

# Strategic role of HR in Mergers & Acquisitions

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## Executive Summary

In a merger & acquisition, role of an HR has emerged as a very critical function. At each stage of merger and acquisition process, HR plays a strategic role. The importance of role of HR part in integration of the merged companies should not be taken lightly and should be handled very carefully and with due planning. At pre acquisition stage, due diligence should be taken before the start of the process and HR must carve out its role in this due diligence stage. Cultural compatibility should also be considered before taking any decision regarding integration of the two companies. HR should analyze the cultural similarities and differences between the two companies. Communication also plays an important role in the integration process. If HR does not give due diligence while deciding the strategy for integration of the merged companies then it might sabotage the entire merger and might result in failure of the merger.

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## Title Page

The report focuses on the strategic role played by HR in a merger and acquisition. In past it has been seen that role of HR has not been given due importance while taking decisions regarding integration of merged companies. This report highlights the strategic role that HR should play in framing strategy for integration of the merged companies.

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## Introduction

In the new global economy, as the rules of business are changing, the rate of growth of Merger and Acquisition has acquired a new pace. According to Mergerstat.com for year-to-date of 2002, there have been 4,363 mergers and acquisitions worth over \$291.7 billion. The industry breakdown of the top five is as follows (Mergerstat, 2002)

- i. Internet – 659 deals worth \$ 26.06 billion;
- ii. Healthcare – 319 deals worth \$75.25 billion;
- iii. Telecommunications – 187 deals worth \$11.53 billion;
- iv. Banking – 146 deals worth \$11.04 billion; and
- v. Semiconductors – 47 deals worth \$2.4 billion.

However the growth in mergers and acquisitions and activity around the world, the volume of capital at stake, and the frequency of merger and acquisitions stand in sharp contrast to the failure rate which is being observed.

## Literature Review

According to study done by KPMG international on mergers and acquisition found that around 75 percent to 83 percent of the mergers fail (PR Newswire, 1999). Here we mean failure as lowered productivity, labour unrest, higher absenteeism, and the loss of shareholder value. And in some of the cases, it could also be inferred as the well publicized dissolution of combination of the above mentioned factors. As evident from above, human resources could be easily identified as one of the potential factor in M&A failure (A & Shin, 2004) (Sthal & Mendenhall, 2004) (Weber, Shenkar, & Raveh, 1996). With the focus towards integration of human capital during merger and acquisitions, human resource (HR) managers are coming more into the picture, and organisations expect them to play a more strategic role, especially so in the case of extensive organisational changes (Bjorkman & Soderberg, 2003). Today this requirement becomes more important in the terms that the past decade has been characterized by the enormous growth in M&A. The role of HR becomes more and more complex, as HR needs to integrate its own practices and also provide for two more roles i.e. a strategic role for companywide integration and a support role for business unit transaction (Galpin & Herndon, 2000)

Every merger and acquisition can be classified into different categories and the issues which become relevant to it are quite dependent on the organisations which are going through the process, and their synergic dependence. According to one of the studies conducted by Mercer Consulting group, some of the key issues which came out to relevance have been explained in the Figure 1 (Harrison). This study analyzed the process of integration on the basis of degree of difficulty and level of importance. Based on this study, the key point which emerges is that addressing the key employee issues become very



## Pre Acquisition

In this stage, HR needs to take due diligence before starting of the activity. Beginning at the start of the process, HR must carve out its role in the due diligence process. The concept to be understood is that due diligence is much more than a financial tool. It's a tool for assessing the value of human assets, which are not shown on balance sheet, so as to determine the true value of the deal and its likelihood of the success.

First step which needs to be taken is to identify the key peoples and to take immediate steps to keep them engaged with the organisation, even after the deal has been finalized. This means that each business unit needs to be understood, be it the field organisation of stores or be it the process for sales people. It's very important to keep in mind the importance of the field, which is often overlooked during the integration process. Each key individual should be assessed against a set of clearly defined competencies, which would be based on the needs of the new group.

The key areas which emerge for due diligence by HR could be as follows:

- i. Culture
- ii. Employee demographics and Competency Analysis (Based on requirements of new group)
- iii. Key Talent Analysis
- iv. Compensation and Benefit structure to be adopted, its measure with the existing company and how does it aligns with the parent company
- v. Any legal issues such union contracts, pending employee litigation or worker's compensation etc.

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## Methodology

Apart from the above mentioned areas, it's also important to identify and determine the roles needed and identifying the best people who are most suited for them. Most of the times, pivotal people in the organisation, get lost because staffing decisions are made without any plan, without giving thought to equitable process of assessment, and without taking the future needs of business into consideration.

## Culture Compatibility

An important aspect of the pre acquisition strategy is to understand the similarities and differences between the two companies at the outset, so as to compatibility could be determined at the initial stage itself, and relevant decision regarding merger and acquisition could be taken.

A 2006 white paper from the Economist Intelligence Unit revealed that 67 percent of survey respondents pointed to cultural integration as both the most important people issue and the most critical success factor in an M&A deal (Bundy & Hukins, 2009). More recently, a report from the Economist Intelligence Unit titled M&A Beyond Borders: Opportunities and Risk, in conjunction with Mercer, found that organisational culture differences and human capital integration issues ranked as the two most significant challenges faced by respondents in recent transactions.

HR could play vital role in this aspect, as it's the only function which is equipped enough for determining the compatibility. Some of the key areas which need to be focused during this stage could be as follows:

- i. History of the company, its reputation in industry, and its product and services
- ii. Where does the authority lies within the company, is it bureaucratic or freewheeling etc
- iii. Emotional element involved i.e. what does the employees think about company, management and future? What employee behaviors are the norm and what values and beliefs are behind those norms?

It's imperative to identify the cultural areas of dissonance, so that people can dispel misconceptions and begin creating a culture that's right for the new organisation. If this step is not taken at the onset of the process itself, then it's quite possible that it could become major point of conflict at the later stage.

### Integration Planning

Any merger and acquisition would not be able to reach to its goal, unless and until a clear plan and timetable is not assigned to it. The plan needs to be broken down by the different functions:

- i. What needs to be done?
- ii. Who's going to do it?
- iii. When it will be complete?

This means that integration efforts need to be undertaken by a full time dedicated team. There should be fixation of responsibility on an integration project manager, who would be free from all the routine responsibilities. The integration project manager would be requiring a special set of competencies such as program management, broad experience in the company business, and specific functional expertise relevant to the new business. Hence the primary responsibilities which need to be taken care by HR during this phase would be to:

- i. Developing the strategies for retaining people
- ii. Examining compensation and benefit programs
- iii. Identifying the barriers to a merged culture
- iv. Creating and implementing a plan for establishing the communication with the newly merged organisation

### Findings

Based on the above responsibilities, following strategy needs to be adopted by the HR Team during the whole process:

- i. The HR team that is in charge of the culture integration must start by building a clear view of the context of change and the rationale behind the M&A. It must ensure that all parties have a full and comprehensive understanding of the context of the deal and the outcomes that need to be achieved.

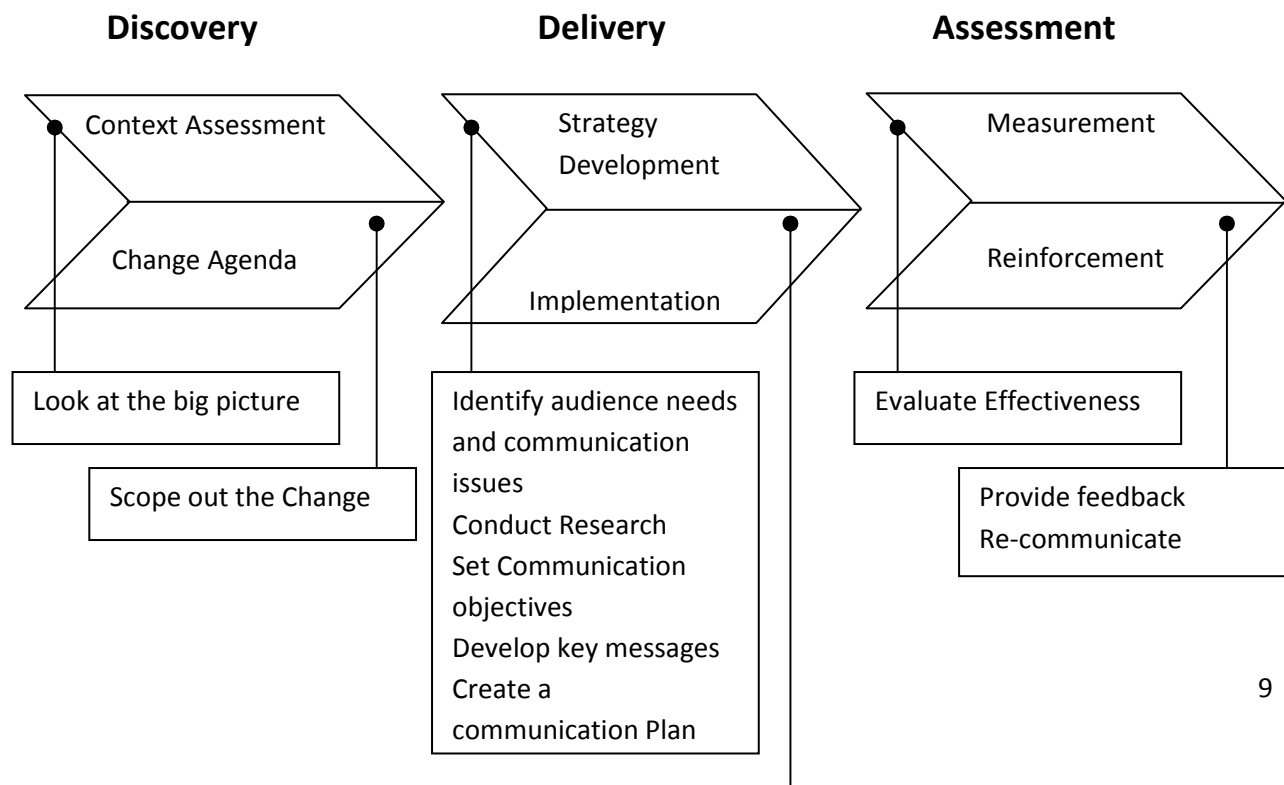
- ii. Next they need to determine the degree of integration in two parts. First, translate the understanding of the deal in terms of the target operational integration. Second, determine the extent of cultural integration required to achieve that operational integration.
- iii. Then clarify the specific behaviors required to run the combined business and include a behavioral assessment of each organization and an assessment of their combined future state. Follow this by proposing the culture change *hypothesis* – specifically, what changes in behaviors must take place to successfully run the post-deal business.
- iv. Next identify the drivers needed to influence those behaviors, design the drivers (initiatives) and then implement those drivers through an effective change management process. Finally set up an appropriate measurement system and reinforce the cultural changes.

## Communication

According to a recent Mercer Transatlantic Study, 75 percent of executives surveyed said that communicating with employees and harmonizing corporate culture were the most important factors for post merger integration. Business leaders recognize that they often fall short in this area (Peterson & Voules, 2007).

The need to communicate is not only required in the later stages, but must be integrated in the whole process from the outset itself. Most of the times, communication efforts from the companies are fragmented with different information and messages going out to investors, employees, managers and customers. Hence, it becomes must that message to all stakeholders must be well planned and consistent in its approach.

One of the communication strategies which could be used during the whole process has been provided by the Mercer Consulting Group, which has been given below:



Develop a Comprehensive project plan

Figure 2: Communication Strategy

During the whole process of communication, the objective of communication should be not only to inform, but also should be to engage the employees hearts and minds. By envisaging the clear vision of the future and gaining commitment to it, the new company would be able to build the loyalty which is critical for the company.

### Synergies

Usually with the help of mergers and acquisitions, companies try to find two synergies:

#### Growth

In this phase, role of HR is to identify the key human resources in the acquired company, setting up retention strategies to retain the critical talent, and to create the development plans for the people to prepare them to achieve the required corporate growth. Other issues which would need consideration would be reward and recognition programs, team development, and integration of compensation and benefit programs, so as to ensure the competitiveness to attract and retain the desirable employee.

#### Economies of Scale

Most of the times, it has been linked to firing of people. However, for us achieving synergy analyses must be done to understand that what the end-game organisation would look like and which positions are truly needed. Once this stage is completed, assessments must be done to decide who would remain and who would leave the organisation.

### Conclusion & Recommendations

With the increase in the mergers and acquisitions with improving of world economy, a whole plethora of opportunity lies before HR function to get properly involved in the activity and earn its long terms dues back from the companies. And to attain it, HR function always need to be proactive, and should take initiative on its own to attain this result.

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