

the critical HR role in M&A... *made easier*

By Jim Candler, HumanConcepts

Mergers and acquisitions are dominating business headlines. Market analysts predict that international merger activity in 2008 will pass the \$4 trillion mark, and acquisitions will fall slightly due to the lending markets troubles but still remain close to record levels, according to JP Morgan. Mergers and acquisitions (M&A's) present a unique opportunity for the HR department to demonstrate strategic value to the company and make the difference between success and failure.

The purpose of an M&A is to create shareholder value by combining two companies. In theory, two companies coming together to form one is more valuable than the sum of their parts. The end result is a more competitive, more cost-efficient company

with enhanced brand strength and greater market share.

A mountain of challenges faces companies going through the M&A process — that's why two-thirds fail to live up to expectations. In fact, according to Mercer, 83 percent fail to add shareholder value, and half of all mergers are deemed complete failures by market analysts. Among the primary reasons mergers fail are "people issues," including loss of key staff, culture clash and poor communication between employees of the source organizations. M&A activity introduces uncertainty that creates widespread losses in productivity. To stem the loss, management is under intense pressure to solidify authority, control and reporting relationships as quickly and clearly

as possible. Smooth workforce integration and proper alignment with business objectives are of paramount importance to the transaction's ultimate success or failure.

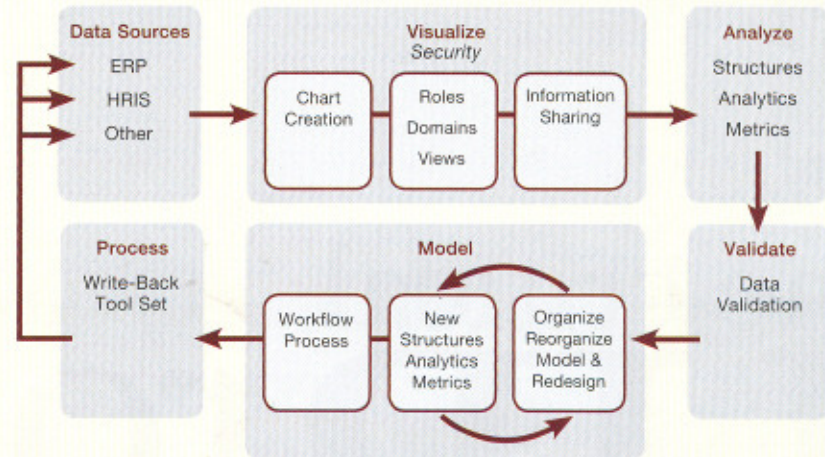
There are four stages in M&As that make or break the outcome:

- Predeal (evaluating targets)
- Due diligence (deciding to merge or not to merge)

QUICK LOOK

- Numerous challenges face companies going through the M&A process — that's why two-thirds fail to live up to expectations.
- If a company wants to dramatically increase its chances for merger success, its HR department has to be involved in all stages.
- Perhaps the greatest contribution the HR department can make in M&A is speeding up the entire process.

FIGURE 1: INTELLIGENT ORGANIZATIONAL CHARTING



Scenario planning or modeling capabilities within the solution enables stakeholders to easily “drag and drop” to model multiple workforce scenarios and effectively visualize the merger before it happens.

- Integration planning (developing benchmarks for success and the road map to get there)
 - Integration implementation (executing the integration plan and measuring success).
- Studies show that there is a direct link between HR involvement and M&A success. Simply put, if a company wants to dramatically increase its chances for merger success, its HR department has to be involved in all stages including due diligence, integration planning and integration implementation. The more deeply involved human resources is in the process, the greater likelihood of success.

Human resources can make several critical contributions to the M&A process, including analyzing the organizational resources, presenting integration scenarios, planning and communicating the integration plan and socializing the blended organization. Human resources is also responsible for several other important areas that can make or break merger success, including integrating benefits, compensation and rewards programs; restructuring the workforce; administering labor contract agreements; and managing leadership, organizational culture and employment practices. All of this can be done easily with the technology available today.

The HR Role in Mergers and Acquisitions

M&A activity requires that a baseline holistic, unified view of the workforce be readily available in order to evaluate existing resources and plan and drive eventual integration. This can be accomplished with organizational charts. A technologically deep “intelligent organizational charting” solution goes even further — it allows management to simultaneously view, model and transform organizational structures

within two or more companies, thereby providing support to the merger process before, during and after the merger. (See Figure 1.)

This technology solution supports the following M&A activities through the process life cycle:

Aggregating Data from Multiple Sources

An intelligent organizational charting solution also aggregates data from multiple sources including a variety of HRMS systems, such as Oracle, PeopleSoft, Lawson and SAP and centralizes it into a holistic view for analysis. Important HR data such as employee salary and competencies can be included, allowing management to understand the financial and strategic implications of its decisions during and after the due diligence stage. While the due diligence stage typically involves examination of

finances, assets, liabilities and contractual agreements, “people issues” are blamed for most merger disasters. With this technology, the HR department can more easily identify potential deal breakers or issues that might justify financial adjustments.

Scenario Planning Using Workforce Modeling

Workforce modeling is a crucial integration-planning activity that leads to rapid organizational change. Scenario planning or modeling capabilities within the solution enables stakeholders to easily “drag and drop” to model multiple workforce scenarios and effectively visualize the merger before it happens. Workforce modeling allows users to see the underlying changes in metrics and analytics while each option is developed.

Communication to Management

Speed is crucial in any merger.

The first three stages of any deal can be required in as little as 30 days — and the integration completed in as little as 60 days. Quickly and effectively communicating a road map is critical to aid management's execution of the integration. Using sophisticated publishing tools, an organization chart can vastly improve the time it takes to respond to the change initiatives and, therefore, the ability to complete a merger more quickly and decisively.

Regulatory Compliance

Global mergers are highly regulated undertakings and require that strict data privacy laws be enforced before, during and after the merger. Privacy regulations can potentially put a damper on the sharing of employee information. For example, E.U. regulations generally prevent HR departments in the United States from accessing European employee personal information until Safe Harbor guidelines are met. This makes it difficult to share HR data before two companies become one.

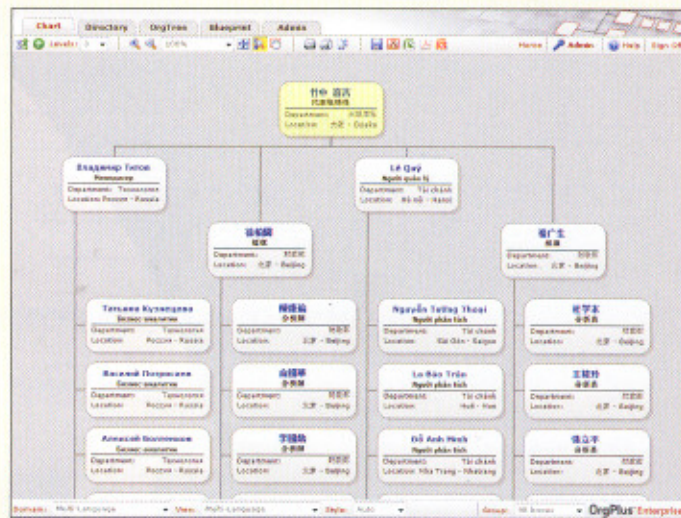
An intelligent organizational charting solution can create positions for employees and place them properly in the corporate hierarchy. This position data can be directly shared without compromising private employee information, and allows managers to deal with real business issues without fear of violating privacy laws. (See Figure 2.)

A change log or history may also be required in merger activity. Built-in archiving features allow organizations involved to produce compliance documentation to prove international and federal regulatory compliance.

Conclusion

A direct correlation exists between the level of HR department involvement in M&A activity and merger


FIGURE 2: SUPPORT FOR A GLOBAL CROSS-BORDER MERGER



integration success. The HR role in M&A can be as a strategic business partner and adviser to executive management — and it must assert itself into all phases of the process, from predeal to integration. Human resources' critical contributions to the process include analyzing the organizational resources, presenting integration scenarios, planning and communicating the integration plan, and socializing the blended organization.

Because human resources is wholly responsible for the "people issues" that can make or break the merger, these departments must have access to vital HR data at the beginning of the process, and must be technologically equipped with an intelligent organizational charting solution. Such a solution allows the visual examination and analysis of the data and organizational structures. Additionally, it enables human resources to plan scenarios and model the future organization and departments as well as communicate integration plans to management for allocation and redistribution of resources.

Perhaps the greatest contribution the HR department can make in M&A is speeding up the entire process. The faster a deal and integration are

completed, the faster the organizations involved can begin to realize the full value of the merger. An intelligent organizational charting solution provides the functionality to speed up all phases of the merger, allowing HR to make its greatest contribution of all to the organization — helping its company to quickly gain competitive advantage. 

ABOUT THE AUTHOR

Jim Candler is the vice president of global customer success at HumanConcepts. He can be reached at jim.candler@humanconcepts.com.

RESOURCES PLUS

For more information related to this article:

www.worldatwork.org

Type in any or all of the following search keywords or phrases on the search line:

- "Mergers and acquisitions"
- Mergers
- "Due diligence"
- "Integration planning."

www.worldatwork.org/bookstore

- *Mergers & Acquisitions: A Checklist for Total Rewards Professionals*
- *Mergers & Acquisitions: How-to Series for the HR Professional*
- *Out of the Vortex: Finding Order in Merger and Acquisition Chaos.*

www.worldatwork.org/education

- T6: Mergers and Acquisitions—Benefits, Compensation and Other HR Issues.