



Guiding your people
through a corporate
separation

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Transactions are on the rise in life sciences: are you prepared to bring your employees along the journey?

After a slowing of mergers, acquisitions and divestitures across the life sciences sector in 2022 due to political, economic and regulatory uncertainty, organizations are once again turning to transactions, like organizational spin-offs, to build business, grow opportunity and create value. In fact, according to the recent *EY CEO Outlook Survey*, 99% of US CEOs expect to pursue transaction initiatives over the next 12 months, with 45% of them planning a divestment or spin-off.¹ The reasoning is simple. A spin-off slims down the original organization, creating a new company and the opportunity for both to grow more efficiently on their core capabilities, refine their missions and capitalize on specific market opportunities. When executed well, these transactions can lead to an excess blended return of about 6% after two years post-close as compared with the sector index (as found through a 2023 report, *Strategies for successful corporate separations*).² However, too many organizations remain focused on the mechanics of the transaction, either forgetting or deprioritizing the critical importance of people in the equation. How your employees navigate and lead through these times of organizational transition is critical to a smooth spin-off and, ultimately, value creation. If your business is embarking on a transaction, or plans are underway, take time to evaluate the needs of your people to put your business in the best possible position for success amid this complex transformation.


Executing a corporate separation with people in mind

Keeping the experience of your employees in mind will increase the likelihood of engagement and eventual success of the transformation.

As organizations evolve and change occurs, it can be easy to lose sight of the many employee impacts while focusing on the numerous time-sensitive tasks; however, it is essential to keep the emotional experiences of your employees in mind to drive the necessary engagement for transformational success. Often, people are fearful of unknown change, and without engagement and transparency, fear can compound over time, which can damage productivity and lead to turnover of employees with critical knowledge. But when leaders put humans at the center of their transformation, the likelihood of a successful

outcome can increase 2.6 times (according to the *EY Transformative Leadership Survey 2022*).³ This is particularly important for life sciences companies in order to protect business continuity and brand reputation and ultimately cultivate continued trust and support from regulators and health care providers. By effectively managing the people side of the change, a corporate separation can become an opportunity to further enable a shift in attitudes, behaviors and culture from the ground up and generate an understanding of the value of the transition internally and externally.





Key success factors to manage the people side of a corporate separation

Answering employees' critical questions along the journey will keep engagement high.

Managing the people side of a corporate separation is complex, with many steps involved to bring leaders and employees along the journey. Based on our experience with Fortune 500 life sciences organizations going through corporate separations, there are five key factors that need to be addressed early on to support a successful spin-off.

1 Establish fit for purpose change management governance structure: how can we create a streamlined and coordinated approach to manage change?

The governance structure to support the change management work should be fit for purpose and tailored to how the overall transaction team is operating. Based on our experience, we recommend setting up a program change management and communications core team that can oversee overarching strategy and plan and

coordination across all subteams and workstreams. This includes the responsibilities to align leadership teams around key milestones in the deal process, as well as the creation of standardized content and centralized standards related to the separation that can be customized by subteams.

Depending on the size and structure of the deal, the change management subteams can be established across applicable workstreams, aligned to the various transactions workstreams or organized around major topics related to the planned separation. We also recommend setting up an enterprise-wide network with representatives across key functions to facilitate connectivity across the organization.



- ▶ Subteams can be set up around major topics related to the planned separation. Assembling the right groups to support change and communications activities for topics like total rewards, talent selection and real estate aims to bring subject-matter experts together with change management, communications and other partners. With a focus on the overall employee experience and change strategy, subteams help ensure accurate messaging and program continuity across each topic's engagement activities and communications.
- ▶ A network of change management representatives can be established across functions. In one case study, we had the change representatives meet monthly to provide input on major change impacts to employees, support change planning and communications activities within their function, and act as a conduit for feedback and two-way communications across the organization. Building this network early in this case allowed the core team to establish trust throughout the journey, while identifying key contacts and keeping information access/sharing a top priority.

2 Engage and retain leaders and employees critical to deal success: whom do we need to make this deal a long-term success?

In the initial stages of a corporate separation, it is essential to determine the critical talent that must be retained to protect business continuity and drive the success of the divestiture. This can include critical R&D scientists, top sales personnel, and anyone who holds essential organizational knowledge and has a high degree of organizational influence. While it is important to map out the individuals essential to the execution of the deal and who will be required to support upcoming changes, roles deemed to be critical to the success of the future independent operations of the NewCo should be identified in parallel, and priority should be given to qualified internal hires.

The HR function can help set guidelines for selecting critical talent and designing tailored retention strategies and bonuses, in coordination with applicable local unions, to stay aligned with legal requirements and local preferences. While financial incentives are important, proactive, clear and consistent communication is also critical to mitigate any retention risks during a transaction.

Navigating a corporate separation journey can feel unsettling for employees; they are often wondering "What is the reason for me to stay?" or "What is the opportunity in this for me?" Proactive and personalized communications can provide employees a strong sense of security, which can be leveraged to provide further clarity regarding the types of opportunities that employees will gain because of the corporate separation process, such as career advancement, growth opportunities and strong financial security. By effectively implementing financial and nonfinancial incentives to retain critical leaders and employees, the transaction team helps the organization retain historical knowledge and gain program ambassadors and influencers who can support a smooth transition journey.



3 Enable people managers to communicate to impacted employee populations: who is joining the new company (NewCo)? Am I?

We recommend beginning the process of identifying impacted employee populations early in the corporate separation journey as this effort will require extensive coordination and analyses across all functions and could create additional complexity when it comes to change management. The key here is to enable and support people leaders to provide personalized communications and information to those who are either joining a new company or transferring to a new entity.

What company am I a part of? If employees are already working on impacted business unit(s) that would be dedicated to NewCo, this employee population can be quickly identified as proposed NewCo employees. In many cases, we recommend conducting an employee census to gather work allocation, where leaders can provide additional data points on employees' scope of work and day-to-day activities to assist the identification of dedicated employee populations.

The people managers of dedicated employees should receive tools and resources to support communications at the employee level. In our experience, global training sessions and toolkits can be provided to enable people leaders in communicating to dedicated employees who will be joining NewCo. Through training and other tools, people leaders should be equipped with guiding principles and behaviors necessary for these communications, such as active listening, leading with empathy and authenticity, to help create a positive experience for these employees.

What entity am I a part of? A key step in a divestiture is legal entity separation. "Legal entity" refers to the official, legal name of a local company and how it is seen by governments, regulatory agencies, etc. This process stands up new legal entities and aligns assets, employees and contracts with the appropriate entity, within the appropriate company. Employees across NewCo and RemainCo may need to transfer to a new legal entity, depending on the way the entities are structured. Ahead of the legal entity transfer date, the people managers, HR and employee/labor relations teams should be briefed on the upcoming transfer and provided with assets, tools and resources to support them.

Employees need to be notified that they will be transferring, although the means of notification may vary by location due to legal requirements and local preferences. Information should be provided on the specific impacts to them and, most important, details on the required actions needed from them as part of the legal entity transfer process. Customers and suppliers may also be impacted by a legal entity transfer, and communications to these groups are needed as well.

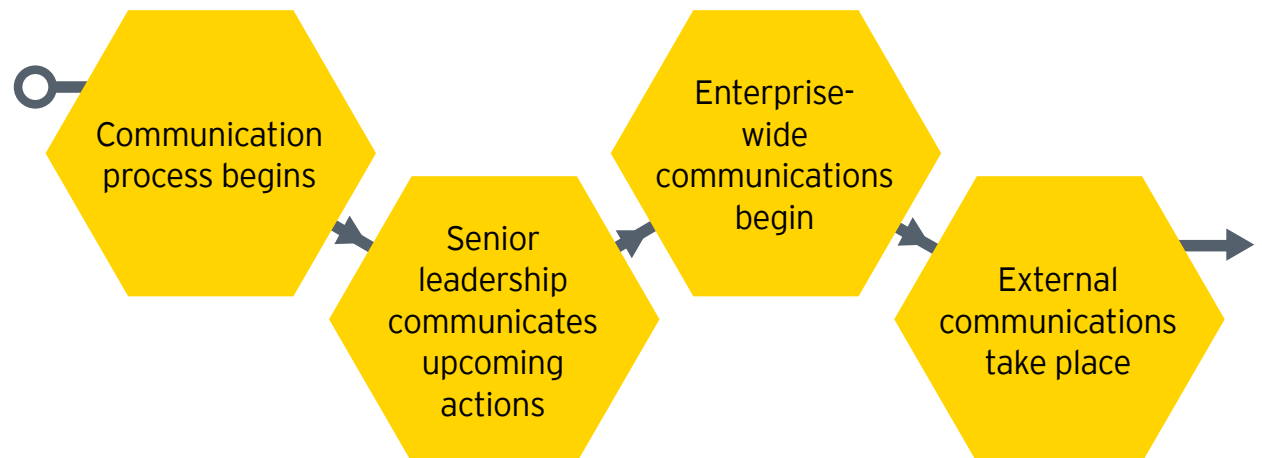


4 Prepare employees by communicating what they can expect along the journey: what can I expect as part of the corporate separation?

As your organization approaches the final spin-off, employees may have an emotional connection or a sense of pride from working with a well-established company that could be challenged. With this in mind, it's important to be thoughtful in guiding employees through the major milestones along the corporate separation journey. Having a carefully crafted plan with sequenced communications can be effective to build up the excitement and support RemainCo and NewCo as they operate as two independent companies.

NewCo name announcements. Once a spin-off is announced, anticipation builds regarding the name, brand identify and purpose of NewCo. The communications process typically begins with senior leadership, such as the C-suite and board of directors, informing them of upcoming actions including the creation of NewCo, the name, brand position and timing. Leaders should be empowered as advocates to communicate to their teams and generate excitement and buy-in when the time is right. Beyond the leadership announcement, short videos and enterprise-wide communications can be distributed to NewCo and RemainCo employees a few days before the announcement with consistent messaging.

Collaterals to support the press release, company website posts and announcement webcast should be planned out and developed ahead of the announcement. Employee communications, social media content, support toolkits and FAQs can also be shared on the day of the announcement. Employees should be encouraged to share the excitement and news, leaders should cascade the message utilizing approved leader toolkits, and local teams may even organize announcement parties and celebrations utilizing approved guidelines.





Company in a company. Some organizations may choose to implement a soft separation, or “dress rehearsal,” for a few months, in which employees begin working in their new roles and locations before legal and final separation. As the legal process ensues, it’s important to address the shift in mindset that occurs for employees within NewCo and the remaining company (RemainCo). For example, employees in RemainCo may be accustomed to working closely with colleagues who are now in NewCo, and vice versa. As both NewCo and RemainCo employees navigate this process, communications, tools and leadership support should be provided throughout to enable them to begin truly operating independently as two companies.

Legal separation. Legal separation occurs when NewCo announces its IPO. Final separation (or day one) occurs when RemainCo is no longer a majority shareholder in NewCo. Support should be provided to enable employees as they go through the mindset shift of being a RemainCo employee or being a NewCo employee and what it means for these two entities to be entirely separate. To prepare employees for this shift in mindset, an education series can be rolled out to define the terminology within the legal and final separation milestones, and what that means for them in their day-to-day work.

After the final separation, organizations can often expect even more substantive changes as they firm up their strategy, operating model and culture. They will likely also have a point in time where any transition service agreements in place will expire, which may create a secondary level of changes for employees in both RemainCo and NewCo.

5 Empower employees by anticipating and addressing their questions: what’s going to happen to me because of this transition?

To communicate appropriately and help employees understand the impact of the spin-off, many organizations establish an employee readiness program. Key readiness activities may include an employee readiness guide and checklists, readiness campaigns, and webcasts that can be tailored to local region and country needs. Managers can be equipped with toolkits to provide information on how to lead their teams forward. In areas with local or country nuances, country-specific webpages can be set up to inform employees about changes that are relevant only to their local country. Question and answer (FAQs) materials as well as live employee polls can also facilitate awareness and understanding and help empower employees to raise questions and obtain the information they need.

As your organization plans and executes the corporate separation journey, make it a priority to proactively anticipate and address the questions that employees will have, whether they become part of the new company or are experiencing a changed workplace. Questions to anticipate in this scenario include the following.

How will my workplace change?

Most life sciences companies have a globally dispersed footprint, and as NewCo and RemainCo workforces become operationally separate, they often will become physically separate as well. This has potential impacts to where employees work, live, and send their children to daycare and school as well as countless other day-to-day practical variables. To begin addressing these questions, the change management team will be partnering closely with facilities stakeholders across RemainCo and NewCo to understand different change scenarios and develop a corresponding engagement plan, communications materials and leadership support resources that prepare employees for the workplace changes that will impact them.

All employees and leaders should be made aware of the different change scenarios, how these decisions are made, and the differences between workplace changes and the legal entity separation. All leaders should be briefed on the possible workplace changes, their role in the communications process and how they can support their teams following the globally standard guidance. Targeted communications should be provided to employees who are experiencing workplace changes, and these efforts should be driven at the regional and local levels, leveraging the standardized messaging and process.

How will this impact my total rewards package?

The global benefits and compensation for NewCo are typically announced in conjunction with the dedicated employee conversations to gain employee trust and goodwill, explaining the similarities and differences in the total rewards strategies. By effectively addressing employees' immediate questions and concerns on this topic early, the organization is able to harness employee excitement into the path forward. There are typically region- and country-level nuances that may not be finalized at this time due to the finalization of terms and contracts with local vendors. The global team can equip regional benefits team with templates and guidelines to create a consistent employee experience across markets, empowering the regional teams to leverage global templates and customize them based on local variations to strike the right balance.

What will happen to my devices and technology?

Employees will likely be concerned about the day-to-day mechanics of their jobs, including access to software, shared data, laptops and smartphones. To prepare employees for the upcoming technology changes, communicate early and often about the upcoming device and technology migration journey by weaving these messaging into the enterprise-level communications. This should also be reinforced through other methods and channels, such as intranet articles and pages and pop-up messages on devices. A dedicated change network is particularly effective to help reinforce messaging in the field and across R&D and manufacturing sites.

Just-in-time and personalized communications are most effective in guiding the end users through tactical steps they need to take in the migration process, such as setting up new credentials, temporary passwords and security. In the planning process, it is also important to build in flexibility around when this will happen to them and where they will receive new devices (at home or work) and provide end users a clear understanding of the future schedule and steps for full migration of devices, software, files and other technology processes.



Risks of not effectively managing the people side of change

Transactions have remained a critical strategic lever for life sciences organizations; however, according to recent EY research,⁴ 75% of key employees leave within three years of a major transaction.

To realize the full benefit and momentum of a corporate separation, it is imperative to anticipate and manage potential pitfalls, while effectively navigating the experience of the individuals going through this separation process to generate excitement.

Without a clear plan, communications are reactionary and rushed, frustrating and confusing all parties involved. This breakdown leads to voids filled with rumors and misinformation.


Poor communication drives confusion, anxiety and a loss in productivity. Employees are more likely to become skeptical of management.

If not engaged appropriately, suppliers may push to use the transaction to adjust terms in their favor. Additionally, regulators may cause delays, create rework or block deals.

Unable to see where they fit into the organization and frustrated from a lack of information, critical, high-performing employees may leave the organization during pivotal moments.

Companies undergoing a corporate separation should proactively manage the reputational risk as it may end up damaging their brand, which may result in consumers considering competitors.





To realize the full benefits of a transaction, you must put employees at the forefront of your separation strategy

In an increasingly tight labor market, neither the value of your people nor the fragility of the employer-employee relationship during times of transition can be overstated. It's essential both for the day-to-day operations of any business and during the "pressure cooker" conditions of a transaction to keep people at the center of your transformational policies, processes and procedures. By communicating and engaging well with employees throughout the corporate separation journey, your company will emerge stronger and more competitive in the market.



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