Viewpoints

Where does employee engagement fit within M&A deal priorities?

By Duncan Smithson and Jill Havely

The employee experience is the sum of all the touch points and moments that matter between an employee and their employer. Employee engagement is one component of the overall employee experience. How leaders and the organization "show up" for employees during a corporate transaction has a direct (and long-lasting) impact on employee engagement, talent and customer retention, productivity and the overall success of the deal.

Increasingly, serial acquirers are recognizing that employee engagement driven by a positive employee experience isn't a nice-to-have in a deal, it's a must-have and should be prioritized along with other critical drivers of deal success.

Summary of key points

1. Employee engagement is difficult to prioritize in M&A transactions because it can be hard to link it to specific deal goals and risks. Leading companies push to have employee engagement as an explicit deal goal to ensure it is prioritized appropriately. In practice, however, this may depend on the size of the acquisition and the integration strategy.
2. Engagement surveys and other listening tools (e.g. in-person or virtual focus groups) are the main tools for assessing employee engagement. Most buyers focus only on the acquired group of employees (as opposed to including current employees), possibly with customized questions specific to the cutover or transition into the acquiring organization. Additionally, there are other tools, processes and procedures available for either assessing engagement or, more proactively, driving engagement.
3. Companies that do not measure engagement explicitly may still capture some aspects of engagement in their culture surveys, since employee engagement and productivity is an important element of culture in M&A.

Duncan Smithson

Senior Director, HR M&A

Jill Havely

Managing Director, Employee Experience

Background

This article is based in part on findings from the M&A Roundtable, a group of senior M&A experts from serial acquirer companies.

Each firm's participants are drawn from their in-house M&A functions, representing either corporate development, business development or corporate strategy (the term varies based on each firm's internal definition of the role) and their HR M&A or HR Acquisitions and Divestitures group. Throughout the series, the content reflects the discussions within the group and not the practices of any single firm.

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The risks of under-prioritizing employee engagement in M&A

Employee engagement is a challenging issue in M&A, not because engagement is unimportant, but rather because it can be difficult to demonstrate the links between engagement and deal goals and risks. Many argue that it's a trailing issue, not a leading one.

The corporate development team or business leadership will say that M&A is a disruptive event, with so much going on that there is not enough time or resources to prioritize any activity that doesn't support a specific deal goal or mitigate a specific deal risk. Unfortunately, this can lead to employee engagement getting lost in the prioritization of other initiatives. If engagement is not a priority, then it's debatable – (i) if it will be done at all or, (ii) if it will be done properly enough to be effective.

Leading acquirers, like the companies on the M&A Roundtable, however, strive to increase their odds of success by using all the strategies and tactics at their disposal, including keeping employees productive. Having employee engagement as a specific deal goal can ensure engagement is prioritized appropriately. And, early engagement can help identify potential deal problems and risks when there's still time to mitigate the impact.

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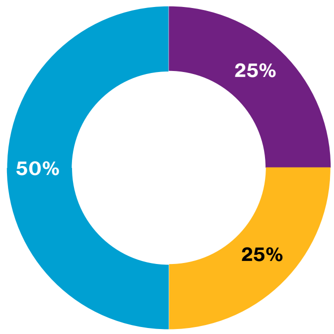
Challenges in practice

During a recent session, we asked M&A Roundtable participants if they have employee engagement as a specific deal goal. The information we gathered provided the following insights. For six out of the 24 companies participating in that session – in other words, 25% – employee engagement is an explicit stand-alone deal objective with specific metrics (Figure 1).

For another 25%, engagement is not its own separate deal goal, but is an input to a metric for other, broader deal goals. And then, for 50% of companies –12 out of 24 – engagement is measured through business-as-usual employee surveys or other approaches. But, it's not an explicit deal goal or metric.

Figure 1: **Few companies have employee engagement as a specific goal**



- Engagement is an explicit stand-alone deal objective, with specific metrics
- Engagement is an input or metric to other broader deal goals, but is not a separate deal goal
- Engagement is measured through the BAU employee surveys or other approaches, but is not an explicit deal goal or metric

All the companies agree that measuring and tracking employee engagement is a worthwhile activity. But many M&A teams struggle to translate that activity into specific actions that support transaction objectives or mitigate transaction risk. The fact that half of the group surveyed does not feel they are currently doing that to the level that they would like shows just how difficult it is to put this into practice. (Note that the engagement needs of companies selling or spinning off business units will likely differ from those of companies making acquisitions. In this article, we focus primarily on acquirers.)

The level of focus is context-dependent

Another theme developed in the discussion with serial acquirers is that the approach to employee engagement in transactions, and whether to have engagement as an explicit deal goal, may depend on the size of the acquisition and the integration strategy.

Consider for example, a tuck-in acquisition where a small business unit is going from a large, global seller to a large, global buyer. Culturally, from the perspective of those acquired employees, that might not be much of a change. If the employees are currently somewhat standalone and will remain so in the future, then there may be limited or no negative impact on talent or changes to the work that's being done or how the work gets done. So, employee engagement (as a deal metric) may or may not be an immediate priority, given other competing priorities.

Conversely, one of the participating companies shared during the discussion: “We are a large, mature organization. We do a lot of smaller, high-tech owner/founder-type acquisitions where even though the size is small, it’s a talent acquisition. It’s not about plant or machinery, or even intellectual capital in the absence of the talent that harnesses that intellectual capital.”

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So, the key conclusion is there isn’t really a standard approach that can be applied every time. Although fostering a positive employee experience and focusing on employee engagement is always a key consideration in every talent strategy, when it comes to prioritizing engagement during a live transaction, buyers need to look at the size of the acquisition and the plan for the acquired business.

Tools and approaches for assessing engagement

The other key theme that emerges is that engagement surveys (and to a lesser extent, other listening tools – e.g. in-person or virtual focus groups) are the main tools for assessing employee engagement, which makes sense. The best way of figuring out what people are thinking is to ask them.

There is an interesting divergence of opinion as to whether to target engagement surveys on the acquired employees only, or to also include the buyer’s existing employees. If both groups are surveyed, there is also a range of opinion on whether to modify the questions, or in some way, pay special attention to the acquired group. Note that we are talking here specifically about transaction-focused surveys triggered by the M&A deal itself, and not just the annual or quarterly business-as-usual all-employee surveys.

The most common approach is to focus only on the acquired group, possibly even with customized questions specific to the cutover or transition into the acquiring organization. The idea is that over time, buyers will phase people into the next all-employee survey cycle.

A key learning from the M&A Roundtable companies is to flag the acquired employees in the buyer’s human capital management system, ideally using the project name or the acquisition name so that companies can track cohorts of employees from different legacy acquisitions and analyze them by their specific subgroup. That’s obviously a good way to identify whether there was a problem with that specific acquisition, or whether there is a general problem with the acquisition approach and how the buyer integrates acquired employees.

Although employee engagement surveys are the main listening tools used for assessing employee engagement, there are lots of other tools, processes and procedures available to create employee connections, protect employee engagement and foster the desired employee experience.

Day-one onboarding

For an example, day-one onboarding is critical. Buyers usually do some type of day-one onboarding, but this is a great vehicle or opportunity for communicating key messages to the acquired employees when they are not yet caught up in the day-to-day hurly-burly of doing their jobs and are primed to receive new information because they are in “listening mode.”

Gathering employee input and insights

During any period of change, employees need to believe that their needs are understood and their voice matters. One of the best ways to do this is through small group roundtable discussions or in-person or virtual focus groups hosted or led by the buying company's leadership with groups of employees across functions and job grades. Focus groups, which are increasingly virtual, rather than in-person, especially since the COVID-19 pandemic, provide an opportunity to dig deeper into some of the qualitative findings from the engagement survey. Typically, roundtables and focus groups are structured so that findings have some degree of statistical credibility.

Many leading companies also provide manager training that is focused on maintaining and improving productivity throughout the duration of the transaction. This is proactive – to give specific training to managers and business unit leadership so they can focus on employee engagement, retention and productivity.

Change champions (or ambassadors)

An effective way to drive engagement with acquired leaders is to have the buyer's functional leaders present to the leadership of the acquired company function by function the various integration plans that the buyer has been working on, get input from the acquired leadership and give them a sense of ownership. In that way, companies create change agents who will go out and talk to their employees – the acquired employees – and be change advocates and change leaders for the buyer. Variations of the training could include an annual two- or three-day workshop with all the leaders acquired in the last 12 months.

Incentive plans

It is quite common to explicitly link executive incentives or retention payments to broader employee engagement and to use employee retention as a proxy for engagement. So, if there is an increase in turnover and resignations from an acquired employee group, then that would impact negatively the incentive or retention payment of the head of the acquiring business unit.

The broader link to culture and the employee experience

The group also discussed culture and culture surveys, given that employee engagement and productivity is an important element of culture in M&A. Several companies said they may not measure engagement explicitly, but they do capture some aspects of engagement in their culture surveys. The group also discussed the importance of culture training for acquired leaders. Most agree it's best to delay culture training from onboarding or cutover until after a few months in, so employees can bring a newcomer's perspective of the buyer's organization to the culture training.

For more details, see our series of papers on culture in M&A.

For more information

Duncan Smithson – Senior Director – HR M&A
duncan.smithson@willistowerswatson.com

Jill Havely – Managing Director – Employee Experience
jill.havely@willistowerswatson.com

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