is a high priority and cannot be neglected, however pressing their other BAU obligations and merger-related tasks, commitments and meetings – even when they themselves may lack full clarity on the situation.

6. INTEGRATION TEAM

So far, we have considered the impact on people of an integration and ways to successfully manage that impact. However, successful execution of an integration also requires a well-constructed integration team to drive it. An integration should be the top priority for an organization, and therefore the program should be headed by a permanent employee or a central integration team wholly dedicated to integration delivery.

Ideally, each division or function should also have a lead who is accountable for execution in their respective area. The rest of the integration team is best structured using a combination of permanent staff from both organizations alongside external third parties with specialist integration experience and knowledge.

Integrations are intense, and place unique pressures on the team(s) tasked with delivering them. The likelihood of burnout and stress is increased for staff who are at once acclimatizing to a new organization and changing it from within. An integration program must therefore be structured so that:

- It represents both organizations
- It can be delivered within a two-year window to avoid integration team fatigue (depending on the size and complexity of entities to be integrated)
- There is a clear set of deliverables to enable a proper program closure
- A transparent governance model is in place with regular meetings, clear project structures, defined roles and responsibilities, and robust escalation mechanisms
- Other 'big ticket' items are accounted for, such as large regulatory changes

CONCLUSION

Without question, a merger will struggle to be successful in the absence of a holistic and carefully managed approach to people management. As we have explored, by striking a balance between delivering an overarching vision and staying focused on the small details, any turbulence is minimized. Our approach can be summarised by these six clear objectives:

- Rapidly establish a streamlined leadership and leadership structure
- Treat exits well
- Be sensitive to differing staff needs to minimise unintended attrition
- Align new cultures, behaviours, values and outcomes
- Develop and execute a detailed communication plan
- Build a diverse integration delivery team headed by dedicated permanent staff

Finally, success in executing a people strategy should be closely and deliberately measured wherever possible. As it is a largely qualitative undertaking, the use of surveys or benchmarking against recognized industry standards can be the most effective means of identifying achievements and determining areas where there is more work to do. These metrics can be particularly powerful when combined with quantitative measurements, such as attrition levels – and can guide you in making the best decisions for the future of your people and business.

REFERENCES

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