Stakeholder Management

Managing stakeholder relationships in a divestiture to drive deal value

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At a glance

Stakeholder management is a catalyst for many important divestiture activities.

Active stakeholder engagement throughout the deal lifecycle will help companies maximize deal value.

Four critical stakeholder groups to consider:

- Employees
- Customer, Suppliers, and Partners
- Investors, Analysts, and Public
- Regulators, Unions, and Works Councils

Introduction

The announcement of a sale or spin-off can create significant disruption for a company's employees, customers and partners and generate scepticism among investors. The first question asked upon divestiture announcement is: *What does this mean for me?*

All too often, executives focus on minimizing disruption, separating the business, managing transition service agreements, and controlling transaction related costs. They may overlook essential stakeholder management considerations required to ensure deal success.

Insufficient stakeholder management can impact the economics of a transaction, potentially risking reduced productivity and loss of market share and key talent; which in turn, erodes the deal.

Active stakeholder engagement throughout the transaction lifecycle will help employees stay focused, help customers, partners and investors understand the benefits, enable buy-in from Works Councils and other regulatory bodies, and enable companies to maximize deal value.

For example, when a leading technology hardware and equipment company announced its plans to go private, the news was met with investor resistance and uncertainty in the market. The organization had anticipated this reaction and stood ready with a robust stakeholder management plan. The company explained to each stakeholder how the deal would benefit them and what changes they should expect. Communications were targeted and clear. Consequently, the company received shareholder approval to go private, retained its customers, and maintained a stable stock price throughout the deal.

Why stakeholder management matters

Stakeholder management begins with an assessment to define each stakeholder group, identify risks and concerns, and understand the associated impact and influence of each group. It is critical to many other elements of the transaction and effectively navigating deal complexities.

Stakeholder management is foundational for activities such as:

- Articulating the deal background and rationale (e.g., spin-off vs. sale, deal timing)
- Defining key stakeholder groups and how they are impacted by the deal, with particular attention to any "at risk" groups
- Developing a change management plan to address each stakeholder group
- Driving effective leadership alignment and organization transition efforts
- Promoting effective deal negotiations, minimizing dis-synergies / disruptions
- Developing a time efficient plan to communicate with and engage each stakeholder group throughout the deal

Managing stakeholders in a divestiture

At the onset of a deal, a working group should be established to plan for the spin or sale and manage the impact to key stakeholders. Initially, this group may include the CEO or Executive Leadership, Corporate Development, and select members of the Executive Management Team such as HR, Legal, and Investor Relations. As the deal progresses, the working group expands to include Business Unit and Key Functional Leaders as dictated by the deal and planning requirements. Establishing a formal working group will help to establish clarity of objectives, align across members, and execute the deal more effectively.

The working group is also accountable for driving the development and cascading of key messages to stakeholder groups. Plans should be in place for delivering the right messages at the right times to each stakeholder throughout the deal process.

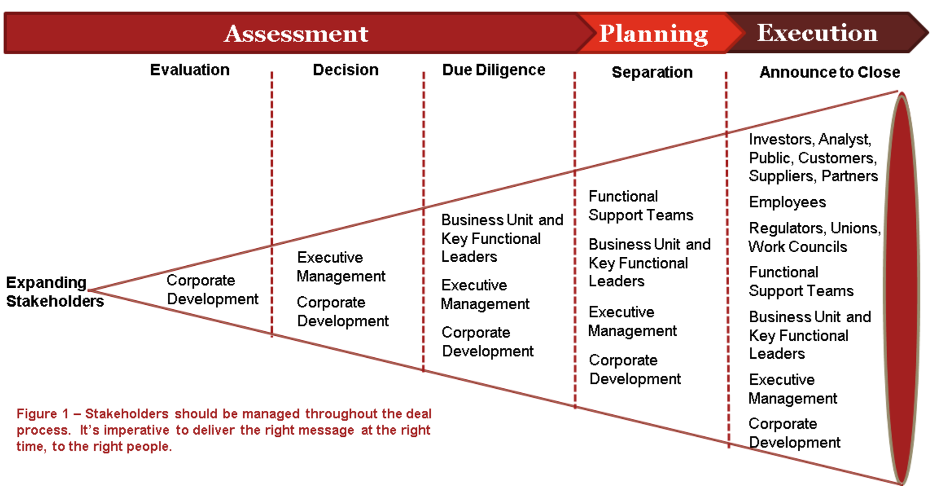

Figure 1 – Stakeholders should be managed throughout the deal process. It's imperative to deliver the right message at the right time, to the right people.

Four critical stakeholder groups in a divestiture to consider:

- Employees (including Corporate Development, Executive Management, Business Unit and Key Functional Leaders, and the Workforce)
- Investors, Analysts, and Public
- Customer, Suppliers, and Partners
- Regulators, Unions, and Works Councils

Employees

Key employee turnover and the impact of workforce disruption on productivity can negatively influence the value of the deal. Therefore, it's imperative to manage this stakeholder group and its various sub-groups with targeted and tailored messaging.

Employees will inevitably have questions about their future role, compensation and benefits. Additionally, employees will want to understand the company goals and impact to corporate culture. It is important to define the vision for the new company and the related employee impacts to minimize distraction and maintain productivity.

While the Parent company should manage all employee expectations, it is important to differentiate messaging and address the unique concerns of transitioning and retained employees.

- **Transitioning employees** are mapped to move with the divested business unit or entity. They will question how their role changes in the new company. Frequent concerns include:
  - Employment duration and whether they have a role at the new company
  - Changes to compensation and benefits
  - Impacts to their day-to-day job
  - Ability to perform in their new role (e.g. transferability of skills and competencies)
  - Reporting structure and span of control changes
  - Changes to shared services resources and support
  - Facilities changes and/or relocation
  - Work/life balance and culture impact

- **Retained employees** will stay with the Parent Company. They will question how their role changes and what is expected or required of them to perform within the remaining organization's operations. Many retained employees will experience little change; however, Shared Services employees may be asked to support transition services agreements and/or adjust workload and job responsibilities to support a different portfolio of business units. Employees may be concerned about the long-term viability of their jobs or future divestitures.

Some things to remember when managing employees:

- **Define the rationale for the divestiture.**
  Employees need to understand why the separation is good for the business and the opportunity it provides for their career. If the deal is a sale, **transitioning employees will want to know about the future management team and Buyer so they** understand where they fit and what are their future opportunities.

- **Tackle sensitive topics head on.**
  Employees will want to know if there will be planned severance, facilities or office closures, requests or opportunities for relocation. Continue to provide updates during the course of the transition, planning to stay ahead of rumors and build trust. Equip leadership with key messages and ensure they cascade information throughout the organization.

- **Identify and retain key talent.**
  Build a retention and engagement strategy focused on key leaders and employees that will address their concerns and incentivize them to stay.

- **Manage distractions to minimize disruption.**
  Distraction leads to decreased productivity and loss of customer focus, but can be minimized through frequent communications to employees accompanied by techniques such as:
  - Connecting with employees through change agent networks
  - Holding Q&A sessions in team meetings
  - Establishing hotlines and help desks to address employee questions and concerns

Customer, Suppliers, and Partners

Competitors know a deal announcement creates uncertainly and are quick to poach customers and partners. Competitors may offer special incentive programs to lure customers away. To retain customers, companies should create a robust customer engagement plan and consider offering proactive programs and incentives for key customers and partners.

Customers, suppliers and partners will want to understand the impact to ongoing and future business relationships with the Parent and divested businesses. They will want to know whether the price and quality of their goods or services will change. Frequent concerns include:

- Continuity of supply
- Price changes
- Product quality assurance
- After-sales service and support levels
- Changes to bundled products (i.e., if customers bought a suite of products, some products may transition with the divested business while others may stay with the Parent)
- Changes to the relationship owner/point of contact

Some things to remember when managing customers, suppliers, and partners:

- **Engage through a personal touch.**
Sales and Executive Leadership should communicate to key customers, partners and suppliers in person or via telephone. This direct contact demonstrates that the relationship is valued and important.

- **Understand what competitors may do to "poach" customers and develop a strategy to address the threat.**
Establish a proactive approach to address any competitor attempts to poach customers. Provide key messages and frequently asked questions (FAQs) to the sales team to ensure they address customer questions with clarity and consistency. Reactively gather intelligence and amend misinformation as needed.

- **Solve for bundled products.**
In certain industries, a customer may order many products from the Parent company as a "bundle." If one or more of these products is supplied by the divested business, provide details to customers about any changes to buying programs and after-sales support.

- **Engage and align with the Buyer.**
Buyer engagement will help customers and partners feel comfortable with the change and their future working relationship. The Parent's and Buyer's messaging and transition plan should be aligned and consistent.

- **Prepare Executives and employees.**
Provide Executives and employees with talking points, letters and presentation decks to ensure consistent messaging. It's important they know the facts and can quickly remedy any customer, supplier and partner concerns.

Investors, Analysts, and Public

Investor and analyst reactions to the deal announcement directly impact the underlying value of the company. If views are favorable and they endorse the deal, the company is likely to retain its stock value. However, if they perceive the deal to be detrimental to the remaining company, the stock price could drop.

Typically, the Parent company decides to sell or spin-off a business because the company believes both the Parent and separated businesses will have greater value as separate, independent companies. For example, the Parent company may choose to sell a non-core business to a Buyer who can give it more attention, focus and resources. Or, the Parent company may choose to spin off a business if it believes the business can achieve a greater value with its own priorities and a focused management team.

Investors, Analysts and the Public will question how the deal affects the remaining company's future operations and value. They will also question the viability of the separating company. Frequent concerns include:

- Strategic rationale driving the transaction and vision for both the Parent and divested business
- Financial projections
- Transaction timing
- Regulatory approval
- Risks
- Executive management team changes

Some things to remember when managing investors and analysts:

- **Share information on projected return on investment (ROI) and future financial expectations for both the Parent and divested entity.**
Investors and analysts want to know how the sale or spin will impact the stock price and revenue.

- **Announce leadership changes.**
The management team should inspire confidence in the deal and the future direction of the company. Investors and analysts will want to know who is leading the company and their strategy and vision.

Regulators, Unions, and Works Councils

Many countries have legal and regulatory approval requirements that must be addressed before the workforce can be transitioned. The Parent company and Buyer should manage unions and labor organizations (e.g., European Works Councils) or risk labor unrest, regulatory fines, and/or a delayed deal close.

Regulators, Unions, and Works Councils will want to understand how many employees will be impacted in each country as the number of impacted employees often dictates the required actions. Many regulatory bodies will require consultations about the deal even if the Parent company does not expect any adverse changes. Frequent concerns include:

- Deal rationale and strategy
- Deal timing
- Changes to organization leadership
- Impact to employees' roles / responsibilities, reporting relationships, compensation / benefits
- Plans for employee communications and messaging (overall and specific to employee workforce impact notifications)
- Retention agreement provisions
- Severance and outplacement support for reductions in force

HR and Legal should work together closely to understand the required notification period by country and plan for the requisite consultations. The Parent company has an obligation to obtain regulatory consent, gain the approval of the Works Councils and comply with a country's consultation requirements. A lapse in planning could delay deal close significantly.

Some things to remember when managing regulators, unions, and works councils:

- **Engage local authorities as early as possible.**
  Country specific labor laws and restrictions (e.g., collective dismissal laws) can unexpectedly add weeks or even months to the separation timeline and delay deal close. Begin planning several months in advance to avoid delays.
- **Communicate to all locations to ease concerns.**
  Even if a location is not impacted, the Parent company should communicate with the unaffected employees, labor groups and local officials. If left to speculation, unaffected employees may question whether they will be impacted too.

Conclusion

Stakeholder management helps maintain stability during a divesture. A strong stakeholder management strategy will identify stakeholder concerns and address those concerns before, during, and long after the deal is announced and closed.

Companies should develop a plan to address *all* stakeholder groups and customize the~~ir~~ approach based on their company dynamics, the deal and their industry. Even after you design and begin to execute the plan, you’re not quite done! The stakeholder management plan should be refreshed throughout the deal based on ongoing feedback from stakeholders. Continue to enhance your approach and engage your stakeholders to achieve the desired deal value.

Acknowledgements

For a deeper discussion on the content of this paper or other deal considerations, please contact one of our practice leaders or your local PwC partner.

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