FT HR FORUM:
THE EFFECT OF MERGERS AND INTEGRATING ACQUISITIONS
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PANEL

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Mergers and acquisitions are part of everyday business, yet too many deals fail to achieve their objectives. Why is this, and how can HR help the process? This is a critical question as companies search for growth. To find answers, the FT HR Forum in partnership with Headspring, brought together Steve Allan, global M&A practice leader at Willis Towers Watson, and Kathleen Healy, partner at Freshfields Bruckhaus Deringer, for a discussion moderated by Michael Skapinker, FT contributing editor.

Here are some of the key points from the discussion.
M&A DEALS MAY DISAPPOINT BUT HR CAN MAKE A DIFFERENCE

Studies show that between 40 per cent and 70 per cent of M&A deals do not achieve their goals: specifically, they fail to add value to the acquiring company. Why is this? The issue is the acquirer’s focus on the deal’s value, specifically the financial factors. This in turn results in a lack of attention to the culture of the targeted company. “You don’t typically see ‘flushed out’ in a due diligence report,” said one expert. As a result, preparation is often inadequate.

How could this change? The FT HR Forum heard suggestions for how critical HR issues could be part of due diligence. They include:

• Bring together both managements for a discussion of non-financial and cultural factors. What makes the companies tick? What are the aspirations? In a hostile takeover such collaboration will be impossible but there is no excuse in an agreed merger.
• Identify the people to keep in the merged company and offer them a good package. One expert said: “This will buy you time if not hearts and minds.”
• Establish what the companies mean by culture. One participant noted how a sticking point in one integration of two companies was the bike-to-work scheme that offers staff cheaper bicycles. The target company was invested in this tax-benefit scheme with its green message. The acquirer decided it had to keep it.

BEWARE FOUNDERS WITH A STRONG ENTREPRENEURIAL PERSONALITY

Many innovative start-ups are “built to be bought”, said one expert but a sale will give rise to two questions:

1. What is the reason for the sale?
2. What is the role of the founder-entrepreneur in the merged group?

These are questions that HR should help answer. The response to the first could be:

• it is part of the founder’s retirement plan, or
• it is part of the founder’s growth strategy

If the first applies, the founder is likely to require only limited involvement. If, though, it is the second answer, this could spell problems for the acquiring executives. One expert noted: “They can be hard to manage.” In some circumstances it could be a reason to walk from the deal.

WHAT HR SHOULD DO IN THE FIRST WEEKS AFTER A DEAL

It is rare for HR to be involved in dealmaking but once financial terms have been agreed and paperwork signed it is time for HR to swing into action. The focus has to be integration. Here is some advice:

• Put the two HR teams together. Decide who is the new chief human resources officer if that is still to be done;
• Identify the “next-generation” talent, the people missed in the pre-close period. Talk to senior executives at the acquired firm and check public information, such as LinkedIn profiles;
• Encourage dialogue: the deal may be done but you should remain in selling mode to win over new staff, and
• Address diversity and inclusion. Increasingly, employees regard this as important and no two companies do it the same.

WOO THE TARGET COMPANY AND OVERCOME EMPLOYEES’ WORRIES

There is frequently a gap in perception between executives driving the merger, who often receive sweeteners, and employees whose lives stand to be turned inside out.

HR can win over these employees. Tactics include:

• Spell out the value of the merged company: “You’re so good ... that’s why we bought you.”
• Put over the vision of the merged company: “We have the bigger distribution network. This will allow us to put your brilliant innovations in front of more people.”
GETTING IT RIGHT WILL SMOOTH THE PASSAGE OF THE DEAL

After an M&A deal, productivity can slump to as little as an hour a day. This occurs because employees are worried. Psychologists use the “change curve”, which also explains grieving, to predict how significant upheaval will affect performance.

As soon as they hear that their company is to be acquired, employees ask two questions.

- “What does this mean for me?”
- “What does it mean for my team, my colleagues, my friends?”

Executives must have the answers, especially for the people they want to keep. People who can get up and go very often choose to do just that.

PENSIONS: COMPANIES RISK FAILURE IF THEY DON’T HEED HR

In any due diligence, pensions will come up quickly as pension liability is often the biggest number on the balance sheet. It is not just important for its financial value but as a means to keep talent. One participant said his employees came close to a strike after they learnt the acquiring company planned changes that would affect their financial security.

The HR team should take part in the process early on. They can develop a strategy to talk to longstanding employees, those invested in the pension scheme and who, because of their service, are the opinion-formers.

INTERNATIONAL M&A: APPRECIATE CULTURAL NUANCE

Merging companies in the same country is hard because corporate cultures are often different. Doing it with companies from different countries is harder still. What is the secret of success? One answer is for the acquiring company to try to understand the culture of the people as well as the culture, humour, language and social etiquette of the company.