

# 6 M&A MUST DO'S TO CREATE **A WINNING ORGANIZATION**

Thought Leadership

Successful mergers result in healthy, unified organizations. The most successful mergers begin building organizational strength early in the pre-merger process.

In every merger, there are inevitably “hardware” issues (like process and systems integration) and “software” issues (think talent retention and organization design). These priorities and activities are not independent of each other. Approaches to integration often favor hardware issues with software issues taking a back seat. The faster an organization can focus on human capital integration issues, the more likely the company will successfully perform in the overall transaction.

In other words, leadership and people issues are at the heart of building a winning, integrated organization. Drawing from our research, experiences, and insights from executives, here are 6 M&A must-dos to create a winning organization.

## Inside: The 6 Must-Do's

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1. Identify the right leaders to drive the business forward.
2. Look up and beyond.
3. Cascade the winning value proposition.
4. Drive the change.
5. Align on the one thing that makes you great and model it now.
6. Take care of yourself first before taking care of others.

## Must Do #1: Identify the right leaders to drive the business forward.

The key to success for most mergers is having the right leaders and top talent in place to drive value. Leaders define the strategy for the new company (Newco), inspire people to be part of something bigger, and maintain a laser-like focus on integration priorities. More importantly, through their communications, actions, and behaviors, leaders set the standard for how work will get done in the new organization.

However, in making fit-for-purpose assignments, choices around leadership and key talent are often filtered through bartering, negotiation, and horse trading rather than objective rigor. Preparing for Newco's future begins by asking three simple questions:

- What talent do we need?
- What talent do we have?
- And how do we close the gaps?

You need resourceful leaders who can shift and adapt quickly, thrive on change, make sense of uncertainty, and perform regardless of circumstances. Not only is learning agility a predictor of leadership potential, but it impacts the bottom line. Our research shows that companies with the greatest rates of highly agile executives produced 25% higher profit margins than their peers.

The question often asked during pre-close is: "How can I confidently identify the agile leaders of the future when I don't know the talent?" The answer: leverage data-driven insights, as part of a consistent, objective, and transparent process, to select and appoint the right leaders into key leadership and mission-critical roles.

### Actions:

1. Obtain clarity and alignment on "what great looks like" to calibrate performance against what matters most.
2. Gain in depth and actionable insights on your leadership talent with a standardized, scientific, data-driven assessment approach.
3. Understand individual and collective leadership risk factors and establish a plan to proactively close the gaps, how work gets done, and what people value.

## Must Do #2: Look up and beyond.

**"Losing external focus is one of the biggest risks when you integrate two businesses—and that's when you lose people and customers."**

– *Raj Gupta, Former chair, CEO, and President, Rohm and Haas (Harvard Business Review, 2000)*

During a merger, the natural inclination is to look inward and downward—to be cautious and focus on the details that are most easily controlled. In successful mergers, executive leaders set the tone by constantly looking up and beyond.

It is easy to get lost in the million things that need to get done to make the business functional post-close. Leaders have very different views on the post-merger world and the best actions to get there. A critical step is to gain leadership alignment and commitment on the vision for the combined organization and the 3 to 5 must-be-great-ats which are "make or break" outcomes that matter most in building an industry leadership position. Take visible, bold, and decisive actions toward these priorities.

Ensure customer needs are at the forefront of decision-making. By linking integration priorities to customer requirements, you will build momentum, focus, and enthusiasm for the deal.

To this end, Korn Ferry research shows that organizations paint a compelling and consistent picture of the future drive performance in measurable ways—financial results, customer satisfaction, and employee engagement. In pre-deal collaboration talks, have conversations with the leadership team about the noble purpose of each company, then discuss the noble purpose of the combined organization. Ask yourselves: Why are we better together?

### Actions:

1. Gain leadership alignment and commitment on the vision for Newco, as well as the most critical "make or break" outcomes in building an industry leadership position.
2. Stay hyper-focused on customers. If leaders and employees become distracted by integration activities, the core business can quickly suffer.
3. Connect with stakeholders by communicating a clear, consistent, and compelling purpose for the combined organization.

### Must Do #3: Cascade the winning value proposition.

To be effective as a merged organization, communications need to start from the top, then cascade through all levels of the company. People do not deal with ambiguity well. The best performers will seek validation in the marketplace. While you cannot yet communicate their role and rules of the road, they are vulnerable to outside recruiters. People do not leave companies; they leave their managers. How can you help managers succeed?

Korn Ferry recently completed research on the “first quarter surprise” to better understand how to engage and retain employees. To learn what matters most to employees during a merger, we looked at over 2 million proof points. We found building confidence around the success of the combined organization and the opportunities this will bring, as well as being fair and transparent, are critical to a successful merger.

People want to know they will be working for a winner. They want confidence in their company, its leadership, and the direction its heading. Even though today is still unfolding, reassure your people that tomorrow is full of possibilities.

Our research shows that companies that created a meaningful talent value proposition saw a 10-point increase in employee discretionary energy, which relates to a 5.4% increase in EBIDTA margin.

What’s more, Korn Ferry’s research shows that organizations that prioritize communication around why the merger will be a success are 5 times more successful throughout the transaction lifecycle. Lead an executive-led communication cascade—internal and external—that shares the value proposition for the combined company. It is an easy, yet powerful way for leaders to retain and engage top talent.

#### Actions:

1. Build confidence by sharing why Newco will be a winning combination. Every communication needs to start and end with the winning premise of the merger. Otherwise, scrap the communication or rewrite it. Winning companies enjoy a 44-point loyalty advantage.
2. Although there are no guarantees, reassure your people that there will be unlimited career opportunities within Newco and empower them to carve their own paths.

3. Provide a fair and transparent process as you move through this change. Make a pledge to say what you know when you know it and to find answers when you do not have all the information.

In practice, it looks like this:

- **(W) Winning:** “I believe we’re working for a winner. I know it’s still early days, but I like what I’m seeing so far.”
- **(U) Unlimited:** “While I can’t guarantee anything, the career opportunities will be massive for high performing employees.”
- **(F) Fair:** “There will be a fair and transparent process regarding talent decisions. I pledge to tell you what I know when I know it.”

### Must Do #4: Drive the change.

**“Leadership needs to guard its time and focus on Tier 1 priorities: People issues like leadership and talent, the 3 to 5 priorities that define the fundamental premise of the merger, and the operating and performance plan. The trap is getting sucked into the Tier 2 stuff.”**

– CEO of a retail mega-merger

The thought of change management evokes fear in most, annoyance in some, and energy in a small group. In the context of a major transaction, there are three key factors to remember in driving change in this environment: nothing changes until it changes, never waste a good crisis, and get the team going.

“Nothing changes until it changes” is a phrase you can utilize to create immediate focus. People know that changes are coming. However, maintaining continuity and consistency up until the change decision is made is critical.

Leaders will change, roles will change, processes will change—it is the job of the leaders to furiously help others stay focused on the must-be-great-ats and integration priorities while providing a calm, steady appearance.

Until change happens, leaders and employees need to stay rooted in the present, pursuing the work at hand, and not make assumptions nor predictions about the future.

Of course, the world of M&A is fraught with cautions that cause executives to be defensive and fearful instead of bold and innovative. But turbulent times are the best times for change. Stakeholders—customers, vendors, employees, and shareholders—expect change during a merger. This is an optimal time to consider making additional desired changes that will be valuable to the organization and its people yet may have been seen as too disruptive previously.

While leaders maintain stability, they also need to get the teams going. Much of the work in preparation for Day One can get underway during pre-close. Assign someone to tackle get-to-close activities like regulatory compliance issues and risk management, while the leadership team focuses on critical issues that only the leadership team can solve.

#### **Actions:**

1. Utilize the phrase “Nothing changes until it changes” as a leader communication tool. Until change happens, leaders and employees alike need to stay rooted in the present, focus on the work at hand, and not make assumptions nor predictions about the future.
2. Never waste a good crisis. Guided by legal counsel, take advantage of this time to consider changes that will be beneficial to Newco but may have been considered too disruptive in the past.
3. Get the teams working. This is an opportunity to engage the company and see potential future leaders and employees in action.

### **Must Do #5: Align on one thing that makes you great and model it now.**

Culture is the primary delivery method for the integration plan. Merger winners use the pre-close and post-close periods to invest heavily in solidifying the Newco identity and empower leaders to embody the new values.

For the past 26 years, Korn Ferry has collaborated with Fortune Magazine to look deeper into the practices of the World’s Most Admired Companies. The 2023 results show that these companies attribute 30% to 50% of their total company value to culture. Culture matters.

How do you know how to describe your future culture when you have not even decided upon the culture strategy? Is it “mine plus yours”?

Do you lean towards the culture that has produced better results? Or do you create a completely new culture that is better aligned to Newco’s vision? Until you align on a culture strategy, discuss what makes you great. The stories mean everything.

Even when companies think they share a cultural strength, it does not mean they share an understanding of what that strength means. You cannot chart the right course if you do not understand what makes each business successful, how work gets done, and what people value.

#### **Actions:**

1. Identify what makes both of your legacy organizations great, then share examples of leaders and employees that embody this.
2. Agree on the one attribute that must be preserved going forward in the combined organization.
3. Make a personal and team commitment to model the future culture now.

### **Must Do #6: Take care of yourself first before taking care of others.**

As a leader, you want to make an impact. You want to have the answers. You want to create the next big thing that will change the world. And you want to get there fast. You do not want the future to come today—you wanted it yesterday. But building something new—something great—takes time. It takes patience. It takes intention. This means leaders need to manage their energy first, then meet people where they are.

Think of this transition like running a marathon. You have hit Mile Marker 10 while others are not yet at Mile Marker 1. Rather than rush to the finish, **you need to pace yourself through the journey.**

Korn Ferry's own research shows that when your personal energy levels are high, you are more motivated, engaged, creative, and productive. You perform as your most effective self. When your demands outweigh the amount of energy you must give, you can fall victim to burnout. You become more depleted, you lose motivation, you feel disengaged, and your performance suffers.

Think of this transition like running a marathon. You have hit Mile Marker 10 while others are not yet at Mile Marker 1. Rather than rush to the finish, you need to pace yourself through the journey. During a transaction, there is inevitably work that people are doing that is no longer a priority. Stopping work can alarm people and cause resistance, especially in those who initiated the work. But intentionally pausing work can help teams increase capacity, as it will lead to an increase in energy. And when you have more energy, only then can you multiply energy in others.

#### **Actions:**

1. Be centered in the present. Be mindful of your own well-being. Understand what triggers your stress and what you need to do to preserve your energy.
2. Pause work for 90 days to give teams space to focus on the must-be-great-ats and to critically think through whether the work is still necessary.
3. Be vigilant about taking care of leaders at every level of the organization. Then, ensure those leaders will do the same for frontline employees.

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#### **About Korn Ferry**

Korn Ferry is a global organizational consulting firm. We work with our clients to design optimal organization structures, roles, and responsibilities. We help them hire the right people and advise them on how to reward and motivate their workforce while developing professionals as they navigate and advance their careers.

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