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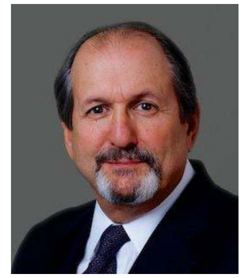
Human Resources: Key Players in Mergers & Acquisitions

Charting the course to success



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A Merger or Acquisition (M&A) activity is at its core an adventure with potential for high risk and high reward. It really is the Olympics of business transactions and holds both the thrill of victory and the agony of defeat within its range of outcomes. As more companies go through this exercise, we can now more precisely determine what works and what doesn't when it comes to mergers and acquisitions. What works is oversight and due diligence and this is particularly true for HR's role in M&A activities.

There are a number of different phases in the M&A process which we have discussed in recent articles. They are the prelude, deal negotiation, pre-change of control, change of control and post-change of control. The first two set the table for the hard work to follow by identifying targets, key resources and making a tentative agreement that outlines the parameters of the merger or acquisition. Due diligence plays a very important role in these elements of the activity, but it is in the pre-change of control and the post-change of control where HR must really step up to the plate.

The pre-change of control period is where the planning for resources and resource allocation takes place. Obviously HR plays an important part of these discussions. Will there be a larger or smaller workforce post merger or acquisition? Which payroll system will be used? Are there regulatory concerns? Are there collective agreements, employee contracts or executive compensation plans to be merged or renegotiated? It is crucial to get this phase of the process right. Otherwise, there will be personal, organizational and financial chaos later on down the road.

After control has changed hands into the new regime, there is just as much work for HR because all those plans that were developed in the pre-control phase must now be implemented. In addition to making sure that people get paid properly, HR must also manage the cultural differences from two separate organizations into one cohesive unit. A key part of this will be staff communication. HR will want to help define and deliver the organization-wide messages that can smooth out the people part of the process. The greatest challenge for managers and HR in particular is to normalize the situation and get back to "business as usual" as quickly as possible.

As noted earlier, risk is the key factor that has to be managed in M&A transactions and the 'people' risk in both the pre-change of control and post-change of control phases are crucial to the success of the entire operation. If there is an improper evaluation of the risk in the pre-change of control stage, this could result in great financial costs to either side of the activity.

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One example could be that management bonuses on one side of the merger are under-valued or even hidden. Unless the HR team in the receiving organization discovers and costs these bonuses (which could be worth millions of dollars) and develops a plan to deal with them, this could result in a significant loss for the organization. Similarly, if differences in collective agreement entitlements are not recognized and properly planned for, there could be significant employee relations and financial problems later on.

It is truly in the post-change of control phase that HR really earns its money. The main benefit of any M&A activity is to generate more income for the two individual parts. If HR cannot create a synergy of employees, organization and structure that works, then the activity will not be able to sustain itself and will fail. That's a lot of pressure on HR!

People issues along with financial problems are the biggest reasons most mergers and acquisitions fail. On the HR side, it might be the inability to merge management compensation plans, collective agreements or deal with the unions and union representatives. Another major reason would be failure to develop a plan to successfully merge two unique workplace cultures into one cooperative force that can sustain and grow the business.

The homework and due diligence that Human Resources must carry out in both these key phases of an M&A activity is tremendous. The risks are high to the profit margin, balance sheet and overall well-being of the merged organizations. We must strive for success and the greatest possible rewards if HR can manage a smooth transition to the other side of the activity. The investment in HR due diligence in both pre-change of control and post-change of control phases is money well spent. M&A projects succeed because they place a true value for both the financial and people sides of an organization. They fail when these factors are not properly evaluated at the beginning or poorly planned for in the future organization.

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