The Manager's Role in M&A

Implications for the Insurance Industry

By David Dean and Mary Cianni

While Towers Watson research shows that the U.S. insurance industry is doing well in retaining and engaging employees after a merger or other transaction, better use of managers during the pre-merger and integration process can improve results.

"As markets continue to improve in 2011, the rationale for deals will shift from financial to strategic."

According to *SNL Insurance M&A,* the number of insurance industry mergers and acquisitions around the world, which increased significantly in 2010, is expected to grow further in 2011. Insurance companies depend heavily on their employees, and how these employees respond to the turmoil and uncertainty from when a deal is announced through the integration is key to the transaction's — and the company's — success.

The tools and training a manager draws on to help employees can make all the difference, but our research shows that, at least in the U.S., insurance companies are not providing managers with the support they need.

Towers Watson recently conducted two surveys, the 2010 Global Workforce Study and the 2010 M&A Role of the Manager survey, that shed light on insurance company employees' reactions to an M&A and how U.S. insurance companies have prepared their managers to help employees through integration.

The View From Europe

Although the data on the manager's role in M&A for the insurance industry was gathered from U.S. companies, our extensive consulting experience with European insurance companies indicates that many of the same challenges exist there. We found that senior managers, for example, are equally overburdened with M&A work, and that companies could make better use of mid-level managers and supervisors. What's more, European companies are no more likely to provide adequate tools and training for managers to help ease the transition for employees. However, we do see that serial acquirers are doing more in this area. As is the case in the U.S., human resource departments could provide much-needed help, but they are not yet widely perceived as having capabilities in M&A training or communication.

Retention of top talent is also seen as a potential issue in Europe, but we've found that companies are most successful at retaining top talent when they successfully communicate the rationale for the merger, the strategic direction of the new company and individual employees' performance objectives.

Why Merge

As markets continue to improve in 2011 and the volume of transactions grows, the rationale for deals will shift from financial (taking advantage of the recession to buy undervalued lines of business or entire companies) to strategic. Respondents to the M&A Role of the Manager survey said the primary reasons for their company's merger or acquisition were to consolidate and strengthen their competitive position (63%) and to expand into new geographic markets (57%). Cost management (28%) and expansion into new lines of business were also cited as important deal drivers.

The good news for acquirers is that most respondents said their transaction was mostly or highly successful in meeting its objectives *(Figure 1)*. Although, as the number of transactions proliferates, gaining a competitive edge from an accelerated and more effective transaction will become even more important.

Employee Response to a Merger: Positive, but With Possible Land Mines

M&A activity has a double-edged aspect: It breeds higher engagement among insurance company employees, compared to engagement levels for those who did not participate in a merger or acquisition *(Figure 2).* However, major changes such as M&A activity weaken the connection employees have with their company and can create retention risks.

Employees who have experienced a merger or acquisition generally feel positive (66%) or enthusiastic at work (62%) — about the same percentages as employees who have not experienced a major transaction. Well over half of employees who have experienced an M&A also

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said they are motivated to help the organization succeed, support the organization's values and believe in its goals. However, 47% also report feeling frustrated at work, and 42% believe they will need to leave their employer to advance their career.

While some organizations have expressed less concern about retention during the so-called jobless recovery from the recession, losing key employees happens even in bad times — which is often when they are most needed. Many key employees, buffeted by organizational uncertainty and lack of clarity, may look for other job opportunities. And as the economy improves and the job market opens up, these retention risks are likely to increase.

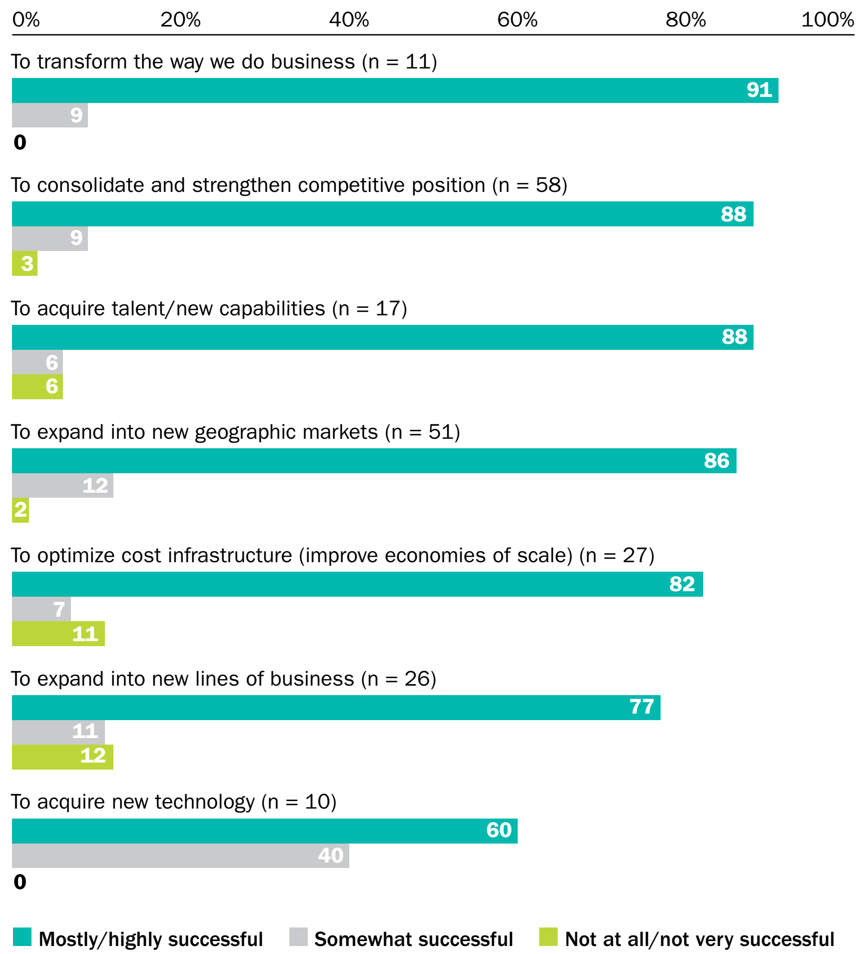
Managers — whether senior leadership, mid-level managers or direct supervisors — are a crucial element in successfully bringing employees through a transaction, keeping levels of engagement high and retaining key talent. But the complexity lies in how that's done and which level of management takes on what roles.

The Critical Role of Managers in an M&A

Organizations going through a transaction rely heavily (perhaps too heavily) on senior leadership to play critical people-oriented roles in deals, including participating on integration teams to help develop new unit or team structures, implementing new HR processes, identifying employees for reduction or reassignment, and even formally communicating with employees. While having senior leaders who visibly and actively champion the deal sets the right tone, their actions alone may not be enough. In fact, middle managers and supervisors may be playing too small a role throughout the integration. Respondents to our survey, who were overwhelmingly middle managers or supervisors, reported that they were minimally involved in the integration process or — for 36% of respondents — played no role at all (*Figure 3*, next page).

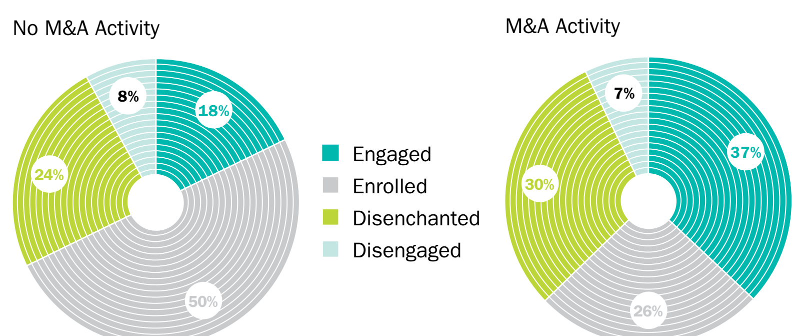
If given a larger role to play, middle managers and supervisors can have a positive effect on employee engagement and retention. Their established relationships with employees provide them with insight into how individual employees are adjusting to the changes under way. They can provide needed

Figure 1. Success of transaction in achieving objectives*



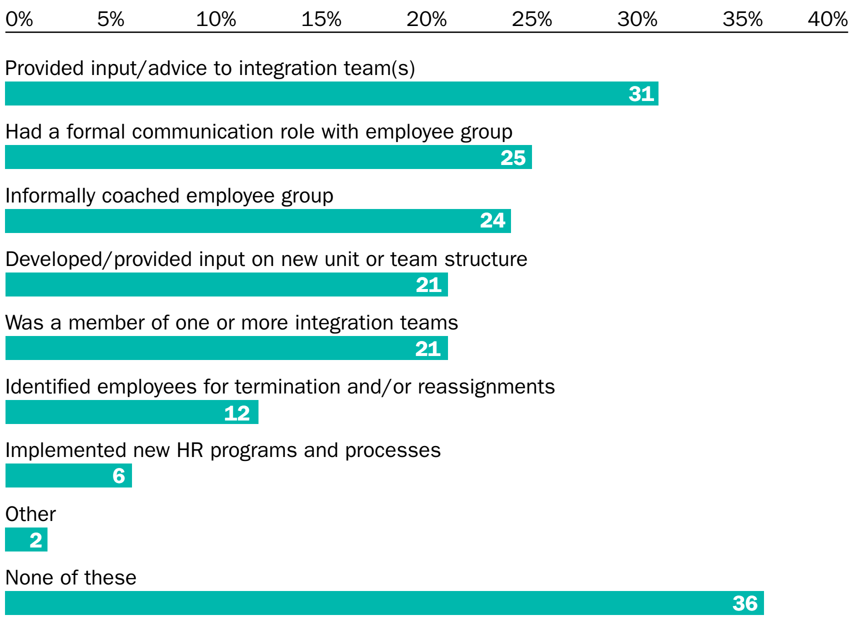
*Percentages exclude "Don't know/too soon to tell."

Figure 2. Engagement levels at acquiring and non-acquiring companies



Source: Towers Watson 2010 Global Workforce Study — insurance sector

Figure 3. Percent of leadership involved in integration activities



support, answer basic questions about how to continue day-to-day operations, and even make senior executives' communications and decisions relevant and understandable at the unit or team level.

But to do this, managers themselves may require additional support and training. Our 2010 Global Workforce Study suggests that employees who have gone through an M&A have mixed views of their immediate manager: 55% of respondents said their manager does what he or she says; 65% indicated that their manager acts honestly and fairly, and 66% said they are informed of changes. But only 49% responded that managers are good at explaining the reasons for change, and just 48% said they helped employees adapt to change.

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What's more, according to our M&A Role of the Manager survey, insurance industry managers aren't being given the right tools and programs to help employees weather the transaction: 53% reported receiving communication toolkits such as FAQs to help with integration, but well under half participated in regular leadership calls or HR training sessions on new programs or benefits, or had access to an integration website. Less than a third said their company held employee surveys or focus groups, or offered change management seminars for managers or employees. Only 20% reported getting training in how to increase employee adaptability and resilience, which is key to smoothing employee transition and helping them adapt quickly to new ways of working, new colleagues and new supervisors.

Each of these tools would be helpful to frontline managers and could enable them to become the go-to resources for employees. And the tools are especially critical for managers who have acquired employees from the other company or who have direct reports working in other offices.

Making the Most of the Three Levels of Management

Companies can best leverage the power of managers during a transaction by clearly defining the roles and actions of the three levels of manager — senior leader, middle manager and supervisor.

Senior leaders tend to be most involved in the early days of the deal, leading or participating on integration teams, developing new unit or team structures, implementing new processes, formally communicating with employees and identifying employees for reduction in force or reassignment. They should also clearly communicate the primary factor that will drive success during the transition. Is it maintaining great client service? Ensuring efficiency of operations? When senior leaders are very clear about what's most important, they pave the way for managers to direct their employees to focus on the strategies and tasks that will support success.

Employee communication also needs to be broken out by manager level. For example, senior management communication might focus on a combination of major announcements such as senior- and board-level appointments, or the new company's business strategy, while mid-level managers' roles might focus on determining and communicating lower-level appointments, and providing information on how the business strategy will play out in their divisions or regions. Supervisors' primary roles would be to provide more tactical information about the transaction, be a conduit for information that cascades from senior and mid-level management, and address individual employees' concerns.

Once plans are under way, middle managers and supervisors take on the responsibility for driving change, focusing on three critical activities: stabilize, secure and sustain.

Stabilize. Clear the obstacles that stand in the way of employees doing their jobs. Conveying what's changing and what's not changing in the early days lessens ambiguity and confusion.

Secure. Help employees feel confident and a part of the new organization by giving them basic directions for dealing with customers, creating and communicating a departmental or functional decision-making chart, watching for and addressing problematic behavior (e.g., fear or anger), and informing those identified as critical or top talent of the opportunities for them in the new organization.

Sustain. Make the deal work over the long run and sustain engagement levels by translating what employees are hearing from senior leaders, communicating the benefits of the deal at the departmental level and maintaining communication. Immediate managers and supervisors are best suited to connect with employees on a personal level, and explain employees' roles in the new organization.

Organizations that can direct the three levels of management into their most appropriate roles can make a significant difference in the smooth progression of a deal: how key talent will be retained, how quickly and efficiently the company decides who it will keep and who it will let go, and how quickly the retained employees refocus and reengage.

Keeping Top Talent: What Works and What Doesn't

Beyond the need to help all employees successfully make the transition into the new organization, companies must also take steps to retain top talent. Insurers use a number of tactics to keep key players, including lateral moves to new roles (used by 54% of respondents), participation in integration task forces (46%), personal outreach by leaders or managers (43%) and relocation (37%). Among the least used tactics are retention bonuses (21%), promotions (18%) and equity grants (10%).

Not surprisingly, respondents said it is the most expensive options (and the least used) that are most effective. Fully 100% of respondents said retention bonuses are highly effective and reported that equity grants are highly effective (50%) or somewhat effective (50%). But other retention tactics were also given good marks, including one that costs nothing: personal outreach by leaders and managers, which was deemed highly effective by 81% of respondents and somewhat effective by 15%. Promotions were called highly effective by 67% and somewhat effective by 33%.

Other ways to retain employees include coaching and change management sessions for managers, effective use of promotions and communication about how the transaction could open up more opportunities. Then middle managers must reinforce critical success factors in employees' day-to-day activities.

An ongoing focus on retaining top talent is critical for success. Our research shows that, in addition to coaching and change management sessions for managers, the following factors influence retention:

- **Senior leadership's effectiveness at leading the organization through integration.** Ongoing communication from senior leaders that the integration is on target and working well will help employees see the transaction's benefits.
- **Early involvement by managers and supervisors in identifying employees for reduction in force or reassignments.** The earlier that managers understand the number of employees they will lose, the better they're able to manage the remaining staff and plan their integration work. They should also be given direction on how to reassure employees who remain.
- **Effective use of promotions to a more senior level.** Promotions are an effective way to retain key employees, and they send a signal to other employees that the transaction could open more opportunities than were available at the legacy organizations.

As the number of transactions in the industry continues to grow and the economy improves, companies that can make the best use of their managers and focus on retaining key talent will find their integration process goes more smoothly and the new organization is up and running quickly.

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