

ORGANIZATION CHANGE – ENABLING IT TO SUCCEED

A CASE STUDY ILLUSTRATING HR'S ROLE IN SUCCESSFUL CHANGE MANAGEMENT

June 2008



Introduction

When an organization is undergoing change what is the role HR can play?

Organizational changes are driven top down and initiated largely due to strategic business goals the company needs to achieve. The HR function's role is to anchor the change management process and facilitate the transformation across all teams and work dimensions. Each change throws up unique challenges and the details which need to be addressed are diverse in each instance.

As the HR consultants of the organization considered for study in this paper, The HR Practice got an opportunity to design the people strategy for the organization and partner the CEO in transforming the organization over a period of one year. In the process some valuable lessons were learnt on how HR could play an effective role in increasing individual and organizational effectiveness during organization change by implementing progressive HR processes. We would like to share our experience of anchoring this change and also the elements which helped us succeed. Due to client confidentiality, we have withheld the names and exact dates of the companies involved.

Background

Our Client, The Sourcing Company was a start up with the vision to establish a sourcing network, supplying food and grains to modern retail stores. The Sourcing Company, within 6 months of establishment, acquired two food retail chains – The Grocery Store with a network of 70 stores and about 15 years history and The Delivery Store, a young 15 store retail chain, well established in a prime market. The merged entity retained the name, The Grocery Store.

Often, mergers tend to not realize the full value of the two entities coming together. This is not only due to strategic or financial reasons, but also due to people related reasons like key employees departing, culture clash etc. In a survey of 450 senior HR executives from large companies involved in mergers, acquisitions or joint ventures it was found that the top seven obstacles all related, directly or indirectly, to people issues. For instance the number one hurdle viz., the inability of the combined organization to sustain financial performance can be related to a loss of productivity due to uncertainty and confusion in the workplace.

HR can play an important role in maximizing the success of a merger by taking ownership of the people aspects.

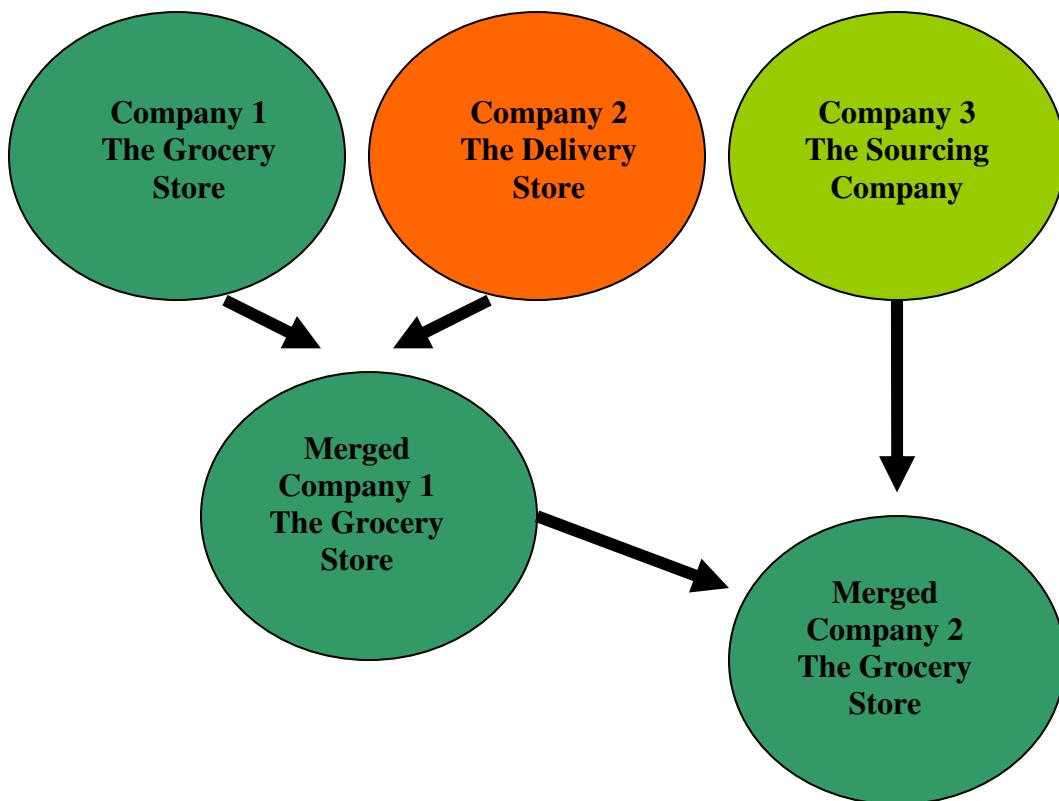
The Organization Context

The Grocery Store (TGS), a food and grocery chain over a period of time experienced a lot of flux on account of mergers and other developments. It started its operations in the early 1988 in couple of cities of Kerala, retailing mainly FMCG products. While it was founded as a partnership, the firm was reconstituted into a Private Limited Company soon and subsequently converted into a Public Limited Company under the name TGS Limited. To attract investments and become more competitive it also started

transforming itself from a family owned and run company to a professionally run company.

In order to expand their presence in India and to tide over a financial problem they were facing, in 2005 TGS acquired The Delivery Store (TDS). When the merger took place, TDS had 15 stores in Tamil Nadu and TGS had about 70 stores spread across Kerala. The merged entity aspired to become the number one grocery retail chain in the country and had plans to start operations in the other Southern states of India.

A third company, our client, The Sourcing Company (TSC) was set up in 2006 to act as a sourcing company for retail and grocery chains in India like TGS and TDS. It was based out of Cochin. Since the same investors who had invested in TGS had invested in TSC, during the latter's formation, its merchandising and warehousing teams were constituted by transferring employees of TGS and TDS experienced in these specializations. Towards the end of 2006, TSC merged with TGS since TSC was mainly sourcing for TGS and the investors felt there could be better synergy if both operated as one company. The CEO of TSC became the CEO of the merged entity, known as The Grocery Store (TGS).



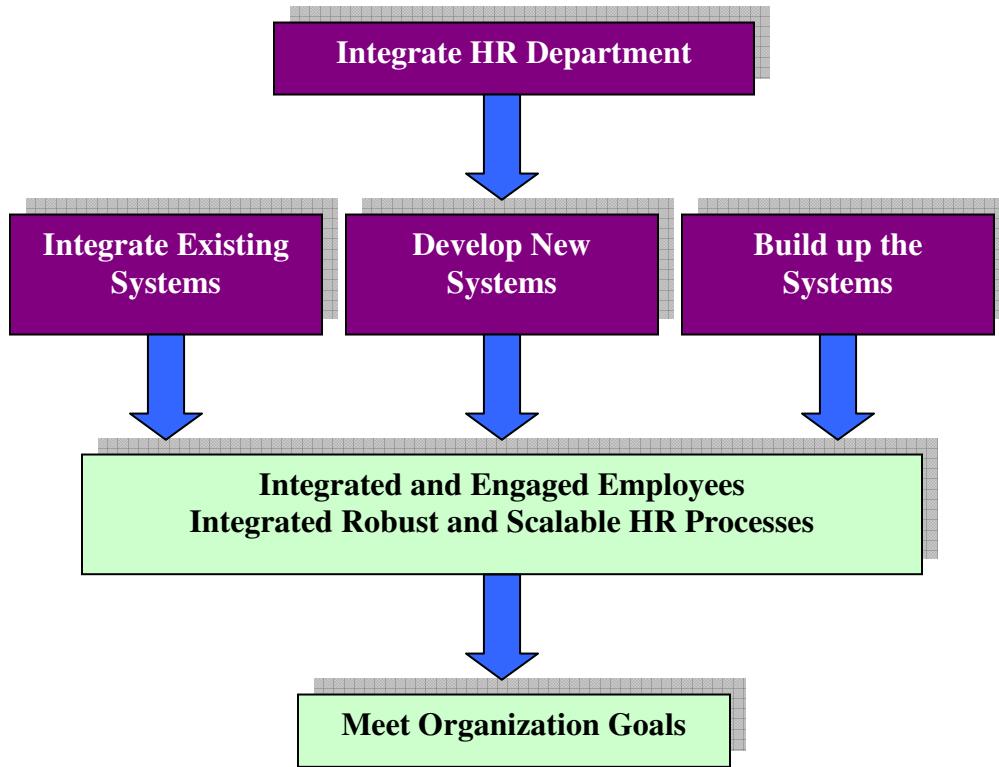
Key Challenges

By early 2007 TGS had seen two mergers. On account of these mergers and its ambition to transform itself into a professionally run organization TGS was faced with the following challenges:-

- **Integrating employees:** After the merger, TGS consisted of different categories of employees. There were employees who originally belonged to the three separate companies. Some of them belonged to the family and village of the promoter family that had initially started the operations. There were a few employees who had been transferred from TGS to TSC during the latter's inception. New employees were getting recruited to meet the requirements of the merged entity. In addition there was outsourced staff that needed to be absorbed on the company rolls to ensure their effectiveness in future. Thus employees were not only dispersed across regions but also came from different parts of the company, hence had different ways of identifying with the company. The challenge for the HR function in this scenario was to support the creation of a unified organization by developing a common identity for the organization and more importantly getting all employees to identify with the new merged entity.
- **Ensuring high morale and productivity among employees:** The uncertainty about job security and reporting relationships and changes in management, processes, benefits etc can contribute to anxiety, resentment, and low levels of engagement among employees. It can lead to loss of top talent. It was important for TGS to clarify uncertainties and keep its employees engaged to ensure their retention. Thus the challenge here was to develop among the employees a positive attitude towards the changes taking place and the future that lay ahead.
- **Integrating different HR processes:** Three companies coming into the fold of one entity meant that each of them was operating with a different set of HR processes. Also within each company the processes being followed were varied. For instance while a policy manual existed in TGS the implementation of the same differed across the regions it operated in. Integrating the varied HR processes and more importantly ensuring uniform implementation would be essential to meet the HR goals of creating and ensuring a common HR Framework for the organization.
- **Strengthening the HR systems:** All of the merging companies had HR systems which were rudimentary in nature, possibly adequate for their earlier setups. But, they were not flexible enough to tackle the challenges that lay ahead for a company aspiring to be among the top retail chains in India. Also, sometimes personal considerations overrode professional considerations while making HR related decisions. For instance people one knew were recruited rather than people with the required skill sets. Hence, the challenge here was to develop robust and scalable HR systems and well defined HR policies.
- **Unifying HR teams:** In addition to different HR systems that existed, there were different HR teams that operated. Even within the same company the regional HR managers implemented polices differently. This could create confusion and disintegration among employees if not taken care at the beginning of the integration process. Thus there was a need for creating a visible unified HR team to create a unified organization.

Approach

After integrating the HR department, a three pronged approach of integrating existing systems, developing new systems and building upon all the systems created, was taken to overcome the above mentioned challenges.



Integrating HR

The first step was to create a corporate HR function which would create a common HR framework and ensure uniform implementation of the same across teams and regions by the regional HR teams. During the entire integration period the Corporate HR team was responsible for planning, designing and communicating the HR programs and practices that were to be implemented across the organization while the regional teams ensured implementation of these programs at the regional level. The Corporate HR team interacted with the management and leadership teams to ensure the systems developed were aligned to the organization goals.

Integrating the Existing Systems

To integrate the existing systems following steps were taken in the initial few months:-

- **Developing a common HR Policy Manual:** The next important step was to collate and develop a single HR policy manual for the merged entity. To do this the team studied the existing policies of all the entities and chose policies with modifications if

required that would work for the new entity. The manual included policies on work systems, business conduct guidelines, office timings, leave, travel, benefits, as well as certain processes like exit etc. This was made available to all the employees through the regional HR teams.

- **Creation of Job Descriptions:** It was imperative for employees in the new entity to understand the nature of their roles and the responsibilities that they would be accountable for in order to ensure the smooth operations of the business. Detailed job descriptions were developed for 60 unique roles in the organization across departments. The Corporate HR team crafted these job descriptions by conducting job interviews with specific role holders that were identified for each department. These role holders were asked specific questions with regard to their primary and secondary responsibilities as well as the decisions that they were directly responsible for. The questionnaire was also used to understand the reporting systems and team structures that were in place. Inputs collated from the questionnaire which was administered in an interview format, were then used to develop the role and responsibilities document.

Developing New Systems

Following new systems were developed to meet the needs of the organization and to aid in the transition of TGS to a professionally run company:-

- **Appraisal System:** Before setting out to achieve the goals of the merged entity it was important for each employee to know how he/she had performed in the past. This would not only help in identifying his/her strengths and development areas, but also aid in determining how they could contribute in the future to the growth of the business.

An appraisal process comprising of a self appraisal followed by a review with the manager was designed and implemented in the new TGS for all employees who had joined the pre merger entities by December 06.

The HR team ensured that in three weeks time, appraisals were completed for all the 2500 plus employees across all regions and departments. This then led to the increment process where in Functional Heads for each of the departments recommended increment percentages for their direct reportees.

- **Reward and Recognition System:** After the merger it was noticed that the attrition percentage across the Store personnel who formed 60% of the employees of TGS was very high. Also, new companies in the retail space were actively poaching people from TGS.

So, to retain the key employees among the store staff an extensive reward and recognition system was designed. In addition to retention this was also designed to encourage long term superior performance and high levels of engagement. To develop the system, research was conducted and lessons were drawn primarily from the best practices in retention of American retail chains since the retail space was still nascent in India.

Key Features of the Reward and Recognition System

Categories of Awards: It included various award categories so that all levels of employees had a chance to participate. There were awards for individuals like the “exemplary customer service” award as well as awards for teams like the “best store” award. A customer service associate could gather any number of “suns” ie., points for exhibiting exemplary customer service and going beyond the call of duty. Based on the number of “suns” received, he/she could be eligible for annual awards like the “CEO’s Roll of honour” which was given to the top three sun collectors in each region. The “President’s award” was given to the person who made a difference through an innovative idea that was implemented across the organization

Award Process: There was a well defined process for nominating employees across the organization. For instance for awarding a sun the store manager would make recommendations first. These would then be reviewed and approved by the zonal manger and president/GM operations. Award ceremonies were held to felicitate the winners.

Types of Awards: Both monetary (gift coupons) and non monetary awards (certificates, mementoes) were included.

Building up the Systems

Once the basic HR systems were in place for a few months, more modules were added for increased effectiveness of individuals.

- **Key Result Areas (KRAs):** The performance management system module had the JDs (knowing what one needed to do) and the appraisal process (assessing one's performance for a period) in place. But goal setting (knowing what performance standards against which one will be assessed) was missing. So the next module that needed to be developed was “Setting of KRAs”. Once the KRA system was designed, over a period of 2 months KRAs were set for all employees across the organization till the Executive level. The HR team facilitated the setting of KRAs for senior managers. The senior managers in turn facilitated the setting of KRAs for their teams.
- **Salary Increments:** A systematic process was instituted for salary increments. Based on the appraisals conducted, salary increments were given to employees effective April 2007. For the first time increment letters were issued to communicate the increments. Functional Heads recommended percentage increase in salaries for their team members based on the guidelines provided by the corporate HR team. The recommendations were reviewed and approved by the CEO.
- **Employee Stock Option Plans (ESOPs):** During the integration process, to retain key employees, employees critical to the business were identified and ESOPs were granted to them. A communication plan was also drawn up to ensure these key employees understood how they would benefit from their ESOPs.

- **Training:** During the various interactions with employees the HR team found that customer service training was necessary for the stores personnel. So the Corporate HR Team identified a relevant training partner to impart a training program on customer service and store management. The pilot batch comprised of the store personnel and store managers of a particular region. After the training a significant amount of change was seen in the store personnel. For instance the store personnel began to apply points on grooming, hygiene etc. When participants also expressed satisfaction with the training, the same was imparted to other batches across all regions.
- **Standard Operating Procedure (SOP):** To ensure consistency in practices, reliability of services and to ensure efficient and organized operations across all stores a detailed SOP manual was developed for the stores. Each section of the manual like “Receipt of Stocks in Stores” included well defined purpose, scope, people responsible for it, guidelines and relevant records that need to be maintained.

An initial brain-storming session was held with the President of Operations of a specific region, along with some of his key team members from various departments like merchandising, operations, warehousing to collate the relevant information. Suggestions to improve upon the existing standard procedures for more efficiency were also incorporated. The SOP Manual was then published to ensure standard processes were implemented across all business operations and stores in TGS. The SOP Manual was also to later become part of the training programs on Store Management.

Key Learnings

The actions taken by the HR function during a merger can differ from company to company. But the lessons imbibed can be applied for any organization wide change process. Some of the learnings of the team involved in this entire exercise are elaborated below:-

1. **Start with the basics:** One must start with the basics to lay a solid foundation for more advanced systems. For example while payroll in one of the entities was being managed in-house, it was not being done systematically. Adequate checks and controls like having a common employee master file were not in place. So making the payroll system robust was one of the first tasks undertaken by the corporate team in ensuring that the basic HR systems were in place. Another area in which the foundations needed to be laid in order for the organization to grow was with regard to a performance management system, to ensure employees were made aware of their performance for the previous year. A simple start was initiated in 2006 with a review process being implemented for the first time in the organization.
2. **Need not reinvent the wheel:** And remember a merger does not mean that the systems that existed in the merging companies were ineffective. It only means that they need to be reviewed for relevance in the new context. One can always use what is effective and relevant instead of starting from scratch. For example there already existed an Employee Stock Option Plan at TGS which had not been implemented.

So during the integration process, it was implemented to achieve retention of key employees.

3. **Find synergies:** Different processes do not necessarily mean a bad fit. When properly integrated, diverse perspectives can dovetail, bringing new found energy and vitality to the newly formed entity. Also it is not wise to automatically adopt the practices of the dominant company. The strengths of both companies need to be explored so the best of both can contribute to the success of the new organization. Hence when the policy manual was created at TGS, existing policies from all the merging companies were included.
4. **Good time to look at future requirements:** If future needs have not already been planned for, this is a good time to do it. In TGS's case the management realized that with the retail space opening up in India they need to create systems and processes that would differentiate them from the other players. Hence initiatives like the SOP for stores staff, training for stores personnel, job descriptions etc were undertaken during the period of integration.
5. **Opportunity to introduce new practices:** It is the time to do a 'real needs' assessment and re-think everything. A very good thing about a major change in a company is that one can introduce new practices and those practices as part of the integration efforts that otherwise people may have resisted. For instance employees of an organization not used to an appraisal system would naturally resist it. But introducing it as part of integration program can reduce the levels of resistance.
6. **Maintain constant communication:** Maintaining communication with employees about the changes is the key to diffusing potential problems. For instance at TGS, the CEO held sessions across all regions explaining the plans for the future. The corporate HR team members met up with all the HR managers of the regional HR teams to make them understand the newly formed HR processes who in turn would communicate to employees of their respective regions.
7. **Take feedback:** Having done your best to integrate various systems is no guarantee that it has had positive impact on the employees. It is important to take feedback from employees periodically. After spending couple of months on integrating various HR systems an HR team held one on one meeting with the old TGS hands ie., employees who had been with TGS from the beginning, to get their feedback on the integration activities. Being from different levels and departments they could accurately provide the pulse of employees. When they told the team that they felt positive about the changes and expressed overall satisfaction with the integration process, the team knew they were on the right track.
8. **Work with the premise that every merger is unique:** Knowing how culture plays a very important role during a merger and how different cultures can clash and create havoc, the HR team was all set to do a culture workshop to integrate the different cultures. But not surprisingly there was no culture issues here since the companies comprised of employees from similar background. Thus every merger has its own set of unique challenges and advantages. And it is important to identify this uniqueness to be able to successfully tackle the right issues.

9. **Be ready for things outside the HR charter:** While developing a SOP manual is not strictly speaking an HR deliverable, this was readily undertaken by the HR team in keeping with HR's charter to help integrate and professionalize the organization. Thus once in a way one may have to work on issues outside the scope of HR to increase organization effectiveness.
10. **HR need to be as business savvy as management:** To be effective during the merger, HR leadership should focus on advising senior management on strategic staffing, long-term incentive plans, methods for developing a world-class workforce etc. To do this, senior HR team members must understand how the business functions, its goals, financial operations, how the business fits into the competitive landscape etc. Only when HR is as business savvy as the rest of senior leadership and approaches its functions from a strategic perspective will it earn a seat at the management table and be able to influence key people related decisions.
11. **Interests of all employees need to be taken care:** There is a tendency to favour the employees of the dominant company while making HR decisions. Such an attitude will undoubtedly result in a lot of resentment. HR should act as the corporate conscience and caution others to keep all the employees' interests in mind when making decisions. At TGS when the ESOPs were allotted HR ensured that talent from all the merged companies were given ESOPs as they worked with the management in ensuring that employees critical to the business operations were awarded ESOPs.

Conclusion

As a result of the integration activities at TGS and HR's contribution during the integration period the merger was a success. By Dec 2007, TGS had become a leading supermarket and convenience chain with over 180 stores. Its operations spanned across the four states of Kerala, Tamil Nadu, Andhra Pradesh and Karnataka. TGS had around 3000 employees and enjoyed a strong consumer franchise in all the states in which it operated. On account of this strong operational focus and robust people practices by January 2008, TGS was brought under the fold of one of India's leading Retail Group.

Accomplishing the merger objectives depends a lot on smooth and effective integration. An effective integration of an organization entails effectively handling the soft issues like channeling the enthusiasm and skills of its people so that it can overcome hurdles and take advantage of synergies of the merging companies. And as illustrated in this paper, HR can and should play an effective role during the integration period.

References

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