

Winning at Mergers and Acquisitions: People and Organisation

80% of Mergers & Acquisitions fail [Marks and Mirvis]

50% of M&As destroy shareholder value [KPMG]

Up to 85% of failed acquisitions are due to unresolved cultural issues [Industrial Management]

These are stark statistics.

Nobody sets out to spend time and money on something which ultimately reduces value and fails to deliver projected benefits. And yet this happens.

My proposition is that successful M&As need a good understanding of people dynamics, as well as of the culture and organisation elements involved. A premise supported by most research.

Why is the people side so often overlooked?

There are a number of reasons for this, not least being that the primary focus in M&As is on the financials. Generally, the people-related liabilities are not a significant cost in terms of the overall deal and therefore do not arise at the analysis and decision making stages.

There are two exceptions to this. Firstly, pension liabilities which can be very significant and need to be fully evaluated and managed both during the transaction and afterwards. Secondly, it's important to consider occasional specific arrangements that are triggered by a change of control. I have, for example, been involved in due diligence that revealed that the executive team had 'voted in' huge personal payments on change of control. This raised two significant considerations: first, it added an amount to the effective purchase price, and second it left the acquirer at risk of losing these staff (in person or in terms of motivation) following the deal. In circumstances like these, going ahead with the acquisition would require at the very least a contingency plan to replace the leadership team from day one – which is pretty risky.

Another key reason is that many of the people issues cannot be resolved during the negotiation and transaction phase. During M&As time pressures are intense, the amount of work is tremendous, and the focus becomes very short-term. Longer term and 'softer' issues can get overlooked.

Additionally, M&As are among the most significant projects CEOs, and managers, can undertake. Thus there is a significant amount of ego and personal reputation involved. This, along with the momentum of the deal itself, means that halting a deal because of a potential (unqualified and unverified) culture clash is unlikely. Perhaps HR professionals have not helped themselves here; by asserting that a culture clash should prevent M&As, we can raise the stakes too high and end up being ignored. It can be more effective to advance the proposition that people, culture, organisation are critical and will affect the ultimate success of the deal, and should influence the way the deal is executed.

Success demands focus on the people side in addition to (not instead of) the financial side. The emphasis is also different. On the people side the focus should be more on assuring M&A success, than determining viability.

It's very common to be asked why the people side of M&As should be addressed. There are a number of reasons:

- Research shows that it is pivotal in determining post M&A value retention (success).
- It does not need to be hard, or overly costly, and can run in parallel to the deal side (and support the negotiation side).
- Handled well a strong HR lead can take some of the pressure off the core deal team and run the negotiations on the people side, raising those issues where resolution cannot be reached or which have significant financial impact, or offer the opportunity to 'trade'.
- Timely and quality focus in this area saves money and delivers a better overall business result.
- Frequently things done or not done during the pre-transaction and transaction phase can have unintended longer term impact; early focus on the people and organisation side can avoid this and indeed create opportunities that can be realised in the post transaction phase.

What your HR lead can bring to the M&A process

Pre-Transaction

This phase is concerned with evaluating the people related aspects of value retention and deal structure (including incentivisation and retention). It includes:

- HR due diligence – review of all people related policies, contractual obligations, HR related liabilities and assets of the target company, including identification of risks, liabilities and opportunities associated with the deal or new ownership.
- Management due diligence – identification of leadership capability/bench strength (key to evaluating the need to replace or strengthen the leadership team post acquisition). This should also include evaluating the feasibility of retaining key talent and ideas on how to 'lock in' key talent as part of the bid process.
- Pensions due diligence – evaluation and risk assessment of pension arrangements, liabilities and funding.

Transaction

- Supporting the deal team with information about post purchase arrangements for staff - which often increases the willingness of the company to sell to you.
- Providing subject matter expertise and/or negotiating key people and pension related elements of the deal.
- Assessing and approving disclosure documents and elements of the transaction agreement.
- Establishing working protocols for the pre-transaction period such as sanctioning any people related actions including pay increases, bonuses and recruitment.
- Lead HR planning process for all people related matters including appointments (philosophy and process), proposal for integration (absorption, preservation etc).

Post Transaction

- HR plays a pivotal role during the integration phase and has three main activities:
 - Supporting the line in their integration activities (organization design, appointments, retention, communication).
 - Organizing and integrating HR .
 - Managing the HR integration. Including, where appropriate, integrating payroll, benefits plans, HR policies etc.
- Communication to all employees.

The HR lead also facilitates organisation learning from M&As.

People and Culture

Early, consistent focus on the people and cultural side pays dividends both in terms of increasing the chances of a successful transaction and securing/retaining value.

Examples would include:

- Strong employer brand reputation can lead to increased attractiveness as a buyer meaning that price does not become the only determinant of bid success.
- Understanding of cultural differences and preferences at the outset allows the development of more effective strategies for communication, engagement and integration.
- Increased retention of key talent and reduced time to effectiveness.

Costs of transaction

Significant savings in transaction costs can be made through the use of imaginative, context specific, solutions around key acquisition issues – retention, compensation expectation management, integration plans. A key aspect of this is understanding the acquisition intent (strategy) and approaching the people and organisation side with an appreciation of 'what works where'. Examples would include:

- Highly effective alternatives to costly traditional retention bonuses.
- Specific tailored incentive programmes linked to deal success, value retention, business performance.
- Leadership preparation for managing integration and post integration – ensuring they have the mindset and options to avoid unnecessary on-costs, and to retain key talent, engage and motivate the people.
- Light touch suggestions for what to say about HR matters and how to say it during the negotiations.

Value Retention

There are clear benefits to be derived from a full understanding of the people and organisation side of business, transactions and change. While many of these might not kick in until after the acquisition, setting the base up front will add benefit later. A skilled HR professional can work with both the acquirer and the acquiree to support them in the leadership of these elements and the delivery/achievement of key objectives related to value retention. Examples would include:

- Retention of key individuals during and following the transaction.
- With a large company acquisition of a small company – preparing both sides to manage and derive benefit and satisfaction from the post acquisition relationship.
- Support of the leader/owner (plus team where relevant) during the integration phase so that they are able to give leadership to their people during the change. This enhances retention and reduces transaction costs.

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