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Report to Congressional Subcommittees

July 2003

RESULTS-ORIENTED CULTURES

Implementation Steps to Assist Mergers and Organizational Transformations

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Highlights

Highlights of GAO-03-669, a report to congressional requesters

July 2003

RESULTS-ORIENTED CULTURES

Implementation Steps to Assist Mergers and Organizational Transformations

Why GAO Did This Study

The Comptroller General convened a forum in September 2002 to identify useful practices and lessons learned from major private and public sector mergers, acquisitions, and organizational transformations. This was done to help federal agencies implement successful transformations of their cultures, as well as the new Department of Homeland Security merge its various originating components into a unified department. There was general agreement on a number of key practices found at the center of successful mergers, acquisitions, and transformations. In this report, we identify the specific implementation steps for the key practices raised at the forum with illustrative private and public sector examples.

To identify these implementation steps and examples, we relied primarily on interviews with selected forum participants and other experts about their experiences implementing mergers, acquisitions, and transformations and also conducted a literature review.

www.gao.gov/cgi-bin/getrpt?GAO-03-669.

To view the full product, including the scope and methodology, click on the link above. For more information, contact J. Christopher Mihm, (202) 512-6806 or mihmj@gao.gov.

What GAO Found

At the center of any serious change management initiative are the people. Thus, the key to a successful merger and transformation is to recognize the "people" element and implement strategies to help individuals maximize their full potential in the new organization, while simultaneously managing the risk of reduced productivity and effectiveness that often occurs as a result of the changes. Building on the lessons learned from the experiences of large private and public sector organizations, these key practices and implementation steps can help agencies transform their cultures so that they can be more results oriented, customer focused, and collaborative in nature.

Key Practices and Implementation Steps for Mergers and Organizational Transformations

Practice	Implementation Step
Ensure top leadership drives the transformation.	• Define and articulate a succinct and compelling reason for change. • Balance continued delivery of services with merger and transformation activities.
Establish a coherent mission and integrated strategic goals to guide the transformation.	• Adopt leading practices for results-oriented strategic planning and reporting.
Focus on a key set of principles and priorities at the outset of the transformation.	• Embed core values in every aspect of the organization to reinforce the new culture.
Set implementation goals and a timeline to build momentum and show progress from day one.	• Make public implementation goals and timeline. • Seek and monitor employee attitudes and take appropriate follow-up actions. • Identify cultural features of merging organizations to increase understanding of former work environments. • Attract and retain key talent. • Establish an organizationwide knowledge and skills inventory to exchange knowledge among merging organizations.
Dedicate an implementation team to manage the transformation process.	• Establish networks to support implementation team. • Select high-performing team members.
Use the performance management system to define responsibility and assure accountability for change.	• Adopt leading practices to implement effective performance management systems with adequate safeguards.
Establish a communication strategy to create shared expectations and report related progress.	• Communicate early and often to build trust. • Ensure consistency of message. • Encourage two-way communication. • Provide information to meet specific needs of employees.
Involve employees to obtain their ideas and gain their ownership for the transformation.	• Use employee teams. • Involve employees in planning and sharing performance information. • Incorporate employee feedback into new policies and procedures. • Delegate authority to appropriate organizational levels.
Build a world-class organization.	• Adopt leading practices to build a world-class organization.

Source: GAO

Contents

Abbreviations

DHS	Department of Homeland Security
DOD	Department of Defense
FAA	Federal Aviation Administration
FBI	Federal Bureau of Investigation
GPRA	Government Performance and Results Act
IRS	Internal Revenue Service
NASA	National Aeronautics and Space Administration
TSA	Transportation Security Administration
VBA	Veterans Benefits Administration

Comptroller General
of the United States

United States General Accounting Office
Washington, D.C. 20548

July 2, 2003

The Honorable George V. Voinovich
Chairman
Subcommittee on Oversight of Government
Management, the Federal Workforce, and the
District of Columbia
Committee on Governmental Affairs
United States Senate

The Honorable Jo Ann Davis
Chairwoman
Subcommittee on Civil Service and Agency Organization
Committee on Government Reform
House of Representatives

Implementing large-scale change management initiatives, such as mergers and organizational transformations, are not simple endeavors and require the concentrated efforts of both leadership and employees to realize intended synergies and to accomplish new organizational goals. At the center of any serious change management initiative are the people—people define the organization's culture, drive its performance, and embody its knowledge base. Experience shows that failure to adequately address—and often even consider—a wide variety of people and cultural issues is at the heart of unsuccessful mergers and transformations. Recognizing the "people" element in these initiatives and implementing strategies to help individuals maximize their full potential in the new organization, while simultaneously managing the risk of reduced productivity and effectiveness that often occurs as a result of the changes, is the key to a successful merger and transformation. Thus, mergers and transformations that incorporate strategic human capital management approaches will help to sustain agency efforts and improve the efficiency, effectiveness, and accountability of the federal government.

GAO convened a forum on September 24, 2002, to identify and discuss useful practices and lessons learned from major private and public sector organizational mergers, acquisitions, and transformations. This was done to help federal agencies implement successful transformations of their cultures, as well as the new Department of Homeland Security (DHS) merge its various originating components into a unified department.

The invited participants were a cross section of leaders who have had experience managing large-scale organizational mergers, acquisitions, and transformations, as well as academics and others who have studied these efforts. The forum neither sought nor achieved consensus on all of the issues identified through the discussion. Because no two merger, acquisition, or transformation efforts are exactly alike, the "best" approach for any given effort depends upon a variety of factors specific to each context. Nevertheless, there was general agreement on a number of key practices that have consistently been found at the center of successful mergers, acquisitions, and transformations. We reported the key practices participants identified that can serve as a basis for subsequent consideration as federal agencies seek to transform their cultures in response to governance challenges.[1] These key practices are to:

1. **Ensure top leadership drives the transformation.** Leadership must set the direction, pace, and tone and provide a clear, consistent rationale that brings everyone together behind a single mission.

2. **Establish a coherent mission and integrated strategic goals to guide the transformation.** Together, these define the culture and serve as a vehicle for employees to unite and rally around.

3. **Focus on a key set of principles and priorities at the outset of the transformation.** A clear set of principles and priorities serves as a framework to help the organization create a new culture and drive employee behaviors.

4. **Set implementation goals and a timeline to build momentum and show progress from day one.** Goals and a timeline are essential because the transformation could take years to complete.

5. **Dedicate an implementation team to manage the transformation process.** A strong and stable team is important to ensure that the transformation receives the needed attention to be sustained and successful.

[1]U.S. General Accounting Office, *Highlights of a GAO Forum: Mergers and Transformation: Lessons Learned for a Department of Homeland Security and Other Federal Agencies*, GAO-03-293SP (Washington, D.C.: Nov. 14, 2002).

6. Use the performance management system to define responsibility and assure accountability for change. A "line of sight" shows how team, unit, and individual performance can contribute to overall organizational results.

7. Establish a communication strategy to create shared expectations and report related progress. The strategy must reach out to employees, customers, and stakeholders and engage them in a two-way exchange.

8. Involve employees to obtain their ideas and gain their ownership for the transformation. Employee involvement strengthens the process and allows them to share their experiences and shape policies.

9. Build a world-class organization. Building on a vision of improved performance, the organization adopts the most efficient, effective, and economical personnel, system, and process changes and continually seeks to implement best practices.

At your request, this report identifies the specific implementation steps for these key practices raised at the forum with illustrative private and public sector examples that agencies can take as they transform their cultures to be more results oriented, customer focused, and collaborative in nature. These implementation steps and examples are described in appendix I. To identify these steps and examples, we interviewed selected forum participants about their experiences managing mergers, acquisitions, and transformations and reviewed literature on the subject drawn primarily from private sector mergers and acquisitions change management experiences to gain a better understanding of the issues that most frequently occur during such large-scale change initiatives. We also used our guidance and reports on strategic human capital management and results-oriented management. Our scope and methodology is described in more detail in appendix II.

We have observed in our recent *Performance and Accountability Series* that there is no more important management reform than for agencies to transform their cultures to respond to the transition that is taking place in the role of government in the 21st century.[2] We highlighted the following agencies as among those that have transformations under way:

- Establishing the new DHS is an enormous undertaking that will take time to achieve in an effective and efficient manner. DHS must effectively combine 22 agencies with an estimated 170,000 employees specializing in various disciplines, including law enforcement, border security, biological research, computer security, and disaster mitigation, and also oversee a number of non-homeland security activities. The new department will need to build a successful transformation that instills the organization with important management principles; rapidly implements a phased-in transition plan; leverages the new department and other agencies in executing the national homeland security strategy; and builds collaborative partnerships with federal, state, local, and private sector organizations.

- The Department of Defense (DOD) transformation involves a strategic imperative needed to meet the security challenges of the new century. DOD has emphasized force transformations as necessary to effectively anticipate, counter, and eliminate the emergence of unconventional threats overseas and at home. DOD's transformation will require cultural change and business process reengineering that will take years to accomplish. In addition, DOD is seeking congressional approval to undertake significant changes in its civilian personnel policies.[3]

- The National Aeronautics and Space Administration (NASA) has also begun a major transformation effort. Although NASA is in the very early stages of its transformation, the challenge ahead for NASA will be to maintain the momentum to transform, to effectively use existing and new authorities to strategically manage its people, and to quickly implement the tools needed to strengthen management and oversight.

[2]U.S. General Accounting Office, *Major Management Challenges and Program Risks: A Governmentwide Perspective*, GAO-03-95 (Washington, D.C.: January 2003).

[3]See most recently, U.S. General Accounting Office, *Human Capital: Building on DOD's Reform Effort to Foster Governmentwide Improvements*, GAO-03-851T (Washington, D.C.: June 4, 2003).

- The Federal Bureau of Investigation (FBI) has begun its transformation by organizing its operations to strengthen its management structure and enhance accountability. FBI's ongoing reorganization includes shifting some resources from long-standing areas of focus, such as drugs, to counterterrorism and intelligence; building analytical capability; and recruiting to address selected skill gaps.

- The Federal Aviation Administration (FAA) faces the need for transformation to implement new ways of ensuring transportation security and improving safety, mobility, and economic growth. For example, FAA faces an impending wave of air traffic controller retirements. While FAA has made progress in addressing its problems, more remains to be done.

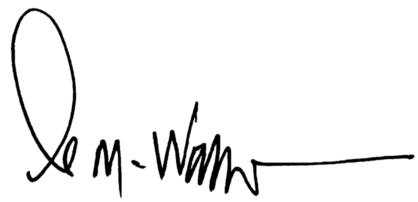
- The U.S. Postal Service's long-term outlook continues to be high-risk and the Service faces challenges in managing its finances, human capital, and infrastructure. The Service has developed a transformation plan, which it can use to make progress on specific actions under its existing authority.

- The Internal Revenue Service (IRS) has a multifaceted effort under way to transform its operations. IRS has made important progress, but its transformation continues to be a work in progress, and IRS is now halfway through the 10 years it estimated would be needed to complete its modernization.

Although transformation efforts are under way, more remains to be done. Building on lessons learned by large private and public sector organizations, the key practices and implementation steps to assist mergers and organizational transformations discussed in this report can be modified to fit the circumstances and conditions that are relevant to each agency. We at GAO are using these key practices and implementation steps to guide our own organizational transformation. Collectively, these key practices and implementation steps can help agencies transform their cultures so that the federal government has the capacity to deliver its promises, meet current and emerging needs, maximize its performance, and ensure accountability.

As agreed with your office, unless you announce its contents earlier, we plan no further distribution of this report until 30 days after its issuance date. At that time, we will provide copies of the report to the Director of the Office of Personnel Management and the Director of the Office of Management and Budget. Copies will be made available to others upon request. This report will also be available at no charge on GAO's Web site at http://www.gao.gov.

For additional information on our work on federal agency transformation efforts and strategic human capital management, please contact me or J. Christopher Mihm, Director, Strategic Issues, at mihmj@gao.gov.   Carole Cimitile, Fig Gungor, and Lisa Shames were key contributors to this report.



David M. Walker
Comptroller General
of the United States

Mergers and Transformations: Key Practices and Implementation Steps for Federal Agencies

The Comptroller General of the United States convened a forum on September 24, 2002, to identify and discuss useful practices and lessons learned from major private and public sector organizational mergers, acquisitions, and transformations. This was done to help federal agencies implement successful transformations of their cultures, as well as the new Department of Homeland Security (DHS) merge its various originating components into a unified department. We subsequently reported the key practices participants identified that have consistently been found at the center of successful mergers, acquisitions, and transformations and can serve as a basis for subsequent consideration as federal agencies seek to transform their cultures in response to governance challenges.[1] At the request of the Chairman, Subcommittee on Oversight of Government Management, the Federal Workforce, and the District of Columbia, Senate Committee on Governmental Affairs; and the Chairwoman, Subcommittee on Civil Service and Agency Organization, House Committee on Government Reform, this report identifies the specific implementation steps with illustrative private and public sector examples for these key practices raised at the forum. These key practices and implementation steps can be modified to fit the circumstances and conditions that are relevant to each agency as it transforms its culture to be more results oriented, customer focused, and collaborative in nature. These key practices and implementation steps are shown in table 1.

[1] GAO-03-293SP.

Table 1: Key Practices and Implementation Steps for Mergers and Organizational Transformations

Practice	Implementation Step
Ensure top leadership drives the transformation.	• Define and articulate a succinct and compelling reason for change. • Balance continued delivery of services with merger and transformation activities.
Establish a coherent mission and integrated strategic goals to guide the transformation.	• Adopt leading practices for results-oriented strategic planning and reporting.
Focus on a key set of principles and priorities at the outset of the transformation.	• Embed core values in every aspect of the organization to reinforce the new culture.
Set implementation goals and a timeline to build momentum and show progress from day one.	• Make public implementation goals and timeline. • Seek and monitor employee attitudes and take appropriate follow-up actions. • Identify cultural features of merging organizations to increase understanding of former work environments. • Attract and retain key talent. • Establish an organizationwide knowledge and skills inventory to exchange knowledge among merging organizations.
Dedicate an implementation team to manage the transformation process.	• Establish networks to support implementation team. • Select high-performing team members.
Use the performance management system to define responsibility and assure accountability for change.	• Adopt leading practices to implement effective performance management systems with adequate safeguards.
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Involve employees to obtain their ideas and gain their ownership for the transformation.	• Use employee teams. • Involve employees in planning and sharing performance information. • Incorporate employee feedback into new policies and procedures. • Delegate authority to appropriate organizational levels.
Build a world-class organization.	• Adopt leading practices to build a world-class organization.

Source: GAO.

Ensure Top Leadership Drives the Transformation

Because a merger or transformation entails fundamental and often radical change, strong and inspirational leadership is indispensable. Top leadership (in the federal context, the department Secretary, Deputy Secretary, and other high-level political appointees) that is clearly and personally involved in the merger or transformation represents stability and provides an identifiable source for employees to rally around during tumultuous times. Leadership must set the direction, pace, and tone for the transformation. We have reported that the appointment of agency chief operating officers is one mechanism that could help to elevate attention on management issues and transformational change, integrate these various initiatives, and institutionalize accountability for addressing them.[2] Experience shows that successful major change management initiatives in large private and public sector organizations can often take at least 5 to 7 years. This length of time and the frequent turnover of political leadership in the federal government have often made it difficult to obtain the sustained and inspired attention to make needed changes.

At the outset of the merger or transformation, it is important that leaders move quickly to both "make a statement" about the importance of change and demonstrate conviction to making it, as well as deliver early successes. In addition, the experience of major private sector mergers and acquisitions is that productivity and effectiveness actually decline in the period immediately following a merger and acquisition. Thus, top leaders must also balance the continued delivery of services with merger and transformation activities. The following steps provide additional detail on how this practice can be achieved.

Define and articulate a succinct and compelling reason for change. Top leadership must provide a clear, consistent rationale that brings together the originating components behind a single mission to guide the transformation and bridge the differences in leadership and management styles among the originating components. Also, articulating this succinct and compelling reason for change helps employees, customers, and stakeholders understand the expected outcomes of the merger or transformation and engenders not only their cooperation, but also their ownership of these outcomes.

[2] U.S. General Accounting Office, *Highlights of a GAO Roundtable: The Chief Operating Officer Concept: A Potential Strategy To Address Federal Governance Challenges*, GAO-03-192SP (Washington, D.C.: Oct. 4, 2002).

For example, in 1995, in anticipation of the intense and complex process of restructuring of local governments and the merging of several health authorities of the National Health Service, the United Kingdom Audit Commission identified lessons from the private and public sectors' experiences with mergers to help leaders and employees who were to be directly involved in the health authorities' mergers.[3] The Audit Commission found that a critical first step was to define the benefits of the merger and describe how the future will be both different from and better than the past. The Audit Commission emphasized that a clear and compelling picture of what the organization intends to achieve helps build morale and commitment to the new vision. The Audit Commission underscored the need to "be clear about what will constitute success after reorganization…[because] realizing improvements in efficiency, productivity, and performance will be a much more uplifting goal than simply surviving" the mergers. The compelling reasons for change can help leadership reinforce the message of "success rather than survival" to those immediately affected by the merger or transformation.

Balance continued delivery of services with merger and transformation activities. Leadership's primary roles during a merger or transformation are to help the organization remain focused on the continued delivery of services, while simultaneously conducting the activities of the merger or transformation. Leaders need to acknowledge that productivity often decreases as attention is concentrated on critical and immediate integration issues and diverted from longer-term mission issues. This happens for a number of reasons. Employees may be concerned about their place in the new organization or may be unsure about how they are to conduct their day-to-day responsibilities because of confusion over the policies and procedures they are to follow during the time of transition.

For example, to help ensure continued delivery of services, Northrop Grumman leadership addresses employees' concerns or confusion during the early days of a merger or transformation by issuing short-term operating policies or "STOPs" that usually hold from 30 to 120 days. STOPs supercede the legacy organization's (in the federal context, the originating component's) operating policies and thus stabilize operations and provide clear guidance to employees about how to conduct business during a

[3]United Kingdom Audit Commission, *Less Dangerous Liaisons: Early Considerations for Making Mergers Work* (London: HMSO, 1995).

potentially turbulent period. STOPs stipulate the way that the new organization will handle everyday transactions such as contracts, finances, security, facility management, or ethics. Additionally, employees may also have concerns about whether the previous company's commitments will be honored. For example, employees may be concerned about whether their current health benefits will remain in place while the merger or transformation unfolds. STOPs can let employees know that for at least a certain period of time, their benefits and other related commitments will be administered under particular guidelines until final decisions can be made. Northrop Grumman also offers orientation programs to both new and legacy employees to help them learn the new business processes. One such program, called "Navigating Through the Sector," addresses the "how do you do it?" questions of the new organization. As an added benefit, employees are provided with an opportunity to meet the new leaders and managers with whom they will be working.

Establish a Coherent Mission and Integrated Strategic Goals to Guide the Transformation

The mission and strategic goals of a transformed organization must become the focus of the transformation, define the culture, and serve as the vehicle for employees to unite and rally around. The mission and strategic goals must be clear to employees, customers, and stakeholders because they may not see a direct personal connection to the transformation. In successful transformation efforts, developing, communicating, and constantly reinforcing the mission and strategic goals give employees a sense of what the organization intends to accomplish, as well as help employees figure out how their positions fit in with the new organization and what they need to do differently to help the new organization achieve success. The following step provides additional detail on how this practice can be achieved.

Adopt leading practices for results-oriented strategic planning and reporting. The Government Performance and Results Act (GPRA) provides a strategic planning and reporting framework intended to improve federal agencies' performance and hold them accountable for achieving results. Effective implementation of GPRA's results-oriented framework requires agencies to clearly establish performance goals for which they will be held accountable, measure progress towards those goals, determine strategies and resources to effectively accomplish the goals, use performance information to make the programmatic decisions necessary to improve performance, and formally communicate results in performance reports. We have developed a body of work to assist agencies in implementing a strategic planning and reporting framework that agencies involved in a merger or transformation can adopt to help make them results oriented.[4]

For example, in November 2001, the Congress created the Transportation Security Administration (TSA) as a new organization first housed in the Department of Transportation and then merged into the new DHS. TSA is responsible for security in aviation and other modes of transportation. The Congress required TSA to adopt a results-oriented strategic planning and reporting framework and, specifically, to provide an action plan with goals and milestones to outline how acceptable levels of performance for aviation security will be achieved. We reported that TSA has taken the first steps in performance planning and reporting by defining its mission, vision, and values and that this practice would continue to be especially important when TSA moved into DHS.[5] TSA's overall strategic goal was to prevent intentional harm or disruption to the transportation system by terrorists or other persons intending to cause harm, and TSA had defined three performance goals to support this strategic goal. TSA had established an initial set of 32 performance measures that will allow it to demonstrate progress toward meeting performance goals. We recommended that TSA,

[4]See for example U.S. General Accounting Office: *Agency Performance Plans: Examples of Practices That Can Improve Usefulness to Decisionmakers*, GAO/GGD/AIMD-99-69 (Washington, D.C.: Feb. 26, 1999); *Agencies' Annual Performance Plans Under the Results Act: An Assessment Guide to Facilitate Congressional Decisionmaking*, GAO/GGD/AIMD-10.1.18 (Washington, D.C.: February 1998); *Agencies' Strategic Plans Under GPRA: Key Questions to Facilitate Congressional Review*, GAO/GGD-10.1.16 (Washington D.C.: May 1997); and *Executive Guide: Effectively Implementing the Government Performance and Results Act*, GAO/GGD-96-118 (Washington, D.C.: June 1996).

[5]U.S. General Accounting Office, *Transportation Security Administration: Actions and Plans to Build a Results-Oriented Culture*, GAO-03-190 (Washington, D.C.: Jan. 17, 2003).

among other things, establish security performance goals and measures for all modes of transportation as part of a strategic planning process that involves stakeholders. TSA concurred with this recommendation.

Focus on a Key Set of Principles and Priorities at the Outset of the Transformation

In bringing together the originating components, the new organization must have a clear set of principles and priorities that serves as a framework to help the organization create a new culture and drive employee behaviors. Focusing on these principles and priorities helps the organization to maintain its drive towards achieving the goals of the transformation. In particular, principles are the core values of the new organization, and like the mission and strategic goals, can serve as an anchor that remains valid and enduring while organizations, personnel, programs, and processes may change. The following step provides additional detail on how this practice can be achieved.

Embed core values in every aspect of the organization to reinforce the new culture. Core values define the attributes that are intrinsically important to what the new organization does and how it will do it. They represent the institutional beliefs and boundaries that are essential to building a new culture for the organization.

For example, on "Day One" of a merger or acquisition, Northrop Grumman leadership defined the values intrinsic to its new organization and issued "non-negotiables" such as "maintaining respect for employees in all legacy or incoming organizations." These "non-negotiables" can also include ethical boundaries, such as the continued adherence to financial reporting standards. Similarly, immediately following its recent merger with Compaq, Hewlett-Packard implemented the "FAST-START" program to embed key principles in its new organization. FAST-START focused on the new company's core values that emphasized "motivated employees generate good customer service" and was intended to convince employees that they could make the merger successful. Hewlett-Packard piloted the FAST-START program first with senior executives, cascaded it throughout the new company reaching 150,000 employees. According to a Hewlett-Packard vice-president, an additional benefit of FAST-START was the opportunity for employees from the originating components to meet each other face-to-face for the first time and gain a different perspective on the common goals and programs they would be operating.

Set Implementation Goals and a Timeline to Build Momentum and Show Progress from Day One

A merger or transformation is a substantial commitment that could take years before it is completed, and therefore must be carefully and closely managed. As a result, it is essential to establish and track implementation goals and establish a timeline to pinpoint performance shortfalls and gaps and suggest midcourse corrections. By demonstrating progress towards these transformation goals, the organization builds momentum and demonstrates that real progress is being made. Successful mergers and transformation efforts can be much more difficult to achieve in the public sector than in the private sector for a number of reasons, including that public sector efforts must contend with greater transparency. Further, as mentioned previously, research suggests that failure to adequately address—and often even consider—a wide variety of people and cultural issues is at the heart of unsuccessful mergers and transformations. Thus, people and cultural issues must be monitored from day one of a merger and transformation. The following steps provide additional detail on how this practice can be achieved.

Make public implementation goals and timeline. The demand for transparency and accountability is a fact that needs to be accepted in any public sector transformation. A full range of stakeholders and interested parties are concerned not only with what results are to be achieved, but also which processes are to be used to achieve those results. We reported in the GAO Mergers and Transformation Forum that in developing implementation goals and a timeline for a merger or transformation, it is helpful to think in terms of multiple “Day Ones” to determine—and focus attention squarely on—critical phases and the essential activities that need to be completed by and on any given date. By demonstrating progress towards these goals, the organization builds momentum and keeps employees excited about the opportunities change brings and thereby helps to ensure the merger or transformation’s successful completion.

For example, according to a JPMorgan Chase managing director, the chief executive officer (in the federal context, the department’s Secretary) and the merger implementation team publicized and reported progress on specific goals for each phase of the merger to help rally employees and maintain their drive towards reaching full integration. The goals were connected to overall themes and to particular milestones. The chief executive officer reinforced these goals at leadership meetings and employee townhalls, and in Web-based messages and other communications, to help keep employees focused on achieving them. The managing director recommends that mapping out an overall timeline for what goals are realistic to accomplish within a set time frame can minimize employee “merger fatigue.”

In addition, Deloitte & Touche suggests setting quantifiable and measurable goals as well as target dates and deliverables to give the implementation team and employees an objective means to track and report progress. Deloitte & Touche also recommends its clients strengthen accountability for implementation goals by having a manager or executive from different operating units within the organization have responsibility for monitoring the progress of interim organizational performance results for each other and reporting that progress to top leaders.

Seek and monitor employee attitudes and take appropriate follow-up actions. Because people are the drivers of any merger or transformation, it is vital to monitor their attitudes. Especially at the outset of the merger or transformation, obtaining employees’ attitudes through pulse surveys, focus groups, or confidential hotlines can serve as a quick check of how employees are feeling about the large-scale changes that are occurring and the new organization as a whole. While monitoring employee attitudes provides good information, most importantly is for employees to see that top leadership not only listens to their concerns, but also takes action and makes appropriate adjustments to the merger or transformation in a visible way. By not taking appropriate follow-up action, negative attitudes may translate into actions, such as employee departures, among other things, that could have a detrimental effect on the merger or transformation.

For example, Deloitte & Touche suggests asking employees to respond to a pulse survey with 6 to 10 statements, such as “My job is now easier or harder since the merger” and “I hope to be in this organization 2 years from now.” These responses are used as a diagnostic reading of how well the merger is going from the employee perspective. Management then has an opportunity to implement strategies to address the concerns of employees with low morale or who plan to leave the organization. According to a Deloitte & Touche principal, employees experience discernible phases during a merger and transformation. The first 3 months after a merger or acquisition is announced are often marked by the excitement of joining the new organization. Employees are drawn into new activities, such as employee welcome or orientation programs explaining the opportunities employees may have in the new organization. Approximately 3 to 12 months following the announcement of the merger, the excitement ends. Deloitte & Touche calls this next phase the “Second Moment.” This is when employees wait to see how the organization and their positions will change and whether the opportunities mentioned at the outset of the merger will be realized. According to the Deloitte & Touche principal, unless leadership continues to emphasize the importance of employees and their contributions to the new organization, some people will give up their aspirations and instead return to "business as usual" or even make plans to leave the organization.

Identify cultural features of merging organizations to increase understanding of former work environments. Fundamentally, a change of culture is at the heart of a successful merger or transformation. The importance of redefining the organizational culture should not be avoided, but rather must be aggressively addressed at the outset and throughout the transformation process. An organization's culture encompasses the values and behaviors that characterize its work environment, and in particular, how people work with each other, how they are held accountable, how they are rewarded, as well as how communication flows through the organization.[6] Many mergers or transformations fail because the cultures of the originating components are not fully understood or considered. Thus, identifying cultural features of the originating components, prior to, or early on, in the merger and transformation process, can help leadership gain a better understanding of their beliefs and values. Organizationwide surveys, employee focus groups, and individual interviews can assess the culture and identify both similarities and differences in order to provide a better understanding of how work gets done and what values are important to employees.

For example, in a recent Northrop Grumman acquisition, a significant portion of the management team was formerly from the military. Through an assessment process, Northrop Grumman learned that team members were concerned that if they did not have a former military background, their skills would not be valued in the new organization. Once management was made aware of employees' concerns, they let them know that a military background was not necessary to succeed and future opportunities existed. Northrop Grumman relied upon graduate students from a local university to conduct the assessment.

[6]Schmidt, Jeffrey A. ed., *Making Mergers Work: The Strategic Importance of People*, (Alexandria, Va.: Towers, Perrin, Foster and Crosby/Society for Human Resource Management, 2002).

Attract and retain key talent. Success is more likely when the best individuals are selected for each position based on the competencies needed for the new organization. Private sector experience with mergers and acquisitions suggests that over 40 percent of executives in acquired companies leave within the first year and 75 percent within the first 3 years. While some turnover is to be expected and is appropriate, the new organization must "re-recruit" its key talent to limit the loss of needed individuals who leave because they do not see their place in the new organization. When re-recruiting key talent, top leaders should select individuals who demonstrate the competencies to help make the merger or transformation succeed and achieve its goals, and not just the top performers from previous originating components.

For example, Northrop Grumman identifies the key individuals it would like to retain in the new organization within the first 30 days of the effective date of the merger or acquisition, meets one-on-one with each individual to let them know that they have the competencies desired for the new organization, and informs them of the high-potential opportunities that exist for them with the new organization. Once placed in the new organization, management checks in with them frequently and provides them with visible opportunities with the new leadership.

Establish an organizationwide knowledge and skills inventory to exchange knowledge among merging organizations. At the outset of the merger and transformation, new organizations recognize the value in creating an employee knowledge and skills inventory. Valuable information resides in the originating organizational components of mergers and transformations, and when these components are combined, these intellectual assets are extremely powerful and beneficial to employees and stakeholders. Knowledge and skills inventories not only capture the intellectual assets of the new organization, but also signal to employees that their particular expertise is valued by the organization and foster a knowledge-sharing culture.

According to Conference Board research, when people freely share and are rewarded for what they know, they are more likely to feel a stronger connection to the new organization. For example, a recently merged company recommended setting up a knowledge and skills inventory that would be immediately and widely available to those in the new organization who need to find employee expertise on particular topics.[7] The value of the knowledge and skills inventory occurs when people from the merging entities are able to quickly contact those with particular knowledge and expertise to help them accomplish their work. The company also suggested making employees aware that sharing expertise and experience is important to the future success of the organization and is valued in the new organization.

Dedicate an Implementation Team to Manage the Transformation Process

Dedicating a strong and stable implementation or integration team that will be responsible for the transformation's day-to-day management is important to ensuring that it receives the focused, full-time attention needed to be sustained and successful. Specifically, the implementation team is important to ensuring that various change initiatives are sequenced and implemented in a coherent and integrated way. Top leadership must vest the team with the necessary authority and resources to set priorities, make timely decisions, and move quickly to implement top leadership's decisions regarding the transformation. In our Mergers and Transformation Forum, participants observed that the size of the implementation team needs to be scaled to the size of the merger and transformation. The composition of the team is also important because of the visual sign it communicates regarding which components are dominant and subordinate or whether the new organization is a "merger of equals." In addition, the qualifications of implementation team members are also a visible sign that top leadership is serious and committed to the merger and transformation. The following steps provide additional detail on how this practice can be achieved.

Establish networks to support implementation team. Because a transformation process is a massive undertaking, the implementation team must have a "cadre of champions" to ensure that changes are thoroughly implemented and sustained over time. Establishing networks, including a senior executive council, functional teams, or cross-cutting teams can help the implementation team conduct the day-to-day activities of the merger or

[7]Lucenko, Kristina, *Implementing a Post-Merger Integration* (New York: The Conference Board, 1999).

transformation and help ensure that efforts are coordinated and integrated. To be most effective, establishing clearly defined roles and responsibilities within this network assigns accountability for parts of the implementation process, helps reach agreement on work priorities, and builds a code of conduct that will help all teams to work effectively.

For example, a leading management consulting firm advises creating a senior executive council that provides the implementation team access to leadership and reinforces its accountability for successfully implementing the merger and transformation. This council can set policies for the merger or transformation implementation, ensure that decisions are made quickly, resolve conflicts that arise, review and approve implementation plans, and monitor and report progress back to top leaders of the organization. Members of the council might include senior executives representing the legacy organizations. In our Mergers and Transformation Forum, it was observed that in the federal context, such a council could be comprised of political and career executives from within the organization and would be particularly useful to work with top leadership (the department Secretary, Deputy Secretary, and other high-level political appointees) in developing the leadership's direction and communicating its position.

Similarly, Hewlett-Packard establishes networks of both functional and cross-cutting teams to ensure that these priorities are adequately addressed and integrated in the implementation of a merger or transformation. Functional teams are responsible for areas such as human capital, financial management, and information technology. Cross-cutting teams are responsible for areas such as organizational culture, communication, and training and development.

Select high-performing team members. A strong and stable implementation team comprised of top performers that is responsible for the transformation's day-to-day management is not only important to ensuring the focused, full-time attention that the implementation needs to be sustained and successful, but is also a visible signal that the merger or transformation is being undertaken with the utmost seriousness and commitment. Team members are selected for their ability to drive results in a fast-paced and changing environment and their understanding that the ultimate goal is to create a new and more successful organization.

Both Hewlett-Packard and Northrop Grumman executives told us that merger and transformation implementation teams should be composed of people with prior merger or acquisition experience and good program management skills. In addition, a Hewlett-Packard vice-president told us that for their merger with Compaq, most team members selected for the integration team were at the level of director or vice-president and also had the skills and background to replace their superiors if necessary. Hewlett-Packard told us that a selection criterion for integration team members was that their previous individual performance ratings had to fall into the top two ratings categories. After the integration team disbanded, these selected integration team members were assigned permanent positions in the new organization.

In addition to selecting high performers, Northrop Grumman also builds the credibility of the implementation team in the eyes of the employees by selecting team members from each of the originating components and then distributing an organization chart that indicates the component from which each team member originated. Employees can see that some of their former leadership still exists in the new company and can help represent their concerns in the transformation process. However, Northrop Grumman adds that team members are still selected based on their competence for the job and not just because they were leaders from the legacy organization.

Use the Performance Management System to Define Responsibility and Assure Accountability for Change

The new organization's performance management system can be a vital tool for aligning the organization with desired results and creating a "line of sight" showing how team, unit, and individual performance can contribute to overall organizational results. The performance management system can help manage and direct the transformation process. The system serves as the basis for setting expectations for individuals' roles in the transformation process.

To be successful, transformation efforts must have leaders, managers, and employees who have the individual competencies to integrate and create synergy among the multiple organizations involved in the transformation effort. Individual performance and contributions are evaluated on competencies such as change management, cultural sensitivity, teamwork and collaboration, and information sharing. Leaders, managers, and employees who demonstrate these competencies are rewarded for their success in contributing to the achievement of the transformation process. Leading organizations have modern, effective, credible, and, as appropriate, validated performance management systems with adequate safeguards, including reasonable transparency and appropriate accountability mechanisms, in place to support performance-based pay and related personnel decisions. The following step provides additional detail on how this practice can be achieved.

Adopt leading practices to implement effective performance management systems with adequate safeguards. We have identified specific practices that leading public sector organizations both here in the United States and abroad have used in their performance management systems to align their organizations and create a clear linkage—"line of sight"—between individual performance and organizational success.[8] Federal agencies should consider these practices as they develop and implement their performance management systems. The key practices are listed in table 2.

[8]U.S. General Accounting Office, *Results-Oriented Cultures: Creating a Clear Linkage between Individual Performance and Organizational Success*, GAO-03-488 (Washington, D.C.: Mar. 14, 2003).

Table 2: Key Practices for Effective Performance Management

1. **Align individual performance expectations with organizational goals.** An explicit alignment of daily activities with broader results helps individuals see the connection between their daily activities and organizational goals.

2. **Connect performance expectations to cross-cutting goals.** Placing greater emphasis on collaboration, interaction, and teamwork across organizational boundaries helps strengthen accountability for results.

3. **Provide and routinely use performance information to track organizational priorities.** Individuals use performance information to manage during the year, identify performance gaps, and pinpoint improvement opportunities.

4. **Require follow-up actions to address organizational priorities.** By requiring and tracking such follow-up actions on performance gaps, these organizations underscore the importance of holding individuals accountable for making progress on their priorities.

5. **Use competencies to provide a fuller assessment of performance.** Competencies, which define the skills and supporting behaviors that individuals need to effectively contribute to organizational results.

6. **Link pay to individual and organizational performance.** Pay, incentive, and reward systems that link employee knowledge, skills, and contributions to organizational results are based on valid, reliable, and transparent performance management systems with adequate safeguards.

7. **Make meaningful distinctions in performance.** Effective performance management systems strive to provide candid and constructive feedback and the necessary information and documentation to reward top performers and deal with poor performers.

8. **Involve employees and stakeholders to gain ownership of performance management systems.** Early and direct involvement helps employees' and stakeholders' understanding and ownership of the system and belief in its fairness.

9. **Maintain continuity during transitions.** Because cultural transformations take time, performance management systems reinforce accountability for change management and other organizational goals.

Source: GAO.

Establish a Communication Strategy to Create Shared Expectations and Report Related Progress

Creating an effective, on-going communication strategy is essential to implementing a merger or transformation. Communication is most effective when done early, clearly, and often, and is downward, upward, and lateral. The new organization must develop a comprehensive communication strategy that reaches out to employees, customers, and stakeholders and seeks to genuinely engage them in the transformation process. The following steps provide additional detail on how this practice can be achieved.

Communicate early and often to build trust. Organizations implementing mergers or transformations have found that communicating information early and often helps to build an understanding of the purpose of planned changes and builds trust among employees and stakeholders. Especially for employees, frequent and timely communication cultivates a strong relationship with management and helps gain employee ownership for the merger or transformation.

For example, to build trust between management and employees, Deloitte & Touche suggests first notifying employees of issues pertaining to the merger and transformation. In particular, Deloitte & Touche recommends information be "prereleased" to line managers whenever possible throughout the process. Rather than obtaining information from sources outside the organization, this prereleased information offers the courtesy to employees of receiving information first and the opportunity to then ask questions or voice concerns to leadership. Deloitte & Touche also suggests that line managers report the feedback of employees to senior management so they can address any concerns.

Even when information is limited due to legal restrictions or security concerns, Conference Board research advises that organizations continue to communicate with employees to build trust and to diminish any concern or uncertainty that may be generated during these periods. The Conference Board research suggests alternative types of information when specific details may be embargoed due to legal restrictions or security concerns. Such alternative types of information could include status reports of the progress being made on the merger or transformation, the exact time that specific details will be forthcoming, or responses to rumors or news items that have appeared in the press.

Finally, the time spent on delivering messages to employees about the merger or transformation should not be underestimated. One participant at our Mergers and Transformation Forum observed that given its importance, successful communication will require twice the time and effort than was at first planned—no matter how ambitious the original plan was. Similarly, a JPMorgan Chase managing director told us that during their integration process, managers would dedicate 25 percent of their overall work time communicating with employees about the merger. This managing director credits JPMorgan Chase's communication strategy as a major success factor in its recent merger because it was built around getting messages out at all levels of the organization and reinforcing the progress of the merger.

Ensure consistency of message. A message to employees and others affected by a merger or transformation that is consistent in tone and content can alleviate the uncertainties generated during the unsettled times of large-scale change management initiatives. Since employees are typically coming from different originating components during a merger or transformation, sharing a consistent message with employees, customers, and stakeholders helps to reduce the perception that others are getting the "real" story when, in fact, all are receiving the same information.

For example, to ensure a message consistent in tone and content as part of its communication strategy, Hewlett-Packard sent senior executives with scripted talking points to various work sites for face-to-face, interactive meetings with groups of employees to discuss the expected changes that would occur due to the merger. Senior managers from both originating components, Hewlett-Packard and Compaq, would appear jointly at these employee meetings to ensure that employees had a chance to meet the new members of the team and also see that both sides were in agreement with expected changes.

Encourage two-way communication. Communication is not about just "pushing the message out." Rather, it should facilitate a two-way honest exchange with and allow for feedback from employees, customers, and stakeholders. This communication is central to forming the effective internal and external partnerships that are vital to the success of any organization. Creating opportunities for employees to communicate concerns and experiences surrounding a merger or transformation allows employees to feel that their experiences are acknowledged and important to management during the implementation of the merger and transformation. Once this feedback is received, it is important to consider and use this solicited employee feedback to make any appropriate changes to the implementation of the merger or transformation.

We reported that some agencies also make use of two-way communication when implementing human capital flexibility practices.[9] For example, the U.S. Mint collected feedback from employees at a "town hall" meeting at its San Francisco coin-making plant where employees (with assistance from the local union) voted on various options for implementing an alternative work schedule for the facility. Based on that feedback, the U.S. Mint made changes to employee work schedules.

Communication with customers and stakeholders should also be a top priority and is central to forming the partnerships that are needed to develop and implement the organization's strategies. According to a Deloitte & Touche principal, establishing a two-way communication framework with customers and stakeholders can alleviate their concerns about whether they will continue to receive the same levels of service. Under this "One Face, One Voice" communication framework, the organization:

- catalogs every customer and stakeholder relationship to be affected by the merger or transformation,
- designates a contact or team to keep these customers and stakeholders informed about how the merger will affect their particular needs,
- identifies the interests and concerns of each customer or stakeholder,
- provides information addressing those specific interests or concerns, and
- requires the designated contact to listen to customer and stakeholder needs and report these needs to management.

According to Deloitte & Touche, this communication framework gives customers and stakeholders a greater understanding of how the merger or transformation will affect them and provides leadership with an accurate picture of their customer and stakeholder needs, so they can quickly correct any misperceptions and address concerns.

[9]U.S. General Accounting Office, *Human Capital: Effective Use of Flexibilities Can Assist Agencies in Managing Their Workforces*, GAO-03-2 (Washington, D.C.: Dec. 6, 2002).

Provide information to meet specific needs of employees. Communicating with employees must include topics such as the new organization's strategic goals, customer service, and in particular, employee concerns. It is important to help employees understand how the transformation process will affect them and to address the immediate and natural question: "what's in it for me?" Employees will be concerned about whether their jobs might be affected, what their rights and protections might be, or how their responsibilities might change with the new organization. Not only do employees seek different kinds of information, they can receive information through a variety of means.

For example, Deloitte & Touche advises clients to prepare personalized communication folders for various groups of employees, such as senior executives, regarding how the merger, acquisition, or transformation will specifically affect their salary, benefits, job duties, and career path. These folders are distributed to employees and then meetings are held with groups or individuals to answer the particular questions that employees may have. This customized process helps employees to feel that their concerns are specifically addressed.

The Conference Board research also discusses the importance of tailoring information for groups of employees that may have divergent interests. For example, employees with technical skills may be concerned about whether their skills will remain relevant and valued in the new organization; administrative staff may desire details about how they may cope with new systems and work processes; and customer-service representatives may need to know about how to approach relationships with customers.

Employees may prefer to receive customized information from a variety of sources. Varying the means of communication, such as e-mail, face-to-face meetings, large and small group meetings, intranet Web sites, and townhall meetings, can also be an effective strategy to reinforce the message and reach all employees, while providing an opportunity for management to respond to employee concerns. Toll-free hotlines and electronic bulletin boards can be used to provide large numbers of employees a forum to discuss their concerns and issues about the merger or transformation.

For example, during a merger of two consumer products firms, a toll-free hotline was established so employees could relate the rumors they had heard. Every 2 weeks, a list of top 10 rumors with accompanying factual information was posted to help employees compare and contrast the rumors against the facts.[10] This interactive approach allowed the company to simultaneously communicate with large numbers of employees and quickly dispel inaccurate information.

Involve Employees to Obtain Their Ideas and Gain Their Ownership for the Transformation

A successful merger and transformation must involve employees and their representatives from the beginning to gain their ownership for the changes that are occurring in the organization. Employee involvement strengthens the transformation process by including frontline perspectives and experiences. Further, employee involvement helps to create the opportunity to establish new networks and break down existing organizational silos, increase employees' understanding and acceptance of organizational goals and objectives, and gain ownership for new policies and procedures. It was noted at our Mergers and Transformation Forum that while it is important to involve employees in the transformation process, there are cautions. There tends to be a relatively small group of employees in every organization who will resist any meaningful change and will not or cannot buy into the transformation no matter how compelling the case for change may be. This group of employees may try to "wait out" the transformation and think that it will pass without taking hold. Ultimately, these employees either must accept the changes under way or be helped to move elsewhere within the organization or out of it. The following steps provide additional detail on how this practice can be achieved.

Use employee teams. Creating opportunities for employees to interact with each other can help accelerate the merger or transformation process by allowing them to learn more about each other, establish new networks, and break down organizational silos. Adopting a teams-based approach to operations can improve employee morale and job satisfaction by creating an environment characterized by open communication, enhanced flexibility in meeting job demands, and a sense of shared responsibility for accomplishing organization goals and objectives. Using teams comprised of a cross-section of individual members can also assist in integrating

[10]Marks, Mitchell Lee and Mirvis, Philip H., *Joining Forces: Making One Plus One Equal Three in Mergers, Acquisitions, and Alliances* (San Francisco: Jossey-Bass, 1998).

different perspectives, flattening organizational structure, and streamlining operations.

For example, JPMorgan Chase engaged employees in shared task forces comprised of individuals from the originating components to find common solutions to particular issues related to the merger. One such shared task force focused on integrating computer systems. Team members weighed the pros and cons of legacy systems and were able to arrive at a "best-in-class" solution. The act of working together also helped employees to form new bonds around their shared experience and to make it easier to work together on future projects.

Employees may need additional training to work effectively together in teams or to improve work processes. For example, we reported that as part of its major reorganization, IRS' Ogden, Utah Service Center trained its employees in the new ways of conducting business.[11] The training workshops included learning how effective teams function; improving working relationships among peers, managers and employees, and managers and union stewards; enhancing effective communications among employees, union stewards, and managers; increasing discussions about ways to improve work processes and meet customers' needs; and creating a more positive workplace environment.

Involve employees in planning and sharing performance information. Involving employees in planning and sharing performance information can help employees understand what the organization is trying to accomplish and how it is progressing in that direction; facilitate the development of organizational goals and objectives that incorporate insights about operations from a front-line perspective; and increase employees' understanding and acceptance of organizational goals and objectives.

For example, to involve employees and share performance information, the U.S. Fire Administration (formerly within the Federal Emergency Management Agency, and now part of DHS), had teams from units throughout the organization meet on a weekly basis and identified ways to implement over 170 Board of Visitors recommendations for improving the Fire Administration's operations. These teams facilitated communications

[11]U.S. General Accounting Office, *Human Capital: Practices That Empowered and Involved Employees*, GAO-01-1070 (Washington, D.C.: Sept. 14, 2001).

and employee involvement by maintaining a focal point for the organization, working toward consensus, and posting performance data showing progress toward addressing these recommendations.

Incorporate employee feedback into new policies and procedures. Major changes resulting from the merger can include redesigning work processes, changing work rules, developing new job descriptions, establishing new work hours, or making other changes to the immediate work environment that are of particular concern to employees. In leading organizations, management and employee representatives work collaboratively to gain ownership for these changes. After obtaining sufficient input from key players, the organization needs to develop clear, documented, and transparent policies and procedures. Establishing clear and uncomplicated policies and procedures ensures both that they are used fairly and that they are not encumbered with unnecessary administrative burdens.

We have reported on the practices that agencies use to empower and involve employees to help them achieve their goals and improve government operations.[12] For example, because the IRS is exempt from certain Title 5 personnel provisions, Congress mandated IRS to involve employees in order to gain ownership for the new policies. IRS and the National Treasury Employees Union entered into an agreement that was designed to ensure that employees are adequately represented and informed of proposed new policies and have input into the proposals. The agreement also provided for union participation in various forums, such as business process improvement teams and cross-unit committees.

Delegate authority to appropriate organizational levels. In a merger or transformation, employees are more likely to support changes when they have the necessary authority and flexibility—along with commensurate accountability and incentives—to advance the organization's goals and improve performance. Delegating decision making within core processes can further serve to streamline and improve operations. Specifically, delegation to use certain personnel authorities is important for managers and supervisors who know the most about an organization's programs and with that authority, can make those programs work.

[12] GAO-01-1070.

To ensure effective use of human capital flexibilities, agencies need to delegate authority to use these flexibilities to appropriate levels within the agency, and then agency managers and supervisors need to be held accountable—both for achieving results and for treating employees fairly. We reported on the flexibilities that agencies could use effectively to manage their workforce.[13] The Veterans Benefits Administration (VBA) office in Philadelphia delegated authority to immediate supervisors to approve on-the-spot monetary awards for their employees without review by senior managers. VBA supervisors said that under this delegated authority they simply complete a short form and present it to the employee, who can then proceed to the on-site credit union and receive cash, all within 1 hour.

Build a World-class Organization

Successful change efforts start with a vision of radically improved performance and the relentless pursuit of that vision. Participants at our Mergers and Transformation Forum observed that in successful private sector mergers and acquisitions leaders determine at the earliest opportunity the essential systems and processes that will need to be consistent across the organization and those that, at least initially, can differ across the organization. These decisions, the participants stressed, are based not only on what is necessary from the standpoint of operational efficiency and effectiveness, but also on what messages are to be sent to employees and customers. For example, the decision to use an organizationwide convention for e-mail addresses on the first day of operation can send a powerful message about the seriousness of the effort to create a coherent organization and the speed at which that effort will take place.

The participants also noted that leaders of successful mergers and acquisitions seek to implement best practices in the systems and processes wherever they may be found and guard against automatically adopting the approaches used by the largest or acquiring component. The risk is that the new organization may migrate less than fully efficient and effective systems and processes merely because those systems and processes are most often used. Over the longer term, leaders of successful mergers and acquisitions, like successful organizations generally, seek to learn from best practices and create a set of systems and processes that are tailored to the specific needs and circumstances of the new organization. The

[13] GAO-03-2.

following step provides additional detail on how to implement this practice.

Adopt leading practices to build a world-class organization. Selecting systems and processes from among the many choices that may exist after a merger or during a transformation can be a difficult prospect. To meet the goal of establishing a world-class organization, GAO has developed a body of work—best practices reviews—that provides guidance to help public sector organizations become world-class. These best practices reviews identify other public and private sector organizations' processes, practices, and systems that are widely recognized for contributing to performance improvements in areas such as acquisition management, financial management, human capital, or information technology. They provide models for other organizations as they undertake similar management reforms. For our best practice reviews in these areas and others, see http://www.gao.gov/docsearch/featured/bp_reviews.html.

Objective, Scope, and Methodology

On September 24, 2002, GAO convened a forum to identify and discuss useful practices and lessons learned from major private and public sector organizational mergers, acquisitions, and transformations. This was done to help federal agencies implement successful transformations of their cultures, as well as the new Department of Homeland Security (DHS) merge its various originating components into a unified department.

This report builds on the practices identified in that forum.[1] Our objective was to identify specific implementation steps for the key practices raised at the forum and provide illustrative private and public sector examples of these steps. To meet our objective, we relied primarily on interviews with selected forum participants and other experts about their experiences implementing mergers, acquisitions, and transformations. See appendix III, “Acknowledgments,” for a list of interviewees. We asked the interviewees to draw upon their insight and expertise based on their experiences managing mergers, acquisitions, and transformations and reviewed literature on the subject, including literature recommended by forum participants, to gain a better understanding of the issues that most frequently occur during such large-scale change initiatives. See appendix IV, “Selected Bibliography,” for relevant literature. We also used GAO guidance and reports for those practices where GAO had developed a body of work, such as in strategic human capital management and results-oriented management.

Based on these interviews and literature review, we identified and categorized recurring themes under each of the nine practices and developed from these themes a set of specific implementation steps associated with each practice. We selected examples, that, in our best judgment, clearly illustrated and strongly supported each implementation step. We asked the private sector representatives to review the examples for accuracy and currency and incorporated their comments where appropriate. We did not independently verify the effectiveness of these examples and did not use effectiveness as a criterion for selecting the examples. We relied on issued GAO reports for some of our examples.

We provided the full set of practices and implementation steps to other selected public and private sector individuals, who have been involved with

[1]U.S. General Accounting Office, *Mergers and Transformation: Lessons Learned for a Department of Homeland Security and Other Federal Agencies*, GAO-03-293SP (Washington, D.C.: Nov. 14, 2002).

mergers, acquisitions, and transformations for their review and incorporated their comments where appropriate. We did not obtain agency comments on a draft of this report because we did not review any federal agency's on-going merger or transformation effort. We performed our work from December 2002 through April 2003 in accordance with generally accepted government auditing standards.

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