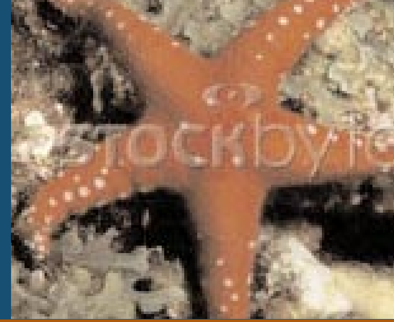
To Our Readers



These days, when it comes to characterizing M&A activity, "it's deja vu all over again," as Yogi Berra would say. We've seen it all before — or have we? For sure, there are the often-told success stories about combined companies achieving anticipated synergies and wider access to investment capital, new markets, and a more broadly skilled workforce. Unfortunately, there are also the missteps — the miscalculations and the miscommunications — and the cultural myopia that could lose the new organization's battle for operating efficiency, if not the war.

In this summer issue of *HR Advisory*, our contributors retrace some of these missteps and propose different paths more likely to lead to the deal's initial promise. First, our five roundtable participants, whose aggregate experience includes work in more than 55 mergers and other restructurings, recall their own war stories involving benefit plan integration. As their discussion repeatedly illustrates, the decisions that combining companies make about benefit plan integration can have bottom-line consequences, both immediate and long term. When senior management includes HR in the M&A process sooner rather than later, those consequences are less likely to be unexpected and negative.

Next, consultant Karen S. Hinchliffe's insightful retelling of a cross-border acquisition from one pivotal player's perspective reminds us of the persuasive role perceptions can play in such a venture's success or failure. As this managing director saw it, certain cultural biases dictated pre-deal decision-making to such an extent that, had he not taken the steps the piece outlines, the post-deal integration effort may well have disintegrated.

Consultant Jeffrey St. Amour shares his thoughts on communicating strategically to a company's stakeholders during a merger, acquisition, or other major corporate restructuring. First, he identifies the stakeholder groups (there are more than you may think), then provides guidelines for crafting key messages that address each group's interests and a strategy for delivering it. As Jeffrey observes: "Telling the truth and telling it fast, builds trust," even if various stakeholders don't necessarily agree with the message.

Finally, Mike Rose's regular Cyber Q&A feature taps into our consultants' varied areas of expertise to answer the questions that HR practitioners had posted on the World Wide Web.

Enjoy your summer reading.

Reed A. Keller
Leader, Global HR Solutions
PricewaterhouseCoopers

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At the end of this 90-minute roundtable discussion of their experiences with corporate restructuring — mergers, acquisitions, spin-offs, joint ventures, and the like — one participant observed with a certain resignation that CEOs involved in a corporate restructuring don't consider benefits and compensation plans for five minutes. Nor, he continued, does senior management see possible obstacles to delivering fully integrated and functioning benefit plans for a 30,000-plus totally reconfigured workforce — and doing it all within six months. His colleagues around the table nodded knowingly.

Not that they were complaining. Although none seemed sadder, all were wiser — undoubtedly due to all their experience in the benefits blending business (see table below). What each had learned about the challenges of their organizations' restructuring seemed to compensate for whatever obstacles they had to overcome.

One thing they learned (and would gladly convey to those in any organization whose responsibilities keep them focused on "big picture issues") is that in the restructuring environment, the devil is often in the details. And that demon, whether disguised as an unrealistic benefit cost estimate or a long-forgotten employment agreement, always comes back to haunt the restructured entity. Exorcising that demon can be an expensive proposition for the senior management that doesn't see clearly or soon enough that benefit issues are integral to any restructuring. Even when not calculated in hard cash, the cost is often measurable in corporate embarrassment, lost credibility, and productivity.

The Role of

So will our participants' responses to Consultants Jeff Newman's and Karen Hinchliffe's questions provide enough insights on benefit-related dos and don'ts to *guarantee* a trouble-free transition? Not likely. At this level, the possible variables in any merger are too many to yield a fail-safe course of action. But we're confident that their insights on how they coped with due diligence, unexpected consequences, and communicating an emerging corporate culture will senior management's consciousness about what the organization should do (listen to HR) to manage benefit plan-related risk.

Pete Costigan
Editor-in-Chief

Names and Titles of Roundtable Participants	Company/(Number of Employees)	Nature of Restructuring	Number of Restructurings to Date
Ellen P. Collier Manager, Benefits, Design & Development	BP Amoco Company Cleveland, OH (100,000 worldwide)	Merger between British Petroleum (BP) and Amoco	Approximately 15-20 different acquisitions, divestitures, or joint ventures
Joseph E. Donald, Jr. Director, Human Resources	Horizon Blue Cross Blue Shield of New Jersey Newark, NJ (4,500)	Explored merger and acquisition possibilities, none of which resulted in an agreement	5
Bruce R. Lasko Director, Retirement & Stock Programs	Telcordia Technologies (formerly Bellcore) Piscataway, NJ (6,000)	Spun off by Regional Bell Operating Companies, then acquired by Science Applications International Corp. (SAIC)	5
Richard S. Nichols Senior Vice President & Director of Employee Benefits	Summit Bancorp Princeton, NJ (9,500)	Several acquisitions of Northeastern banks	Approximately 25
Jerry Zimmerman Manager, Employee Benefits	Equiva Services LLC Houston, TX (13,000)	Joint venture among Shell, Texaco, and Saudi Aramco	3

Benefits in M&A —
Much More Than a Bit Part

Jeff Newman (PricewaterhouseCoopers): I'm a partner in our Global Human Resource Solutions Practice where I head up the activities related to mergers and acquisitions. For starters, why don't each of you introduce yourselves and give us a treetops view of your company's recent merger or acquisition activity.

Karen Hinchliffe (PricewaterhouseCoopers): I'm a partner with GHRS's Workforce Solutions Group, and I've recently returned from eight years in Europe where I was working primarily with the corporate cultural integration issues that are part of any merger.

Bruce Lasko (Telcordia Technologies): I head up the Retirement & Stock Programs Department at Telcordia Technologies, formerly Bell Communications Research (Bellcore). Back in 1997, when Telcordia was Bellcore, it was acquired by SAIC,

HR issues typically are not deal killers, but when they are . . . they are really bad killers.
(Richard Nichols, Summit Bancorp)

Science Applications International Corp., the largest employee-owned, high-technology research and engineering company in the world. SAIC offers expertise in technology development and analysis, computer system development and integration, technical support services, and computer hardware and software products. To get into the telecommunications businesses, SAIC acquired Bellcore, which had been part of the former Bell system before the break-up of AT&T in 1984, and part of the Regional Bell Operating Company (RBOC) family through the late 1980s and 1990s.

Ellen Collier (BP Amoco): I'm the Manager of Benefit Design at BP Amoco. In August

1998, BP and Amoco announced their merger effective December 31, 1998, and we've been working on the harmonization of the benefit and compensation program since that time. And we have also announced that we are purchasing Arco, which hopefully will close by year-end.

Jerry Zimmerman (Equiva Services): I'm the Manager of Employee Benefits with Equiva Services, which is a general services company that came into being when the refining and marketing operations of Shell, Texaco, and Saudi Aramco merged in 1998. Equiva's benefits and compensation plans didn't go live until April 1 of this year, and the process of making that happen turned out to be a good test case of efforts to integrate the cultures of the three companies out of which Equiva was created.

Joseph Donald (Horizon Blue Cross Blue Shield of NJ): I'm the Director of Human Resources at Horizon Blue Cross Blue Shield of New Jersey. My experience is slightly different from that of everybody else here in that my company became involved in two merger discussions, neither of which went through. So perhaps I have a unique perspective on the process, specifically, what happens when it doesn't happen.

Richard Nichols (Summit Bancorp): I'm the Director of Employee Benefits for Summit Bancorp, a regional commercial bank headquartered in Princeton, New Jersey. We've actually gone through about 14 acquisitions in the past four or five years. In addition, part of my checkered past includes a stint on the team at Chemical Bank in New York that worked on acquiring Manufacturer's Hanover.

Jeff Newman (PricewaterhouseCoopers): Thanks for those introductions. Let's get started. Could you comment on the degree to which HR was involved pre-sale in a due diligence or strategic capacity? Were you involved early enough?

Bruce Lasko (Telcordia Technologies): In 1995, our former owners, the RBOCs, announced their intent to sell us, although at the time they had no idea to whom. Initially, it was very frustrating for employees, who had been part of the Bell System for years, to know only that they were to be spun off to some unknown party.

But once SAIC was identified as the new potential buyer, HR was brought in very early in the process, and we worked very closely with our counterparts at SAIC. We implemented a two-year benefit maintenance period for Telcordia employees that the RBOCs had negotiated as part of the stock purchase agreement.

Richard Nichols (Summit Bancorp): Banks by their very nature are centralized locations rather than autonomous business units. That fact gave me access to the principal decision-makers in one place, including our strategic planning people, who were actively involved in making acquisitions. For that reason, I was able to participate very early on in the due diligence work of a possible acquisition.

When strategic planning started focusing on an acquisition candidate, I'd be able to review that candidate's benefit programs to see if there was anything that really would be a deal killer, such as a prohibited transaction under a qualified plan. Now, HR issues typically are not deal killers, but when they are killers, they are really bad killers.

Regarding your other point, HR's involvement in a strategic capacity, I'd say the bank's decision to maintain one of the richest pension plans in the industry figures into its acquisition strategy. To this day, the bank has never made an acquisition where our pension plan wasn't better than the acquired company's. If, as the buyer, we can say that we will give you, the bought, our plan and our plan is better — sometimes considerably better — than yours, employees' and senior management's resistance to being acquired diminishes.

Of course, these plans come at a price that you pay on an ongoing basis. Not everybody is prepared to do that. When people within the bank propose cuts to benefit programs, I'm the first one to say, "Certainly, we can do that, but do you recognize the impact it's going to have on us when we want to make our next acquisition? If acquisitions are an essential strategic element of who we have to be going forward, let's not shoot ourselves in the foot." So far, that line of reasoning has been very successful in merging acquired entities as well as sustaining the benefit level that we have.

Joseph Donald (Horizon Blue Cross Blue Shield of NJ): Our pre-sale involvement lasted for three or four months, both with the company we were merging with and the one we planned to buy. We spent a lot of time on benefit plans, contracts, compensation programs, and all agreements

well before the transaction. The irony is that up until about a month before the actual announcement, the names of the organizations with whom we were merging were unknown to us. We had their contracts with names whited out.

Jerry Zimmerman (Equiva Services): For well over a year before the deal closed last July, a team of benefits and compensation people from all the different product lines worked together to identify the issues that come up whenever you put two cultures together. Their role was to bring about some consistency with respect to our benefits and compensation policies long before we ever thought about announcing anything to our employees.

This failure to communicate . . . caused us all kinds of consternation during the acquisition process. ***(Joseph Donald, Horizon Blue Cross Blue Shield of New Jersey)***

I sat on the benefits design team. We were charged with looking at the benefits the two companies offered with the understanding that, going forward, we could spend as much money on benefits as we do today but no more. If these three entities had had the same benefit plans, ours would have been an easy task. But since they didn't, it fell upon a group of eight people to come up with an approach to putting together a new benefits package.

Karen Hinchliffe (PricewaterhouseCoopers): Jerry (Zimmerman from Equiva Services), was the purpose of the merger made clear to you at the time you were given this obviously large task?

Jerry Zimmerman (Equiva Services): It was very clear. Our business mergers have to do with one thing, synergy — the tens of

millions of dollars in savings that can result for certain companies. However, despite the focus on achievable savings, I was particularly pleased that we were told upfront that benefits would not be sacrificed in terms of the total dollars we could spend.

Ellen Collier (BP Amoco): As Jerry mentioned, the quest for synergies is always an important objective in any energy business merger. The savings that resulted from the BP and Amoco merger were very large, particularly in the U.S. Unfortunately, part of that savings came when we had to eliminate thousands of now-redundant (resulting from the merger) headquarters and operations positions.

Naturally, that degree of downsizing put the initial harmonization focus on the two companies' severance programs. We had to come to a meeting of the minds over BP's richer severance program compared with Amoco's. That happened when the BP severance program stayed as it was and the Amoco program was augmented to be commensurate with that for many employees. Under BP's programs, terminated employees get one month per year of

service, with a maximum of 12 or 18 months, depending on which business stream was involved. So terminated Amoco employees got a month of severance for at least each of their first 12 years of service versus the severance they would have received before the merger. That took a lot of the sting out of the downsizing versus the serverance they would have recieved before the merger.

Jerry Zimmerman (Equiva Services): I'd like to comment on downsizing. Certainly, downsizing comes about as a result of mergers and acquisitions, but that clearly wasn't an overriding part of our plan. We knew that when we put two competing companies together, there would be operating benefits. For instance, we don't find it inconsequential that a Shell refinery may be doing something better than a Texaco refinery used to do, or vice versa. Whereas we weren't willing or able to share that information before the merger, we can after the merger. As a result, we have the potential to save hundreds of millions of dollars at a very small cost initially in terms of manpower reductions.

Jeff Newman (PricewaterhouseCoopers): Could we discuss some of the expected — and unexpected — consequences of pre-deal decisions that came up after the ink was dry?

Richard Nichols (Summit Bancorp): As in the oil industry, a lot of mergers in the banking industry are meant to achieve synergies. As we discussed, unfortunately the synergy often results in layoffs and the cost savings associated with these terminations, which are often projected up-front. And those projected savings have a way of becoming the numbers the Wall Street analysts expect to see even though they were only estimates.

I've seen some estimates that included particular savings from the benefits side, which had no basis in reality. If any benefits professional had been in the loop early enough, he or she would have known these numbers were not achievable. Clearly, the person who made these estimates did not have a rudimentary understanding of how benefits costs should be calculated. Unfortunately, if the Wall Street folks don't see what they expect to see, things can get a little tough for everybody.

Joseph Donald (Horizon Blue Cross Blue Shield of NJ): That's a good point. Often the financial people and the lawyers together doing the negotiation, for whatever reason, are reluctant to bring in people with an understanding of the financial ramifications of the pension plans and other benefit plans.

And frequently, there are employment agreements that they may not quite understand. When they get to the point of actually trying to figure it all out before the deal is signed, it's already quite a ways down the road. That argues for getting some particularly knowledgeable pension people involved in the process earlier rather that later.

Richard Nichols (Summit Bancorp): Actually, it gets even more complicated when you're trying to solve the problems created by acquisitions of acquisitions. I would say HR professionals should be as concerned about their acquisitions' acquisitions as they are about the acquisitions in which they are directly involved. It's best to have a sunset provision in this somewhere, or else there can be major problems.

Bruce Lasko (Telcordia Technologies): I've got to tell this story. It's a horror story, so dim the lights. It's also a classic example of something done for the right reasons at the time but not the right reason for *all* time. The 1984 agreement separating AT&T from the rest of the Bell System required as part of the dissent decree that all service credit accrued by any Bell System employees as of December 31, 1983, be portable under the *Mandatory Portability Act* (MPA) as long as they met all of its salary and supervisory requirements.

It's a classic example of something done for the right reasons at the time but not the right reason for *all* time. *(Bruce Lasko, Telcordia Technologies)*

That means that any such eligible employee who elects to transfer to or from Bellcore between AT&T, Lucent, Bell Atlantic, or any other former Bell System entity can do so with full service credit and have his or her pension assets transferred. This portability measure has no sunset provision. It lasts forever. That created a recordkeeping nightmare that only got more complicated when all these companies started converting from traditional pension plan designs to pension equity and cash balance designs.

Now, in addition to tracking all prior company service history on these employees, we need to identify those who took lump sums from those plans in order for "offsets" to be factored into Telcordia's future benefit accruals. Even post-sale to SAIC, Telcordia must continue to honor portability for those eligible employees who were Bell System employees as of December 31, 1983. Since many people were hired around that time, this requirement will continue to haunt us for a long time.

Joseph Donald (Horizon Blue Cross Blue Shield of NJ): When our benefit plans are better than those offered by any of our acquisitions, that fact makes acquisitions relatively easy for us and a good deal for the acquired employees.

However, there can be negative financial consequences downstream. I'm thinking of one acquisition I worked on at a previous employer, in which the acquired's employees didn't have a pension or 401(k) plan, so they were very happy with the benefits that we offered them. The problem only came up two or three years later when their management wasn't able to make their profit targets because they just could not tolerate that benefit overhead expense that we had laid upon them. Those expense allocations almost drove a couple of acquisitions right out of business. That happens in a lot of new ventures. The overhead just wipes them out. And all the due diligence in the world doesn't highlight cultural or the organizational differences.

Bruce Lasko (Telcordia Technologies): My comments complement what you just said about the high overhead connected to the plans. We are very process-driven at Telcordia, and one company that we're looking to acquire is a fairly small company. And already we're talking about our payroll system, our time reporting system. One concern is that we may just drive them into

over-administration. To avoid that, we're treating them very carefully.

Karen Hinchliffe (PricewaterhouseCoopers): Would you comment on some employee communication aspects of the merger?

Ellen Collier (BP Amoco): The way the merger was communicated to employees at Amoco and BP reflects their very different cultures. Former Amoco had their Chairman sending newsletters or Q&As that were disseminated almost weekly via e-mail. BP had very little in the way of formal communication, some notes from the Chairman that re-emphasized a couple of key points — why we're doing the merger, why it's a good thing for the shareholder, that we will be a performance-driven culture, the timing of the staffing decisions. There was little or no discussion about benefits in these communications.

Now the challenge is to craft a benefits message to a workforce consisting of many groups with different expectations based on benefits they received in the past. *(Ellen Collier, BP Amoco)*

I think both cultures almost needed and expected the communication at that point in time to be what it was. The former Amoco culture needed to hear from their Chairman what was going on in some detail. BP was accustomed to communicating through more informal means, such as networking at the business unit level and through town hall meetings.

Now that the plan redesign design work is about 90 percent done and approved by senior management, the communication challenge is to craft and distribute one benefits message to the entire workforce consisting of many groups with very different expectations based on the benefits they received in the past. For example, there are going to be changes that will affect medical more for the BP population and retirement more for the former Amoco.

Richard Nichols (Summit Bancorp): I think town-hall types of meetings are a good idea. When more senior persons conduct town meetings, they focus mostly on the business that the people are in and how that business is going to function as a result of the merger. Often, HR issues aren't even discussed except in the context of major changes that may affect a certain location or certain segment of the workforce. When a major change affecting them is on the horizon, then employees want to know what their benefit options are.

Jerry Zimmerman (Equiva Services): We took a unique approach to communication early on in the process. Because we wanted to know what employees thought about a wide range of benefits issues, we put together a diversified benefits focus group of our employees.

We brought together about 70 to 80 people from Shell and Texaco, including refinery people, both union and non-union. We told them that they were not there to validate or to choose which benefits would be offered but rather to react to some proposals. We also told them that we can't spend any more money than we do today. So if they liked one particular program that turns out to be relatively expensive, they had to understand that has a repercussion.

For instance, when the focus group advocated preserving the defined contribution (DC) plan of one of the merged companies, which was one of the richest in our industry, they had to realize that if their suggestion were taken, it would probably be the death

knell to our final average pay pension plan. As a result of adopting the rich DC plan, we introduced a cash balance pension plan for all our employees, union and non-union, that was very well received.

We spent last summer negotiating with our union counterparts. It was a very productive process with give-and-take on both sides. I think some of the front-end work we did by putting this group together and letting them have at least some input to the process was instrumental in making those negotiations work.

Joseph Donald (Horizon Blue Cross Blue Shield of NJ): My comments on our merger-related communications also involve our union employees and our cash balance plan, but our experience was somewhat different from yours at Equiva. We have had a cash balance plan for our non-union employees since 1995. We were in the process of negotiating an almost identical plan with our union folks at the time these mergers were announced. The larger of the two companies we were going to merge with had just replaced its final average pay plan with a cash balance plan. That plan had a flat annual contribution, whereas ours is an age-weighted plan.

Apparently, the employees at the other company were unhappy with the prospect of their new cash balance plan and, unfortunately, news of that unhappiness was communicated one way or another to our employees, our union employees in particular. That development certainly complicated our negotiation process with our union. Although the two plans were very different, no matter what we said, they thought that sooner or later after we merged, we would all be on a flat plan just like our prospective merger partner's plan.

We ended up negotiating a plan with the union very similar to our non-union plan. And the possibility of any additional changes to our plan went away anyway after our merger talks ended. But this failure to communicate — or maybe it was a success at miscommunication — caused us all kinds of consternation during the acquisition process.

Karen Hinchliffe (PricewaterhouseCoopers): We've talked quite a bit about unexpected and unwelcome developments during the acquisition process. Were there action

items that should be added to the due diligence process in order to avoid similar developments in the future?

Richard Nichols (Summit Bancorp): I'd say there are a couple of issues. First, even if everything from a procedural standpoint goes according to plan, everything still may not go smoothly because, even with the most thorough due diligence, not everything is divulged. I'm thinking especially of employment-type contract arrangements and deals that have been done or grandfathered. Nobody may have felt these deals were important because nobody had complained about them, and then all of a sudden, they are big issues.

I was pleased that we were told up-front that benefits would not be sacrificed in terms of the total dollars we could spend. ***(Jerry Zimmerman, Equiva)***

These people on the other side of the table are not trying to deceive you. It may be that the senior people who made these agreements are gone, and nobody else knows about the agreements or has forgotten about them. It may also be the people who made the deals didn't think of them as being particularly important because they didn't personally affect those people.

The other point is that, even though small mergers can be as difficult as larger ones, in my experience no two are the same, regardless of size. You can have a checklist for due diligence purposes, and that is what people have. But it is a checklist, nothing more, nothing less. I think there has to be someone who has an understanding of why one contract is important for due diligence purposes, and another is not.

Jeff Newman (PricewaterhouseCoopers): In what ways do consultants bring value to the mergers and acquisitions process?

Richard Nichols (Summit Bancorp): Unless the consultant understands the underlying problems that are associated with these contracts and agreements, I don't think he or she is going to add much value to it. He would be just one more layer in the mix that can actually become another hurdle in the decision-making process. Since most companies don't understand the implications of these deals when they start due diligence, they are not in a position to educate the consultant.

I'm not saying that a consultant couldn't be useful in the situation I just described about the contracts. But how useful will depend upon the merger itself, the team that is involved with it, and at what point the consultant gets into the process. In my mind, when I talk about due diligence, most of what I consider true due diligence occurs before the announcement.

Jerry Zimmerman (Equiva Services): Well, the truth of the matter is that we all like to think our benefits are the best benefits that anybody has got going in our industry, so it's really hard to think outside the typical scope of how you deliver benefits.

Early on, our benefits design team decided that we didn't have that expertise in house. And so we asked a consulting firm to send us somebody who can sit in, be a voting member of this group, and provide to us the background that we didn't have on what is the latest and greatest in health and welfare plans, in pensions, and in DC plans.

We interviewed three people, and we actually had a consultant sit alongside the

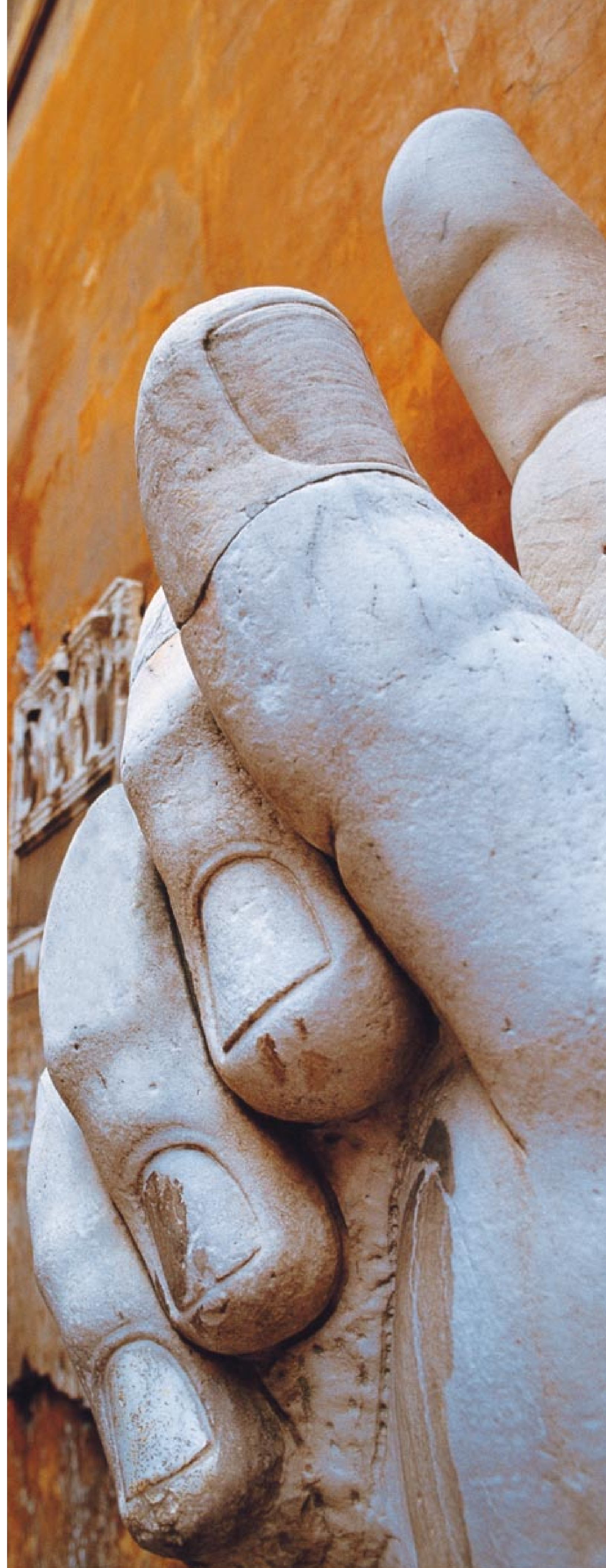
table with us throughout the entire process of designing benefits and bring to us the latest and greatest. We didn't accept all he had to say, but we did some different things based on this consultant's advice. So I think there is some real value to having a consultant on board as long as you know what kind of advice you want this individual to provide.

Bruce Lasko (Telcordia Technologies): I think consultants' input can also be very helpful when you are figuring out how and when to communicate with the new population. We know how to communicate to our pre-merger employees and the other side knows how to communicate with theirs. But what happens in the new environment? It's critical for us to know how the employees should get information on the new structure once they are ready for it. Many new organizations don't know and look to consultants for advice. However, I think that when you bring a consultant in to give that kind of program advice, you must have a commitment that he or she will be available whenever you need them, just as if they're part of the core M&A team.

Jerry Zimmerman (Equiva Services): We would have never agreed to anything other than a full-time consultant.

Ellen Collier (BP Amoco): Most companies could also use some advice on how to communicate with and within the new post-merger management teams that, typically, are being reorganized. I wouldn't say that we wouldn't want someone necessarily full time — part time or as needed might be enough. I think it adds a lot to your presentations to senior management to make sure that consultants have either blessed them or helped on them. For that matter, you may want them to attend the presentation.

Jeff Newman (PricewaterhouseCoopers): Thank you all for participating. We really appreciate everybody's effort and interest and enthusiasm.



The work of mergers, once a rarefied pursuit for a select few, has become a way of corporate life. With healthy quantities of expertise on the intricacies of merger mechanics readily available, M&A dos and don'ts are known, frequently updated, and unquestioningly observed the world over.

Post-Merger

The M&A still focuses on the "A," where someone always pays for something. Once transacted, the deal is deemed more or less done. Then the merging process starts in earnest and in the usual ways: a sharing of name, stakeholders, limelight, and liabilities. That process also includes integrating the parts within the newly formed whole, and there's nothing pro-forma about this stage of development. Here the M&A standard — its norms, check-lists, and guidelines — gives way to great variations on a theme.

During integration, many organizational realities can no longer be ignored. Issues earlier deferred due to their sensitivity boldly reappear on the executive's agenda. Questions as to true synergy, cultural "fit," and employee opinion have to get answered. And because there is no turning back — short of cutting the losses and disposing of the new assets — the task of integration challenges the integrity of the original deal. When necessary, decisions made in considering the merger are renego-tiated, overturned, or outright contradicted in the interest of "making good" the investment for new stakeholders.

Needless to say, even with the swiftest handling and deftest guidance, a company in merger mode must be hardy. Although acquirers and the acquired may have done this before and their management teams may have already learned the "dance," those teams must be up to task, lest the merger's promise disintegrate. Our focus from this point on is a cautionary tale of near disintegration. Borrowing lyrics from a late 19th century ballad, we look at a manage-ment team in the late 20th who had learned the dance but not necessarily what to do when the dancing stopped.

AFTER THE BALL IS OVER, AFTER THE BREAK OF DAWN

In 1996, a U.S. manufacturer acquired a European operation in order to get U.S. products and services to European, Central Asian, and Middle Eastern channels faster and more profitably with the help of an experienced regional sales resource. The Paris-based European operation hoped that financing for long-awaited expansions in product line and research would come out of the deeper investment pockets of the new U.S. parent. The integration team was charged with making the pieces "one" as soon as possible in order to leverage the new name, size, and bargaining clout that the merger offered.

One week after the closing — and after he had canceled our first meeting on short notice — I met with the Managing Director of the European operation, a Frenchman with reasons to feel good about his situation. He had already successfully merged two companies; the share price had gone up at the announcement of this deal; and, after some initial rumbling by the courts,

Integration — or Disintegration?

by Karen S. Hinchliffe/Boston, Massachusetts

the merger passed regulatory inspection and avoided competitors' accusations of monopoly.

Many of the pre-close assumptions on which high acquisition premiums were based were erroneous and misleading.

I listened with great interest as the tale of his merger was spun. At times, he was obviously proud, reliving what the excitement of the prior months had wrought for his company and for him personally. From the deal alone, he said he was sitting on gains of £3 million in shares (US$4.5 million) and a further £10 million in options. In addition, his new annual compensation base approached £1 million annually (US$1.5 million).

Yet, under his high good humor and our off-handed discussion about tax havens and Mediterranean alternatives to Jersey that his English colleagues might prefer, there was a certain tenseness in his manner. Some of the tension came from his conviction that veteran senior managers might well stymie the goals of integration. Blanketed in all the security that a low-risk, high-return compensation package provides, enough of them in important posts could stall the business's forward movement. He mocked these "fly swatters" as ever ready to beat down a swarm of good ideas.

He recalled that when the due diligence team suggested that neither merging entity had all the necessary skills required for the new business to work, one of their consultants had made the intriguing recommendation that people with a different profile be hired. Sadly, experience indicates that such a fix is temporary at best. Within all too short a span of time, the new kids on the block — recruited at a high cost per head — are behaving just like the old sods. The new become the old guard — and often more guarded.

But it seemed that more than the chronic irritation of the fly swatters was bothering him. Although he was far from any form of "bureaupathological" behavior that could be detrimental to him and/or others, he did seem to be wound up like a corkscrew. It was as if, given the obvious fruits of his labors, he couldn't decide whether or not he should care so much. Somehow, it was very clear that he did. One week after the closing, bereft of the advice — and comfort level — recently provided by the noise of departed lawyers and investment bankers, was he wondering how he would realize this merger's projected synergies?

. . . MANY A HEART IS BROKEN

His speech slowed and his voice became nearly unrecognizable as he grew closer to the hard part of his story: the last few days. That which only days before had seemed logical now appeared contradictory. Two facts were dawning on him: One. Many of the pre-close assumptions on which high acquisition premiums were based were erroneous and misleading. Two. The same cultural biases that he believed caused the team to make the assumptions in the first place continued to prevent integration. As we talked on, he elaborated on why and how he thought the situation had developed.

In essence, the U.S. parent (and those invited to assist from the U.K., for that matter) had treated this deal like any other, and the implications of that fact troubled him. In fact, these Americans had never done a cross-border deal before. Although that was not so surprising (only 5 percent of all U.S. deals valued at $500 million or greater are said to have been cross-border), this man knew from experience that cross-border deals *must* be treated with sensitivity.

First, he saw that because this deal had been treated like those before, there had

been repeated blunders — each borne of ignorance. To his mind, the result was not a win for the Americans and a loss for the Europeans, but a loss for all concerned. The only real winner was an obvious ethnocentrism, which prompted one group to ignore the other.

Often, that attitude is shaped by geography: "where you sit is where you stand" (on the issues). However, the mental travel can be at least as controlling when it catches us in the behavioral trap of making decisions based only on the most available and most recent information. In this case, the Americans' wealth of experience in domestic mergers, being both available and recent, was a commanding determinant of the way the deal was done. But it may not have been the most appropriate determinant.

Second, he saw the almost exclusive use of English language documentation during negotiations as particularly problematic. This over-reliance on a relatively limited scope of input from that source made him worry about the integrity of almost every data point used in the pre-deal and pre-close due diligence.

Third, he saw the impact of the American mindset on the corporate decision-making process. He profiled the Americans he knew as relatively non-hierarchical, which encouraged them to assume anyone can be anything, get anywhere, under any circumstance. Seeing power as short-lived, Americans, he felt, were inclined to "play politics" with everyone because they never know who will have the access that they'll want or need next. Finally, their all-confident "I can make a difference" attitude is reflected in their "let's do it," "get it done" commando behavior. Inevitably, these attitudes (which, to some extent, he shared) had accelerated the decision-making process to a pace where critical details may have fallen through the cracks.

In contrast, the French place relatively greater importance on authority and risk avoidance than do the Americans and even the British. He knew that it was not a matter of one culture being better than the other. However, he felt that the speedy efficiency with which everyone was doing things would only more quickly result in information being interpreted as "fact" or even "truth," based on unconscious ethnocentrism.

. . . IF YOU COULD READ THEM ALL

There were many pieces of advice one could give. Obviously, a rerun of what he should have done differently would not have been appropriate or welcome. What was appropriate was the formulation of a game plan that provided him with opportunities to listen closely to all the information available to him — emotional as well as cognitive. If he could do this, it was likely that his self-confidence would return — just in time to implement the greatest resource allocation decision that he would likely ever make.

He asked us to . . . help ensure appropriate "myth-busting" where false assumptions about one another and/or the business were getting in the way.

For his particular game plan, he chose to take five steps:

1. Clarify the strategic intent of the integration. The experience of the recent weeks had taught him everything has its own force or energy. He wanted to regain control of the natural process of integration, which he now realized had already begun, and direct its highly accelerated pace. We helped define anew what "integration" meant for the merged organization. We included in that definition a "community" of interests, some of which would fundamentally change and others which would merely blend together, but stay much as they were.

2. Appoint himself an active member of the integration team. He wanted a defined role. He sought responsibility as a team member knowledgeable about the process, but also as the ultimate owner of the outcome. He asked us to facilitate meetings to help ensure paced progress and appropriate "myth-busting" where false assumptions about one another and/or the business were getting in the way. He wanted to be a role model for the kind of attitude and behavior he expected of the new organization, and he hoped it was not too late to reset the course.

3. Closely examine remaining decisions. Mergers are appropriately divided into phases: "pre-merger, pre-close, and post-close." From an executive's point of view, these phases are useful for managing the process only insofar as each represents a slate of decisions. Our executive needed our help defining the decisions crucial to "post-merger integration" and all that this would entail. We were to ensure that managing "people based risks" and related decisions would play a bigger part in the deal.

Corporate leaders need us not only to listen to their commands, but also to uncover their fears.

4. Come clean and be honest with employees. Dare to assess behavior. Obviously, eating away at our executive was the conviction that critical facts and critical people had been largely ignored during the pre-close phase of the deal. He sought our help to get those people working with him. He asked us to help with a communication plan that was not focused on the media, but on getting, using, updating, and improving the information the management team and all employees had about the new organization. He committed to make an organizational assessment of employee opinion on a regular basis and asked us to provide them with the means to self-assess leader behavior and the strength of the emerging corporate culture.

As part of this plan, he introduced the notion of "cultural fluency" to his Anglo-Saxon managers in respective regions, so that they would be more sensitive to their customers than they had been to one another across cultural borders. The eight characteristics of culturally fluent leaders include: patience, flexibility, responsiveness, open-mindedness, listening skills, self-insight, generosity, and energy. [PwC, *Working Across Cultures*, 1997].

5. Don't look back; ignore sunk costs; focus on key capital. However, that meant having the courage to seek out information — albeit late in the game — that might be critical to the integration. To this end, we were asked to help identify HR value drivers that had been missed in the pre-close investigation. We agreed to focus our recommendations on "key capital" solutions for people and groups we identified as critical to the new organization.

… MANY THE HOPES THAT ARE VANISHED

By the time the M&A process arrives at the post-merger integration challenge, the stakes have been raised considerably. Stakeholders have become fully entrenched in their respective points of view. Organizations once congealed by the prospect of waltzing with the enemy have divided many times over into factions of diverging interest. If these facts threaten the promise of the original deal, we cannot wait until the value of that deal begins to disintegrate before taking action.

The crisis experienced by this executive could happen to anyone — and happens much more often than we might like to

believe. Most often the crises are silenced: there is succession change that takes the executive out of his intended leadership role, or the executive is coached through critical moments of self-doubt by a legal or financial advisor, spouse, psychiatrist, or friend.

Today's corporate leaders are hewn of hardy stock. They are also human; that is, vulnerable and tired, skeptical, lonely, and scared. They need us not only to listen to their commands, but also to uncover their fears. Our role is not to build false confidences, but to provide good reasons why executives should believe in what they are doing and on what they are deciding.

Karen S. Hinchliffe is a Partner in PwC's Global HR Solutions with 14 years of experience consulting on organizational and individual change with executives of multinational companies. Recently returned from eight years in Europe, Karen's expertise includes the leadership of the cross-border challenges of the M&A integration process. Her phone number is 617/478 5506.

Cyber Q&As

by Michael Rose/Washington, D.C.

HR professionals increasingly reach out to expertise available in the virtual HR community by posting questions on the Internet. In this issue of *HR Advisory*, we publish questions about developing an HR/benefits newsletter for a global workforce, the effect of FAS 123 on option grants to non-employee directors, and communicating defined benefit and defined contribution plan changes to the workforce — and answers that PricewaterhouseCoopers' experts e-mailed in response. Visit our Benefits Web page at www.clnewsnet.com/tnn/benefits.html to participate in this weekly exchange or to get weekly updates about HR issues.

Q: I am in the process of developing an HR/benefits newsletter for our global corporation's European employees. I would love to hear from others who have already had successful launches of these communications.

A: Centralized, global HR print communications from U.S. multinationals most typically are limited to descriptions of global stock plans and compensation programs, most often as a one-time or annual event. Ongoing print communications, such as a newsletter, that regularly communicate HR programs are less prevalent. In some cases, regional or local HR has developed periodic memos or, in a few cases, newsletters specific to HR content with or without corporate sponsorship.

More U.S. multinationals are using electronic methods for communicating with employees worldwide. HR communications objectives are often strategically integrated with other global communications to support the organization's global identity; create awareness among all employees of HR programs and benefits; promote consistency in positioning HR programs and benefits to a culturally diverse workforce; and establish consistency in employee communications.

As you develop a global HR/benefits newsletter, we recommend:

- Centralizing editorial responsibility to an HR editorial team to facilitate a common understanding and communication of the business strategy and vision as they apply to HR programs. For example, one U.S. multinational centralized its global communications when HR realized that the organization did not communicate HR programs consistently around the world.
- Linking your editorial staff to corporate communications, which can help you support company efforts to provide ongoing information about your global organization. This includes identifying a global HR philosophy on how benefits are designed for a global workforce that

is linked to the corporate vision and values (e.g., what it means to work for a global company, what the company's global vision is, and how the philosophy supports the corporate messages about vision and values).

- Researching your "stakeholders" — those who can influence the communication content or distribution, including local HR management, corporate communications staff, and, of course, employees. Find out what they want to know and how they want to receive it. Use this information to identify key messages and communication channels.
- Proactively managing cultural differences. Be sure your editorial team has international representation that can address different cultural sensitivities.
- Promoting global collaboration to help local HR understand that you need their support in creating a single global voice, rather than risk their taking editorial control or creating a perception that corporate (U.S.) is dictating to them what must be said. Consider local inserts that answer employees' most typically asked benefits-related questions for the region, then create an electronic version of local question-and-answer sections.
- Determining how frequently you should communicate. Should you publish regularly (e.g., quarterly) or on an ad hoc, periodic basis? A regular timetable requires careful editorial planning but compels management to create more opportunities for communication. While an ad hoc approach gives the appearance of containing "late-breaking" news, without a regular timetable, communicating can be put off indefinitely.

Answer from Kenneth Groh (Kenneth.Groh@us.pwcglobal.com), a Senior Consultant in PwC's Global Human Resource Solutions Practice.

Q: In light of FASB's anticipated changes in accounting treatment to stock compensation (in our particular case, the requirement that option grants to non-employee directors be expensed), how do you think corporate boards will react? Reduce option grants? Reduce option grants with awards of restricted stock?

A: The trend toward using stock-based compensation to pay directors' fees for non-employee directors has been driven primarily by the desire to align the non-employee directors' interests with the interest of the company's shareholders. In addition, under current accounting standards, an option granted with an exercise price equal to or greater than the fair market value of the stock on the date of grant generally does not result in any compensation expense. However, the FASB is seeking to have all non-employee director stock-based compensation accounted for under FAS 123, which was adopted in 1995. Presumably, when this occurs, the benefit of no-cost non-employee director compensation will be lost.

In most companies, the aggregate of options granted to non-employee directors generally does not produce substantial compensation costs compared with the aggregate of grants made to all employees if accounted for under FAS 123. This is true because stock-based compensation for non-employee directors is usually made in lieu of, or in addition to, cash retainer fees, committee fees, and meeting fees. Thus, it is likely that most large companies will continue to use stock-based compensation for non-employee directors if the company has, or plans to have, a shareholder-alignment policy.

Smaller companies and start-up companies, however, may need to assess the use of stock-based compensation for their non-employee directors — since the compensation expense may have a more than de minimus impact on the financial statement. Essentially, these companies will need to compare the accounting costs of the stock-based program with the costs of a cash-based program. Whether stock-based compensation should be in the form of options or shares (restricted or otherwise) will be taken into account during the cost analysis. Vesting schedules, while not affecting the value of the grants, may be structured to beneficially allocate the timing of the compensation charge. In addition, the value of stock-based compensation under FAS 123 generally is not affected by the inclusion of performance targets. Thus, there is a possibility that non-employee director stock-based compensation programs may become more performance-based in the future.

Answer from Stewart Reifler (Stewart.Reifler@us.pwcglobal.com), a Director in PwC's Global Human Resource Solutions Practice.

Q: We are freezing our defined benefit plan and significantly enriching the match and vesting schedule in the 401(k). There are some older participants who will be adversely affected by the change, but the vast majority of the workforce is younger and will benefit greatly from the changes to the 401(k). Does anyone have advice concerning the communication of this change?

A: It's important to communicate early to employees to ensure that they receive accurate information about the plan changes and to avoid the spread of rumors. In your communications, you want to manage employee expectations — let them know that their defined benefit plan will be changing and provide an overview of the changes and the timing. Then, make sure that you deliver on what you've communicated to employees.

How you position the changes will greatly impact how well they are received. Since you are enhancing the 401(k) match and the vesting schedule, you have "good news" to communicate to the majority of your workforce. In addition to highlighting the benefits of your plan changes, you want to reinforce employees' understanding and appreciation of their savings plan benefits, encourage full participation in the plan, and underscore the importance of each employee developing a personal savings strategy.

For older participants, appropriate positioning would greatly minimize any knee-jerk, negative reaction. We encourage companies to be straightforward and honest with their employees: Explain why changes are being made and use examples to demonstrate how they impact the older population. Also consider financial planning seminars.

To educate employees about the changes and the impact on their personal situation, we recommend producing a financial information packet that could include a letter, plan information, personalized projections, and an investment planning guide.

Answer from Laurie Feingold (Laurie.Feingold@us.pwcglobal.com), a Senior Consultant in PwC's Global Human Resource Solutions Practice.

Editor's Note: For more information on communicating DB plan changes,, see Jeffrey St. Amour's article in this issue of *HR Advisory* and "A Roundtable Discussion on Cash Balance and Other Hybrid Plans" in the Spring 1999 issue.

Recently, I met with members of senior management of an organization that had merged about a year ago. Executives at both organizations were positioning the deal in a different light to employees, vendors, and customers. At our meeting, they described their concerns with the state of the company's business: sales had dropped, turnover had increased, and morale had suffered as employees griped about being uninformed. These executives wanted to know what they could do to get their employees to focus on the integration and help make it a success. The honest response would have been: We could have helped you immensely, exactly one year ago.

Change Management

Key to Delivering Value During Mergers

This scenario repeats itself in company after company as industries consolidate in mega-mergers and corporations expand by buying start-ups and private companies. The change accompanying any merger can spook not only employees but any group of stakeholders, including customers, retirees, shareholders, vendors, and community leaders. Typically, during the first year, management focuses on the promise inherent in the deal — and, perhaps, on making other deals. But in 12 months or so, tell-tale problems begin to surface in lost market share, declining operating margins, and lowered productivity.

When management finally wakes up to these realities, it often begins to communicate tactically: financial presentations to industry analysts, press releases to the media, bulletins to employees, letters to shareholders. All will be well, they believe, if they just publish a mission statement that professes trust and openness with employees. Paying lip service to communications does not work. A recent article published in *The Wall Street Journal* described one company whose communications conveyed such little credibility that employees ignored company directives and left in droves.

So what does work? To help ensure a successful merger, the managements of both organizations should be ready, on Day One, to implement a pragmatic strategy designed to turn promise into reality. One linchpin of such a strategy is a proactive communication program that delivers clear, consistent, and current information to key stakeholders. It must address their very legitimate concerns and answer their personal questions — before rumor and innuendo do the job instead.

Day One — Develop A Comprehensive Communications Strategy

In fact, an effective communication strategy encompasses four steps. Step One formulates key macro messages, and Step Two identifies the stakeholders who will receive these messages. Macro messages are refined, based on analysis of anticipated reaction and understanding by the audience to the messages.

Communication:

and Acquisitions

Once this is completed, the strategy is finalized, and the focus shifts to Step Three, implementation. This includes selecting the appropriate media to deliver information to each stakeholder group on a timely basis and creating micro messages to meet the specific information needs of individual stakeholder groups. Step Four measures the effectiveness of the strategy. The table on page xx looks at the strategy from a "who, how, when, and why" perspective.

t must address their concerns . . . before rumor and innuendo do the job instead.

Key Components of a Change Management Communication Strategy

Who	Spokespeople
Says what	Macro and micro messages
To whom	Targeted stakeholders
How	Channels or media
When	Timing and frequency
With what effect	Measurable results
Outputs	How well the media reached the audience
Outtakes	Degree to which the audience recognizes, retains and understands the messages
Outcomes	A measure of how the communications changed stakeholder behavior

Step One: Formulating Macro Messages

This process is conducted with members of the new organization's senior management team, which must agree upon core macro messages concerning the merger or acquisition. Typically, such big-picture messages address these questions:

- Why is this change happening?
- Who in senior management is staying and who is leaving?
- Which company's headquarters will be used?
- What is the merged organization's strategy?
- Will there be changes? Are layoffs planned?
- What's next?
- How and when will we get more information?

Obviously, different opinions surface during discussions of these questions. For example, the COO and CFO of a specialty chemical company disagreed about how to measure the success of their new Economic Value Added (EVA) program. One believed that achieving the EVA program objectives should be the primary measure in the first two years, while the other believed the performance of the company's stock would be critical. Both quickly recognized that, if they could not agree on EVA's most measurable characteristics, communicating the program to a diverse group of stakeholders was sure to create more confusion than conviction. Thus a significant benefit of this exercise is that it forces the entire senior management team to agree on one story to all stakeholder groups.

If senior management is able to build trust with stakeholders, then stakeholders are likely to believe what they hear, even if they don't always agree with the message. Telling the truth, and telling it fast, builds trust. It also prevents members of senior management from looking for ways to "spin" the news to different stakeholders, avoid communicating the "hard" facts, or infuse their personal feelings about the deal into their daily face-to-face meetings with peers, employees, and other groups.

Recently, a large financial institution became front-page news when shareholders

During its purchase of a public hospital in the same city, a hospital with a religious affiliation conducted an intensive stakeholder analysis that identified the auxiliary or fund raising boards of each hospital as stakeholder groups of major influence.

The CEOs of both hospitals had left the auxiliary boards off the original list of groups who would participate in the stakeholder analysis. Without the input of the auxiliary boards, neither the hospital staff nor the community would have bought in to the acquisition.

and analysts challenged its management for being less than truthful about the success of their recent acquisition. The lack of credibility that inevitably followed cost the institution some customers and employees and a drop in the price of the company's stock.

Step Two: Identiflying Stakeholder Audiences

Once the macro messages are shaped, stakeholders and their concerns can be identified. As mentioned, stakeholder groups include employees, different management levels, investors, vendors, customers, community leaders, and retirees. Sometimes, research reveals other stakeholders, such as subgroups within the community, employees, and governing bodies.

This stakeholder research accomplishes two tasks. It *gathers* information from various audiences — their reactions to the deal, their responses to proposed macro messages, their thoughts about the current environment. Through select interviews and focus groups, employees can be asked to describe their primary concerns, which typically include fears of job duplication and layoffs, radical changes in familiar culture and leaderships, loss of personal influence, the possibility of family relocation, and failure to master new job requirements.

In addition, this stakeholder research *sends* messages. Carefully facilitated, this process can communicate to stakeholders that management is interested in their concerns and intends to address them. Stakeholders can also hear that management needs their help to make the newly merged organization a success.

Step Three: Implementing the Communications Strategy

Once the macro messages and the results of the stakeholder analysis are complete, a delivery system with specific components can be implemented. Essentially, the strategy is stakeholder driven — different stakeholder groups receive and confirm messages differently, and this will help shape the strategy.

During this phase, micro messages are developed for different stakeholder groups. For example, micro messages can be developed for mid-level managers to communicate to employees who report to them. This gives both managers and their

Following the merger of two large manufacturing companies, the new organization implemented a policy that all internal communication would be provided to managers and supervisors before being distributed to employees. Managers were also trained in their role in the communication process, and why it was critical to the success of the merger. The new organization found that this communication technique reduced the need for shutting down operations to hold employee group information meetings.

employees the opportunity to discuss relevant issues of mutual concern. Once employees receive information at this level, they are less likely to tune out the macro messages that are communicated by senior management.

Other types of micro messages can be developed to address the concerns of vendors and customers, each of whom have specific — but different — concerns.

The details of each component can be worked out for each stakeholder group. Ideally, these are drafted with input from various organizational areas such as human resources, public relations, advertising, shareholder relations, and legal counsel to make ensure clarity, consistency, and accuracy.

In addition, appropriate communications channels are selected, such as online updates to employees, letters to shareholders, phone calls to key customers, bulletins to retirees. The frequency of these messages is also important, as regular, ongoing communications help build credibility.

Step Four: Measuring Results

Measuring the effectiveness of the communication strategy is essential to keeping it on track. Using quantitative and qualitative methodologies, a company can benchmark stakeholders' responses to communications messages and update or amend them, as appropriate. Through follow-up research, it is possible to determine which messages are being heard, retained, and understood, and which are not. If necessary, macro messages can be revised to emphasize those that have not been clearly received.

From a quantitative standpoint, companies can conduct short "pulse" surveys during stakeholder analysis. The written survey can be reissued to groups of bellweather employees to measure the effects of the communications. Qualitatively, online chat rooms can be established to keep open the channel through which employees can express their ongoing concerns.

Research can also determine whether the communication strategy has changed stakeholder behavior. For example, increased levels of employee self-sufficiency

can save substantial amounts of money, and voice response communications can provide employees with better, faster communications about human resource policies and benefits.

Strategic Communications Help Deliver Value

Strategic change management communication plays a vital role in developing a new infrastructure that delivers on the promise of the new organization. With this infrastructure in place, the newly merged organization can accomplish critical objectives. From the outset, it can stabilize the organization to build momentum for the new company strategy. Within this environment, it can clearly articulate the business case for the merger, acquisition, or major change and communicate the "why" of change and its meaning to stakeholders. Finally, it can focus stakeholders on the behaviors that will drive the new business strategy.

Jeffrey St. Amour leads Organizational Change Management and Human Resource-related practice for the East Hub of PwC's Global Human Resource Solutions Practice. His phone number is 215/963-8435.