M&A SCIENCE
ACADEMY

CHANGE MANAGEMENT:
DRIVING ENGAGEMENT AND RETAINING ACQUIRED EMPLOYEES

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First of all, let's look at the valuations of fortune 500 companies over the past three decades.

Back in 1975 to1985 companies were valued for their tangible assets. As you look further into the 2000s and the 21st century, there is a shift from tangible to intangible assets.

One could argue that most intangible assets such as brand and IP, are really related to people. If you lose the people, your brand IP walks out of the door, because the experience and what people associate with a brand is the "people experience".

This is just something to set the stage around change management and why a people focus is so important.

Statistics show that:

- 33% of acquired companies on average leave the company within the first year
- 12% revenue decline on average at the acquired company
- 60% average drop in productivity of acquired companies/employees

I have seen this over and over again. You have somebody who has a full workday. Then on top of that, they are thrown all the tasks necessary for the integration. They are often given a second laptop to work on and put in what is commonly called a "swivel chair" situation. They work their old job on the old laptop from the acquired company and then a second laptop to log into for benefits, any leads, etc.

On top of going back and forth between their old identity and preparing for integration, they don't know where they're going to end up in the organization. Will they still have a job? What does this mean for their career path? This "swivel chair" situation causes a major drop in productivity.

The argument for change management is making sure that people are productive, they know what's going on, and there's clarity in the organization. When we're talking about change management, we are really talking about something that is very core to the value realization of the deal.

Six Myths in Change Management and M&A

1. Change management is a nice-to-have with no direct link to value
2. Change management is training and communication.
3. Change management is done by the change management team.
4. Change management is a separate work stream with separate deliverables
5. Change management only focuses on the acquired company employees
6. Change management can be done efficiently without an integration strategy, milestone plan, or objectives

Let's bust these myths.

What is the objective of change management and M&A?

Objective of CM during M&A

Tactical

1. Create a positive experience and image of the integration
2. Drive engagement, productivity and retention of impacted stakeholder groups
3. Avoid overload of impacted stakeholder groups & sequence change

Strategic

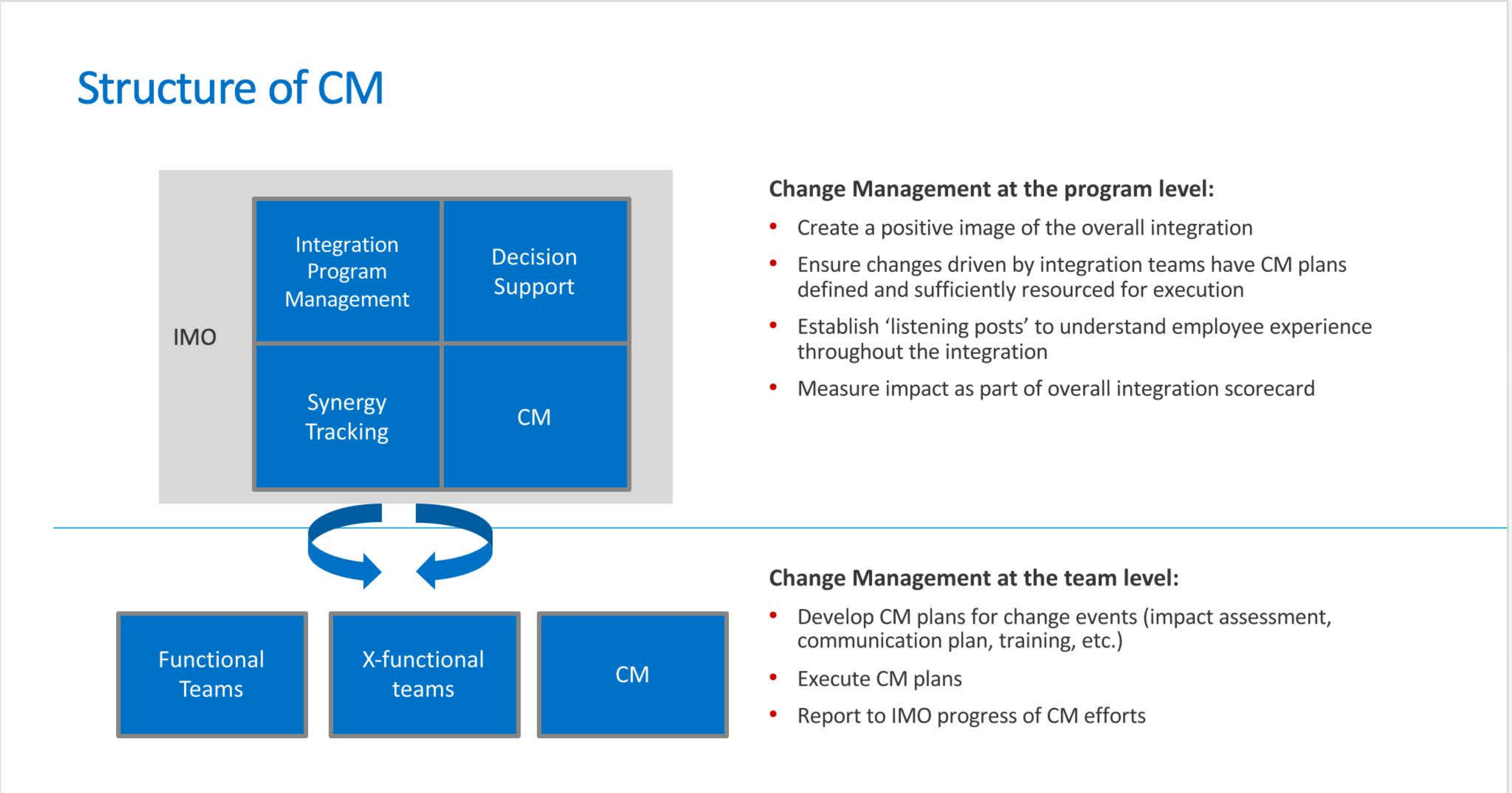
1. Increase change capacity of the organization
2. Create a positive image for acquisitions and inorganic growth in general
3. Create a framework for complex change, which can be leverage for other initiatives

There are basically two objectives, one is on a tactical level and the other is on a strategic level. On a tactical level, like on an individual transaction integration, it's to create a positive experience, an image of the integration overall. Change management should enable transparency, communication, accessibility of leaders, and engagement or productivity, but also retain the impact of stakeholder groups and the acquired company employees.

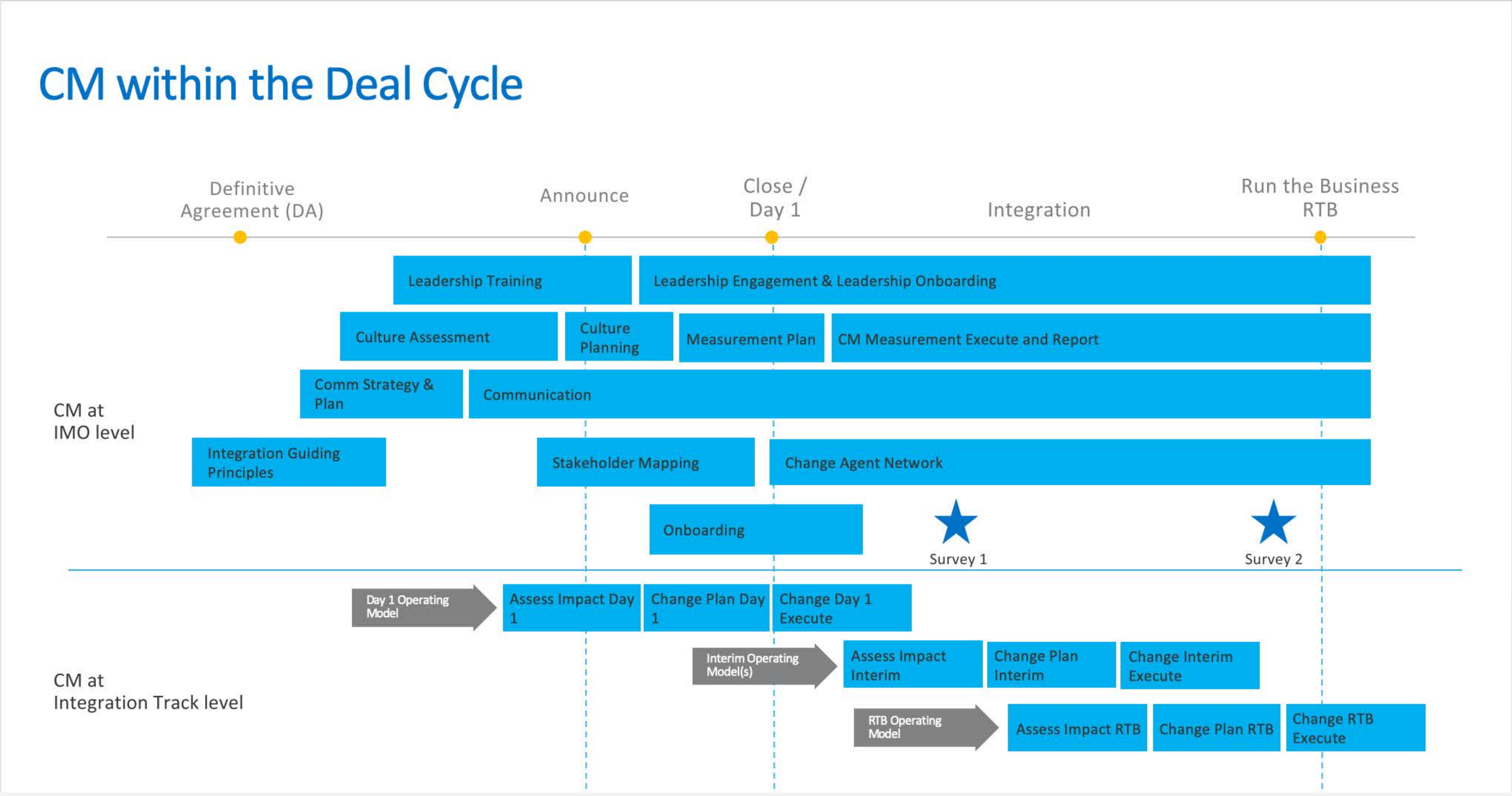
Last but not least, avoid overloading the impacted stakeholders because everybody is driving change into them. In my experience, when a large company acquires a small company, the large company might have thirty to forty people working directly on the integration. Then on the acquired side, there are only four people, and they have to respond to that group of thirty to forty people coming at them with requests and requirements for participating in integration activities. That can be very, very overwhelming. Change management should be used to call issues like that out and make sure people are not getting overwhelmed. From a strategic perspective, if you're doing a good job with change management, you increase the overall capacity of change from the organization because when change is done right, people don't shy away from it. There will also be a positive image for acquisition integration or inorganic growth in general.

If word gets out that the integration is not going well, it creates a bad image and impacts the overall attitude towards future acquisitions. Create a repeatable framework that you can leverage, for other initiatives. For example, when there is no strong playbook for M&A, I look into how the company drives new product introduction and their new product introduction (NPI) process. I explore how the company communicates with its customers and partners about a new product and try to build a repeatable framework around thoste concepts.

There are two change management tracks and very often, there are different people involved in each one. There is change management at the integration management office, which is where the IMO sits over and manages all tracks (change management is attached as a part of that office). If it is a small acquisition, you may get away with having the same person, but usually you need one person that runs the IMO and another person who just looks out for the change management. These two people go hand-in-hand, they are in meetings together, and they collaborate together. They just look at things from slightly different perspectives.



Then underneath you have change management at a track level. You have finance, integration, sales, marketing, IT, etc. Then you have all the cross-functional tracks such as 'lead to cash' or 'hire or retire' that also need change management. The activities are different at these two levels.



The first thing that change management does really is leadership alignment and training, especially if the company does not do a lot of acquisitions. You need to sensitize leaders around the emotional dimension of M&A, because it can easily be lost on the acquiring company, especially when they acquire a lot of companies.

Leadership Alignment and Leadership Training Framework

The leadership alignment translates into five different steps. Each step in this workshop takes about four hours. For step one, I revisit the deal thesis and ask the leadership, "based on the deal thesis, what are the strategic objectives of this deal?" Sometimes the strategic objectives are already laid out in the thesis and sometimes they are not.

If they are not laid out in the deal thesis we'll delve into the deal thesis and come to agreement with the leadership team on the strategic objectives. The leaders of the acquired company should also be a part of this workshop.

Step number two, look at the strategic objectives and determine the short and long-term integration objectives

Short-term objectives are operational and for example could include partner channel activation. An example of a long-term objective may be to close down the facility of the acquired company and move them over to another. Once short and long-term objectives are defined, move onto cornerstone decisions. Key cornerstones decisions should be a list of ten to twenty decisions.

Key Cornerstone Decision Examples

What happens to the brand of the acquired company?
What happens to the campus?
What happens to the other products?
Are they going to be standalone?
Are they going to integrate into the existing products?
What's happening to the terms and conditions?

There are key cornerstone decisions in each functional area. Once a decision is made, document the decision. If a decision is not made, identify which leader should make the decision and determine how long they have to decide. Decision-making velocity is one of the key success criteria of an integration.

Step number three, it's time to define the integration principles. There shouldn't be more than five integration principles and should be items that are absolutely critical in order for the integration teams to do their work on a day-to-day basis. Step number four is when your team should discuss the integration roadmap. This roadmap should include the key milestones that the leadership team is expecting. It should also spell out the expected experience of the employees, customers, and partners. Lastly, the leadership team should agree on items such as governance, who is in the meetings, how often they meet, how integration is measured and structured, the team compositions, etc.

All the leaders should walk away from the workshop knowing how to answer:

Why did we acquire them?
How do we integrate them?
What are the priorities?

After the workshop, the change management team can work with the leaders and support the leadership onboarding of the acquired company.

In my experience, I usually differentiate between leadership onboarding and employee onboarding. If the leadership onboarding of the acquired company is insufficient, it will put the deal value at risk.

Stakeholder Mapping

Stakeholder mapping in M&A is a little bit different than in a normal change project when you implement a new technology. For example, if you're buying a smaller company,

the operational process is usually not as mature and is more of an all hands on deck approach. There might be two people in operations that have been there for a long time. They really know how the shop runs, how to keep the lights on, and where the skeletons are in the closet.

If you lose those people, you will lose value, so you have to figure out which personnel and functions are absolutely critical to the deal synergies. For example, if you buy a company for their technology, those critical people may be the R & D engineers.

Change Agent Network

This includes understanding the experience of the acquired company via surveys. Most companies do a survey between thirty to hundred days post-acquisition, but realistically, if you wait a hundred days to find out that you're losing your key employees, it's already too late.

To avoid this, identify people that are in the critical functions of the acquired company and bring them together on a weekly basis. These are usually not people that are already working on the integration itself. You really want somebody who is on the receiving end of the integration communication, training, and engagement. Aim to get feedback on what employees are talking about, where the biggest problems are, how the acquisition is being perceived, etc.

Change Management Measuring Plans

During an acquisition there are various elements that you measure. I typically break the measurements down into revenue synergies, customer metrics, partner metrics, and people metrics.

Onboarding Employees

Onboarding acquired employees should not be approached in the same way as onboarding new employees. Onboarding acquired employees goes much longer and the change management team should work with the onboarding team. The change management team should be there to make sure that people are not getting overwhelmed because while they are being onboarded to the acquiring company, they still have a full daily workload. When you hire a new employee, they come in with a clean slate. They have nothing to do, but to learn the trade. This is one of the things where the IMO change management team really has to focus on, not overloading people. Instead, they need to spoon-feed them on the most critical items. The onboarding process often takes one to three months.

Buddy Networks

Buddy networks are usually something that is part of the leadership onboarding. The goal of a buddy network is to pair leaders of the acquired company with leaders of the acquiring company. You have to figure out how far down into the organization you want to drive the buddy network, but at least every VP and above should have a buddy.

Where does change management align in an organization?

There is change management at an IMO level and then there is change management at a functional track level. I have personally seen change management aligned in four different ways and there are pros and cons to each one.

From a **corporate development/IMO perspective**, change management focuses on cross-functional initiatives such as M&A. From an **IT perspective**, a lot of organizations have program management offices because they are running a portfolio of projects. Quite often their changed management reports up to IT, and the main objective is technology adoption.

From a **functional perspective**, the first function that comes to mind and always has a change management capability is sales and it's called sales enablement. They introduce new products, pricing, partnerships, etc. to the sales organization or your pricing.

In some cases I've seen management aligned from an **HR perspective**, especially when HR has strong organizational design capabilities.

Corp Dev / IMO	IT	Functional	HR
+ CM is aligned to the execution of strategy, x-functional initiatives (i.e. M&A integration) with a high-risk profile	+ Close collaboration between the CM and the PM approach for technology related change	+ CM team becomes deep subject matter experts in functional processes and operating models	+ CM is adjacent to OD capabilities and complements the execution of operating model changes
+ CM COE maturity increases organizational agility and return on strategic investments	+ CM resources become experts in technology adoption	+ CM team builds institutional knowledge on how to best introduce change to specific stakeholder groups	+ CM resources become experts in supporting operating model changes

Different Levels of Change

There are different levels of change; technology, process, roles and structures, etc.

At the first level you have **tactical change**. For example, you may have a Salesforce lightning upgrade or a product upgrade. This is a technology change that does not include any process, roles, or structure changes. So the focus, from a change management perspective, is on user system interaction. You should focus on training, communication, impact assessment, stakeholder alignment, etc. the real nuts and bolts of change management.

The next level of change is **functional silo optimization**, which is where the change pretty much stays within the silo. For example, maybe you're implementing Maketto or rolling out a new compensation structure for sales. There may be some technology or process changes, but people are basically doing the same thing that they did in the past. In this situation, you really have to focus on what the individual transition will be like from a people perspective. Make sure that the leaders are on board and figure out how the change impacts roles.

At this level, you need change management people that really understand leadership alignment because they understand how roles will transform because of the change.

The highest level of change is **cross-functional strategic transformation**.

An example of this is M&A, one day everything changes. The focus should be on organizational transformation.

You have to look at the organizational design, who's reporting to whom, how people are incentivized, the workforce transition etc. You have a large amount of people that are coming in that you have to map into your organization, it's a big body of work. Again, this is not just the change management person making all the decisions, but they are at the table working with HR, leadership, IT, etc.

As you go from each level of change to the next, you have to include the levels before it. So, if you are going through a cross-functional strategic transformation, you need to do change management for tactical and functional silo optimization change as well.

Different levels of change require different CM approach

		Areas/Degree of Change				
Type of Change	Example	Tech	Process	Roles / Structure	Focus	Leading Practice Workstreams
X-Functional, Strategic Transformation	M&A, Divestiture, New Market Entry, SSC	High	High	High	Focus organizational transformation	• Cultural Alignment • Organizational Design • Workforce Transition
Functional Silo Optimization	Workday Implementation	High	High	Med	Focus on individual Transition	• Leadership Alignment • Role Mapping / Transition • Change Readiness • Incentives Alignment
Tactical Change	Salesforce Lightning Upgrade	Med	Low	Low	Focus on the User-System Interaction	• Training • Communication • Impact Assessment • Stakeholder Alignment

What are some parameters to put in place for an ask me anything (AMA) session and what is the goal of an AMA?

AMA sessions are a great tool to gain more clarity and they also provide an opportunity to introduce leadership boards into the narrative of the integration.

Before I work with people on the AMA sessions, I always brief the leaders. If you do an AMA session, whoever is leading the session needs to go through the five steps from above beforehand. If the leader does not, the AMA can be more damaging than helpful. When it comes to high-stake communication, the way you communicate should be different. Providing a human voice and face is always better than communicating through email. When people are in a high state of anxiety, they want to hear from leaders, and those leaders have to know how to communicate during such a high stress situation. Acknowledging the emotional perspective of change is absolutely critical. Find something personal about yourself to share that relates to the situation. Maybe you've gone through what the employees are going through at the moment, share that with them.

It's also okay if you don't know the answer to every question. If you can't communicate an outcome, there are basically two things you have to do. One is you have to communicate the process that you will use to get to the outcome. For example, "We have formed a team, Susie and Babra are leading that team. They are looking into the facility situation." Secondly, state your integration principles. If everybody will be offered a role, tell them that. Ground them in your integration principles, because the integration principles will be what guides the entire process.