

Post Merger Organization Design

By Walt Shill



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Under the best of circumstances, designing a new organization is a complex assignment, difficult to get right. And mergers and acquisitions (M&A) transactions rarely offer the best of circumstances. While they present certain opportunities for one-stroke organizational transformation, the offsetting pressure, stakes and potential strategic pitfalls are extremely high.

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Nevertheless, designing a new organization under M&A conditions can be done, and when it is, the returns can be substantial. Our perspective at Accenture — drawn from more than 350 engagements worth of experience — is that post-merger organization design can tangibly help M&A transactions deliver on their original strategic propositions.

Traditionally regarded as a "soft" discipline (if it was recognized at all), post merger organization design has matured enough in concept and execution technique to drive sustained high performance, as measured in "hard" metrics. In an era when two out of every three mergers underperform, this is no small matter.

A Matured Discipline

The basic conceptual assumptions of post-merger organization design are straightforward. First, while every merger and post-merger integration is different in its details, each also proceeds through predictable stages and decisions, which can be addressed through shared best practices. Second, the assumed overarching goal of applying these practices is to achieve the largest and fastest value creation (as measured in increased shareholder value over time), with minimal value destruction.

In terms of execution, post merger organization is comprised, as Accenture sees it, of five complementary streams of activity, each of which in turn is made up of methodologies and supported tools.

The five competences are:

- Operating model design
- Staffing process design and implementation
- Change management
- Communications
- Training

So the discipline of post-merger organization design goes well beyond the building of an initial "responsibilities and reporting lines" model to include policies, procedures, and governance issues — "the rules." It includes the means to diffuse and perpetuate these rules through the organization — "the schools." And it includes technological support — the "tools."

Why 'Design' the Post Merger Organization

From reading the business press, one might think the impact of M&A transactions on an organization is deep, but finite and of relatively short duration. This picture is only partially correct: Yes, the impact is deep, but the decisions made prior to the deal closing have organizational implications that extend for years beyond formal post-merger integration periods. Well executed post merger organization design must be flexible enough to accommodate not only predictable factors, but unanticipated side-effects.

Consider, for example, a merger's impact on workforce effectiveness. An enterprise in the midst of integration is operating under crisis conditions,

and employees and executives can respond to extreme conditions for only so long. If the organization design has not calculated for the tremendous stress that integration imposes, one unanticipated result may be "overstretch" and burnout of remaining employees. This often happens even when organizations, with the best of intentions, choose to minimize stress and uncertainty by immediately and broadly eliminating redundant staff.

On the other hand, if the organization is reluctant to let some people go, there are rarely a sufficient number of senior positions in the merged entity to satisfy the career expectations of two pre-merger sets of executives. Those who "lose" (and choose to stay) are pushed down a level, into positions their subordinates had hoped to gain, as opportunities for advancement are limited for several years. Level by level, the "roll-down" process continues, with a cascading organizational impact that is debilitating to executive morale.

In the face of overstretch, burnout and rolldown, frustrated executives leave — and they leave continuously. As Jeffrey Krug pointed out in his February 2003 Harvard Business Review analysis of post-merger executive departure, this "executive exodus" (as Krug called it) can proceed at twice-normal rates for up to nine years after a merger.¹ It is a very rare post-merger organization design that plans beyond five years. As Krug notes, the destabilizing effects of this kind of bleed-out of talent on the remaining workforce is compounded by perception:

departures are interpreted (correctly) not as anomalies but systemic evidence of poor or inconsiderate post-merger integration planning.

Culture: The Iceberg Below the Waterline

More than any other root cause, cultural differences are blamed for consuming anticipated efficiencies, undermining prospects for value creation and, in some cases, compelling buyers to unwind deals that once held so much promise. At the same time, these cultural differences are systematically under-weighted in pre-deal analysis.

Even five years ago, culture was commonly regarded as an art in the C-suite, consisting of "soft stuff" that is inherently difficult to act upon. Now, newly available measurement and reporting tools have made much more precise the analysis of factors such as decision-making flows, information sharing and collaboration protocols.

Increasingly, executives who ignore culture and preoccupy themselves solely with financial and operational issues do so at their peril. In one celebrated merger between IT manufacturers, meticulous integration planning delivered substantial cost synergies above target and ahead of schedule. Nevertheless, the increased shareholder value that drove the merger rationale was never created, and the CEO was eventually forced out. The widely assumed reason for the underperformance: pre-deal dismissal of a highly-esteemed culture in the "junior" partner

organization, and the backfiring of post-merger attempts to intimidate this culture with imported "shock and awe" tactics.

In fact, culture informs every part of every organization — and not only in areas where it might intuitively seem important, such as functions with significant customer interaction or containing significant intangible value quotients, such as Research & Development. In the recent \$41 billion merger of Cingular and AT&T Wireless, for example, the pre-merger integration analysis included organization design for both customer-facing and back-office functions: sales and marketing, customer care, network operations, billing, supply chain, IT, finance and human resources. One value driver in the transaction was significant reduction in customer "churn" (turnover); Cingular reaped the benefits of its attention to back-office culture when churn declined 19% in its first quarter as a merged company.²

Facing Post-Merger Organizational Realities

In mergers, human behavior — with all the fallibility the term implies — often trumps well-considered strategic behavior. During the first years of interstate banking mergers in the late 80s and early 90s, one seasoned HR executive at a large New York commercial bank put it this way: "As soon as a merger is announced here, all real work stops." Factored for industry and company, this quip still holds true.

When mergers close and a combined organization is born, the most "primitive" employee needs — survival and then competition for title and resources — becomes paramount. Compounded by rumor, anxiety and deep fatigue, the survival behavior that follows outdoes any plot a reality television program could contrive. Though no one who is experienced in corporate life is a complete stranger to this behavior, it strains corporate cultures when what has been officially unacknowledged must suddenly be formally addressed.

It's All About Value

At present, Accenture's marketplace conversations suggest that post-merger organization design is a challenge that only a few C-suite executives are well equipped to meet from existing strengths. The skill set is too infrequently exercised and the competing demands for attention are easier to address.

The idea that the systematic, strategic treatment of "soft-side" merger integration issues can create tangible value is still new to many participants in the world of M&A strategy. But it does — as measured against the definition of a merger's success, the C-suite executive's promotion and how companies become high-performance enterprises — or not.

¹ Krug, Jeffrey A., "Why Do They Keep Leaving?" *Harvard Business Review*, February 2003.

² Measured against pro-forma results from the previous quarter.

About the author

Walt Shill is a partner in Accenture's Strategy service line, with more than 15 years of experience across the spectrum of M&A deals and strategy consulting with Fortune 1000 clients and large private equity firms. Currently, Mr. Shill is responsible for leading the Organization Strategy practice within Accenture's Strategy service line. In this capacity, he works with clients in a broad range of industries, helping to guide them through the myriad changes associated with a merger or acquisition. In addition, he has responsibility for building out several aspects of Accenture's corporate strategy. Prior to joining Accenture,

Mr. Shill was president & CEO of Return Buy, Inc. Before that, he was a partner at McKinsey & Company. He spent eight years in Japan, where he led the creation of the International Management Practice and later launched McKinsey's Healthcare Practice. After returning to the United States in 1997, he led the Global Post Merger Management Practice.

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