



EXECUTIVE INSIGHTS

Approaches to Building the Leadership Team in a Merger Integration

The merger of two companies can take a variety of forms. Some mergers are relatively minor, such as bolt-on deals or transactions conducted to fill a gap in the buyer's capabilities. But others are transformative and warrant a change in operating model. In cases where a merger is expected to have a material impact on the acquirer's organization, the senior leadership team (SLT) for the NewCo should be determined as early as possible.

This process can be fraught with challenges, as senior leaders of the acquirer are often forced to make decisions based on incomplete and/or imperfect information about the capabilities and characteristics of the target's team. Moreover, the future state of the overall operating model for the NewCo may still be in flux, which can make setting the NewCo's SLT challenging when there are still open questions about how divisions or functions will be structured going forward.

In helping to navigate this critical decision-making process, L.E.K. Consulting typically suggests that our clients choose one of three broad courses of action. While a range of options can ultimately be deployed, these approaches to setting up organizational leadership from Day 1 can help management think through early structural decisions, as there are pros and cons to each approach.

Single change at the top

By far the easiest approach, this option is based on a simple precept: The only change for the target organization is at the top. The legacy CEO of the target has a new reporting structure into the acquirer, and the target company remains intact at all levels below the CEO.

While this approach causes the least amount of change (meaning there is less potential disruption or distraction across the target company), it kicks the can down the road in terms of team integration decisions. This may be appropriate if there are a lot of unknowns about the target's business or if there is significant risk of the target missing plans or milestones due to the distraction of integration. However, it will delay the inevitable combining of the companies and can inadvertently foster an us-versus-them atmosphere.

Combined mega-SLT

Combining both legacy leadership teams into a mega-SLT is also on the simpler side of Day 1 integration approaches. It requires dividing up roles into specific sets of responsibilities — for example, splitting the CIO position into a leader for technology and a leader for network and data security.

This has the benefits of preserving the leadership from both organizations and signaling to the entire company the importance of the target company to the overall success of the NewCo. However, the approach can also lead to an unwieldy leadership structure since direct reports to the CEO will roughly double. Moreover, even though distinct roles might be created, there can be underlying questions about true functional leadership — for example, about who really owns IT decision-making for the company. If not managed carefully, this can translate to delays in key integration decisions and in realization of deal value.

New SLT

The most difficult of the approaches — although arguably the most beneficial in the long run — is to determine a new SLT before the transaction closes so the new organizational structure is in place on Day 1. Determining the top-of-the-house organizational structure early on will help jump-start the integration process, given that many of the legacy teams will begin to work together right from the start. It also helps avoid the confusion and ambiguity that can naturally occur after any transaction.

Determining the new SLT structure pre-close requires thoughtful planning of the NewCo organizational structure — for example, what is the optimal operating model? How should divisions/business units be aligned? How should the commercial function be structured and

resourced? What is the optimal approach for back-office/supporting functions? Once the structure is determined, placing legacy leaders in the new positions can present additional challenges. To do this properly, the acquirer’s management needs to have reasonable access to the target’s leadership team before closing, in order to assess and understand strengths and weaknesses across the potential SLT candidates.

One additional consideration when setting up the SLT in advance is what the mix of legacy leaders signals to the rest of the organization. For instance, if the SLT of the NewCo is made up primarily of leaders from the legacy acquirer, employees of the target may infer that their processes and roles will be subsumed within the acquiring company. They might also conclude that the NewCo SLT will be biased in favor of legacy acquirer personnel, making it harder for them to advance. These perspectives, whether valid or not, can substantially increase the risk of attrition. While it is important to choose the best leaders for each function of the NewCo, it is also important, where possible, to demonstrate a balance by having legacy representatives from both companies in new positions of leadership and influence (see Figure 1).

Figure 1
Day 1 SLT structuring options

| Day 1 approach | Description | Pros | Cons |
|---|---|---|---|
|  One change | Legacy target business stays consistent below the CEO | <ul style="list-style-type: none"> ✓ Simple Day 1 – no impact for vast majority of target employees ✓ Allows more time to evaluate leaders from both sides | <ul style="list-style-type: none"> ✗ Delays the inevitable integration choices ✗ Impedes progress toward integrating teams and cultures |
|  Combined mega-SLT | All/most legacy target senior leaders become part of a new SLT, with most responsibilities divided among the new team members | <ul style="list-style-type: none"> ✓ Keeps the best of both companies ✓ Allows more time to evaluate leaders from both sides | <ul style="list-style-type: none"> ✗ Can cause confusion about who is really in charge of a given function ✗ Adds potential for infighting within new SLT ✗ Is taxing for CEO/senior execs to manage large number of direct reports ✗ Is a more expensive structure to maintain |
|  New SLT | Revised SLT for NewCo set at or right after close | <ul style="list-style-type: none"> ✓ Speeds integration of the two companies and cultures ✓ Enables new SLT members to begin shaping their individual functions immediately | <ul style="list-style-type: none"> ✗ Risks overlooking key contributors in the new structure ✗ Creates flight risk for top leaders/talent (some will miss a promotion or even get a demotion) |

Note: SLT=senior leadership team
Source: L.E.K. research and analysis

There can be some slight variations across all these approaches, including considering interim leaders for some positions or specifically noting that the new structure is temporary. The following are some additional best practices to keep in mind as you think about leadership structure for the NewCo:

- Be as clear and decisive as possible at the outset about the future leadership structure.
 - Limits confusion, which is a major contributor to attrition and flight risk for important personnel
 - Conveys acquisition intention to the lower-level employees in both organizations — the more they see their former leaders in positions of power and influence in the NewCo, the more confident they will be that the best of their legacy company will be a part of the new organization
- Allow the new SLT to form its functional organizational structure and team.
 - Gives leaders the ability to shape their function/business unit/organization as they see fit
 - Increases leaders' buy-in to the NewCo structure
- Establish a clear process for placements or incumbents if force reductions are planned. Work closely with the HR department to set up a process that is fair and equitable and that adheres to legal requirements in all jurisdictions.
- Encourage new leadership to meet with their teams quickly (especially when they come from the other organization).
 - Nurtures early connections
 - Streamlines coordination during integration
 - Mitigates attrition risk and also helps with early identification of areas of flight risk or dissatisfaction
 - Provides valuable insight for any decisions on force reduction, and conveys the message that full consideration has been given to all candidates
- Avoid letting uncertainty in one area delay decisions in other areas. For example, while choosing between two legacy executives in a certain area may warrant further review, there is still significant benefit to selecting a clear future leader in other areas.
- Limit the number of changes as much as possible to reduce potential distractions that can occur when team members are waiting for the next round of changes.

Transformative mergers depend on strong leadership. That makes selecting the SLT one of the most important decisions for the newly combined organization. Determining who from each organization belongs on the new SLT can be challenging, and selecting the right approach for your situation is a critical first step in driving successful integration.

For more information, please [contact us](#).

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