The HR guide to People and Cultural Problems in M&A Integrations

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Introduction

Much research has been done on M&A, many articles written, and many opinions expressed. You'll find some common conclusions: Most deals fail, and people and cultural problems lie at the heart of many of these failures. A statistic most often cited is that 70% of deals fail, meaning that they fail to achieve the goals that drove the business reasons to acquire in the first place. No matter what the true failure rate is, two facts are inescapable:

1. Deals will continue to happen, since most large firms use the M&A option as a component of their overall growth strategy, and
2. pulling off a successful deal, all the way through to integration, is extremely difficult. Any company must beat the odds to succeed.

Corporate executives often recognize this 70% failure statistic. It's become common to regard culture, and the integration of cultures, as one of the major reasons behind deal failure and the most difficult area to get right in combining organizations. While we agree with this sentiment, we also believe that the people and cultural components are so interrelated that they should not be separated in any debate in this area. The people issues by themselves are complex, involving a combination of both hard, quantifiable financial measures and "softer," nonquantifiable measures. It's true that people can be an organization's biggest asset, but they can also be a significant liability (reflected in the financial statements as the overall employment cost, including the cost of all related benefit plans). If employees continue to perform well, they can drive future organizational performance; if they don't, they can be barriers to such improvements.

People also create the underlying organizational culture (without people, an organization, would have no cultural issues to contend with), and these two components taken together transcend all other parts of the organization. Further complications arise because these issues don't fit cleanly into any formulaic approach, and no fail-safe solutions exist that can resolve many of the people and cultural problems.

Given this background, the purpose of this two-part guide is to provide practical considerations for senior managers on thinking through their "people and cultural" strategy in mergers and acquisitions, thereby increasing their chances of pulling off a successful deal. Our hope is that, after reading this guide, management will be able to identify the predictable issues that arise in this area and follow, in sequence, the three practical steps we offer to

frame, analyze, prioritize and ultimately resolve the common people and cultural problems in corporate transactions. We'll also supplement the theory by drawing on M&A best practices and by reviewing the deal experiences of many serial acquirers. The second part of this guide will delve into the emerging issues of diversity, equity and inclusion (DEI); environmental, social and governance (ESG); and employee experience and engagement.

Background

Before getting into the people and cultural issues, it's helpful to understand the overall context of deals: how they are put together, what's common to all deals and can be replicated from one deal to the next, and what's deal-dependent and varies deal by deal. For the purposes of this guide, we've termed the common themes "universal" and the deal-dependent issues "situational."

Our overarching themes are universal; they can be applied to any deal, in any country. These themes revolve around knowledge — knowing what to do, why to do it, when to do it and how to do it. Meanwhile, in any deal, situational challenges will surface — unique problems that are wholly dependent on that deal's circumstances. But a word of caution: While these themes and concepts can help build knowledge in deal-making, no amount of knowledge can make up for the final piece: having people with the skills, ability and experience to pull off a successful deal, to make the right decisions, to communicate those decisions effectively and to execute them. It's the "can you do it" part of the equation.

> **We know that if we get the people and cultural issues right and appreciate the country-specific factors and differences between us and the target, then we increase the probability of both closing the deal and successfully integrating, thereby delivering the value the combined business expects from doing the deal in the first place.**
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> Head of Corporate Development, global pharmaceutical company

In deals, typically, the overall approach, process and contractual agreements signifying the progression of a deal are universal. Key events such as deciding whether the target is a strategic business fit; negotiating the deal price, terms and conditions; and planning for integration are common milestones in all deals. Likewise, there are common strategic steps in attacking the major people and cultural issues; however, how a company is integrated is deal-specific, or situational, and much more tactical in nature. Another caution here: "Tactical" should not be interpreted as "easy."

We'll use the following hypothetical situation to illustrate our concepts: An HR professional has been added to the buyer's team just before the deal is due to be publicly announced. In deal terminology, two of the traditional phases (due diligence and the signing of the sale and purchase contract) have been completed and we're now in the merger planning period, with integration execution to follow. We've assumed that part of our professional's objective is to assist management with the people and cultural issues arising from the deal, along with the normal functional duties HR needs to address in a deal.

Although the situation posed is hypothetical, the client experiences are real but altered to protect the confidentiality of those involved. Setting up this guide in this way allows us to cover the people and cultural issues in a comprehensive and integrated fashion while illustrating the impact of "universal" versus "situational" issues on the deal. Viewing things from the vantage point of the HR professional also enables us to get the perspective of the function that interacts most with the people and cultural problems in deals. Our final assumption is that HR has not been involved in the preceding stages — the reality in many mergers — and that most of the financial issues related to employing people have been covered in the due diligence phase (by the finance team).

The first thing to consider is the composition of the HR team and the role of HR in this process. Ideally, an acquirer will assemble a team with experience in the deal-making world and expert, on-the-ground HR resources. It also helps to have people who have the confidence and credibility to voice their opinions early enough in any deal to make a difference.

Many of today's leading acquirers did not always work this way, or staff their deal teams with this balance, and therefore fell short of what they could and should have contributed to the deal decisions. Often, companies learn from deals that underperformed, or even failed, that they may need to review their way of doing things and involve HR much earlier in the process as part of their standard M&A operating procedure.

To understand what we mean by "standard M&A operating procedure," most serial acquirers have a corporate M&A team that runs the overall process, business development teams (headquarters-based and possibly embedded in major business units), and regional and local functional resources and expertise to support the effort. This is truly a global approach for many companies, but the best companies aspire to operate as one team when evaluating deals. Ideally, HR forms part of the corporate M&A team responsible for understanding the overall process and goals, deciding when to bring in specialists and local HR resources, or progressing the work themselves. If a deal actually closes, how companies manage the integration depends on a variety of factors, such as the global nature and complexity of the deal and the expertise available at that moment. But typically, the overall intent is to appoint an integration leader to manage the subsequent integration.

> **Early involvement gave us more latitude to determine the right mix of HR professionals needed for any deal and avoid having to play catch-up in deals — the position the HR professional is faced with in the example. The results of our early involvement are telling: Our speed and accuracy in assessment, planning and execution have improved considerably.**
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> Senior Vice President HR, global financial services company

Step 1

Understanding the deal reason and integration strategy

Where should our hypothetical HR professional start? The merger process is already well advanced, so the first step is to conduct fact-finding to understand the history of the merger and the decisions made to date. To do this, HR must meet with the leadership that put the deal together and get answers to four big questions. The answers will enable HR to quickly understand the merger priorities and challenges and therefore determine the resources and expertise necessary to meet leadership's expectations regarding HR's contribution to the people, cultural and functional areas. These questions are:

What were the primary business reasons for the acquisition, and what are the goals for the integration?
Or put another way, why was the deal done, and how does the buyer intend to integrate the target into its operations? While reasons vary by deal — buying talent or product, market access, geographical reach or industry consolidation — HR must understand what drove the deal and the related integration goals to determine how these factors influence its priorities.

What is the strategy for integrating the acquired firm?
This centers on understanding the level and depth of integration anticipated — from minimal to full integration — and shows how the integration goals will be achieved once the acquired company is formally owned by the buyer. In minimal integration, the acquired company is maintained as a stand-alone subsidiary, often used when talent is acquired, or the buyer enters a new geography. In the other extreme, full integration, the acquired company relinquishes its identity and is rolled into the buyer's operations, often in industry consolidations. In many deals, a further complication is that different parts of the acquired company will be integrated at different levels, from minimal integration of the sales function to full integration of the back-office support functions. Whatever the situation, HR must understand the integration strategy to assess the people and cultural challenges and complexities inherent in that strategy.

What is the strategy for communicating the deal, integration and changes?
How will the buyer ensure stakeholders understand the deal rationale, integration strategy and consequent change triggered by the deal? Although many stakeholders are involved (such as existing shareholders, the investment community, unions, government agencies, customers, vendors, the press and employees), HR's primary concern will be communicating with the employee population. To do this effectively, HR must understand the business-wide communication strategy and align employee communications directly with the overall strategy.

How will the integration be managed?
A trademark of successful integrations is that they are well led and well managed. Although the specific circumstances of each deal determine how the two companies are integrated, HR must know the plan for managing the integration, since this will determine HR's contribution to the integration and the resources it needs to allocate to the effort.

> **"It's not working on culture, for culture's sake. Some of our first attempts at this business case took this rather naïve approach. We knew culture was important, but we did not have much substance behind the statement. We 'crashed and burned' in front of some our leaders, when it was not explicitly clear to them what this work would lead to, what it would impact."**
>
> Corporate Development Leader

The head of HR M&A at a global technology consulting company told us "in a recent transaction, one of our business teams identified a target that allowed us to acquire technology and talent in several countries. Identifying and retaining key talent would be a business priority. Meanwhile, our corporate M&A group mobilized a broader team to pursue this deal and evaluate the overall opportunity, including determining the appropriate team size to work on the deal. It was led by our head of M&A and coordinated by the business development team for the acquiring business unit. Functional experts from finance, HR, engineering and integration were included at this early stage, and as soon as it was clear that country-specific diligence was critical, sub-teams were established in key countries."

For this company, the local process replicated the global process, with sub-teams led by a business leader in each key country, staffed with local functional experts and supported by regional business development as required. Local teams were responsible for evaluating whether the business case held up for their country and advising the overall team on the costs and risks specific to the target's operations in the country, emphasizing retaining key talent. In this case, the result was that the company modified the global strategy for the timing of the integration and the transfer of talent based on their evaluation of what was necessary to retain the talent (and customers) in some key countries during the transition.

To manage the integration as deals move deeper into integration execution, it's not uncommon for team members to change roles to carry out the desired integration strategy. In the situation above, the sub-team business leads and the functional teams from the company's local operations led the combined business, while the corporate and transaction team members moved into advisory roles until the integration process was complete, at which stage they exited completely. Unlike the hypothetical HR professional scenario we presented, this company's HR M&A leadership was intimately involved in understanding the strategic reasons for pursuing the deal and conducted its due diligence before getting to the integration phase.

Step 2

Providing the framework to analyze the people and cultural issues

With the information from Step 1, what should our HR professional do next? The second step requires HR to provide a framework for senior management to understand the people and cultural issues within a broader business context. This is essential for two reasons: It directly shows how the people issues affect the entire organization, and it immediately gets the cultural issue on the table.

This is where less experienced acquirers often get confused and, worst case, equate people and cultural issues as HR issues to be solved at the functional rather than the leadership level. This is a huge mistake that, if not corrected, lays the foundation for many of the people and cultural problems that typically occur in deals. Since these are business-critical issues, the dialogue relating to them must start at the highest level in the organization — leadership — and remain there until a complete understanding has been reached of how all the major people and cultural issues will be handled.

The framework in Figure 1 can be used to kick-start the basic business discussion on these issues. It shows the major components in these areas, classified in terms that business leaders can visualize and more easily relate to and therefore more easily understand. The foundation of this chart centers on segmenting these issues along three interdependent lines — financial, people and cultural — and categorizing them from both a financial and an operational perspective.

The financial line represents the underlying cost of employing people: the plans, programs and contractual obligations due to some or all of the employee population. This segment helps identify and quantify all of the items that affect the acquired company's cost structure and their impact on the financial statements. It shows the major financial items that arise from employing people, categorized by retirement and retirement-related plans, medical plans, executive contracts (including any accelerated stock gains due to the acquisition) and compensation levels. Also included in this segment is a line item showing the total cost of employing people by adding all their financial components together (from direct wages and salaries to benefit plans, incentive plans, perquisites and any other arrangements).

Note: These financial items will normally have been covered as part of the due diligence, typically led by the finance or HR due diligence team. In our example, we've assumed that the finance team has reviewed this segment.

The people and cultural components are wholly interlinked, simply because it is people who create, maintain and ultimately change a company's culture. Think of it this way: If there are no people coming across as part of the deal, then there are no cultural issues. In general terms, culture centers on groups of people and their related ways of thinking, and these groups are linked because leadership sets the cultural tone in any company, management communicates the culture, and the employees learn and apply it. Given this interdependence, it's important not to separate people and culture. The goal in analyzing these components together is to understand how the acquired operates, what it does well, and what and who fundamentally drive its performance and productivity.

Understanding the similarities and differences in the ways the buyer and the acquired do business enables the buyer to focus more sharply on what needs to change (in its own organization or in the acquired company), who needs to change, and how and when these changes should take place.

So, in Figure 1, the people segment considers people as individuals or as groups of individuals and involves the identification, assessment, selection, motivation and retention (or termination) of the top leadership and talent at the acquired company. But it goes beyond merely identifying the talent by determining what contractual terms and conditions should be offered to this group. Also, if large-scale reductions in the employee workforce are contemplated, they are captured within this segment.

Figure 1: **Framing the people and cultural issues**

Financial goals: Understand the cost structure. Identify and quantify all items affecting the financial statements

People and cultural goals: Understand the productivity drivers by understanding how work is done and who does it to determine what needs to change

Financial	People	Culture
Employee plans and programs	**Individual**	**Organizational**
• Retirement and retirement-related plans	• Leadership/talent: identify, assess, select, retain, terminate and/or motivate	• Leadership/talent: number and depth, selection process, decision-making process and how power is exercised
• Medical plans	• New executive contracts	• Organizational model: structure, design, supporting systems and infrastructure
• Change-in-control contracts, including accelerated stock	• Workforce reductions	• Reward systems: structure and incentives
• Compensation levels		
• Total costs of employment		

Meanwhile, the culture segment gets at the specific organizational issues that are unique to every company. Bear in mind that there is no one globally accepted definition of "culture." The important point is to understand the elements of any definition that most affect the organization's performance. While the people segment determines who does the work, the culture part determines how the work gets done. It shows the company's process to select leaders and identify key talent, along with how these people make decisions and exercise power. It captures the type of organizational model and infrastructure the company uses to operate its business, including the systems in place that reward people for their work and support the behaviors desired to achieve their performance goals.

Looking into the future, many acquirers eventually want to end up with a "one firm" look and feel to the business, but how and when this is achieved varies by transaction, since the immediate integration priority is to keep the business functioning at an acceptable level. And while acquirers expect some degree of change at the target (to reflect their way of doing things), often change is required by the acquirer's existing business as well, and this is where early talent and cultural assessments come into play.

> **Local input is critical since we've learned from past experience that we cannot accurately assess culture or talent from afar. The process we follow is that either our in-country HR lead or a representative from the regional HR team jointly works with our business leader to assess the talent and culture at a target company, including the risks and issues associated with bringing them into 'one firm.**
>
> Chief Human Resources Officer,
> global semi-conductor company

Companies often rely on global functional leaders to assess technical competencies, but the overall process is typically owned by the business leader and its HR partner. For many companies, these talent and culture assessments can be as important to the buying decisions as the discussions on overall business and operational fit, and in some cases, this is not just an HR sentiment but one that is also shared by the business unit leaders.

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In a recent deal, our due diligence assessments showed that the cultural differences between us and the target were large and that bridging these gaps, while not impossible, posed a significant challenge and business risk. So, we determined that for this opportunity, an investment — rather than any other acquisition strategy, including abandoning the deal completely — made better business sense. In part, this decision was made because of the findings from this cultural assessment.

Senior Vice President Business Development, large healthcare system

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In contrast to our hypothetical scenario, successful acquirers are involved in understanding the cost issues and can conduct preliminary talent and cultural assessments, thereby building a deeper and more fact-based database of information to use in the integration phase.

With respect to the financial part of the "people" investigations, it's common for the HR team to lead these efforts, coordinating with the finance and legal teams where appropriate. In all deals, companies seek to understand the target's overall cost structure, and one of the measures in the cost equation is to estimate the employee cost structure. The ability to identify and quantify all the costs of employment — and to compare those costs both to other acquirer businesses costs in that country and to local market rates — is a critical component in the overall evaluation. For many companies, determining salary costs is a first step, but that alone does not show the full picture. In most countries, the total cost of employment can be expected to be higher (sometimes significantly higher) than just the payroll figure, with higher percentages in the business founders/ senior leadership group, once the cost of benefit plans, allowances, and any additional costs to retain or transition employees over to the buyer are factored in.

Step 3

Leading and managing through the deal — making the right decisions in the right order

Now, onto the acquisition itself, where the process of formally integrating the target into the buyer begins and where our HR professional must make recommendations to management. It's here that the significant issues covered in planning now need to be definitively agreed upon, communicated and implemented.

Two additional deal realities come into play here: time and information (or more precisely, the lack thereof). The fact is that many mergers are time-constrained events — often termed a "race against time" — as the demands of integrating the companies are set against the backdrop of basic business needs: to continue to win new business and to avoid losing customers or talent, or both, to competitors that step up their activities in each of these areas. Added to this is another complication: Many issues need to be tackled, often simultaneously, but likely without the breadth and depth of data that go into typical day-to-day decision making.

To be truly effective given this setting, it's critical that our HR professional prioritizes issues quickly so that decisions can be made with the best information available, enabling the merger to progress toward its goals.

Figure 2 shows how HR should prioritize and present its recommendations to management focusing on three categories: 1) immediate strategic priorities, 2) immediate HR functional priorities, and 3) HR issues that can be deferred for later resolution.

Deal decision drivers and influence	Immediate strategic priorities	Immediate HR functional priorities	Deferred HR issues
Reasons for the deal and goals for integration	Organization model, structure and design	Transition of payroll and enrollment in benefit plans	Organizational processes that are not critical to integration
Integration strategy and level of integration anticipated	People decisions on key leadership	Employment contracts for key leadership and talent	Performance management and incentive harmonization
Communication strategy for deal, integration and subsequent changes	People decisions on key talent	Broader-based staffing and selection decisions	Retirement plan design changes
Integration management	Termination relating to large-scale reductions in workforce	Negotiations with represented employees	Broad-based compensation levels
Evaluation of HR's current strategic credibility	Change plan and related communication strategy	Integration of business and employee communications	Ongoing, relevant and consistent communications

All the priorities listed below flow from the information gained in Step 1, “4 essential questions HR leaders must ask the M&A deal team,” since the information gained at this step affects what the buyer and the target organization must focus on to achieve the overall deal goals.

Immediate strategic priorities

The strategic people and cultural decisions are those that have the most significance — the broadest organizational and companywide impact. Decisions at this level affect decisions at levels below them; therefore, they need to be discussed and decided at the senior management level, done first and in the order shown below. The major strategic decisions are universal:

Organizational model. This is the fundamental model that shows how the merged business will be managed to help the business achieve its goals. It delineates the shape and structure of the new business and how reporting lines and work teams are to be organized. Until the model is final and communicated, uncertainty often prevails as employees at all levels speculate about how the business will be organized and led, along with their likely roles and positions within this model. In practice, the major leadership decisions must be made and communicated at the same time as the new organizational chart is announced.

People decisions. These relate to the selection of the key people to run the organization and the retention of key talent, as determined by the needs of the new business, in conjunction with their responsibilities, “power” and reporting lines. These are the individuals who will fill the key job slots in the organizational model above and will also be the primary leaders in communicating the merger message throughout the combined organization.

Depending on the deal, most acquirers spend a lot of time reviewing structures and roles and responsibilities associated with structural changes when acquiring a company. Goals for the key people (leadership and talent) are in general to ensure there are meaningful roles not just for them but also for the acquirer’s existing team.

Note, however, for smaller acquisitions the process is typically easier; companies are more likely to merge the new talent and teams into the existing acquirer business and functional reporting trees and structure.

> **“Our first priority is creating a business model that makes sense for the combined business. However, it is not always easy to accomplish, and it’s a challenge balancing the structural issues with people’s roles and with the realities of most deals: limited time, extreme confidentiality, lack of access to all the talent, and the activities of competitors around both our talent and our customer base. We can’t always keep all the employees we like or need. And even if we like them and they like us, they might not like the decisions we make regarding where they fit within the revised organizational model. We have to accept this reality as part of the deal-making environment, and we plan for it accordingly by incorporating both succession planning and contingency planning into our people integration strategy.”**
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> Vice President HR Acquisitions and Divestitures, global engineering technology company

Workforce terminations. This area relates to deals where large-scale workforce reductions are planned. If these form part of the wider integration strategy, they need to be announced as soon as feasible, respecting the legal processes, employment laws and restrictions of each country.

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In a recent major transaction, the integration team determined that changes to the organizational structure were needed to support the combined business. While the HR, finance and IT functions were aligned to our model, the operations were reevaluated. Ultimately, a completely new reporting structure was deemed necessary to support the business in that area, along with decisions on the best leaders to fill the key business positions. This new structure was determined by the integration team and designed to meet the needs and deliverables established by that team. The team itself was formed of leaders from both our team and the acquired business, and the eventual structure did not reflect the prior structure of either business. In this case, the people decisions and structural decisions were made virtually simultaneously by the integration team, with the integration leader having the final say on any potential conflicts, based on the common business goals for that operation as determined by the integration team.

Head of Corporate Development,
global technology company

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On the talent side, as part of the diligence phase for a recent small acquisition, we met with several key employees and the overall business leader to understand their needs and to understand what the talent, individually, was motivated by. We then prepared a proposal for our management to consider covering the type of roles and compensation that would be necessary to retain and engage the new hires. The proposal was supported by the business lead and subsequently accepted and incorporated into the negotiation and integration plans. Once the deal was closed, we were able to communicate these proposals quickly to the key talent, and, in this case, we retained the entire team.

Head of Talent Integration,
global technology company

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Terminations are not a significant feature of every deal, especially for talent-based acquisitions where buyers are more focused on retaining the target's talent; however, deals frequently do lead to workforce terminations, where the buyer does not want all the people involved in the transaction (at least, not beyond the immediate transition phase after closing).

In these cases, experience in doing business in local countries — coupled with strong local HR teams that know employment law in this area — is vital to working through the issues related to terminations. Companies strive to ensure that the business reasons for these events are clear and that communications are coordinated and consistent. For many companies, it's just as important to the employees remaining as it is to those who are leaving; the stayers need to know what's going on, and why, so they can avoid any speculation about who might be next.

Communicating changes. The challenge in any merger is to keep employees engaged, motivated and productive during the period when all the complex issues are being resolved. Decisions about the organizational model, people, reporting lines and workforce reductions have a significant, immediate impact on employee behavior and performance. Employees at all levels need to understand the impact of the merger on two fronts — themselves and the organization — before they can be expected to keep working productively. This means that they personally need to know: 1) whether they have a job; 2) if so, whether their pay and benefits will change; 3) whom they will report to; and 4) whether they will need to relocate. Organizationally, they need to know what's changing in the way they do their work and what staying the same. For the work that is changing, they'll need to know how to accomplish this new way of doing work, the details behind the "what" and "how," what precisely they will do differently and how they will do it.

These two categories — personal and organizational — of major issues affecting employees' lives and productivity must both be addressed. One without the other won't keep productivity rolling. The integration team must focus on resolving these issues and convey the progress of these issues and decisions. This involves a communications strategy that is well planned and flawlessly executed, which addresses all the changes — personal and organizational — on a consistent and ongoing basis, including a plan to manage and implement the desired changes to the employees' behaviors and work practices.

Immediate functional priorities and deferred HR issues

Key HR functional responsibilities, starting with those that support and align with the higher-level strategic decisions, must be established. They are triggered by the acquisition, determined by the integration strategy, and are completely "situational" in that they vary deal by deal. The critical functional issues are HR's direct responsibility.

> **"We place a heavy emphasis on communicating the deal and the deal's impact on people. Our communications strategy includes both global and local components, and we make sure that our local teams have an opportunity to review any global or mass communication and comment on or highlight any necessary changes to avoid misinterpretation. In past transactions, we tried to rely solely on business logic and mass communication to convey our message, but after extensive "after-action review" over the last two years, our M&A and business teams determined that these tools by themselves were insufficient to affect employee behavior, performance or individual retention decisions. More was required. We were missing the detail that individuals sought. In one deal, where we changed the organizational structure, the process we used to communicate changes was important. The review of the organizational structure itself involved a cascading evaluation, by organizational level, and this took time. So, we set up a process for constant communication with employees to ensure they understood the decisions made and the timing for the next level of review. Face-to-face meetings were a vital component of the overall strategy, and these meetings covered not just the organizational changes but career development discussions, tailored to individuals to specify clearly the new employee's job, role and responsibilities."**
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> Head of Talent Integration,
> global financial services company

Unfortunately, for our professional, these same issues are also labor-intensive, tie up resources in planning and execution, and if not executed with precision can destroy any hope of HR contributing to the strategic companywide discussions. The expression “the devil is in the details” holds true here, but it’s important to separate out what must be done now from what can be done later, to avoid the common “everything is a priority” pitfall that sucks up HR’s time and attention. While many issues are important, not all need immediate attention or resolution.

Typically, the immediate functional priorities, those requiring attention and resolution, comprise:

Transition. These are the basic issues that must be dealt with to get employees into a new employer’s system and include transferring employees into new payroll systems and enrolling employees in new or revised benefit programs, along with other transitional issues to be worked through with the acquired organization or vendors supplying these existing services.

Employment contracts. These are the written agreements between the buyer and key leadership and talent, confirming previous oral discussions in such areas as the specifics of role, goals, reporting lines, pay, incentives and benefits.

> **During one acquisition, we determined that bridge plans were necessary to allow for smooth interactions and minimal disruption in business. These bridge plans were arrangements worked out between functional counterparts from both firms to determine how we would manage the differences in their payroll and processes until full integration could be achieved.**
>
> Global Head of Compensation,
> global technology company

Broader-based staffing and selection decisions. These relate to the secondary wave of people decisions after the key leadership, talent and workforce reduction decisions have been made. To manage these issues, HR must have a process in place to ensure that consistent decisions are made with respect to both filling job openings and terminating employment for some employees (who have not been part of the larger-scale workforce reductions).

> **We back up the commitments we’ve made to key talent with contractual agreements. But to get to this stage, the business leader, HR and the global M&A team work together to ensure we have all the details needed to put the key people under our contracts on Day One (the day the target formally becomes part of us). HR prepares the offers and ensures these are aligned with our general terms and conditions. But to have all the required information prepared requires a lot of country-specific diligence and personal contact with the target business team, both during diligence and in the period prior to actually acquiring the business. It would be almost impossible to offer the detail we require in these contracts without that preparatory work.**
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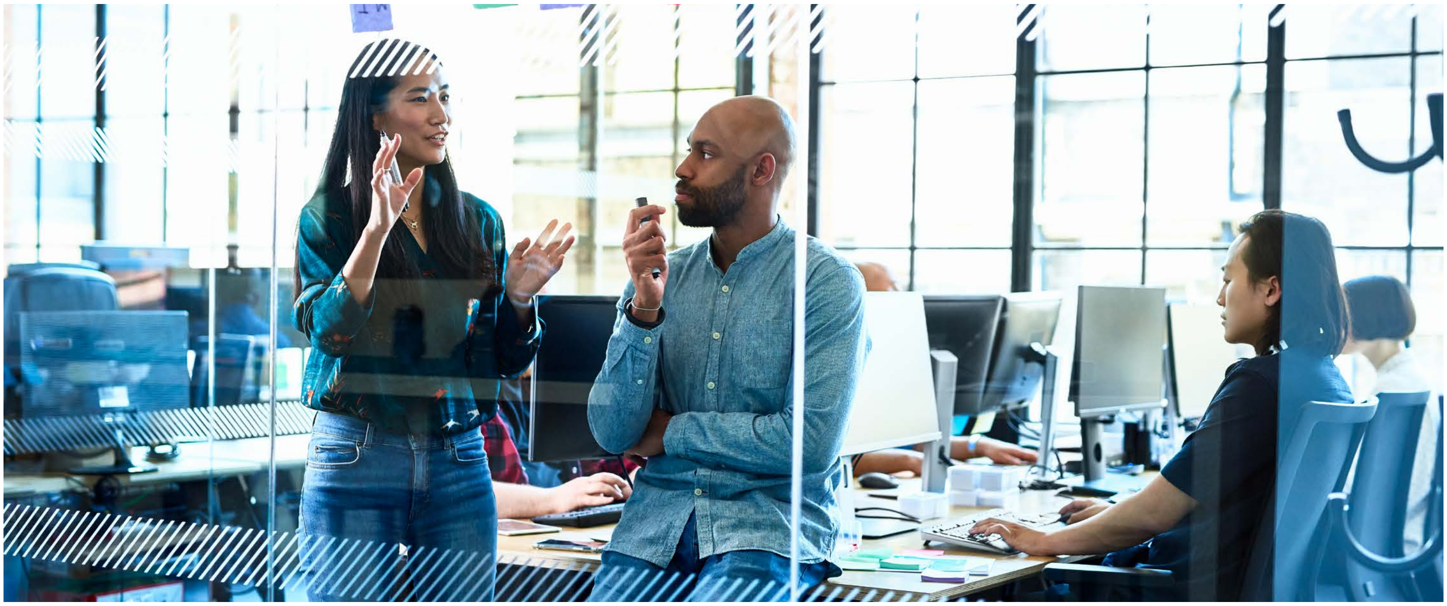
> Vice President, HR Integration,
> global telecommunications company

Global energy company HR leader shares three approaches to remuneration during M&A

While we work hard to retain and engage the whole team, we do find that sometimes we've missed some "hot market" skills, and these surface at this layer of decision making. In these cases, some individuals carry expectations that these skills will command a higher premium either because of the ownership change or because they've now connected to our wider organization. It's amazing how fast the target employees connect with the rest of our employees, including what other people, in different countries, working on the same or similar projects get paid for the same job. While that's the global talent market in action, we need to balance the consistent application of our remuneration policy with pay and benefits that vary according to local country competitive practices. So, if we haven't already classified these people in the key talent "bucket," we need to balance their expectations with the analysis we've already conducted into the local market rates and make decisions using that information and the individual's importance to our business. It's not an easy challenge to resolve to everyone's satisfaction. In another acquisition, we bought a company that had previously competed directly with us for the same talent, and the integration strategy did not require full, immediate integration. So, the global HR lead, in-country lead and staffing lead met with the staffing representative and HR lead for the target and agreed to coordinate recruiting trips, share resumes and discuss hiring decisions until full integration was complete. If they had continued to operate independently, the disconnects and frustrations would have grown and hurt our overall recruiting and reputation. And in another deal, we spoke directly with our counterparts at the target company about the best way to engage the new, broader population. Based on their understanding of what was important to the broader population, we tailored our approach and changed the incentive structure, the communication message and the initial intended roles for the key team members, just below the top talent tier, specifically to make the transaction more attractive to that talent base.



Represented employees. This area refers to the communications and negotiations with employees represented by unions, work councils or their local equivalent. Due process and timing for these discussions must be respected, especially with any broad-based workforce reduction decisions.

> **We've had few problems in this area, partly due to our long history in various countries — including our strict compliance with all legal requirements in respect to employment terms and conditions — and partly because of the good relationships we have formed with the union representatives and local organizations. But still, in any deal, it's important to keep the union representatives informed of decisions and actions, and we factor the union's needs directly into our integration planning and related communications.**
>
> Senior Vice President HR, global manufacturing company

Communications. These focus on implementing the process already started, but with a strong emphasis on linking and coordinating the business and employee communication messages so that what the employees hear is totally consistent with the wider communications.

> **Our goal is that communications are totally aligned with any previous messages, oral or otherwise, given by the country leads or heard elsewhere by the employees. We also have a 48-hour rule: Written communications that go to employees are given to the country leads 48 hours before publication to allow them enough time to make any necessary changes. This does require sufficient resources and extensive effort and coordination to make it work. It just doesn't happen on its own.**
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> Head of Communications, global financial services company

Deferred HR issues. These issues are less important to the immediate success of the deal. Decisions on these issues should be left until after the strategic and functional issues have been resolved, since these issues are so dependent on the outcome of the higher-priority decisions. The tactic employed for issues in this category focuses on basic data collection, completing an inventory of these areas to understand and document what exists and why, and building an information base for better decision making once these issues rise in the priority list, as they eventually will, whether that be three, six or nine months into the integration.

Typical examples of these longer-term issues include deciding on broader changes to the organizational processes that are not "critical" to immediate integration success, performance management and incentive systems, retirement plan designs and compensation levels of the general employee population. If some of the financial issues relating to people are still not resolved, then HR should work through them with the finance and legal teams and determine their priority. Tactically, the buyer must ensure that the communication messages that support these issues are ongoing, relevant and consistent so that employees understand the progression of the integration and how and when these elements will be addressed.

While, in deal terms, integration is just another phase in the overall M&A process, its success often depends on the work that has gone into getting to this stage. From the perspective of many serial acquirers, much of the integration planning will already have been done as a central part of the due diligence process (and recall that HR is part of the senior team making decisions in many cases). However, in our hypothetical scenario, the HR professional is playing catch-up and has had to gather what he or she can in the preceding two steps and use that information to advise management on the next steps.

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In our most recent transactions, we've used survey and virtual focus group communication techniques at close and at three, six and nine months post-close to get the "pulse" of the integration. Among the questions we ask employees are whether they think the deal is 1) good for their firm; 2) good for us; and, just as important, 3) good for them individually. We review the feedback and will act on it, especially if there are signs of miscommunication and/ or misunderstandings in our messages. These survey and focus group techniques are applied to all our deals globally. They are also anonymous; the answers can't be traced back to individuals. This gives us better answers, since employees feel freer to express their opinions, good or bad, than they would if they thought their peers or supervisors could attribute the comments to them. However, the results are reported on a regional level (and country-specific level if the number of employees is sufficient) and form part of the post-measurement reviews we do to capture our learnings from each deal.

Head of HR M&A,
global technology company

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Summary

We've covered the predictable people and cultural issues that arise in all mergers, in the sequence in which they typically occur, along with the process we recommend to tackle these issues so that any company can make the right merger decisions in the right order. As can be seen from the experiences of the companies quoted, an HR professional plays an important role in the overall merger, since resolving many of these issues requires not just a deep understanding of the M&A dynamics and pressures but also knowledge and skills in organizational modeling, talent identification, employment law, cultural integration, change management and employee communication — competencies that are not found in such depth in any other functional area.

But any firm embarking on an acquisition trail must get to the soul-searching question regarding this gap: Does it have in-house, HR professionals with the skills and credibility to contribute to the strategic discussions, or will it have to find them elsewhere? With the right HR talent employed early in the whole process, not just the integration phase, many of the people and cultural problems evident in so many deal failures can be identified and therefore mitigated or eliminated completely. It's this talent that can fill the missing piece in mergers — the professionals who can close the people and cultural "can do" gap.

The second part of this guide explores the emerging issues in DEI, ESG and general employee experience and engagement — and, equally as important, where they fit within the context of the deal life cycle and who "owns" these issues (the deal team, the business of the parent headquarters).

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The situation that the HR professional is faced with — being brought in only at the integration phase — could have been us, many years ago. We did not get to where we are today overnight. We had to go through many mergers, globally and in local countries around the world, to build up our experience, expertise and credibility in this area before we in HR got to be in a position to influence the decisions in the strategic people and cultural area. And we are not complacent. We sponsor best practice sessions, in conjunction with our larger M&A group, to capture our experiences and institutionalize our knowledge. We are well aware that many deals fail, and we don't ever want to end as a data point supporting the 70% failure statistic!

Chief Human Resources Officer,
global pharmaceutical company

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The role of people in deal failures

Why do deals fail? Primarily because poor decisions are made by people, specifically the senior leaders of an organization.

Before explaining this statement, let's recap how a deal is put together. First, a company must make a decision to grow through acquisition and then evaluate potential targets. After that, there are three decisions it must get right:

- The strategic fit (it must buy the right business aligned to its intended growth strategy)
- The price and terms (it must not overpay or agree to terms that limit its ability to succeed)
- The integration (it must combine the organizations successfully)

Get any one element wrong and the deal will likely fail; all three must be individually successful for the overall deal to be a success. And to take some of the mystery out of this process, people — or, more precisely, the buyer's senior leadership — make these decisions. Here, the saying "companies don't make decisions, people do" is valid, even though the outside world may never know who really made the decisions in any one deal.

How do deals fail? Organizational performance drops, leading to one of two things: Revenues don't meet intended targets, or the expenses in integrating firms are larger than expected. In deal-making terms, business goals are not met, and synergy targets (for revenue and costs) fall short of expectations.

Given the 70% failure statistic, senior leaders embarking on the acquisition trail need to make decisions that will help them beat these odds. Some of the poor decisions they make that contribute to the failure rate are:

They have inexperienced people lead the deal. This shows through in their enthusiasm for doing a deal, which overrides concerns about the strategic fit, price and major terms, and in the decisions as to how best to integrate the two firms. The result is that the combined business immediately starts missing its goals because the deal itself was based on emotion and not sound business reasons.

They proceed with their strategy without having a well-developed M&A process to manage all the stages. They decide to proceed without a tested process that covers all the key decision points, in the right order, aligned to the appropriate stage of the deal. This sows the seeds of failure right at the start of the deal. It first shows through when acquisition teams are put together to run the due diligence but don't get heavily involved in the integration. They often have no vested interest, or expertise, in the operational details of integration and gather superficial "integration" information, particularly on the target's real leaders and talent and how the target operates. The result of these superficial assessments is that subsequent integration decisions are based on inaccurate information, made in a haphazard and confused way.

They delay determining the leaders of the combined organization. The leaders of the combined organization are not named immediately, and failure to make these often tough and emotional decisions results in a cascading confusion all the way down to the employee population base. This shows through when many integration meetings end as discussions of issues but few decisions are actually made and implemented. The result is organizational gridlock, and business is lost during this confused and leaderless time.

They delay identifying talent and letting that talent know they are key. This is significantly tied to the leadership decisions above; there is simply no real leadership to identify the talent, speak to them and get them to commit to stay with the combined organization. This most often shows through when salespeople leave or research and development talent teams defect as a group to competitors. Talent tend to become dissatisfied with answers to what their career paths will be and when their contractual terms are hastily put together. They defect to competitors that entice them with concrete answers to their questions.

They allow the two companies to lose sight of their market and customers. The buyer has not thought through the best way to get both companies working as one, and the two businesses don't know how to work together. This shows through when the integration that does happen focuses on the "big company" corporate structural decisions, on such things as financial and legal reporting, risk management systems, IT systems and performance management changes — all to do with operating efficiently and little to do with customers, either winning new ones or retaining existing business. The result is that the combined business becomes distracted from the marketplace. Salespeople can become confused about what they are selling, to what customers, and on what terms, or teams put together to land large projects can disagree on the approach, timing and pricing of the project.

They have not planned for adverse reactions to workforce reductions. They have not thought through the implications of large-scale reductions and often terminate employees on a staggered basis, in line with their strategic plans and not the impact on employee behavior. The results are typically seen in work stoppages or strikes that financially cripple the combined organization or in employee litigation that ties the company up in court and delays implementation of previously agreed decisions.

All of these issues have been covered in our guide, but the problem is that, even when these issues are identified, the buyer can be slow to act on them. If they leave these decisions until integration is in progress, it is too late: They can't recover from the fact that these decisions should have been made much earlier in the process. This can be prevented by having experience within the buyer's senior management team, people who have been through deals before and who can anticipate and prevent many of these issues from arising in the first place.

Experienced buyers incorporate mechanisms to identify and resolve these issues very early in the process, beginning with the due diligence investigations.

About WTW

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