SCENARIO: TRANSITION MANAGEMENT

PROLOGUE

This scenario recaps possibly the most challenging and far-reaching example of Link's transition management capabilities - - sometimes referred to as managing a *whitewater transition*. Organizational transitions are often precipitated by mergers, acquisitions, organizational restructurings, financial distress, or startup. Whereas change management typically focuses on creating change in an organization, transition management strives to optimally control and manage that is inevitably occurring.

Transitions are typically fraught with great risk but also ripe with opportunity. For example, although the majority of executives will acknowledge, and even expound upon, the potential risks inherent in mergers, few actually develop and execute an adequate strategy and detailed plan that ensures attainment of the benefits that originally justified the merger. This is not because of lack of intent, commitment, or skill of the senior executive, but rather due to his/her over-dependence and over-confidence in the management team. The simple fact is that the vast majority of management teams are not experienced in managing transitions and often due not place transition management at the top of their priority list - - and if they are experienced, the approach among managers is likely different. There is also the likelihood that the management team is not immune to the insecurity, uncertainty, political infighting, and cultural/process upheavals - - and can not be expected to carry out obligations in the ideal manner expected by the CEO.

Without a customized and comprehensive Transition Plan, cultures can be destroyed, morale crushed, process efficiencies lost, and your best people recruited by competitors. On the other hand, a comprehensive transition plan can not only minimize the risks but also take advantage of the *windows-of-opportunity* that often open during a transition - - during which time employees not only expect change, but are eager for it.

SCENARIO PRESENTATION

Background

Link was contacted by a major Fortune 500 company (Company A) to assist in evaluating and possibly executing an acquisition of a much smaller organization (Company B) with considerable human and material assets. Link's assistance in the due diligence effort focused on the structural, organizational, people, and process aspects - - mapping both risks and opportunities in each area. The top-priority question was naturally whether the production costs and other performance criteria could be optimized to the level that would justify the acquisition price. Link's conclusion was that there were considerable inefficiencies at virtually all levels of the organization, and that performance could be improved to achieve a 30% increase in net income.

But beyond this key question there were others relating to the basic market strategy of Company A, how Company B fit the strategy, what alternative strategies may need to be developed and placed "on the shelf", what goals and objectives for Company A were appropriate, and how Company B (and A) needed to change in order to achieve the projected synergies. For example, there were issues relating to the degree of centralization, integration of administrative processes,

pursuit of economies of scale, consolidation of operations, employee compensation equalization, managerial bonuses for transition objectives, and so forth. And Company A faced major communications challenges to educate both organizations about what was occurring - - and why.

Transition Planning

Link reviewed its findings from the due diligence process, factored in the cultures, objectives, and expectations of both organizations, and analyzed the works from the perspectives gained from Link's considerable experience. Link then began to develop its Transition Plan for the client, outlining the specific agendas to be followed in each area, including compensation, incentives, culture, administrative process, training, capital upgrade, maintenance, conduct of operations, and so forth.

To maintain client confidentiality provisions, the following are a small sampling of the type of recommendations Link would incorporate into Transition Plans in comparable situations. It is important to note that an approach that is right for one company may be wrong for another. The unique spectrum of issues and circumstances for each company demand a customized Transition Plan:

Recommendation 1: Autonomy: Company B should be operated as a separate profit center, with commensurate authority and accountability for Company A executives.

Rationale: a) Performance of Company B needed to be closely tracked, and integration into a larger profit center would complicate the tracking.
b) Company A wanted to retain the option to later divest Company B, making it logical to maintain separate accounting and profit tracking.

Recommendation 2: Compensation/benefits: Even though Company B average salaries and benefits were less than Company A, they would not be adjusted for 2 years. Bonuses, however, would be established for achievement of specific objectives. Bonus Accrual Statements would be sent to employees monthly, but paid annually. Employees could at any time, however, buy computers, cell phones, or PDAs through the Company using their accrued bonus at a "50-cents-on-the-dollar-rate". After 2 years, if major objectives were achieved, Company B wages/benefits would be equalized with Company A and bonuses for most employees eliminated.

Rationale: a) Company B current profitability was not sufficient to warrant salary increases, and bonuses based on performance improvement were considered to be a better employee motivator.
b) If desired performance improvements were achieved for 2 years, salary equalization with Company A was affordable.
c) The best company philosophy for the long term appeared to be that, assuming performance improved for 2 years, salaries without bonuses would be the optimum method to achieve "felt-fair-pay".
d) Even though overall Company B benefit costs could be reduced through integration with those of Company B, it was decided that employees would be more highly motivated by the prospect for better benefits in 2 years if objectives were achieved. This strategy also would make a subsequent of divestiture of Company B less costly and easier for all concerned.

Recommendation 3: Layoffs: No layoffs for 2 years, other than "for cause". Between the 2nd and 3rd years, any laid-off employees would be given 3 months notice - - with the understanding that they maintained their productivity and did not actively promote negative interactions with other employees.

Rationale: a) Although many Company B managers could argue that layoffs were the best method to improve profitability over the short term, it was decided that

overall insecurities among the workforce and goodwill among employees could best be optimized by a moratorium on layoffs.
b) Employees were notified of this promise during the due diligence stage in order to reduce uncertainties and insecurity, as well as improve cooperation from Company B employees.
c) The 3 month notification for layoffs is contrary to conventional wisdom, but was deemed to signal a genuine trust of employees and set a tone of fairness and loyalty from "corporate" that would hopefully engender reciprocal reactions from employees.

Recommendation 4: Workforce Communications: Initiate 1) a website for employees and their families to specifically communicate procedures for benefit information, management, and sign-up; 2) establish a phone line dedicated to receiving comments and questions from families of employees (if an answering machine is used, commit to 24-hour response; 3) a contract with a comprehensive HR information management company that allows for detail tracking and interactive management of employee criteria (by both manager and subordinate) such as salary, goal-setting and tracking, performance appraisal, training, and so forth; 4) weekly newsletters for the first 3 months on the status of the acquisition, reducing to monthly for the subsequent 18 months; 5) weekly manager/subordinate meetings to discuss the acquisition, progress toward goals, and feedback from employees; and 6) similar "all hands" meetings with the President whether in person, by video-conference, or tele-conference (monthly for the first 6 months, and quarterly thereafter). An important caveat to these communication strategies is that the messages must be well-designed, clearly-communicated, and consistent. For example, in one instance the client slipped into the bad habit of having the HR department draft the President's monthly newsletter. Although this may work if there is a high-level HR Director, there is a risk that the organization will miss the valuable insights that come only from the President that could otherwise bond and energize the organization.

Rationale: a) Communication is key to success after an acquisition of merger, and it is difficult (although possible) to over-communicate. The rule of thumb ought to be to communicate until employees begin to complain about too much information.
b) The families of employees are often at least as affected and concerned about security, pay, and benefits as the employee. Reaching out to and Employees were notified of this promise during the due diligence stage in order to reduce uncertainties and insecurity, as well as improve cooperation from Company B employees.
c) The 3 month notification for layoffs is contrary to conventional wisdom, but was deemed to signal a genuine trust of employees and set a tone of fairness and loyalty from "corporate" that would hopefully engender reciprocal reactions from employees.

Recommendation 5: Transition Team: Form a Transition Team utilizing a few senior managers who have experience in mergers or acquisitions, supplemented by a consultant who can provide unbiased and independent advice and who is outside the political and social infrastructure of the company. The Team must be held accountable by the senior executive for the successful implementation of the Transition Plan. The Team must have clear objectives and authorities, as well as the time ensure the Transition efforts do not end up as a low priority.

Rationale: a) Managers are often over-tasked in their roles during the normal course of events. During a merger/acquisition their work load inherently increases

due to added complexity and increased demands and inefficiencies of insecure employees. Even if they have time to pursue additional responsibilities under a Transition Plan, they may relegate it to a lower priority. Therefore, a Transition Team is almost always necessary to ensure Transition objectives are never ignored.

b) A Transition Team of adequate size, with obligations and authorities that cross all intra-company borders, can ensure the intent of the senior executive is consistently endorsed and applied throughout the organization.

c) A highly-visible Transition Team also communicates to all managers and employees that the senior executive is fully committed to the success of the merger or acquisition.

Recommendation 6: Process Review: Even if a complete process review was conducted during due diligence prior to an acquisition, it is likely appropriate to repeat portions or all of the assessment. The focus should be on revising processes to support post-acquisition objectives, incorporate new functionality, comply with new requirements, and improve efficiencies.

Rationale: a) A window-of-opportunity usually opens after a merger or acquisition where managers and employees not only expect change but are eager for it. Since most organizations seldom take the time to ensure all policies and procedures are efficient, consistent, and compliant, this is an ideal opportunity. Also, an acquisition often changes the work-flow, objectives, and expectations of an organization, and the adaptation and improvement of internal processes can be a critical key to success.

Recommendation 7: Management Training: Design and initiate a Management Training program whereby every manager in Company A and B is educated on the management philosophies, accountabilities, and processes.

Rationale: a) A surprisingly small percentage of organizations have a clearly defined management philosophy and set of guidelines, and fewer still have a training and accountability program to ensure managers understand and comply. A merger or acquisition not only creates an ideal opportunity to reinvigorate a management training program, but also raises the risk level to a point where failure to have such a program can become the singular cause of total organizational failure.

b) A senior executive who has first-line managers who are great leaders is truly blessed, and it can be argued that management training for such an organization is a waste of time. Yet such a situation rarely exists, and usually only in smaller organizations, and often only for a limited time. Unfortunately, managerial competence is also subject to the natural law of entropy - - meaning it degrades over time. We define managerial competence as the ability to develop and maintain a team of subordinates capable of producing desired results. For a very small group of managers, this comes naturally. The vast majority of others need to have a clear set of expectations and guidelines to follow.

c) The merger of two organizations usually results in the presence of two distinct cultures, management philosophies, and management processes. The senior executive may choose to maintain two distinct cultures if the organizations are physically separated and functionally discrete, and if each organization derives particular benefit from its own unique culture. Yet it is much less likely that the senior executive can allow two distinct management philosophies to coexist, since it may directly impact his/her ability to delegate authorities and control accountabilities - - without which the senior executive is ineffective.

d) If the following sample questions can not be concisely and consistently answered by every manager and employee, it is very possible that there are inefficiencies and risks that impede the success of the organization:

Who is you manager? Do you have more than one?
Is your manager accountable for your productivity?
For what reasons can your manager terminate your employment? Do you have an appeal process?
Who, other than yourself, is accountable for your long-term career development?
Who must approve your promotion or compensation increase?
Can you have Employees were notified of this promise during the due diligence stage in order to reduce uncertainties and insecurity, as well as improve cooperation from Company B employees.
What is the difference between a committee and a team?
When you work on a committee for an extended period, or if you are temporarily assigned to another department, who is accountable for your performance and who performs your performance appraisal?

<u>Summary</u>
As previously stressed, each company and each situation demands a customized approach. Yet the sampling of recommendations above should provide some insight into Link's overall capabilities and approaches, yet there are numerous issues and details that can simply not be addressed in this document for the sake of brevity .

Even though this document addressed the Transition Scenario, many of the above perspectives and approaches are pertinent to organizations during "steady state" periods. Change Management techniques can be utilized to create positive change in organizations, and we would be glad to discuss how Link may be able to assist you.