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## What are Some Industry Best Practices, Potential Risks, and Benchmark Data to Help Support Change Management During Large Mergers and Acquisitions (M&As) Within the Pharmaceutical Industry?

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# What are Some Industry Best Practices, Potential Risks, and Benchmark Data to Help Support Change Management During Large Mergers and Acquisitions (M&As) Within the Pharmaceutical Industry?

## Abstract

[Excerpt] M&A activities are deeply embedded into the culture of the pharmaceutical industry as a whole. Based upon a survey of pharmaceutical executives, 50% anticipate their M&A activity will drive between a quarter and half of projected growth in the next two years. Such deals within the pharmaceutical industry help firms find potential synergies, increase cooperation in areas of operational capabilities as well as transfer of functional and managerial capabilities between merging firms.

However, when it comes to post merger integration efforts, companies may overlook various people, process and technological factors that can hamper M&As efforts and worse yet, cripple such a transaction from achieving desired results. A survey done by Deloitte found that respondents believed that effective integration efforts was one of the important factors for a successful M&A transaction, with 23% respondents reporting it. It is critical for companies considering an M&A or in the process of such a transition to consider the major pitfalls that may occur post-merger and prepare mitigation strategies in order to support firm-wide initiatives around integration.

## Keywords

Human Resources, change management, mergers and acquisitions, M&A, pharmaceutical, best practices, HR, data, change agent, mergers, acquisitions

## Comments

### Suggested Citation

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## Executive Summary

### Final Question

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What are some industry best practices, potential risks, and benchmark data to help support change management during large mergers and acquisitions (M&As) within the pharmaceutical industry?

### Introduction

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M&A activities are deeply embedded into the culture of the pharmaceutical industry as a whole<sup>1</sup>. Based upon a survey of pharmaceutical executives, 50% anticipate their M&A activity will drive between a quarter and half of projected growth in the next two years<sup>2</sup>. Such deals within the pharmaceutical industry help firms find potential synergies, increase cooperation in areas of operational capabilities as well as transfer of functional and managerial capabilities between merging firms<sup>3</sup>. However, when it comes to post merger integration efforts, companies may overlook various people, process and technological factors that can hamper M&As efforts and worse yet, cripple such a transaction from achieving desired results. A survey done by Deloitte found that respondents believed that effective integration efforts was one of the important factors for a successful M&A transaction, with 23% respondents reporting it (See Appendix 1)<sup>4</sup>. It is critical for companies considering an M&A or in the process of such a transition to consider the major pitfalls that may occur post-merger and prepare mitigation strategies in order to support firm-wide initiatives around integration.

### Industry Best Practices

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Mergers in the pharmaceutical industry face unique challenges due to faster-paced innovation, increased use of technology in the workplace and employees with highly specific knowledge and skill sets<sup>5</sup>. The most effective strategies for navigating this process successfully include:

- ***Have HR function as a change agent***<sup>6</sup> – Post-merger tensions arise due to cultural differences, or anxieties around merger outcomes such as job loss. Even the most well-laid merger plans are susceptible to increased difficulty. HR must remain dynamic in continued employee responses to the merger. Resistance to certain post-merger integrations, such as a new pay grade system, should be quickly identified and addressed through interventive measures<sup>7</sup>, such as goal setting sessions, coaching, and clear explanations of advantages of the new post-merger systems, while remaining sympathetic to employee concerns and ideas. In many mergers, failure to communicate appropriately and effectively to employees only heightened cultural differences and tensions, and the need for effective and clear communication is emphasized throughout the entire merger and post-merger process.
- ***Practice proactive communication*** – Firms should not only provide information to employees, but actively involve employees<sup>8</sup> in the merger and post-merger process through ideation, voicing of concerns, and active feedback to increase employee's sense of voice and positive identity with the company during changes which might otherwise leave employees feeling powerless.
- ***Integrate first non-R&D Functions*** – Analysis of several pharmaceutical and bio-tech mergers, such as Merck-Lexigen and Pharmacia-Sugen, reveal that successful mergers should focus on rapidly integrating non-R&D focused departments of the business, while allowing higher degrees of autonomy for R&D-focused groups' specifically<sup>9</sup>. Doing so allows core corporate functions such as HR, finance, accounting, etc., to standardize processes, workflows, and hierarchies to prevent in-out functional dynamics through smooth logistical transition while facilitating a unified overall company culture. Simultaneously, allowing R&D-related groups higher autonomy reflects the high

value the company places on their specialized knowledge and skills, and allows smaller employee groups which revolve around specific projects, technologies, or research goals to maintain a sense of group cohesion and identity in the midst of broader structural changes<sup>10</sup>.

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### Potential Risks & Mitigations

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A lack of due diligence and improper planning in post-merger integrations can have severe financial and reputational ramifications in how companies can successfully extrapolate synergies between firms. Two major implications include:

- **Loss of quality talent and institutional knowledge** – M&A announcements can cause a frenzy of activity within the acquiring and acquired firm<sup>11</sup>. Employees often run for the door during a transaction to avoid potential layoffs following the deal<sup>12</sup>. In a study done by a financial firm to determine why they had increased turnover than usual, they found that their aggressive M&A strategy had increased employees' perception of employment risk<sup>13</sup>.
  - **Mitigation Steps:** 1) focus on the people first by sympathizing with acquired employees as a means of helping to smooth their transition 2) have members of the Learning & Development team engage with new employees during orientation and onboarding as means to make a good first impression<sup>14</sup> and 3) bring together parties who will need to align their efforts, goals, processes, and timelines. Make certain that people who are capable of breaking ties are tapped and that agreements are clearly understood before allowing the parties to move forward<sup>15</sup>.
  
- **Impact on the psychological contract** – A study of senior managers within a South African pharmaceutical company found seven key themes in how organizational changes, through their M&As, impacted the psychological contract between employees and employers. These include lack of communication, an absence of planning, lack of employee engagement, less than optimal human resources involvement, lack of preparation of the organizational culture and poor change management processes<sup>16</sup>.
  - **Mitigation Steps:** 1) have managers engage in continuous dialogue with employees in order to inform them about the organizational goals and plans 2) have company leaders provide clear guidance on employee roles within the new organization, as well as growth plans that assist them in adjusting to ensuing changes and 3) conduct a culture audit, during the pre-integration stage, to determine what kinds of norms are important to the functioning of both organizations<sup>17</sup>.

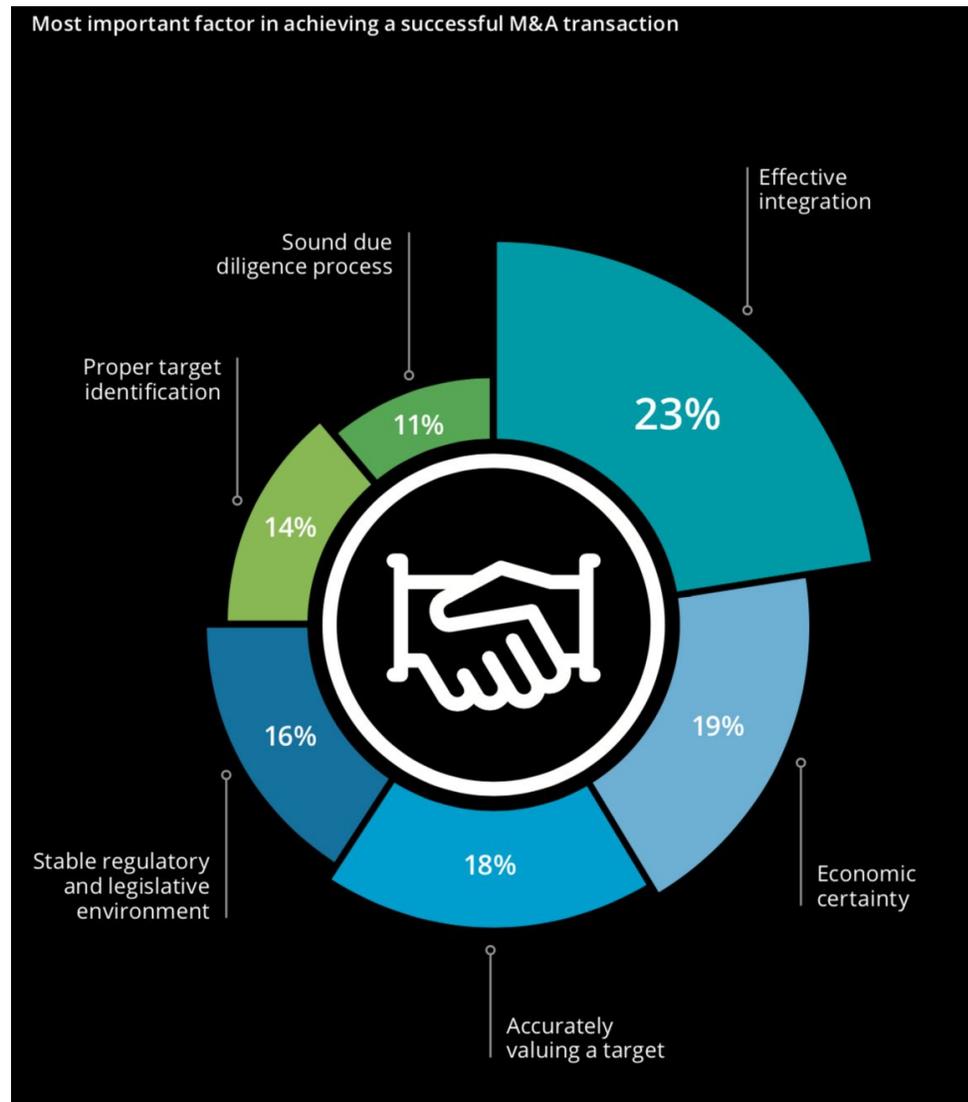
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### Conclusion

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Large M&A integrations are notably difficult, and the unique characteristics of the pharmaceutical industry make such an undertaking even more so. A successful pharmaceutical M&A requires a dynamic, flexible, and feedback-oriented HR strategy which emphasizes clarity and responsiveness. These check-ins must occur before the closing of the deal to prepare employees, immediately after the deal has been cleared to signal a new partnership and direction of the company and through varied intervals during the integration phase. Synergy does not occur overnight, but it is a process that takes months and years depending on the complexity of the M&A. Key risks of increased employee turnover and instability, lower employee productivity and engagement, and ill-defined roles and identities within the newly merged organization require mitigation. Industry best practices emphasize clear continuous communication and dialogue across levels, engagement of employees in merger and post-merger decisions and direction planning, flexibility and guidance as employees familiarize themselves with new roles and responsibilities, alignment of cross-company groups, and facilitation of overall company cohesion while preserving smaller group identities.

## Appendix 1<sup>4</sup>:



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