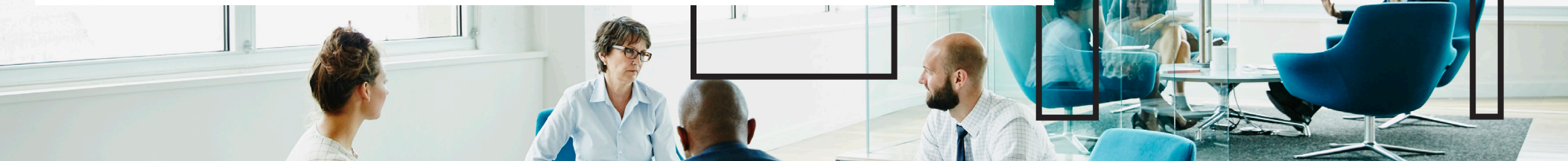


Culture framework:

Components, M&A explanation and questions to address



Business drivers and basic facts

M&A explanation

In the early stages, this is a balance of facts and opinions:

- The **facts** give early insight into the complexity of the deal and the likely changes to the target. Some are obvious; for example, the target's mission, vision and values will in most cases be adopted from the acquiring organization. The rest of the information is collected during the investigations into the target.
- Once the known facts are collated, the rich discussion comes in debating **where the value of the target lies, how this will be enhanced by the combination and which “people” drive that value.** In deals, this is typically the hardest part to identify and come to consensus on, in part because most organizations don't review this element on a day-to-day basis and are faced with answering this in a short time period, often with limited data to support any answers.

Questions to address for both organizations

The facts

- What are the mission, vision and values?
- What is the exact nature of each business? And how many businesses are there?
- What are the growth projections?
- What is the extent of the operations (global, regional or domestic)?
- What is the typical customer profile?
- How is business performance measured and communicated (i.e., internally and externally)?
- What are the value disciplines (i.e., the focus for creating a competitive advantage)?

The value discussion

- Where is the true value in the business (also known as the “crown jewels” or “secret sauce”)?
- Are there currently any non-value adding activities and/or complexities that need to be addressed as part of integration?
- How will the combination grow value (i.e., what are the main areas of value creation)?
- What is the go-to-market strategy, and how is it executed (i.e., how does each firm get and keep customers, and how does it pay people to do so)?
- Who are the key people that drive the value part of the business?

Leadership and talent

M&A explanation

Leaders are those who will either run the combined business (from either buyer or seller) or manage the formal integration process.

Determining leaders and naming them early provides direction and stability to the rest of the organization. They are also ultimately responsible for delivering on the deal goals and leading through the necessary changes.

Talent is more difficult to define, but for M&A purposes only, we mean the key employees as identified by the buyer or seller.

In the early stages, the talent in the seller will have to wait to be identified, and to a large extent, this requires the seller to identify them.

Questions to address for both organizations

Leaders

- Who are the leaders and what are their roles, responsibilities and reporting relationships, up and down?
- What changes will be necessary in the buying organization for identified leaders to assume their roles?
- Who will make these decisions (buyer or jointly?)

Talent

- What talent exists beyond the leadership level, and how is it defined and measured?
- What are the pivotal/critical roles, and who holds them?
- Are there any “hot jobs,” and if so, where are they based geographically?

Leadership compensation and performance

M&A explanation

Understanding this will reveal what each firm currently values, measures and rewards as well as what may need to change going forward.

Leaders are like everyone else in this regard, and beyond knowing they have a job, going forward they need to know what they are going to get paid and how they will be measured to enable them to function effectively.

Questions to address for both organizations

- What and how are leaders paid?
- How and when will they be paid in the future?
- What must they do to be paid, and how will their performance be measured?
- Beyond leaders, what other compensation- or performance-related plans might be needed to stabilize the business and reduce the risk of losing key talent to competitors?

Organization design and operating model

M&A explanation

This is one of the components where there will likely be significant changes, and it is an area that can be a source of business disruption at the target. There will be many predictable changes as the target moves into the larger structure and the larger firm's way of operation. The key is to identify them up front and plan accordingly.

Changes are most likely to be seen in the back office for Finance, IT and HR. For the business, the most likely changes will be on operating rhythm, reporting lines and decision-making rights/accountabilities.

Questions to address for both organizations

Organization design

- Is the organization centralized or decentralized? Center of excellence or shared services? What is the role of corporate?
- What is the current structure: flat, hierarchal or matrixed?
- What will the new organization structure look like?
- What are the current decision rights of the target, and what will change post-close (e.g., signatory authority)?

Operating model

- What is the go-to-market approach: product, service or geography?
- What are the key business cycles and operating rhythms?
- What sorts of infrastructure systems support the business?
- Do these systems easily align, or do they require significant operational changes? How will they operate on a day-to-day basis?
- What third parties, vendors and/or contractors are used, and needed, to maintain business and customer continuity?
- What will not change?

Non-negotiables

M&A explanation

A term unique to the M&A situation, this varies from buyer to buyer, and examples include the buyer's standards in financial reporting, business budgeting, budgeting approvals, health and safety standards, compliance and ethics standards and travel and expense rules.

It reflects the changes that need to be made to become part of a larger firm's way of doing business and is mostly driven by the corporate functions. This invariably involves a balance between "what absolutely must change" and "what needs to stay the same at the seller to preserve or grow its unique value."

Other comments are similar to the "organizational design and operating model" comments above.

Questions to address for both organizations

- Which areas absolutely must change to become part of the buyer?
- What intended changes may have unintended consequences on the seller's inherent value as it relates to existing customers, new customers and the talent that generates these customers?
- Do these non-negotiables align with the changes to compensation and organizational design?

Inclusion and diversity

M&A explanation

This addresses the increasing focus on inclusion and diversity, at both firms (also termed diversity and inclusion by some firms).

Questions to address for both organizations

- What is the current approach and philosophy?
- What are the program components?
- What are the potential integration challenges?
- Are there any areas of special focus (e.g., retention of female talent)?
- Are there any pay equity issues?

Post-close working relationship

M&A explanation

This addresses the question of how employees from both organizations will work together. These issues and potential changes are not a top priority early in any deal; however, this is also where the whole employee population is impacted.

Early identification of the potential working relationships enables both sides to prepare for the challenges to come in the later phases. Many of the issues and changes to come are “intangible” at this stage and only become evident over time, especially as they relate to living the values and demonstrating the expected behaviors.

Questions to address for both organizations

- What types of behaviors are expected, and what types are discouraged?
- How will differences become evident?
- How will leaders and employees live the values of the combined organization?
- What are the unwritten rules of the business?
- How will power and authority be wielded, especially in decision making and meetings?
- How will employees be engaged? How will their productivity be measured?
- When and how will the findings from inclusion and diversity be revealed and acted upon?

About Willis Towers Watson

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