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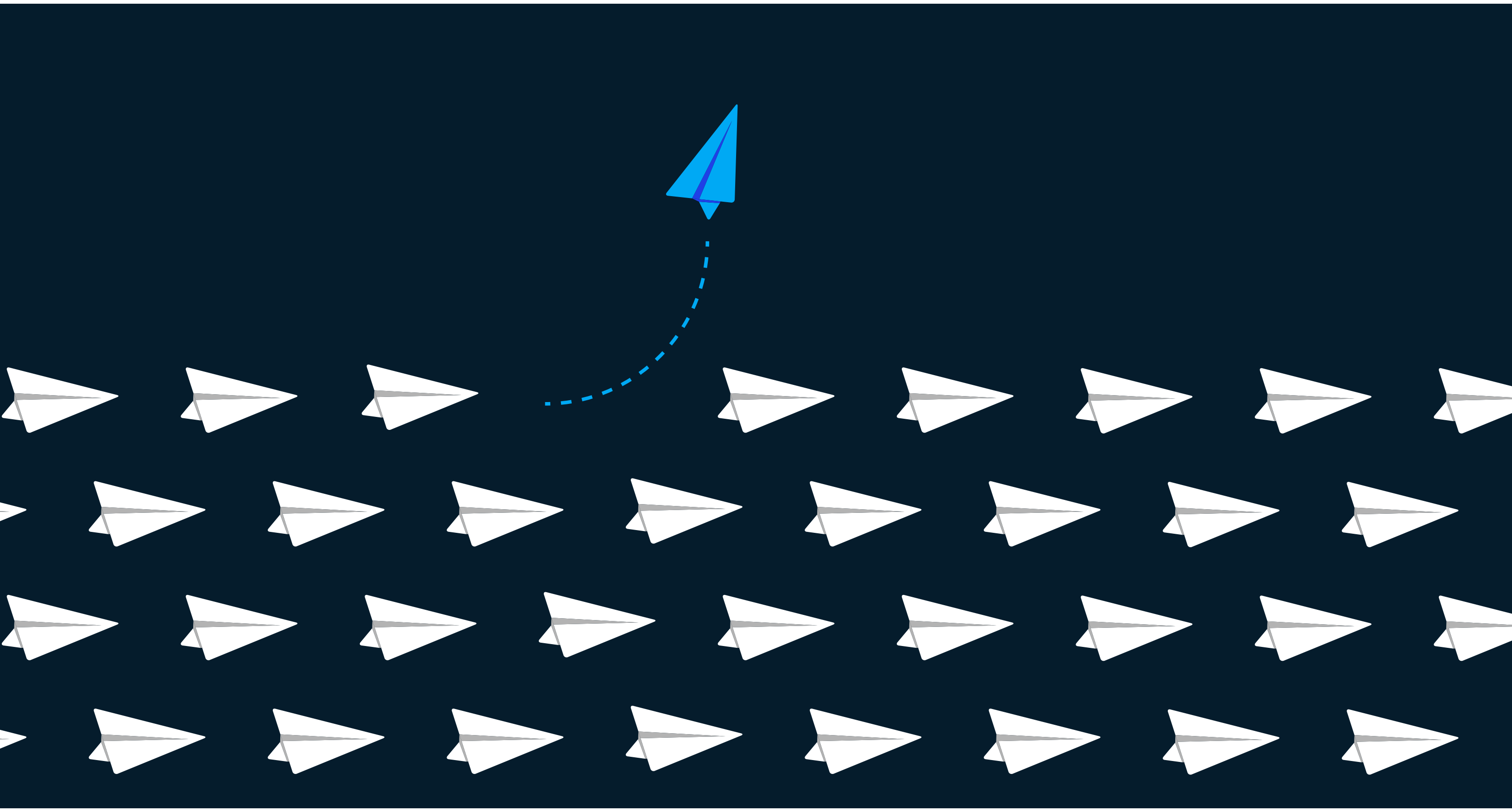
Organization Practice

Managing and supporting employees through cultural change in mergers

Mergers represent an enormous operational and cultural change for employees. Culture is too often neglected. Don't fall into this trap.

by Becky Kaetzler, Kameron Kordestani, Emily O'Loughlin, and Mieke Van Oostende



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Mergers create vast organizational anxiety about the future: in most cases, the operating model and culture will change dramatically for one or both merging companies. These changes go far beyond a new name and senior leadership; they challenge the core of an organization's identity, purpose, and day-to-day work. Even small tactical changes, like new expense policies or cafeteria options, can rattle employees. Anticipating and addressing these "organizational emotions" can set the foundation for seamless, effective integration. Failing to anticipate and address them can lead to poor business performance, a loss of critical talent, and the leakage of synergies.

Merging companies must shift the day-to-day behavior and mind-sets of their employees to protect a deal's sources of value, both financial and organizational, and to make changes sustainable. Yet when McKinsey asked 3,199 leaders if they regarded the change programs at their own companies as successful, only one-third did.[1] What's more, ten years of data from an annual McKinsey survey of M&A executives shows that organizational issues like cultural differences and changed operating models account, on average, for almost 50 percent of the failure of mergers to meet expectations.[2]

One basic problem is management's tendency to focus mostly on changes that would directly help to capture a deal's value targets while largely ignoring those required to maintain and enhance the company's health. Organizational design, for example, is always top of mind in the early stages of merger planning, but companies often sidestep cultural differences until difficult issues come to light. At that point, the base business will already have suffered, top talent may already have looked for external opportunities, and the capture of synergies may have become more difficult.

Define change management in mergers broadly

A holistic, effective integration program should proactively address the full scope of changes your employees will experience in an integration (see sidebar, "Five practical actions"). Managing through this kind of effort involves two broad tasks: embedding cultural changes and managing operational ones (Exhibit 1).

Culture, of course, is what an organization stands for and how work gets done. The inevitable cultural differences between the two merging companies must be resolved, from the more obvious issues (such as attitudes toward the work–life balance and employee empowerment) to less noticeable ones (feedback styles, directness, punctuality at meetings). Cultural problems usually come to the fore during mergers, and so do the frustrations that arise when the working norms and management practices of the merging organizations don't align.

The second task in mergers—adapting to changed operating models, such as new structures, processes, and governance—poses some of the most visible and difficult issues for employees. The basic problem is that companies often can't announce these changes early in the merger-planning effort. An effective, proactive

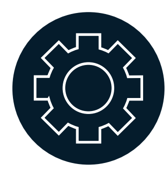
Exhibit 1

Two main types of change affect the employee experience during mergers.

Culture and ways of working

Aligning on what we stand for and how work gets done

- Management practices
- Values
- Leadership model
- Working norms



Operating model

Adapting to new ways of organizing company and running business

- Organizational structure
- Roles and responsibilities
- Decision rights
- Processes

[1] Carolyn Dewar and Scott Keller, "The irrational side of change management," *McKinsey Quarterly*, April 2009, McKinsey.com.
[2] Merger integration conference survey, McKinsey Merger Management Practice, 2008 to 2018.

Five practical actions

We encourage you to consider these five practical actions as you get started:

— **Lead from the top—**the CEO and top team should own and drive the change-management program.

— **Tell your story—**the leadership should clearly articulate the new company's direction, strategic priorities, operating model, and cultural aspirations in a consistent and compelling way, but each individual should also make the story personal and tailored to the colleagues with whom they share it.

— **Leaders should role model** the aspired culture and ways of working—every day—and hold each other accountable for doing so.

— **Set the organization up for success** by hardwiring the aspired ways of working into the new operating model and by building targeted capabilities, so that colleagues can be successful working in a new way.

— **Actively monitor and adjust** over time—regularly measure and understand the perceptions of employees and use feedback to tailor activities and accelerate their impact.

communication plan is therefore critical to ensure that employees understand the process and the timeline until the company can reveal the decisions it has made. Meanwhile, processes must be redesigned and communicated in a way that illuminates the fundamental issues, such as how roles will interact and decisions will be made. To work effectively after the deal closes, employees must fully understand these changes.

Clarifying operational changes and training employees to master them are generally core parts of the integration team's planning work, and we will cover this in more depth in an upcoming article. This one focuses on how organizations can embed cultural change.

Approach culture change

Our approach to managing change systematically involves four stages: setting the direction, energizing the organization, hardwiring the changes, and driving execution (Exhibit 2).[3] Although these stages overlap somewhat, organizations can't execute all the elements simultaneously.

Set the direction

As early as possible in the integration-planning process, it is critical for the new top team to agree on the operating model, cultural priorities, and integration architecture. All of these decisions must be consistent with the deal's business rationale. Although a full strategic review will never be possible before the close, key elements of the strategy—including, of course, any major changes—should be identified up front.

While these moves may seem straightforward, they are usually hard to execute. Legal and regulatory restrictions can make it difficult or even impossible for the merging top teams to have the right discussions in the early stages of integration planning. In any case, executives are often so stretched for time that they prioritize only what they see as the key operational deliverables and address cultural issues too late. In some mergers, for example, the leadership team develops an effective plan to capture synergies—only to realize that it hadn't taken into account cultural differences that lead to ineffective execution. In other cases, the cultural workstream isn't a priority, so when the

[3] Our classification is related to the one described in Scott Keller and Bill Schaninger's book, *Beyond Performance 2.0: A Proven Approach to Leading Large-scale Change*, Hoboken, NJ: John Wiley, 2019.

new company rolls out the new operating model, the integration-planning team scrambles to understand which aspects of it represent the biggest change to current management practices and working norms. Such problems are common, but not inevitable.

Energize the organization

Before accepting and supporting change, people throughout the organization must understand its rationale. To help them develop such an understanding—which can also generate energy and enthusiasm—the company must make a clear and compelling case for change, and the leaders must role model it consistently in person and in all their communications. The message has to be consistent with the deal's strategic rationale, as well as modular so that executives can tailor it to the needs and outlook of different groups of stakeholders, both internal and external.

Delivering these messages early is critical, since employees will absorb the key points only after several attempts, with varying approaches. An early start also helps people throughout the organization to engage with one another, provide feedback, and craft their own stories by gathering ideas from the integration teams. Meanwhile, focus groups, surveys, social-media campaigns, and community-building events can help leaders to engage the organization more broadly. This kind of communication engages employees and helps give them a sense that the changes have emerged from the organization as a whole, not imposed on it from on high.

In one merger, for example, the CEO spent a significant amount of time developing a change story explaining how the deal would help the company take a market-leading position by entering new product categories and building a stronger global footprint. After testing and refining the story with his leadership and integration teams, he made it a core part of all his public speaking. He then had each of his direct reports tailor the change story to the specifics of their own units. By absorbing this well-written, compelling message, which was used consistently throughout the organization, employees developed a thorough understanding

Exhibit 2

Cultural change has four stages.

Set the direction

Incorporate strategic priorities for new organization

Define desired future culture for new organization to support strategic priorities and deal rationale

Align top team around compelling aspiration
- Vision
- Strategic priorities
- Culture
- Operating model
- Performance requirements

Energize the organization

Begin to cascade in desired direction and iterate as needed with top team

Tailor integration approach to support strategic direction and cultural priorities

Develop compelling change story

Hardwire the changes

Build essential capabilities to support required change

Design detailed processes, policies, and governance to support desired change

Develop culture and change-management plan and phase it in line with organization's capacity for change

Inspire and unleash change agents; remove change blockers

Drive execution

Execute top-team interventions to support cultural and operating-model changes

Launch and track change-management initiatives as part of integration master plan while organization moves to new operating model of what would change and why. The level of engagement increased substantially over the months toward the close and beyond.

Hardwire the changes

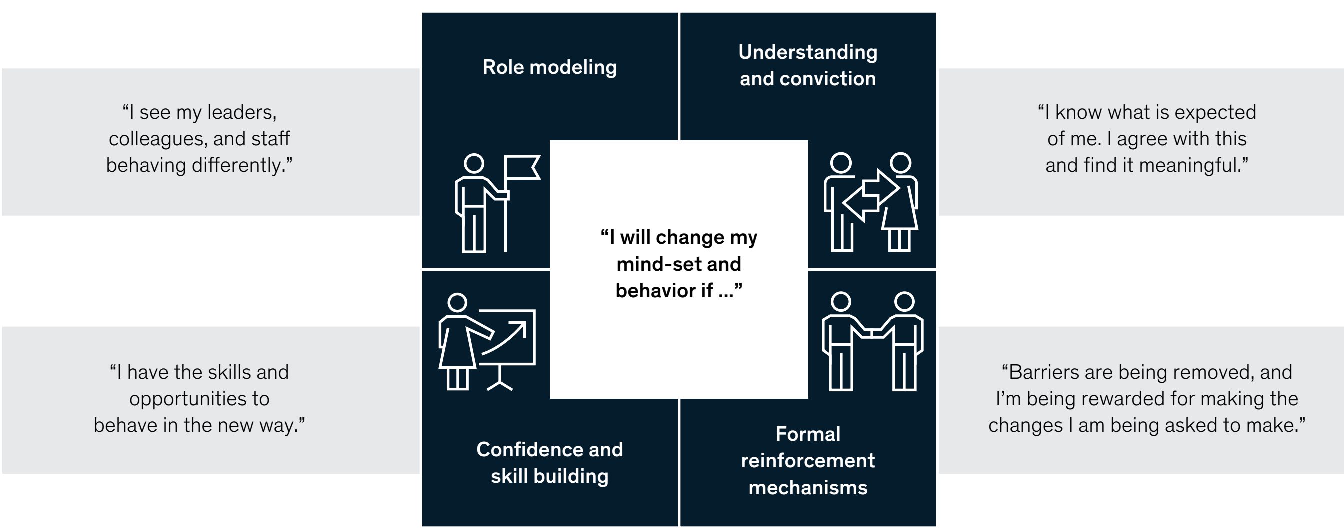
At this point, companies should hardwire new processes, policies, structures, and governance into the combined organization, focusing on levers such as new appraisal and performance-management systems, decision rights, and cross-functional business processes. To make employees comfortable with these changes, companies often mount large-scale capability-building efforts, from leadership development to training in new systems.

Cultural hardwiring is necessary as well. In one recent integration, the CEO and his top team spent much effort designing the new organization's culture and thinking about the implications for the company's governance and key cross-functional processes. In a series of working sessions, the team addressed its internal dynamics and agreed on the necessary decision rights, governance, and interaction styles. It also decided which new ways of working its members would role model as a group. Once the top executives reached agreement, they kicked off a series of similar sessions for each of their own leadership teams. When disputes arose, the top team could refer back to these agreements, which also helped it to role model the new ways of working in a consistent way.

Companies can develop a robust change-management plan around the quadrants of the influence model: building understanding and conviction, employing reinforcement mechanisms, developing capabilities, and ensuring that executives role model the changes (Exhibit 3). During a recent merger, for example, the new organization's leaders put enormous effort into designing core business processes that hardwired the changes they wished to see. Senior leaders not only actively helped to redesign these processes but also tried out and stress tested them prior to implementation. By allowing core teams to test and refine processes before rolling them out, the

Exhibit 3

The influence model is a proven way to shift mind-sets and behavior sustainably.



Source: Scott Keller and Bill Schaninger, *Beyond Performance 2.0: A Proven Approach to Leading Large-Scale Change*, Wiley, July 2019 leadership embedded new cultural ways of working and helped employees feel a sense of responsibility for the new value-driving processes.

Drive execution

To sustain the period of change into the building of a new combined organization, a company must actively monitor the execution of its change-management program, along with the top team's alignment. A pulse survey, for example, is a short questionnaire sent out regularly to employees throughout the organization to test their perceptions and emotions over the course of the integration period. A tracking dashboard monitored by the integration management office (IMO) and the integration leader can display key organizational-health indicators, such as employee attrition, absenteeism, recruiting referrals, and inbound job applications. Linkages between the core metrics and the key change themes help ensure that the effort fully embodies the deal's business objectives.

The integration leader and the integration-management office more broadly should play a central role in designing the change program, providing feedback on it, and even directing its execution. The IMO, for example, has a bird's-eye view of the whole organization's pulse, including the risks associated with the planned changes, their supporters, and the pockets of uncertainty. It may therefore have the best position to identify change agents and to develop initiatives appropriate for the existing cultures of the merging organizations. The integration leader is also well placed to update top executives or the steering committee as these leaders and leadership bodies direct and role model the changes.

Managing change in mergers can feel daunting because the results are relatively hard to measure. Yet mergers can create greater value and have a lasting impact when effective change management helps the merging organizations to move in the same direction.

Becky Kaetzler is a partner in McKinsey's Frankfurt office, **Kameron Kordestani** is a partner in the New York office, **Emily O'Loughlin** is a senior expert in the Boston office, and **Mieke Van Oostende** is a senior partner in the Antwerp office.

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