

# Equipping leaders for merger integration success

Leadership capability building is crucial during mergers. Tailoring a program for three cohorts of integration leaders can make a big difference.

Jocelyn Chao, Oliver Engert, Ian Jefferson, Emily O'Loughlin, and Sasha Zolley



Mergers are high-profile, high-risk events. Success requires executive alignment on the goals for performance and value capture, the approach to mitigating integration risks, and the desired “NewCo” culture and ways of working. The stakes are huge, as executives must make decisions in the pressure-cooker environment of sky-high expectations and tight timelines, shadowed by the knowledge that mergers often define leaders’ careers and legacies, for better or for worse.

Unfortunately, most leaders bring limited integration experience, especially with large or complex mergers. Boosting their integration leadership readiness is a critical success factor for pre-close integration planning, a flawless day one, and maximum value capture and integration in the first few years post-close.

Fortunately, mergers provide a great incubator for developing leaders. Mergers create a platform

for building both technical skills (for example, integration planning, transforming business support functions, and capturing value) and leadership skills (such as leading change, steering larger and newly integrated teams, and navigating a more complex matrix). The integration incubator has the greatest impact when the capability building is woven into the fabric of the integration leadership role. This means just-in-time and practical training focused on the most critical skills and issues and applied immediately to the tasks at hand. (For more, see sidebar “Tailoring capability building to specific merger objectives.”)

Investing in integration leadership readiness is imperative. Leadership capability building has proved to enhance integration results by creating a stronger, more unified leadership team, equipped to take NewCo to new heights. Indeed, organizations with the right integration capabilities are 1.6 and 1.7 times more likely to exceed cost and revenue

## Tailoring capability building to specific merger objectives

“NewCo” leadership capability building requires tailoring to every merger’s specific integration objectives. Capability building can range from a narrow effort to make integration planning run smoothly to a robust program to catalyze major organizational transformation.

A focused integration leadership program concentrates on practical integration planning (that is, glitchless cutovers, value capture, and the NewCo organization) and the technical skills needed to execute that plan. Such a program typically employs short modules (one to three hours

long) focused on building targeted capabilities that enable senior leaders to meet integration milestones and objectives.

A transformational integration leadership program prepares leaders to capture significantly more value during integration execution and upgrades leadership skills across the board. Such a program typically employs multiple workshops on top-team effectiveness, establishes the NewCo leadership model, and launches a robust training program to cascade leadership requirements and skills throughout the NewCo organization.

synergy targets, respectively, than organizations without the right integration capabilities.<sup>1</sup> (For more, see sidebar “Foundations for capability building.”)

Furthermore, executives recognize the need to enhance those capabilities. Asked which dimension of their integration approach requires the most improvement, integration leadership rises into the top three, with 29 percent of executives calling it their biggest concern.<sup>2</sup>

Successful practitioners reinforce the integration leadership imperative. Steve Kaufman, former CEO and chairman of Arrow Electronics, insists: “Integrations are really different. You don’t know what you don’t know. You need capabilities that you’re unlikely to have in your organization.” And

William Kozy, former chief operating officer and chief integration officer at Becton Dickinson, explains: “This is about what are the critical, nonfinancial factors associated with guaranteeing the success of a deal. It’s about the people, and getting the top several hundred people, in the newly combined company on the exact same page. It’s about what they’re supposed to do, how they’re supposed to do it, and what the great leaders should look like in five years.”<sup>3</sup>

### Understanding leadership cohorts

Successful integrators have programs for three groups of senior leaders who typically require merger-specific leadership development to execute their integration roles effectively. As these roles involve different responsibilities, the leadership cohorts require tailored capability building.

## Foundations for capability building

McKinsey’s approach to building integration leadership capabilities is rooted in six core beliefs:

- **Provide just-in-time development.** Focus on the most critical capabilities and only the people who need development, when they need it. Mergers are too busy to include any extraneous activity.
- **Make it real.** Work on real business problems and skills related to the merger. Tailor the program to the personal context of program participants and make it applicable on the job.
- **Focus on both technical and leadership skills.** Prepare integration leaders to handle both the nuts-and-bolts actions needed during the integration and the intense leadership challenges associated with mergers.
- **Unify and mobilize post close.** Set common expectations for all leaders and inspire them to achieve the promise of the deal, both with respect to value creation and cultural integration.
- **Use a blended approach to development.** Combine different modes of learning and different reinforcement mechanisms.
- **Put hard numbers on the soft stuff.** Show the value-creation (and risk-mitigation) impact of increasing leadership skills. Tie learning objectives to specific behavior changes and monitor improvements.

**The top team** (CEO and direct reports) must understand and communicate the deal rationale, decide the integration approach and roles, and push the organization to maximize value capture, while protecting the base business from risks, selecting NewCo leaders, and defining priority cultural integration themes—all while learning to work together effectively as new colleagues join the team. Furthermore, they need to define NewCo’s strategy (as well as what NewCo will no longer do) and convert these aspirations into performance metrics, both financial and operational.

**The integration leaders** must learn how to manage integration planning to realize the greatest value from the deal and how to quickly mobilize teams that combine people from two different companies and span all functions and business units.

**The broader NewCo leadership team** (the top 100 to 250 leaders of the newly combined company) must lead integration execution and take the combined company, which is often establishing a fundamentally different culture or operating model, into a new era of higher performance.

The right people for these three cohorts share a distinct profile.<sup>4</sup> They bring strong leadership potential and a collaborative mind-set. They are open to change and recognize the importance of investing in developing their own and others’ leadership capabilities.

### Looking at a tailored, just-in-time NewCo leadership program

A global medical-products company launched a major acquisition to increase its revenues and employee population 50 percent overnight, broaden its product portfolio and customer base, and transform its operating model. The company had a long history of transactions, but this deal was more than ten times larger than any done to date. Given the ambitions and size of the deal, the CEO and chief

integration officer recognized the need for a just-in-time program to build the leadership capabilities of its three cohorts of senior leaders throughout the integration.

As a starting point, the CEO and chief integration officer convened the top team frequently to enhance their shared capacity to lead NewCo, while aligning on the integration planning approach. More specifically, these meetings defined NewCo’s vision and goals for strategy, performance requirements, value capture, and culture; redefined executive roles in the integration and the future company; and enabled leaders across the combined company to get to know each other.

The company also invested in preparing newly appointed integration leaders for their responsibilities through targeted and fully embedded training on specific integration tasks (for example, negotiating new procurement terms with major suppliers and combining payroll systems), supplemented by coaching and skill building on cultural integration and change management.

After the deal closed, the company launched the newly combined leadership team by establishing a NewCo leadership model that set clear expectations for all leaders. The CEO then invested integration funds in creating and delivering a fully tailored leadership training program to build understanding of the new model and its skill requirements. First, the top 250 leaders, divided into cohorts of 50 executives from both companies, participated in a five-day training program spread over six months. Then, the next 1,200 leaders participated in a region-based version of the program.

The company credits this tailored leadership capability-building program with contributing significantly to its wildly successful integration. By grounding all leaders in a shared understanding of the company’s history and new leadership

requirements, the program unleashed tremendous energy and commitment to exceeding ambitious objectives for value capture and cultural integration. Talent retention was exceptional throughout the integration—92 percent, overall and even higher for priority roles. Synergy capture exceeded public announcements by 120 percent. The company outperformed the market by 35 percent in the first two years after launching its leadership program. And in a clear sign of program impact, 93 percent of the top 250 leaders scored the training program “5 out of 5” (the highest in company history).

### Tailoring capability building to the three cohorts

Companies that have achieved such capability-building success have taken different approaches to the three cohorts of leaders.

#### Top team

Top-team alignment workshops strengthen the capabilities of individual leaders and the leadership team, equipping them to lead the bigger, more complex organization created by the merger and to exceed the expectations set for the deal. Successful integrators conduct multiple top-team sessions to help executives define NewCo’s strategic vision, performance expectations, and goals for capturing value; set the direction for integration planning, including guiding principles anchored in the deal rationale; and establish NewCo’s cultural themes and ways of working, including its operating model and governance.

Successful practitioners note the importance of using these sessions first to build alignment across the two top teams and then, as quickly as possible, to start building trust and team norms in the newly formed NewCo top team. Justin Smith, director of corporate development integration at Google, says: “You need to have a conversation, not just conduct the typical operations integration review. People have to really get to know and understand each other and build a high level of trust.” Aileen Stockburger, the former

long-time vice president of worldwide mergers and acquisitions at Johnson & Johnson, adds: “You have to understand leadership and decision-making styles. You can’t just assume that, because you share similar values, all else will follow.”

*Case in point.* In a reverse merger, a nimble chemicals company owned by a private-equity firm acquired a distributor six times its size. Soon after the announcement of the deal, clearly different perspectives among the top team emerged, including the right strategy for the combined company, culture and management practices, ability to achieve synergies, and importance of speed.

Both companies had endured several years of organizational change and faced an industry on the brink of disruption. To mobilize effectively against competitive threats, the CEO needed to align the top team quickly on the new vision, strategy, performance requirements, and culture.

To reduce friction and put the new leadership team on a clear strategic path, the CEO led a series of facilitated, off-site workshops over the six months before the deal’s close. These sessions aligned the top team on performance expectations, governance, and culture, preparing them to execute a seamless close and mobilize their teams to implement the NewCo strategy. The sessions focused on the following:

- translating the deal rationale into a clear strategic vision for the vertically integrated company
- defining strategic priorities and performance metrics to monitor progress
- establishing the vision, mission, and values of NewCo
- developing the governance bodies and decision rights for the matrixed organization

---

## Successful integrators actively prepare integration leaders and teams to realize the greatest value from the deal and enhance their capabilities for future M&A.

---

- setting priorities for cultural change and tapping executive sponsors to lead the change
- building trust among the top team and securing individual commitments to support the new strategy and culture

The impact of this capability building stands in stark contrast to integration efforts that take leadership-team effectiveness for granted. Aileen Stockburger reflects on the cost of failing to provide such a development program in one of her many mergers that took place several years ago: “We didn’t take the time to align on a common way of leading and working together. Decision-making styles and processes were very different in the two previous organizations. As a result, TargetCo leadership was frustrated and frozen because we never aligned on leadership processes and expectations. The leaders from the two organizations each had different styles and approaches on how to make decisions. As a result, the company floundered, and we ended up losing a majority of the leaders from TargetCo. They were frustrated with unclear processes and new styles. We did not properly educate the new organization with the skills and mind-sets that we wanted in the leaders and give people a chance to adapt and build them.”

### Integration leaders

Successful integrators actively prepare integration leaders and teams to realize the greatest value from the deal and enhance their capabilities for future M&A. They build leaders’ practical understanding of integration planning through a combination of

in-person training on integration management and digitally delivered modules that provide instant access to seasoned integration leaders. Given the intensity of integration planning, successful companies incorporate capability-building modules focused on specific skills (for example, capturing value and managing the post-close change process) into regular integration-planning summits, rather than scheduling separate sessions that leaders are too busy to attend.

Steve Kaufman emphasizes the power of apprenticeship in building integration leaders’ capabilities: “You need access to veterans who know what they’re doing, have seen this situation before, and know what to look for. You pair them up with your high-potential talent. This is a great way for those high potentials to accelerate their career growth and development; they want these opportunities. It’s also a great way for you to identify who will be real stars. Then you pay attention to how they perform. This costs money in the short run, but in the long run training doesn’t cost—it saves. Learning from experienced integration leaders is extremely valuable.”

*Case in point.* Immediately after announcing the merger of two leading specialty-chemicals providers, the companies brought their new integration leaders together in a workshop to align on the goals, architecture, and approach of the integration-management office (IMO). As soon as the integration teams were staffed, team members participated in an IMO-led boot camp. Over the course of several days, the boot camp explained the deal rationale;

set expectations for the path ahead, including the responsibilities of all integration teams and leaders; and got the teams started on planning the integration effort.

Throughout integration planning, the standard integration summits incorporated capability-building sessions that took advantage of physical colocation to deliver timely and targeted training on skills essential to the success of every integration team (for instance, addressing differences in working norms and tracking value capture). As the integration change-management plans took shape, the program added a module on leading change.

Embedding capability building in the integration planning process equipped the integration team leaders and members with the right tools to lead the change effort and lay the critical foundation for longer-term value capture and growth.

#### NewCo leadership (top 100 to 250 leaders)

Post-close, the most successful integrators turn their attention to mobilizing the newly minted NewCo leadership team around capturing value and achieving cultural integration. They invest the integration budget not only in combining and enhancing technology systems but also in combining and enhancing their leadership team.

Successful integrators find that introducing a NewCo leadership model (either a refreshed model from one of the companies or an entirely new model) helps set expectations for all leaders, regardless of their legacy company, about the behaviors and capabilities required to lead the more complex organization through transformational initiatives. As Beverly Goulet, chief integration officer at American Airlines, describes a recent NewCo leadership-development effort: “We redefined leadership expectations and attributes for the new organization and stated very clearly that, just because you are a leader today, the old set

of rules that made you successful may not make you successful in the future. We translated these requirements into specific attributes and shared them with our leaders at an off-site and incorporated the attributes into performance metrics against which leaders are evaluated. We changed the profile of company leaders for the better.”

*Case in point.* A leading US healthcare insurer realized that its leadership bench was not deep enough to achieve its strategic aspirations and that a recent acquisition created both the imperative and the opportunity to enhance its leadership development. The company built a new leadership model that set expectations for all leaders based on the acquiring company’s historical strengths (for example, mission-centricity and entrepreneurship) and new strengths it sought to build through the acquisition (for instance, agility and leaders as people developers).

In 2017, the company established a corporate university to spearhead leadership development. The university designed and launched a new capability-building program for the top 1,600 leaders to introduce the leadership model and build the new skills it required. The program uses a field-and-forum learning approach, combining multiple in-person sessions, applied fieldwork on the job, and follow-up “nudges” that regularly remind participants via email of specific management practices they should be employing. Of the 200 leaders trained to date, 97 percent have rated the program “5 out of 5.” The remaining 1,400 leaders will complete the program in 2018.



Merger-based leadership capability building equips company leaders to achieve immediate and sustained high performance. “The cost of ignoring this is huge,” Aileen Stockburger says. “You can end up addressing the wrong priorities. People disengage

because they don't feel part of something anymore. People don't understand expectations or interpret them correctly. People focus on all the confusion, not on moving the business ahead. It's a lot of wasted time, effort, and energy, and that's all money."

Developing leaders during mergers significantly increases the likelihood of successful integration planning, value capture, and cultural integration and prepares NewCo to capitalize on the next horizon of growth and performance, especially by enhancing M&A capacity for future deals. Leaders feel inspired, not just competent, to take charge. ■

---

<sup>1</sup> Surveys of Conference Board Merger Integration Conference registrants, 2010 to 2017; "How M&A practitioners enable their success," October 2015, McKinsey.com.

<sup>2</sup> Ibid.

<sup>3</sup> For information on other key M&A success factors, see Moni Miyashita, Rob Rosiello, and Andy West, "Unlocking M&A

value at every step, from strategy through integration," *McKinsey Perspectives on Merger Management*, 2013.

<sup>4</sup> For more information on selecting the right leaders for integration roles, see James McLetchie, Moni Miyashita, and Emily O'Loughlin, "Boosting M&A value with the right integration leader," *McKinsey Perspectives on Merger Management*, 2014.

**Jocelyn Chao** is a consultant in McKinsey's New Jersey office; **Oliver Engert** is a senior partner in the New York office, where **Sasha Zolley** is an associate partner; **Ian Jefferson** is a partner in the Washington, DC, office; and **Emily O'Loughlin** is a senior expert in the Boston office.

The authors wish to thank the following executives for their contributions to this article: Beverly Goulet, Steve Kaufman, Bill Kozy, Justin Smith, and Aileen Stockburger.

Designed by Global Editorial Services.

Copyright © 2018 McKinsey & Company.

All rights reserved.