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M&A-driven organization design
Seven practices to help lock-in deal value

Stakeholders and Wall Street typically greet the announcement of an M&A transaction with excitement and energy around the creation of a new business entity and the growth opportunities it provides. However, once the deal is finalized and the dust settles, management usually is left with the highly complex task of implementing the numerous operating model and organization changes required to realize expected deal value. Often this process begins by getting “down and dirty” in organization design, where many companies find they can attain substantial accretive deal value through human resources (HR) synergies.

So how does a company lock in deal value? Seven leading practices have been shown to consistently drive value from post-Day 1 organization design. These activities are applicable in virtually all industries and deal types, from traditional mergers to small integrations to full-scale separations.

The following seven leading practices provide focus for the HR organization design process and emphasize critical components for each phase – strategic planning, design, and implementation – that may help the new organization avoid common organization design pitfalls and realize projected deal value.

Phase 1: Set the stage with strategic planning

Leading practice #1: Agree on what you can afford

Companies that begin post-deal HR organization design by clarifying integration synergies and people-cost assumptions help set the stage for an effective end-state transformation. Establishing cost envelope targets early in the design process helps increase the likelihood that the transaction’s financial goals will be met and provides a basis for comparison with external leading practices as the organization design progresses.

Identifying clear cost targets also can help leadership understand and align on what part they will need to play in meeting those targets. This early clarity may drive faster decision-making and provide greater transparency to the investor community.

Our experience and research from the Deloitte Global Benchmarking Center suggests that these cost targets should be a “stretch” and based on the organization’s operational needs, leadership’s aspirations, and commitments to shareholders, as set in the deal valuation. Starting with low targets tends to produce even lower outcomes.

Example of stretch thinking

The CEO of a major consumer products company sought broad advice on “any and all” leading practices to improve the company’s enterprise and functional structures as it integrated new businesses. He wanted to create a climate of fresh thinking and big ideas at the start of the organization design process, before everyone focused on the nuts and bolts of integration. This approach helped the firm infuse the design process with innovative ideas to drive greater deal value, ultimately resulting in a nearly $2 billion increase in market capitalization.

Leading practice #2: Evaluate transition options

We see many companies engaged in M&A that are faced with making an early organization design decision: Should they move quickly and implement a "big bang" integration, take a more measured approach to the transition, or opt to keep the new business separate? While a range of reasons may influence the selection, our experience shows that, in general, slow transitions that may seem to be more manageable and humane tend to result in design decision backtracking, talent attrition, and failure to meet cost-savings goals. Maintaining separate operations, meanwhile, may still require integrating some duplicative corporate functions, such as HR, legal, and marketing.

Integrating a new business may provide an opportunity to establish or expand the use of shared services, outsourcing, and centers of excellence (CoEs). Typically, these options are neither easy nor quick to implement – the process may be complicated by location choices and technology and data issues. The likelihood of integration complexity makes early organization design choices essential; procrastinating may cause delays that increase transition expenses down the line.

Leading practice #3: Determine which positions to transition, and when

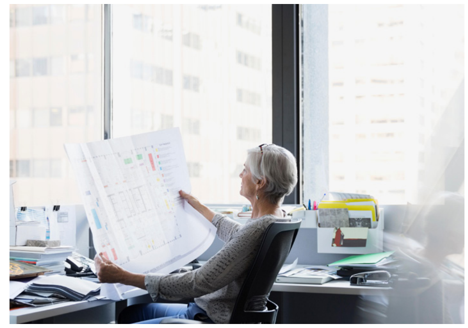
Organization design success depends greatly on early identification of qualified people to lead the effort. Typically, companies begin by prioritizing which high-value positions to transition, and when to do so. Retaining key individuals and motivating them to champion the remainder of the integration process can provide highly visible, quick wins. Once these individuals are transitioned, it is important to spend the necessary time to clarify the organization's end-state strategy, make sure everyone is aligned, and confirm that the integration plan is properly set up, sequenced, and resourced.

Case study

Transaction: A global consumer products company with over $7 billion in annual revenue split into two, equally sized, standalone legal entities.

Issue: In this full- scale separation, both future-state leadership teams had a unique opportunity to develop an entirely new go-to-market strategy. However, the executives needed a clear plan to successfully transition existing resources to the new business models.

Impact: Determining early which functions were in and out of scope created a straightforward path to begin the design process. For example, by deeming all manufacturing positions as out of scope, management was able to focus on how best to position the marketing and product development teams at the helm of the new organizations while transitioning other functions into a business partner support model. Initial cost envelopes provided a mechanism to achieve the valuation targets and early leadership selection created internal champions for these changes.



Phase 2: Build a solid foundation with thoughtful design

Leading practice #4: Keep it efficient

A post-M&A operating model should match the future-state organization with its intended market strategy. An effective operating model will show the relationships between an integrated company's different parts; how the market channels will operate; enterprise-wide versus department-level activities and functions; and the boundaries between organizational entities. Leveraging the operating model early in the HR design process can help mitigate role redundancy and provide a framework to assess the cost or benefit of moving certain functions to new service delivery models, such as shared services or a CoE.

The operating model should be the basis for asking challenging questions to test how the new organization will operate and how effective it will be in meeting strategic goals. Pertinent questions might include: Should we drop the long tail of unprofitable customers? Reduce or redeploy certain products or services? Move to a single cross-selling sales force model? Who owns specific profit and loss (P&L) items? Who gets the call when something isn't performing as planned? Once the leadership team has developed the operating model and answered important questions, the actual organization design can move ahead with a clear idea of how what works on paper will need to work in practice.

Leading practice #5: Get ahead of the transition

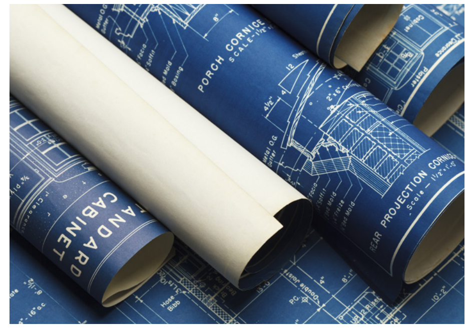
Time is of the essence in M&A transaction activities and post-deal organization design is no exception. A proactive approach enables management to make early decisions about the future-state organization structure and fully align strategy with design. The HR team should begin the design process prior to Day 1 and use a clean slate. The goal is for management to match talent to roles, rather than roles to talent. This produces an efficient and effective process that is able to optimize value creation and minimize design drift.

Case study

Transaction: A global provider of products and solutions to the food, energy, healthcare, industrial and hospitality markets set out to reshape its go-to-market strategy through two acquisitions.

Issue: With an ambitious goal to increase its presence in new high-growth markets, the firm's management faced the daunting task of simultaneously implementing a new strategy, shifting the current operating model to fit the new plan, and integrating two new businesses.

Impact: Comprehensive discussions gave leadership clarity on a preferred operation design and implementation plan to achieve the company's goal of creating a unified, global firm capable of adapting to a changing marketplace. Design and operating principles promoted executive alignment and addressed challenges such as determining whether product/ solution leaders or country leaders would own the sales force; whether sales forces from different businesses could cross-sell technical solutions; and how enterprise business owners and local markets would share responsibility for planning and performance.



Phase 3: Leverage leaders and rules to help maximize return on organization design

Leading practice #6: Solidify leadership early

Early selection and announcement of the new company's senior leadership can provide a set of organization design champions who are aligned behind the proposed structure, committed to seeing the design process through to completion, and have the authority needed to institute structural change that can help realize deal value sooner.

Leading practice #7: Establish the rules

A good way to avoid getting bogged down in person-by-person negotiations is to develop and apply clear and replicable staff retention and performance policies. Uniform employee selection policies can pave the way for timely completion of even the most complex organization design project. Finally, it is important that HR staff members consider the potential impact of survivor syndrome. How the company treats departing employees affects the morale of those who remain.

Case study

Transaction: A global multinational information technology company publicly announced the separation of its core business units, which led to the creation of two new future-state companies.

Issue: This highly complex separation included the disposition of more than 280,000 employees. In addition, management needed a full future-state design completed within a six-month timeframe.

Impact: Creating an organization design separation CoE to support HR business partners facilitated the successful transition of over 250,000 employees across more than 100 countries and aligned to more than 100 legal entities. The creation of clear guidelines and strong leadership teams to champion the change resulted in an on-time transition of all resources by the go-live date.

Putting practices into action

These seven leading practices can provide a roadmap for effective HR organization design in virtually any M&A environment. To make sure that the design team fully leverages these practices, senior executives should establish project parameters to assist team members throughout the design process. Suggested guidance includes:

- Embedding key decision-making milestones within the project timeline;
- Seeking business leaders' input during the planning phase rather than jumping straight into design;
- Remembering that HR organization design is a process. Team members should specify objectives and appropriate effectiveness measures for all project stages – planning, design, and execution – for Day 1 and beyond.

Incorporating leading practices into organization design planning and implementation can help corporate and HR leaders find the right balance between locking in short-term deal value and positioning the future-state organization for long-term success.

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