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Change Management in mergers & acquisitions
- how to improve integration performance

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Executive Summary

Mergers and acquisitions are an exceedingly difficult practice. Research shows that mergers and acquisitions will result in failure 70% to 90% of the times, and questions following such failures tend to look at two different points: Had the strategy been wrong from the beginning? Did the cultures of the two companies clash so hard as to make integration impossible?

Looking at the research on mergers and acquisitions it becomes clear that especially the people side of the integration process is neglected by companies. Reasons are varied, but it seems clear that management are aware that the people side should be handled; however, actually doing so is far more difficult. It is often seen to be neglected during integration, and managers choose to proceed with the integration at a reduced rate out of fear of risking that employees will resist the change even further if pushed too hard.

This white paper suggests that employing a structured change management approach will act as both the tool to handle the people side of the integration process, as well as the tool that can help shape strategy in the early stages of a merger or acquisition. In working focused with change management during a merger or acquisition, the integration process will become faster as elements such as employee willingness to change and their ability to do so will be kept on track during the process.

We suggest five "what to do" in mergers and acquisitions:
1. Have a high focus on change management during mergers and acquisitions
2. Initiate the change management effort at the earliest possible stage
3. Perform a cultural due diligence
4. Create a shared language for the change management effort across the involved organisations
5. Verify the change through the entire process.

These are all elements to be used during a merger and acquisition process, and getting started as early as possible during the initial planning is vital for achieving the best possible result of the integration.

1. Introduction

Mergers and acquisitions are abundant; they are a natural part of the news stream and not only in the business sections but very often as part of the 24-hour news cycle, as so many mergers involve very large and well-known companies.

Engaging in a merger or an acquisition can stem from a wide variety of strategic perspectives. One company can wish to take over another because it makes similar products and their penetration in a given market presents an opportunity for the overtaking company to expand their reach. Other mergers and acquisitions happen because of an opportunity to expand a product portfolio; building know-how into new products can be solved more efficiently by overtaking a company that has already spent time and resources to develop them. Even an organisational change within a given company can easily be understood as a merger; joining a low performing department with one with better performance is a merger of two departments that is likely to have different cultures and different outlooks on how to run their department.

These are just three simple views on why companies engage in mergers and acquisitions. Looking at the merger or acquisition itself, it becomes more complex; a merger between companies or an acquisition by one company of another is an integration of departments, of organisational cultures, of local cultures and customs, of managers and teams, of people and their entire worldview.

Most companies engaging in mergers and acquisitions have a high focus on understanding potential benefits and analysing financial impact. This is a well-honed discipline. But understanding the economic benefits and drivers behind a merger or acquisition will only represent one side of the equation. Another, less developed, in terms of methods (Stafford and Miles, 2013) or cultural understanding (Stahl and Mendenhall, 2005), is the people side of the merger or acquisition.

The suggestion in this white paper is that all mergers and acquisitions happen because there is an intrinsic economic benefit in doing so; however, a lot of these mergers and acquisitions fail because strategic processes and the people side of the equation have been poorly understood beforehand and poorly managed during the process. Using the right tools and engaging the right methods during a merger will likely harvest a better return on investment and do so faster.

2. Successes and failures in mergers & acquisitions

Both the research literature and the news cycle are abundant with the stories of mergers and acquisitions. When a merger or acquisition between two of the well-known giants is announced, it instantly creates a buzz. Amounts and numbers almost too large to comprehend take over the news cycle and finance reporters are at the ready to explain why this is the dawn of a new future for whatever industry the merger or acquisition is based in, and how this is a match made in heaven. However, as so many mergers end in epic collapses it is difficult not to envision the same reporter sharpening the pen, ready to explain why this bird was never going to get off the ground. For the truth of the matter is that a very large number of mergers and acquisitions end in some degree of failure. According to Bradt (2015), a KPMG study has shown that 83% of merger deals do not deliver the expected boost in revenue, and Christensen et al. (2011) have reviewed research literature and have come up with a failure rate for mergers and acquisitions between 70% and 90%.

There are plenty of examples of failures such as the $2.6 billion eBay acquisition of Skype in 2005 that only resulted in a sale again four years later with a $500 million loss, or the $164 billion AOL acquisition of Time Warner in 2000 which had already begun to go sour by 2002 after the tech-bubble had burst, and AOL had to do a good-will write off of $99 billion. Quaker acquired the Snapple soft drink company for $1.7 billion and sold it just 27 months later for $300 million, and finally the 1998 Daimler-Benz acquisition of Chrysler with a $36 billion stock-swap never really got the engines running and the companies parted ways in 2007.

Naturally, not all mergers or acquisitions fail. There are some noticeable examples of great successes at integrating companies: The acquisition of Pixar by Disney in 2006, the acquisition of Anheuser-Busch by InBev in 2008 to form AB InBev (which has recently announced an offer to acquire its biggest competitor SABMiller) or the 1998 merger of Exxon and Mobil.

It is on this background that a lot of the research being performed is centred on investigating why mergers and acquisitions succeed or fail.

3. Literature review

Looking at the research into mergers and acquisitions, it becomes evident that two major groups appear and each with their own explanation as to why they succeed or fail. One can be called the strategic approach, the other the cultural approach. The strategic approach centres itself on understanding the companies that are about to combine, whereas the cultural looks at the individuals inhabiting the companies. Understanding both views will provide a deeper insight into the mechanisms of mergers and acquisitions – an understanding that will later make it possible to see how the performance of mergers and acquisitions can be improved.

A note must be made to explain the selection of literature used in this white paper. As the aim of the white paper is to look into mergers and acquisitions in order to understand them as a concept and how to improve their process, the literature has been selected to show the best research in the field and to develop concepts from this. In this regard, some of the literature used may seem old, since most of it is from the 1990s and 2000 onwards. There is a simple explanation for this: Around that time, a lot of mergers and acquisitions were happening as IT was booming and a lot of money was being made, which made acquisitions frequent. Research follows the flow of ideas and principles and will always seek to investigate and understand what is taking place around us; hence a lot of research took place and a lot of literature was developed at this time. As markets and economies have moved on after the IT bubble burst and again following the mortgage market collapse, so has research changed its scope to fit into the new order.

The most recent research on mergers and acquisitions is looking into e.g. "M&A and innovation" as done by Cefi and Marsili (2015) or Bauer, Matzler and Wolf (2016), "M&A in Emerging Markets/Economies" as described by Lebedev et al. (2015) or Deng and Yang (2015) or other concepts of M&A in more niche settings, such as Tienari and Vaara's (2016) that look into identity construction.

As this white paper takes its outset in the more basic approach to understanding mergers and acquisitions, defining not how to handle M&A in an emerging market but how to work with mergers and acquisitions in general, literature that best shows the basic elements of mergers and acquisitions has been chosen.

The strategic approach to analysing mergers and acquisitions

The outset for what this paper names the strategic approach to analysing mergers and acquisitions is a functional or indeed rational look at what a merger is, what attributes the merger consists of and how the merger is analysed and understood in order to look for success – or failure.

As has already been noted in the introduction, almost all mergers and acquisitions will have some economic outset; companies wish to join forces in order to increase their market share, gain synergies, scale, or as a means of getting new knowledge or products into the portfolio, perhaps even reinventing the entire business model. All of these aims are strategic in themselves, and the aims will be the same whether looking at successes or failures from a strategic or a cultural standpoint.

Understanding a merger or acquisition from the strategic standpoint is a matter of analysing the strategic match between the two companies that are about to engage in an organisational combination. The match here is the strategic and financial possibilities of engaging in the combination.

The strategic approach will, by using a rational toolset and understanding of the world, analyse how the two companies who are about to engage in one type of combination or another, will benefit from doing so – whether the combination will make sense from a financial perspective. The approaches to performing these analyses are varied; the so-called Strategic Management approach has already been touched upon in the introduction as a way to grow a company's market share or product portfolio and getting access to R&D capabilities (Bower, 2002).

A Capital Markets approach looks at how a merger or acquisition performs based on stock-market-based measures. In this approach, the M&A is viewed as investments that require a financial return to the investor. These stock-market-based measures, often called 'event studies', are used to measure how the market perceives the deal within a short period of time after an M&A is announced (Stahl & Mendenhall, 2005). Chatterjee (1992) suggests that value in an M&A can be created through direct synergies or organisational restructuring of the company being taken over to create higher financial outcomes of the M&A.

The Economic Performance approach examines accounting-based methods to measure long term performance of the M&A to determine the success of the merger. Instead of looking at the market expectations through the movement of stock prices, cumulative excess returns are determined with realised profit measures, such as realised profit or additional sales after the M&A date. Healy, Palepu and Ruback (1997) showed that acquirers did not create any additional cash-flow beyond what was required to recover the premium paid, but as the takeovers in this study were break-even investments on average, the differentiating factor was how profitable the individual transactions were. The failing M&As in these examples were the takeovers of companies in unrelated businesses – the takeovers of overlapping businesses fared much better. Morosini, Shane and Singh (1998) studied growth rates in sales over a two-year period after an acquisition and showed that the bigger the cultural distance between two merging companies, the bigger the sales growth rate. This effect occurs by providing access to the target's or acquirer's diverse set of repertoires and routines embedded in national culture.

Christensen et al. (2011) describe how the common reason to engage in mergers or acquisitions is to boost current company performance, but such attempts will rarely deliver as expected; CEOs tend to anticipate a bigger boost than investors in the market, who in turn will discount the boost, which then becomes smaller.

Summing up the strategic approach

Understanding mergers and acquisitions from the strategic approach is a look at the tools that are used to understand or determine why companies should attempt integration either as mergers, acquisitions or some other combination. Much can be analysed and understood by looking at two companies and seeing how it would make sense to combine them – or why they should not. Do they make similar products or exist in similar markets, in which case failures happen less frequently than if this is not the case – or do they not share any obvious relation to each other, in which case the combination would be much more challenging from the beginning with odds stacked against its success.

The cultural approach to analysing mergers and acquisitions

The cultural approach to analysing mergers and acquisitions looks at the organisational mergers from a people perspective. This distinction is naturally not as black and white as it seems. Financial approaches are not blind to the people-factor of a combination as can be seen in the Morosini, Shane and Singh (1998) article combining financial and cultural factors, but the people side is not pivotal in the

strategic approach. Conversely, what is labelled the cultural approach does not only look at the people side; this approach can also take a more systemic look at the way an organisational combination works.

Organisational Theory looks at how two previously autonomous entities are combined into a cohesive whole. The main focus of this line of research is to investigate how two companies integrate their structures, systems and cultures to achieve synergy. The underlying premise for the organisational theory approach is that integration is the mediating mechanism that ensures that potential in an acquisition is turned into actualised performance (Stahl and Mendenhall, 2005). Shanley and Correa (1992) show how an acquisition can impact the organisation and the people working in it in various ways, from whole organisational structures to working relationships. Hambrick and Cannella (1993) show how status loss in the future organisation leads to an increase in management turnover and is generally disruptive to performance, and Walsh (1989) shows that turnover of executive management in the acquired firm is usually higher than expected. Pablo and Javidan (2002) present a case study on how cultural differences can have dysfunctional effects on the merger.

The Human Resources perspective emphasises the psychological, communication and leadership issues in M&A. In this perspective, the people side of the mergers and acquisitions is moved from that of people in an organisation that is about to change, to focus on the actual person within the organisation. The theme in this perspective is often one of management neglecting to see this people side of the M&A, as they are intent on getting the deal negotiated through, so operational synergies can be realised (Birkinshaw, Bresman & Hakanson, 2000). Management attention on the people that make up the organisations about to engage in a combination is of great importance as Marks and Mirvis (2010) show by underlining the importance of positive vision and proper communication of the values, principles and priorities behind the M&A. Schweiger and DeNisi (1991) and Birkinshaw, Bresman and Hakanson (2000) have focused on employee stress following the announcement that an M&A process is ongoing. They note that the stress is due to factors of a highly insecure future, possible job-loss or losing personal control. The very change itself is stressful even if what will come from the change is positive. Larsson and Finkelstein (1999) suggest that the greatest stress and resistance is on the part of the acquired company.

Summing up the cultural approach

As Stahl and Mendenhall (2005) note, these various streams of research have not been properly integrated into a cohesive system able to expand our understanding of what makes for successful mergers or acquisitions. Following the M&A transaction, some sort of inter-organisational integration is necessary to achieve the intent of the deal. However, socio-cultural integration, defined as the combination of groups of people possessing established norms, beliefs and values, can lead to sharp conflicts as different organisational cultures, managerial viewpoints, HR management systems and other aspects of organisational life come into contact (Stahl & Mendenhall, 2005, p. 6).

4. A lack of methods and tools

Based on what we have written so far, it is not difficult to see just how many possibilities for problems a merger or an acquisition can provide. Research is also very good at revealing pain-points, explaining where and what has gone wrong. Research studies are incredibly adept at looking through data and time to conclude on problems, suggesting what has not been correctly done: Wrong financial analyses, a mismatch in the strategic fit between companies about to combine, lacking focus on cultural differences and personnel reactions to the news that an M&A is in the making, communication, top management involvement or lack thereof. Research can come to opposing conclusions on the same point of research, showing a negative relationship between organisational cultural differences and post-acquisition performance (see e.g. Stahl & Voigt, 2008) and seeing that national cultural differences are negatively associated with conflict (Vaara et al., 2012).

When researchers draw insight from data and observations they tend to state conclusions in a binary format of "how to" or "how not to". The researcher is looking at actions or results and draws conclusions which rarely contain a workbook or a list of instructions. This is rarely the researchers aim, they test theories in a practical world, or theorise at practice to understand this. There is always a codification taking place, and we are rarely presented with tangible tools to work with. Tools are for practitioners to use – even develop. But this is exceedingly difficult. This is where the strategy consultants, accounting companies or investment bankers draw from their experience with these matters and the toolboxes they have developed. These will attack the challenge of the M&A from different angles; most of them seemingly run in parallel to the strategic or cultural approaches listed previously as different lines of research

Cultural approaches seem more intangible – it is hard to quantify this, but it seems that executives are possibly already aware of many of the cultural challenges. This is what Vaara et al. (2012) point to, when discovering that a large span in (national) cultural differences can actually provide an increase in success for a merger, simply because the notion that cultural differences exist and are tricky to handle has been talked of so much, and for so long, that everybody is now aware that this is an issue to be handled.

But handling the issues that encase any organisational combination is difficult and not many theories or practitioners seem to present more than a notion of a method; Ensure that strategies are aligned, that the takeover price is not too high, that cultures are taken into account… Such advice surely indicates that a method exists, but it reveals not the method itself.

The aim of the next section is to present this author's view of a viable methodology to span both strategy and the mechanics of integration, as well as how to work with the employees that inhabit the organisations being integrated. Especially the last part – working with the human element of the integration process – seems to present the most challenges as this has always been thought of as the more intangible part of mergers and acquisitions. Introducing a change management approach to work with the people about to integrate and at the same time realising the strategic benefits will be presented as the way forward.

5. Two approaches to integration and how change management can improve them

Birkinshaw, Bresman and Hakanson (2000) present a unique study of the entire acquisition process of three companies:

1. Eka Nobel's acquisition of Albright & Wilson's paper chemicals division

2. Alfa Laval's acquisition of Sharples

3. ABB's acquisition of Taylor Instruments' Combustion Engineering.

All acquisitions were studied over a five-year period and they documented the impact of the acquisition process on the individuals involved and at the same time looked at how tasks between the acquiring and acquired units were allocated. On the basis of this research they proposed a way to look at the M&A integration process as more than just the usual study of integrating units and tasks as seen in much of the conventional studies.

Birkinshaw, Bresman and Hakanson (2000, p. 399) propose two distinct processes; task integration and human integration. Although distinct, they are not independent of each other – aspects of human integration such as enhanced employee satisfaction are likely to make capability transfer and resource sharing easier, and task integration in turn is likely to further the cause of employee satisfaction and a shared identity.

This view approaches what Hiatt and Creasey (2003) call change management – the people side of change. The aim of this section is to use the Birkinshaw, Bresman and Hakanson (2000) case-studies to exemplify how and where a focused change management methodology could be employed to reach a better output than what the case companies achieved.

Looking at the two integration processes, these are quite different in regards to management actions. Task integration is defined as the identification and realisation of operational synergies; it pursues the combinatory processes of shaping operations in the two companies. Human integration, on the other hand, is defined as the creation of positive attitudes towards the integration among employees on both sides, and works hard at building an atmosphere of trust and respect. It is the pursuit of operational synergies versus employee satisfaction, and both integration processes can easily be pursued with little interference between the two. However, at some point during the integration process, the people responsible for the management of the entire acquisition should seek to join the management of the two dimensions (Birkinshaw, Bresman and Hakanson, 2000, p. 400).

Combining the two integration approaches is what proper change management methods can do, and this is what Prosci's change management approach is so adept at. In their terms, task integration and human integration are translated to the Technical side and the People side.

Fig. 1: A technical and people side
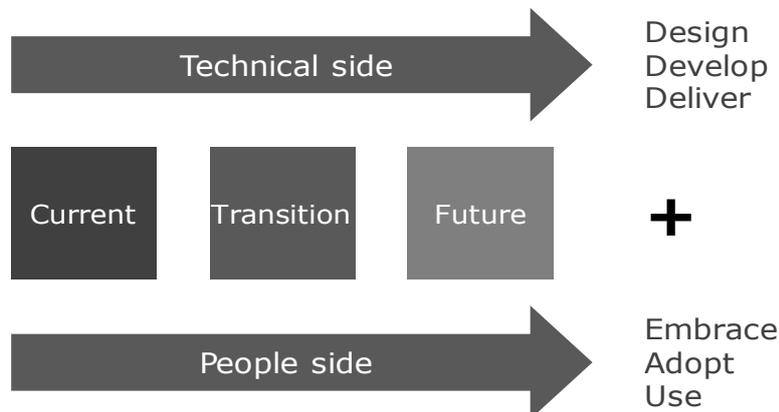
Source: Prosci®, 2008

This figure also includes the phases of a transition, the three states of change, called Current, Transition and Future. The Current state has a powerful holding force on employees, the transition state is emotionally charged and chaotic, and the future state is often unknown and a source of fear (Prosci®, 2008).

This is where change management plays an important role, as it acts on both parts of the integration and helps employees get through the states of change. And that is the suggestion of this white paper; that the proper methodology and the right tools can combine both the task and human integration processes, handle all phases of the merger and acquisition process, and increase the likelihood of integrating better and faster, because the people side issues have been handled timely and correctly and strategies have been aligned to the change process from the beginning.

Synergies realised too slowly

In their study, Birkinshaw, Bresman and Hakanson (2000) find that managers in all the companies studied clearly understood the need to achieve operational synergies, but in none of the cases were these synergies realised quickly. All companies went for complete integration of the acquired companies and all companies experienced problems during the integration process. In the Eka Nobel case, overlapping functions and locations were kept in place for too long. In Alfa Laval, integration stalled as key people departed the companies, because a clear leadership from the acquiring company was absent in the process and because of passive resistance to the change amongst the employees. In ABB, top management pursued a fast integration with an ambitious three-year plan, but these efforts were delayed by the actions of the development engineers.

In these case-studies, some of the classic problems of companies in a state of change are clearly seen. Key people depart the companies, management is not visible, and passive – or even active – resistance to the integration is exerted. These issues are familiar territory to change management professionals and, when handled properly, will pose only a minor challenge to the integration of companies. As illustrated in the Prosci® Flight Risk Model, the risk of losing employees, experiencing passive or active resistance to the integration or facing a productivity loss will- from the first point at which the employees become aware that a merger or an acquisition is going to happen - increase over time if it not handled in due time.

Fig. 2: Prosci® Flight Risk Model


Source: Prosci®, 2008
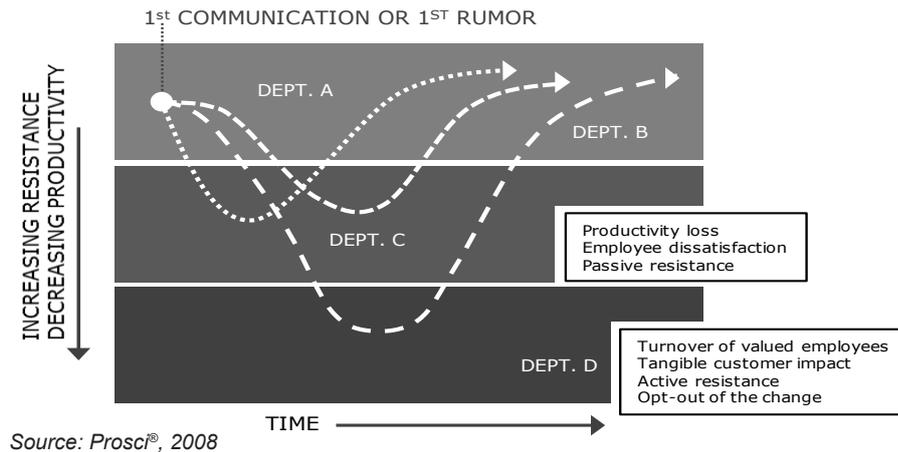
Handling these challenges is what change management methodologies are capable of. If the company is well prepared to tackle these issues, and if a proper change management strategy has been planned in advance of the announcement, then getting employees engaged in the change is much easier, as insecurities and unanswered questions will not have time to fester.

Large studies of change management best practice such as Creasey and Stise (2016) back up these assumptions, and it is clear that using change management methods will leverage an integration process with less risk of employee turnover, less resistance and with less risk of productivity loss.

Creasey and Stise (2016), in the Best Practices in Change Management, show the correlation between having excellent change management effectiveness and how much this is able to influence project factors of meeting or exceeding objectives, being on or ahead of schedule, and being on or below budget. Below is shown the correlation for meeting or exceeding objectives.

Fig. 3: Meeting or exceeding objectives
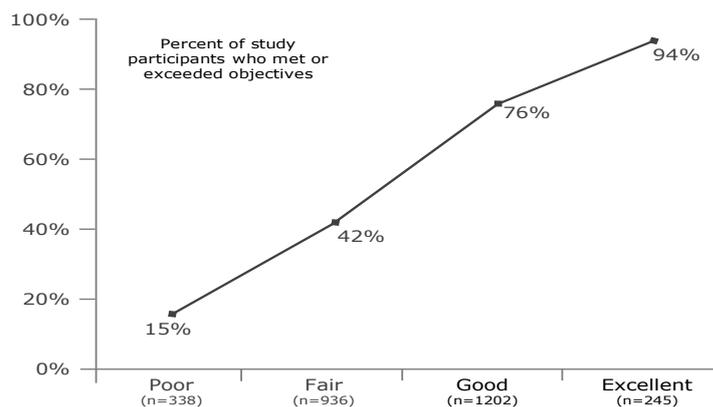
Source: Preasey and Stise, 2016, p. 83

In the three cases investigated, however, the decision not to push harder to integrate was made with what Birkinshaw, Bresman and Hakanson (2000, p. 411) call "good reason"; in Eka Nobel they worried about losing key people, Alfa Laval approached the integration with caution as the acquisition had been hostile, and in ABB the development engineers were allowed to pursue parallel development activities, rather than imposing a centrally mandated solution. It seems that the greater the problems encountered during the integration process, the lower the level

of task integration sought in the medium term (one to two years) of the integration (Birkinshaw, Bresman and Hakanson 2000, p. 411). A second and very interesting finding from the study shows that management dissatisfaction with the limited level of task integration in the medium term lead to a second phase of task integration which began three to five years after the initial acquisition.

Challenges in human integration

Deliberately approaching the integration at half power out of fear of creating more problems is clearly not an effective approach. Having two partially integrated companies for a number of years will keep employee uncertainty high for the duration and will not lead to an optimal position for the companies to deliver as planned. Re-launching of integration processes in a second phase would also, for the majority of cases, seem like a sub-optimal approach to getting return on investment efficiently. Creasey and Stise (2016) also show a correlation between how efficiently change management is performed and how fast employees adopt the change and become proficient at what the change requires of them.

Looking closer at the human integration part of the study (Birkinshaw, Bresman and Hakanson, 2000, pp. 412-16), Eka Nobel managed their integration of the two companies very well, with high management attention to communication and on-site presence at the acquired company's various sites. However, the five-year study showed an interesting change in attitudes towards the change: Over time, the Albright & Wilson employees became significantly more positively disposed, whereas Eka Nobel's employees during the same period became increasingly negatively disposed. It would seem that Albright & Wilson employees had gone into the integration process with considerable uncertainty about the outcome of the process but at the end of the process these fears had been alleviated. At the same time, Eka Nobel employees might have seen an integration which had favoured Albright & Wilson employees and disappointed their high expectations of the possible outcomes of the integration.

Alfa Laval had suffered from a less than successful human integration process: High employee turnover at both employee and management level with few replacements had turned particularly one site into a neglected site with little strategic priority. Lack of communication in both the acquiring and acquired companies did little to alleviate concerns and the respect between departments of Alfa Laval and Sharples was not high.

ABB also handled the integration process in a less than optimal way. Visibility and continuity of leadership was rated poorly. On the other hand, ABB had been very good at describing what was being undertaken, and the communication effort had been effective. However, with regards to the employees of at one Taylor Instruments site they had had a lot of concerns for their future, which had not been dealt with, leading to a lot of rumours and lingering fear.

Creasey and Stise (2016) have, based on their extensive research, ranked the greatest contributors to a successful change management initiative. Ranking first in all of their best practice studies since 1998 was Active and visible executive sponsorship. This means that having an engaged sponsor to spearhead the change – or integration - is crucial for it to become successful. According to Creasey and Stise (2016, p. 195), the most critical activities for such a sponsor is to: 1) participate in a visible way throughout the project, 2) communicate support and promote the change to impacted groups and 3) build a coalition of sponsorship throughout the organisations. Another top contributor to effective change initiatives is Frequent and open communication.

It seems clear that the case companies (except in some parts Eka Nobel) in Birkinshaw, Bresman and Hakanson (2000) have, at different levels, failed at this. Communication has been absent and management attention has not been clear and visible.

Birkinshaw, Bresman and Hakanson (2000, p. 417) draw out some common themes from their studies:

1. The human integration process takes a long time; at the time when they had completed the data collection six to seven years after initial acquisitions, only the Eka Nobel/Albright & Wilson integration process appeared to have been completed, the two other cases still suffered from poor human integration, lingering concerns over the future and low cultural convergence between the different sites.

2. The human integration process is extremely difficult to master. All three companies had substantial experience with acquisitions, but only Eka Nobel had come close to handling the integration process in an exemplary manner.

3. An obsessive concern with employee satisfaction may actually be misplaced. Human integration and employee satisfaction is only a means to achieving synergies, not an end in itself. Birkinshaw, Bresman and Hakanson (2000) point to a 'zone of indifference' that prevents high level of employee turnover, even at the most neglected of company sites. The implication is that some level of employee dissatisfaction is probably acceptable if the task integration process requires it. Also, there may be organisational advantages to maintaining some level of tension, as rivalry can, to some extent, be constructive.

Looking at the list of common themes, it is clear that human integration is particularly difficult. It takes a long time, and it is a process that is extremely difficult to master. The extent to which the companies used a change management methodology is not mentioned in the study; however it seems fair to say that change management had only been practiced to a limited extent, if at all, and without much success. Only in the Eka Nobel case does it seem that some change management methodology might have been employed as much of what was done bears signatures of what a change management method would advise.

Summing up on human integration

As it has been investigated in the previous parts, it is clear that the human integration process should not drag on for years with unresolved issues. Management should not be reluctant to push for integration simply because of fear of what might happen when the employees are faced with the change, and the entire integration process – both human and task – is not necessarily so difficult to master. With the use of change management methodology it should not have to be.

The next part of the paper will introduce a specific change management methodology with a number of tools and key insights that enables it to fuse seamlessly into the integration processes of mergers and acquisitions.

6. Introducing a change management method

The suggestion in this white paper is that proper change management will help before, during and after the merger and acquisition process, and the change management method to be used should have tools to handle elements of all the phases of a merger or acquisition process.

The Birkinshaw, Bresman and Hakanson (2000) method of splitting integration approaches into two distinct flows of task and human integration corresponds to how Prosci® sees project management and change management relating to each other. Most of the scientific literature, however, has not looked at the people side of mergers and acquisitions, but have been concerned with the strategic considerations leading up to the M&A or with how to understand success or failure. Birkinshaw, Bresman and Hakanson (2000) have made the distinction between the two integration processes that are at work during a merger or acquisition, but connecting the two to increase efficiency of the change is rarely, if at all, proposed by the literature. There are only hints at HR to handle people or cultural analysis to investigate how to join companies, even though this is absolutely essential work as McGrath (2015) exemplifies with the AOL Time Warner failure;

> *"Merging the cultures of the combined companies was problematic from the get go. Certainly the lawyers and professionals involved with the merger did the conventional due diligence on the numbers. What also needed to happen, and evidently didn't, was due diligence on the culture. The aggressive and, many said, arrogant AOL people "horrified" the more staid and corporate Time Warner side. Cooperation and promised synergies failed to materialize as mutual disrespect came to color their relationships."*

However, an entire methodology on how to handle such an integration process is never revealed in the literature.

A basic way of understanding M&A is a three phased process, beginning at the point in time where the thoughts of merger or acquisition are being formed, integration is being planned and later executed and ending after the last parts of the integration have been completed.
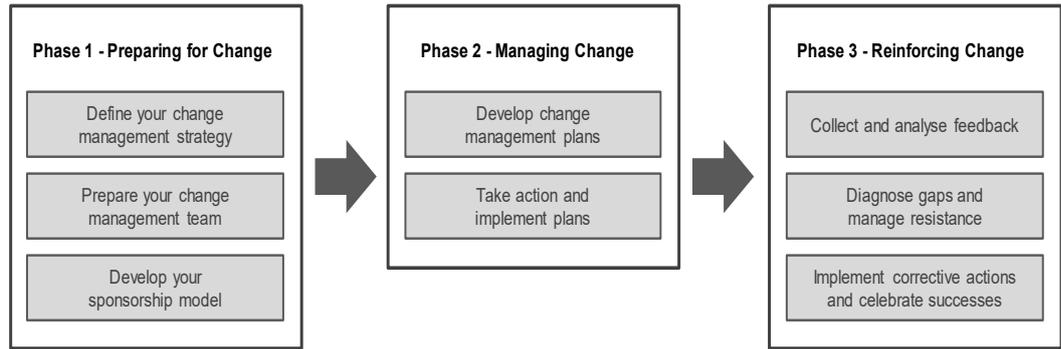
Fig. 4: 3-phase merger plan.
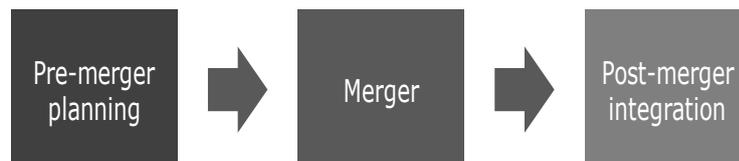
Source: Mads Hjort Lund, 2017

In much the same way, our company works with a change management methodology built of three phases and meant to work as an integral part of the overall project stream. Project teams often focus on the technical aspects of the solution – in the case of mergers or acquisitions mainly the task integration. This is the more tangible part of integrating companies or divisions and as noted by Birkinshaw, Bresman and Hakanson (2000), getting the human integration to work is far more difficult.

Looking at the Prosci® 3-phase Change Management Process, this is built to fit well with the phased process models that see projects as: Idea/Analyse -> Execute -> Realise.

Fig. 5: Prosci® 3-phase Change Management Process

Phase 1 - Preparing for Change	Phase 2 - Managing Change	Phase 3 - Reinforcing Change
Define your change management strategy	Develop change management plans	Collect and analyse feedback
Prepare your change management team	Take action and implement plans	Diagnose gaps and manage resistance
Develop your sponsorship model		Implement corrective actions and celebrate successes

Source: Prosci®, 2008

Change management best practice (Creasey and Stise, 2016, p. 103) states that any project should be planning for the change management effort at the same time as the project initiation. The same analysis conversely states when the effort did start, which according to respondents was invariably too late. Adding change management's ability to increase overall project performance on parameters of meeting or exceeding objectives, being on or ahead of schedule and being on or below budget creates a very strong case for engaging change management already in the pre-merger planning/ strategy formulation phase.

Fig. 6, When to start change management, Creasey and Stise (2016, p. 103)
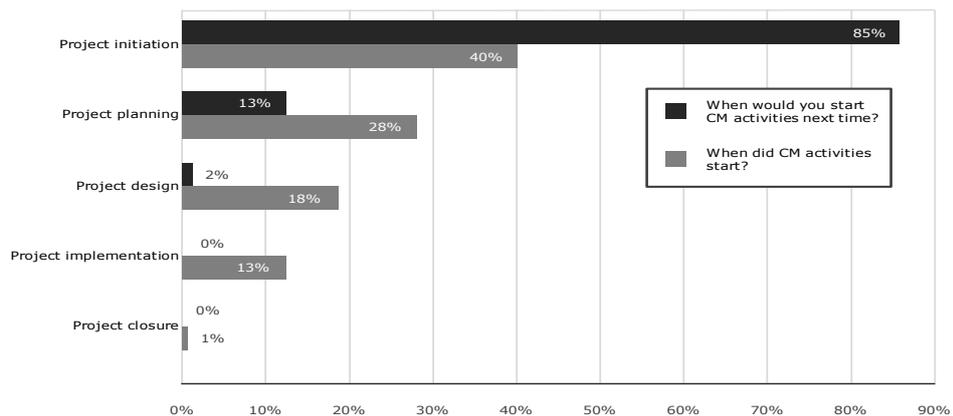
Working with mergers and acquisitions is clearly more than what economic analyses show would make sense strategically. Integrating companies or departments is more than integrating processes and tasks. It needs to take into account the human integration and work with a structured change management approach in order to leverage the full potential of mergers or acquisitions and realise the full potential projected at the outset of the strategy formulation. The task integration side and the human integration side – the technical side and the people side – are not two separate tracks to be run independent of each other and at some point be joined and considered. Task integration and human integration is one combined effort that, when run well and with a structured change management approach, can create a synergy that will drive the integration – the change – successfully through.

Summing up on the Prosci approach

The Prosci® approach to change management combines a vast array of methods, tools and insights that create a synergy between task integration and human integration. This will enable a much better integration process and will increase the likelihood of integration success.

Given this, the last part of this white paper will look into the insights our company has made while working with this change management approach in a wide variety of different organisational settings and challenges.

Working with change management

For clarity, it can prove interesting to see how our company actually engages in the change management work. Naturally, working with change management is a varied discipline as not two changes are alike. All changes require specific solutions each and every time. But as this white paper is centred on mergers and acquisitions, the below shows how we would approach such a change management effort.

For organisational changes, change management must handle different perspectives at once; customers, employees and management. All have different stakes in the change and all must be handled accordingly. For **customers**, when hearing that a merger between companies is going to take place, a normal reaction is to wonder 'Can they deliver?' 'Will we experience improvements?' 'Is my favourite product going to disappear?' For **employees**, a change like this can have a significant impact on your entire basis of life. A reaction often seen is resistance and anxiety in the employees, and questions such as "Where will I fit in?", "What is my workday going to look like after this?", "Will I lose colleagues?" or "Will there be a job for me?" will arise quickly, once the first rumours of the change starts seeping through the organisation.

For **managers** overseeing the integration, their first concerns to the company are; 'Can we keep revenue steady through the transition?', 'Can we increase share value?', 'Can we get the company to function in the long run?', 'Is the change progressing in the right direction?' But managers are not only managers, most managers in any organisation are also employees, meaning that a lot of the same concerns and questions that are found in their staff can be found in them as well, however usually to a lesser degree.

In order to mitigate the amount of expected resistance and to ensure an organisational change that will run as smoothly as possible, applying a systematic and well-proven change management method such as the Prosci® methodology is strongly advisable.

What our company will usually do is to prepare the organisation for the change ahead and together with management analyse the change, which groups are impacted and how, and decide on the required deliverables that will enable the organisation to engage the different groups in the change. We usually work with developing and supporting the change management effort for both managers and employees.

Our approach to this is via the ADKAR principles for managing the change (Hiatt, 2006). This is a framework for understanding and managing change at an individual level, and it forms the basis for how we work with people and engage them in order to move them through the change. It is at the same time our checklist and our approach – how we make sure that we are in fact moving the organisations ahead.

ADKAR stands for Awareness, Desire, Knowledge, Ability, Desire – and as such represent stages through which all people about to change ought to be moved. Awareness is us checking to see if those who have to change are aware of the change and understand why the change is happening. Once we are certain that everybody is aware, we look into the Desire to change which is a much more difficult discipline. Creating desire in a group about to change will naturally present a number of challenges, as this is basically working with people and how they feel about a certain change. If a mind is made up to resist, it can be difficult to change it, but this is what we attempt. After Desire comes Knowledge, which is understanding how:

For the **employees**, it is a matter of preparing them for the change ahead; what is the change, how will it affect them and what tasks do they have in helping realising the change. Together with the employees, proacteur creates individual change plans that break down the change into deliverables in order for the employees to understand exactly what they have to do and how to do it.

The work that proacteur will do with **managers** is usually more varied, as the different management levels require different tools and insights into the ongoing change as well as different tasks. For this, proacteur will often prepare different sessions to fit the need of each groups.

Proacteur will also prepare the top level organisation for their role as Executive Sponsors of the change: what does it mean to be a sponsor? What is your role in the change? Then, in turn, the next organisational levels will be prepared for the change: first by introducing the change itself, then by diving deeper into the change, the process, the methods and tools and their specific roles in the change.

After such work, Ability is the next step. This is checking that the knowledge acquired can be used; it is to ensure that all employees are able to make the change happen, use methods, know and understand what their new processes will be and work together to achieve the change. The last part – the Reinforcement – is a number of methods to ensure that the change stays, that the employees or the organisation do not slip after the change has been implemented.

During the entire change process, it is exceedingly important to track the progress of the change and keep searching for both pain points and opportunities. We therefore also do a Change Verification which is a method to ensure that the change is kept on track and a method to report issues and successes to management to ensure that corrective actions are implemented immediately.

7. Five "what to do" in mergers or acquisitions

proacteur has been engaged in numerous change management projects over the last 10 years, from small-scale to global changes. With the experience we have gathered in these exciting and challenging projects, we would like to conclude this paper by presenting our top-5 "what to do" in mergers and acquisitions.

1. Have a high focus on change management during mergers and acquisitions:

   All strategy and all objectives will fall flat if we do not take the change management effort as seriously as strategy, objectives and numbers.

2. Initiate the change management effort at the earliest possible stage:

   Already at the strategy formulation and analyses of the merger or acquisition, change management preparation should be initiated. Change management will have numerous insights to engage in formulating a workable approach to integration.

3. Perform a cultural due diligence:

   As is so often seen, cultural clashes and poor human integration follow in the path of many mergers and acquisitions. Performing a cultural due diligence in order to create an understanding of the companies involved will mitigate a number of issues later.

4. Create a common platform and a shared language for the change management effort across the involved organisations:

   It is already necessary to learn each other's languages on so many other levels, and if we are not able to reach a common change management language, the effort will go wrong. Perhaps the common change management language makes communication on the other levels easier?

5. Use Change Verification:

   There are so many unknowns and so many conditions that change during the process – we cannot plan all change management activities or for all eventualities. Change Verification (measurements, follow-up, ownership and actions) enables us to set in where the biggest challenges and the biggest opportunities exist.

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About proacteur

proacteur is a consulting firm that provides evidence-based and best practice consulting services within Change Management. We follow an internationally established and proven change management method that is holistic and takes the complexity of the change into account. This ensures that the change is robust and lasting.

Here is how we do it:

1. Together we make sure we understand the issue

2. We develop the people to fulfil their role in the change

3. We manage the change together with you

We base all decisions on data and strategic indicators to make sure not to lose sight of the targets at hand – whether it is quality assurance in our clients' deliverables, improved production efficiency, or process optimisation.

proacteur was founded in 2006 and has 20 consultants today. Our values, our ambition and our vision have remained unchanged since the beginning; we want to be the best in the Nordic region to help organisations translate strategies into reality and to bring projects to succeed.
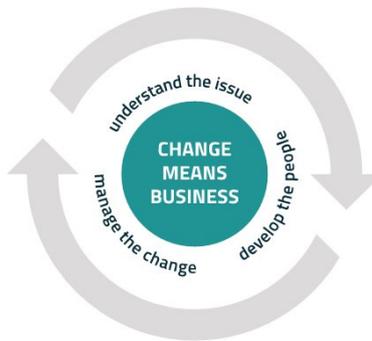
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