THE one BRIEF

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PEOPLE & ORGANIZATIONS

Mergers & Acquisitions: 8 Steps For People Success

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OVERVIEW

Financial gains may be the primary factor behind 2015's record level of mergers and acquisitions (M&A), but the costs and implications can be far bigger than simple economics would suggest. In many cases, human capital – an organization's people – can be just as vital as calculating traditional capital assets to understand the true value of a deal.

The right levels of HR involvement can reduce costs and ensure cultural and organizational integration runs smoothly. If the human element is neglected, however, not only can initial costs increase, but the strategic intentions of the deal could also fail to materialize.

So what role can HR play in a successful M&A deal, and why is it important to quantify the value of human capital? Organizations that fail to consider how employees factor into M&A, both in the valuation and post-merger phases risk can risk potential under-evaluations and talent drains.

IN DEPTH

“An M&A deal may seem to make perfect financial and strategic sense, but the organizations involved also need to assess and manage integration and the complexities behind it,” says Paul Schultz, CEO of Aon Securities.

This goes beyond systems, processes and operations. Companies are only as good as their people, so making the most of talent on both sides of the deal can be just as critical as other strategic assets.

With the understandable focus on the financial potential of an M&A deal, “people risks are often unseen and, at times, under-appreciated,” says Kyle Kalinich, Senior Vice-President, Aon Transaction Solutions. “Post-close, successful M&A requires identification of potentially damaging talent flight and proper alignment of management rewards with organizational success.”

How can businesses plan for a smooth organizational and cultural integration following an M&A deal?

Factoring in the Human Elements of M&A in 8 Steps

While there is no magic formula to ensure a successful post-merger/acquisition integration, businesses can take several steps to better understand the people aspect of a deal:

1) Assess cultural differences

Possibly one of the biggest mistakes companies involved in M&A make is that they focus too heavily on similarities and differences between the organizations’ cultures. “Really, they should focus on what the combined culture needs to be in order to execute a winning strategy,” warns Mark Oshima, Managing Partner, Aon Strategic Advisory.

2) Include the cost of integration

Organizations repeatedly neglect to sufficiently estimate the costs of integrating employees and teams in the deal model. As a result, businesses don’t always allocate the right budget to successfully blend disparate organizations, cultures and systems “Getting human capital experts involved early helps you price the deal appropriately so you can achieve the strategic intent of the transaction,” says Oshima.

3) Factor in benefits

It’s not just the cost of physical integration that needs to be considered. Buyers also need to evaluate the target organization’s compensation and benefits programs to quantify financial liabilities. “Acquirers may need to develop actuarial estimates of pensions and welfare programs, which can be used in purchase price negotiations,” advises Kalinich.

4) Prioritize change management

Organizations often overlook the fact that in order to achieve a successful merger, the appropriate resources need to be made available to manage the process. By designating in-house experts who understand the strategic vision of the deal as ambassadors, businesses can create resources for change management. “There must be accountability in the integration process, and all employees should be aware of who holds the authority for strategic decision-making,” says Oshima.

5) Consider legal obligations to staff

Employees’ rights can have a significant influence on whether or not a deal is successful. Cross-border acquisitions often come with unexpected liabilities or generate additional unforeseen costs. “Acquirers need to be aware of labor law compliance, including estimated cost of pre-closing non-compliance,” warns Kalinich. “Are there foreign country regulations that need to be defined and addressed?”

6) Address individual concerns

M&A inevitably leads to some job losses, but simply knowing that they have a job in the new organization is often not enough to satisfy the needs of many employees. During an M&A deal, "first and foremost, people look for safety and security," says Oshima. "They ask themselves, 'Do I have a job in the new company? Will I be able to provide for me and my family?' As companies talk about the new organization, people also need to understand what's in it for them."

7) Communicate, communicate, communicate

Businesses often fail to understand the importance of how they communicate with employees during a merger. Connecting with leadership becomes one of the key drivers of employee engagement during a change like a merger or acquisition. "During a time of change and ambiguity, people want to know who their leaders are, if they are worthy of followership and how they will make decisions," says Oshima.

8) Seek advice

Organizations that fail to seek advice on M&A issues are often guilty of trying to reinvent the wheel. Getting help from third party firms or using individuals that are experienced in how these processes work can save a business valuable time and resources. "They can help you identify issues before they become problems. If you don't know what you're doing, you could put your business at risk and even bring your company down," says Oshima.

Maximizing the impact of HR in M&A

HR should play an important role in the due diligence process in order for firms to determine the quality, capability, fit and valuation of its new and existing human assets. After all, human capital is often a large component of what the firm is buying. By fully considering the people aspects of a deal, organizations can gain an invaluable employee endorsement for the new organization and its strategic vision, enhancing the chances of the deal being successful.

TALKING POINTS

"Integration does not happen 'on the job.' Someone has to make it happen deliberately. Every merger leads to change... Change is hard. The importance of a well-planned integration approach is widely known, though still not executed well as widely." – Rajesh Makhija, Chief Marketing and M&A Officer, Mphasis

"The courtship period of an acquisition is similar to a romantic relationship in that you must be willing to reveal your true self and encourage potential partners to do the same. Beyond fundamental discussions around business aspirations and values, it's essential to ask the more difficult questions about company culture and employee happiness." – Philip A. Nardone Jr., Presidnet & CEO, PAN Communications

"In an M&A situation, culture needs to become an inseparable part of your business strategy. Those firms that develop a well-informed and brand-led approach to culture will gain a crucial competitive edge. While a merger or acquisition changes the status quo by definition, it's also an opportunity to create a new culture that is strongly aligned to business growth and strategy." – Carolyn Ray, Managing Director, Interbrand Canada

FURTHER READING

- Tackling HR Due Diligence in M&A – Human Resource Executive Online, July 21, 2014
- What Mergers And Acquisitions Mean For HR – Business 2 Communities, June 11, 2016
- Harnessing The Power Of Culture In Mergers and Acquisitions – Forbes, May 10, 2016
- Bad Blood Is Good For M&A – Bloomberg, April 13, 2016
- Getting Our Story Straight: Essential Ingredients For A Post-Merger Brand – Huffington Post, April 14, 2016

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