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Managing the People Side of M&A

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Deals do not underperform or fail by themselves; they underperform or fail because of people. People are responsible for taking the actions necessary to realize the planned synergies and deliver the expected results from the acquired business. Similarly people are also responsible for getting in the way of change, for deserting their position, and for all being the root cause of all integration problems. While during the deal number one priority may be the agreement of valuation, completion of due diligence and negotiation of legal terms and conditions, post-deal all this paperwork has little meaning without the people being onside and aligned to achieving a common goal.

Management of people issues is a broad area. Firstly, there are the differences in culture, which are present in all deals, but can be bewilderingly wide in cross-border transactions. Effective communication requires extensive planning to reduce the wasted productivity from employee speculation and gossip. An effective organization not only needs to be designed, the flows and the processes behind it need to be implemented. Management and people for key positions need to be selected and retained. Measurements and incentives aligned to achieving your goals need to be rolled out, and of course you need the HR infrastructure, and systems to enable your new operation to function. There can be no greater challenge than all of this.

Let's take a look further at each of these issues.

Despite overwhelming evidence that cultural issues must be addressed swiftly, many executives believe it is possible to merge cultures gradually through contact and interaction. Unfortunately, cultures cannot be merged my waving a banner proclaiming shared vision and values. Cultural change does not come from newsletters, logos, or posters. Cultural change comes from deep understanding of

the different behavioral characteristics, the gaps and the desired behaviors to support the business strategy. Cultural stereotypes need to be recognized and addressed up front, and turned to be a positive force, rather than a derogatory factor. Of course such behaviors are two sided and not just one, and full inclusion in the behavioral analysis of all stakeholders prevents destructive “us and them” forces from winning.

When asked, management of a US company, which was acquired by a Japanese company and failed to live up expectations, said “head office never told us what they expected us to do”. They were told to continue “business as usual”, but that was aligned to the vendors overall strategy, following their processes, their KPIs, and their rewards. Take the vendor away and you have a ship without sails. Effective communication and with content which anticipates and addresses the concerns of the target is indispensable and needs to be prepared in advance. And remember in cross border deals, what is normal in your home country is not necessarily the case in another. Japanese companies may have a clear hierarchy and norm, but it the west management need answers to 5 simple questions: Who is my boss, what are my responsibilities, how will I be measured, how much will I be rewarded, and what are my career/promotion opportunities. Without communication on all 5 of these areas, people will begin to speculate about the acquirers intentions, and if you have a business of 1000 people, each gossiping 30 minutes a day about their future, that becomes 2 man years of lost productivity per week. These communications should be made clearly, and often, beginning with a welcome pack to all employees of the newly acquired company on day one addressing their concerns upfront, and introducing a process for feedback

Just as when you mix chickens together you disrupt the hierarchy and status quo leading to chaos and fights, bringing two sets of management together presents similar challenges. Developing and making clear the new organization structure is important, however, organization charts alone are more about authority and power,

and not about function and accountability, and how information should flow, how processes should operate and how decisions should be made. These other matters should be the focus of clarification.

Within the new organization you need the best people, and the process of selecting these should begin even before the deal gets consummated. The biggest danger and the most common mistake is either favoring your own people who you are familiar with or trying to be impartial sharing positions between two legacy teams. Management should be analyzed based not just on capabilities but also based on their operating style and fit. In this respect, a common dilemma faced by Japanese companies is that of sending expats to their overseas acquisitions, which are often for the sole reason for being Japanese or the HQ eyes and ears alone. The lack of clarity of their roles and responsibilities compared with incumbent local management often causes confusion and attrition. These roles should be clearly defined and of course communicated.

Above all, key management are critical to your success and need to be retained. Identification of these key management should begin at the due diligence phase and appropriate retention packages offered. It is often best to identify key management top down with a cascade approach, as your top manager will be quick to tell you who he needs to help him be successful. Packages are generally lump sum, and should be contingent on time alone. Performance factors should be rewarded by a carefully designed KPI and reward structure, aligned to the overall business strategy, as such continuity of same measures as in the past should be a rare alternative. In many cases continuity of previous plans will not be practical and such plans require replacement.

Replacement of employee benefits is a complex process and often the devil is very much in the detail. You will probably not have received sufficient information during your due diligence process to identify all benefits for replacement, and you should prioritize to do so between signing and closing. While insignificant to you,

loss of a small benefit, such as a lunch voucher for example, upon change of ownership, is much more concern to an individual giving rise to concern and the onset of negativity.

It is not just benefits that need replacement, but potentially HR policies, and performance systems, and related infrastructure. Being unable to pay your new employees after change of ownership, spells the onset of disaster.

While all of the above presents a tremendous challenge, careful upfront planning and close attention to such people matters, and related communication can yield great results. After all the employees of a company that you have just acquired, are also the employees of a company that has just been sold off. You represent their immediate future, as much as they may determine yours. Planning, communication, and alignment to your strategy will yield the results you expected.

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