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HR issues, activities and responsibilities in mergers and acquisitions

by

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Foreword

In a globalized and increasingly competitive economic environment, enterprises must constantly adjust and restructure to survive and grow. Radical forms of enterprise restructuring such as mergers and acquisitions (M&A) are a constant occurrence. Like any other form of restructuring, M&As involve human costs, and affect not just the employers and workers of the enterprises in question, but also other stakeholders. Lack of attention paid to the human dimension of M&As may prevent success and even lead to complete failure.

This paper shows why and how enterprises involved in M&As can benefit from paying close attention to the human side. This approach is based on the values that the International Labour Organization (ILO) has been promoting from its inception in 1919. The ILO values are reflected in its International Labour Standards, which act as benchmarks for good governance of the public and private sectors, and help enterprises to identify universally accepted values on which their management systems can be built.

The three-stage model of mergers and acquisitions presented in this paper is related to a number of the International Labour Standards promoted by the ILO. For example, authors emphasize the importance of employee communication, which is also reflected in the ILO Cooperation at the Level of the Undertaking Recommendation No.94, adopted in 1952, and the Communications within the Undertaking Recommendation No. 129, adopted in 1967. The Recommendations seek to establish effective communication channels for areas of common interest, and to provide workers the opportunity to speak up about their workplace concerns. Enterprise management, in consultation with workers' representatives, should adopt an effective communication and consultation policy. It should include providing workers or their representatives with relevant information on a particular issue, and listening to their views before taking decisions on matters of major interest, such as M&As. Managers retain discretion in deciding if information is too sensitive to disclose and in making the final decision, but should take workers' views into account as much as possible.

Another issue, reflected both by this paper and by the International Labour Standards, is the one of employee retention. The ILO Termination of Employment Convention No. 158 and Recommendation No. 166, both adopted in 1982, set out provisions for layoffs and downsizing, as well as individual dismissals. They aim to balance the need for workers' employment security with employers' need for flexibility in hiring and firing. The ILO does not attempt to determine when a firm should or should not lay off workers or downsize, including in the M&A situations. That is a business decision that must ultimately rest with management. However, the ILO does encourage managers to pursue a longer-term staffing policy. The Convention also encourages management to inform workers if it intends to restructure. Managers are encouraged also to offer severance benefits in addition to (or in the absence of) unemployment benefits or a pension, and generally linked to years of service. Retrenched workers should be given priority in rehiring and/or be assisted in finding new work. Finally, it is critical for managers to ensure that there is no discrimination or retaliation in selecting the workers to be retrenched.

This discussion paper is an important contribution to the project on Socially Sensitive Enterprise Restructuring (SSER) of the Management and Corporate Citizenship Programme of the ILO. The SSER project is based on the belief that people are increasingly becoming the most important source of an enterprises' competitive advantage. To assist the ILO constituencies and enterprises pursue socially sensitive enterprise restructuring, the SSER project extends assistance in organizing workshops, seminars and roundtables that bring together concerned stakeholders. For further information, please contact us at rogovsky@ilo.org

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Executive Summary

Mergers and acquisitions are used by firms to strengthen and maintain their position in the market place. They are seen by many as a relatively fast and efficient way to expand into new markets, incorporate new technologies and to innovate. Yet their success is by no means assured. To the contrary, a majority fall short of their stated goals and objectives. As a consequence, there are numerous social costs, including lost jobs, lost income to families and lost taxes to the local communities. Most of these social costs are not there when mergers and acquisitions are successful. While some failure can be explained by financial and market factors, a substantial number can be traced to neglected human resource issues and activities. Numerous studies confirm the need for firms to systematically address a variety of human resource issues and activities in their merger and acquisition activities. This paper proposes a three-stage model of mergers and acquisitions that systematically identifies several human resource issues and activities. Numerous examples are offered to illustrate the issues and activities in each of the three stages. These point out the areas of challenge for companies, employees, unions and society, all components of the multiple stakeholders of companies today. This paper is written with the assumption that companies will continue to use mergers and acquisitions as strategic options in the future, and that their successes can be enhanced by a better understanding of human resource management. The paper offers some recommendations on how human resource management can be used to improve the success of mergers and acquisitions, and thereby reduce the numerous social costs associated with their failure.

Introduction

Many companies today, in order to survive and grow, need and want to be efficient, profitable, flexible, adaptable, and have a dominant market position. Without these qualities, firms believe that is virtually impossible to be competitive in today's global economy. In some industries such as insurance or banking, firms may move into new markets. In others such as pharmaceuticals or software technology, firms may work with smaller firms that have developed or are developing new products that they can manufacture and/or distribute more efficiently, while other firms focus on their own internal growth, leadership and development. Regardless of the industry, however, it appears that it has become increasingly difficult in our global environment for firms to compete with others without growing and expanding through deals that result in mergers or acquisitions.[1] The deals between many of the largest and most successful global firms such as Chase-J.P. Morgan, McKinsey-Envision, UBS-Paine Webber, Credit Suisse-DLJ, Celltech-Medeva, SKB-Glaxo, NationsBank-Bank of America, AOL-Time Warner, Pfizer-Warner Lambert, Nestle-Purina, and Deutsche Telekom-Voice Stream, attest to this belief.[2] And the future appears to be a continuation of the use of merger and acquisition (M&A) activity.[3]

And why not? The factors that have driven M&A activity in the past decade are forecasted to continue: the need for large economies of scale, deregulation, globalization, expanding markets, risk spreading, and a need for rapid response to market conditions.

Although the pace of M&A activity has slowed compared with the 1990s, activity and interest in M&As is projected to continue:[4]

> Mergers and acquisitions (M&A) are an increasingly popular alternative to greenfield investments and strategic alliances as a vehicle for internationalization. The growth in mergers and acquisitions in the global marketplace during the last decade was exceptional. The number of worldwide deals involving U.S. firms increased during the 1990s from about 3,500 to nearly 10,000, while the value increased more than tenfold from about $140 billion to over $1,700 trillion. Companies in Europe and other parts of the world joined in the game – these non-American deals went from about 6,000 in 1991 to 12,000 in 2000, and from $200 billion to $1,750 trillion in value. Even if M&A fever is subsiding as a global economy cools off, more deals can be expected in the long run (Evans, Barsoux and Pucik, 2002:251).

As a consequence of these realities, companies have become better at doing deals. Several have trained staff who can facilitate mergers and acquisitions quickly, efficiently and thoroughly.[5] However, according to Jack Procity, partner-in-charge of business integration services at KPMG, many companies still have a long way to go when it comes to effectively integrating their businesses:

> "This might be OK for a $1 billion business taking on a $10-$30 million acquisition. But a $1 billion company taking another $1 billion company has to make it work. The business risk is too great for failure".[6]

Some cite recent mergers and acquisitions as evidence for this, e.g., Conseco and Greentree Financial, Case and New Holland, HRS and CUC International, Daimler-Chrysler, McKession and HBO, and Mattel and The Learning Company.[7] Evidence beyond these specific examples suggests that they are more the norm than the exception.[8] As a result of

M&A failure, companies become less successful, investors lose and employees and the communities in which the companies exist lose.

Thus many companies (as well as the multiple stakeholders of the companies involved) seem to be confronted with the need to do mergers and acquisitions successfully, yet the odds of doing so are relatively low. These odds, however, can be increased. Yes, experience helps, but it is the learning from the experience that seems to be critical.[9] In general, what their experiences appear to suggest is that firms that have a systematic approach to deal making are more likely to be successful. Underlying this successful approach is the recognition of the need for attention to many people issues (aka, human capital) that exist throughout the stages of mergers and acquisitions. The purpose of this paper is to articulate a systematic, people-oriented approach for effectively doing mergers and acquisitions, from beginning to integration and post-integration. We begin by identifying the types of mergers and acquisitions, the reasons for their successes and failures, and the many people issues involved. Then a three-stage model is described. This is followed by an overview of recommendations for companies, employees, unions and society.

MERGERS AND ACQUISITIONS

Mergers and acquisitions represent the end of the continuum of options that companies have in combining with each other. The least intense and complex form of combination is licensing. Next come alliances and partnerships, and then joint ventures. Mergers and then acquisitions conclude the combination options. It is the mergers and acquisitions that are the combinations that have the greatest implications for size of investment, control, integration requirements, pains of separation, and people management issues. [10] With our focus on mergers and acquisitions, it is important to distinguish them. In a merger, two companies come together and create a new entity. In an acquisition, one company buys another one and manages it consistent with the acquirer's needs.

Reasons

There are numerous reasons for companies to merge or acquire. Some of the most frequent include:

- Mergers for market dominance; economies of scale.
- Mergers for channel control.
- Mergers for risk spreading, cost cutting, synergies, defensive drivers.
- Growth for world class leadership and global reach.
- Survival; critical mass; sales maximization.
- Acquisition of cash, deferred taxes, and excess debt capacity.
- Move quickly and inexpensively.
- Flexibility; leverage.
- Bigger asset base to leverage borrowing.
- Adopt potentially disruptive technologies.
- Financial gain and personal power.
- Gaining a core competence to do more combinations.
- Acquiring talent, knowledge, and technology.[11]

In addition, companies that are successful and inventive in M&As not only create value, but also develop a core competence in combination management itself. This in turn, can give the company an edge over others who haven't been successful and/or have not learned from their past efforts. Such combinations in turn can lead to job growth over time. In the short run, however, jobs can be lost and the impact on employees and society can be significant. Failed M&As, however, are likely to result in even more negative social consequences.

Assumptions

Regardless of the reasons companies have for merging or combining, there are several basic assumptions on mergers and acquisitions being made, either explicitly or implicitly.[12] These include:

- M&As are the fastest and easiest ways to grow.
- M&As are likely to fall short of their initial goals.
- M&As are difficult to do.
- Creating synergies is a major challenge.
- Molding cultures is a major challenge.
- Soft and hard due diligence are necessary but not sufficient conditions.
- Pre-planning can help increase chances for success.

It appears that companies that have gained from the experience of previous combination efforts recognize and address these assumptions more effectively than those that haven't. And the more firms have experiences, the more they appear to learn from each additional merger or acquisition, thus solidifying their core competency and competitive advantage.

Track Record

With the importance of and need for mergers and acquisitions growing, and the base of experience expanding, it may seem reasonable to also assume that success is more likely to occur than failure in these types of company combinations. In fact,

> Indeed, worse than this, mergers and acquisitions are more likely to fail than succeed. Statistics show that more than a staggering 75 per cent fail. Only 15 per cent of mergers and acquisitions in the US achieve their financial objectives, as measured by share value, return on investment, and postcombination profitability. In the European arena, a 1995 study of large combinations – deals valued at $500 million or more – showed one-half destroyed shareholder value, 30 per cent had minimal impact, and only 17 per cent created shareholder returns.[13]

Reasons for Failure

Mergers and acquisitions fail for a variety of reasons, such as:

- Expectations are unrealistic.
- Hastily constructed strategy, poor planning, unskilled execution.
- Failure/inability to unify behind a single macro message.
- Talent is lost or mismanaged.

- Power and politics are the driving forces, rather than productive objectives.
- Requires an impossible degree of synergy.
- Culture clashes between the two entities go unchecked.
- Transition management fails.
- The underestimation of transition costs.
- Financial drain.
- Defensive motivation.
- Focus of executives is distracted from the core business.[14]

Perhaps of these, culture clashes, gaps, or incompatibility and losses of key talent are cited the most frequently, although even these become intertwined with other reasons.[15] According to Kay and Shelton,

> People problems are a major cause of failed mergers, and you must ensure that most if not all of the people you want are still in place at the end of the integration period.[16]

Reasons for success

Perhaps not surprisingly some of the major reasons for success in mergers and acquisitions include:

- Leadership
- Well-thought out goals and objectives
- Due diligence on hard and soft issues
- Well-managed M & A team
- Successful learning from previous experience
- Planning for combination and solidification steps completed early
- Key talent retained
- Extensive and timely communications to all stakeholders.[17]

These reasons are corroborated by the findings of Watson Wyatt's Global M&A Survey, where it is reported that the key lessons for the next M&A project suggest the need to:

- Develop a more realistic time scale, including allowance for the time required to prepare for effective due diligence.

- Start the planning of integration processes sooner and get HR involved earlier.

- Work to align expectations in the acquirer and acquired businesses.

- Confront difficult decisions, including employee and human resource issues, earlier in the process.

Watson Wyatt observed a disparity between the number of respondents who felt that they had been relatively successful in their M&A experience, and the overall success rate of deals. This indicates that there is a need for companies to be more critical of their own performance in a deal to make sure that lessons are learned for the future.[18]

Thus, while there are many reasons for success and failure in mergers and acquisitions, whether in North America, Europe, or Asia, at the core of many of them are people issues.

The Human Side of M&A Activity

> "Plenty of attention is paid to the legal, financial, and operational elements of mergers and acquisitions. But executives who have been through the merger process now recognize that in today's economy, the management of the human side of change is the real key to maximizing the value of a deal".[19]

The management of the human side of M&A activity, however, based upon the failure rates of M&As, seems to be a somewhat neglected focus of the top management's attention.

> "Many mergers do not create the shareholder value expected of them. The combination of cultural differences and an ill-conceived human resource integration strategy is one of the most common reasons for that failure. Given the well-publicized war for talent, I am constantly surprised by how little attention is paid to the matter of human capital during mergers", says David Kidd, a partner at Egon Zehnder International in Chicago.[20]

So if people issues are so critical, why are they neglected? Possible reasons include:

- The belief that they are too soft, and, therefore, hard to manage.

- Lack of concern by top management for the impact on employees, unions and communities.

- Lack of awareness or consensus that people issues are critical.

- No spokesperson to articulate these issues.

- No model or framework that can serve as a tool to systematically understand and manage the people issues; and therefore

- The focus of attention in M&A activity is on other activities such as finance, accounting, and manufacturing.

Research, however, indicates that people issues occur at several phases or stages of M & A activity. In the integration phase of mergers and acquisitions, people issues include: 1) retention of key talent; 2) communications; 3) retention of key managers; and 4) integration of corporate cultures.[21] From these flow numerous, more detailed people issues, e.g., evaluation and selection of duplicate managerial talent to determine who remains and who departs after the merger or acquisition. In the process of integrating corporate cultures, entire sets of human resource policies and practices from both companies may be subject to evaluation, revision, or replacement. While these human resource issues are important in M&A activity throughout the world, their importance tends to vary by the type of M&A combination. For example, if it is an acquisition that will allow for separation of the acquired company, there may be fewer evaluation, selection, and replacement decisions than in acquisitions that result in complete integration of the two companies. The less companies are integrated, the less likely the size of the workforces may need to be reduced.

In addition to these people issues in the integration phase of M&A activity, there are several other people issues that are evident in the phases before and after integration. Those become more evident and more manageable by detailing a model of M&A activity.

THREE-STAGE MODEL OF MERGERS AND ACQUISITIONS

The experiences of companies in merger and acquisition activity suggest a model of M&A activity that has three stages: 1) pre-combination; 2) combination - integration of the partners; and 3) solidification and advancement - the new entity.[22] While these three stages are applicable to and encompass the larger set of business functions such as business strategy, finance, marketing, distribution, IT, and manufacturing, the issues highlighted here are those that reflect issues most closely associated with human resource management. Then to provide further focus and detail for these human resources (HR) issues in M&A activity, HR implications and actions for the several issues in each stage are identified.

Stage 1 - Pre-Combination

There are several human resource issues in this first stage of the M & A activity. While discussed together, the differences that may accompany a merger rather than an acquisition are noted. Because of the wide variation of mergers and acquisitions that are possible, however, details of all such possible differences are not fully articulated here.

In this Pre-Combination stage, the most significant HR issues and their more specific implications and actions for M&A activity are illustrated in Exhibit 1. The HR issues are described first, followed by a discussion of the HR implications and actions.

HR Issues

As highlighted in Exhibit 1, an important HR issue in the Pre-Combination stage of any M&A activity is identifying the reasons to initiate the activity. As described earlier, of the many possible reasons for an M&A, a substantial number are human resource related, e.g., acquisition of key talent. At companies like Cisco and GE, retention of key talent is often the number one concern. Here the M&A is announced because a major reason for the combination is to obtain that talent in the first place.[23]

Exhibit 1

Stage 1 – Pre-Combination

HR Issues	***HR Implications and Actions***
• Identifying reasons for the M & A • Forming M & A team/leader • Searching for potential partners • Selecting a partner • Planning for managing the process of the M and/or A • Planning to learn from the process	• Knowledge and understanding need to be disseminated • Leadership needs to be place • Composition of team impacts success • Systematic and extensive pre-selection and selection are essential • Conducting thorough due diligence of all areas is vital • Cultural assessment • Planning for combination minimizes problems later • Creating practices for learning and knowledge transfer

HR Implications and Actions

An immediate HR implication of this last HR issue is that firms that have a better understanding and knowledge base of the M&A process are likely to be more successful in their M&A activities. This understanding and this knowledge base, however, have to be shared and disseminated to employees to have maximum impact, because M&A activity is likely to affect everyone in the company, particularly if the combination results in extensive integration of the two companies. Significant HR implications result from the need to have a dedicated and skilled leader and team for M&A activities. This need is likely to be best served through the best use of a variety of HR practices working in concert, namely, recruitment, selection, development, appraisal, compensation, and labour relations.

Conducting a thorough due diligence in the M&A process also has critical HR implications: “Many CEOs gloss over softer HR issues, including potential cultural problems, only to realize later that they’ve made a huge mistake”, says Mitchell Lee Marks, a San Francisco-based management consultant who has worked on more than 60 mergers over the last 15 years.[24]

Yet, the results of the extensive Watson Wyatt M&A survey concluded that the priority assigned to HR and communication in due diligence is comparatively low. Receiving more attention in due diligence are such functions as strategic business development, finance, operations, marketing, and sales.[25] While these functions continue to be the essence of the “hard” due diligence process, the human resource-oriented audit, the “soft due diligence,” is increasingly gaining respect and use.

Consequently, cultural assessments, as an element of soft due diligence, are also becoming common.[26]

Stage 2 - Combination - Integrating the Companies

Although we are now at the second stage of the M&A process, it is important to acknowledge the base that has been established by the activities in the first stage. For example, for Stage 2 to be effective, it is important that planning for their integration activities be skillfully prepared in Stage 1: “lack of integration planning is found in 80 per cent of the M&As that under-perform”.[27]

This crucial second stage incorporates a wide variety of activities as shown in Exhibit 2. In general, integration is the process by which two companies combine after a merger or an acquisition is announced, and pre-combination activities are completed.

Exhibit 2

Stage 2 – Combination – Integration of the Companies

HR Issues	***HR Implications and Actions***
• Selecting the integration manager • Designing/implementing teams • Creating the new structure/strategies/leadership • Retaining key employees • Motivating the employees • Managing the change process • Communicating to and invoicing stakeholders • Deciding on the HR policies and practices	• Selecting the appropriate candidate • Creating team design and selection are critical for transition and combination success • Communicating is essential • Deciding on who stays and goes • Establishing a new culture, structure, and HR policies and practices is essential

Regardless of the specific area of breakdown or weakness, when poor integration occurs:

- productivity drops by 50 per cent;
- leadership attrition soars 47 per cent within 3 years;
- employee satisfaction drops 14 per cent;
- 90 per cent of high-tech mergers fail to deliver expected increases;
- 80 per cent of employees begin to feel management cares more about financials than product quality or people.[28]

Based upon the intensive J & J study of the M&A process, it was found that:

- A systematic, explicit integration process is at the heart of a successful acquisition.
- All acquisitions require some degree of integration in both the area of day-to-day systems and processes and in achieving key synergies.
- It is important to tailor what is integrated and how it is done to the specific strengths and weaknesses of the acquired company.
- Integration efforts will differ depending on the company's characteristics.
- Maintaining the ability to focus on the few key value drivers is a critical part of the integration process.[29]

HR Implications and Actions

Perhaps the most critical HR issue for the success of this integration stage is selection of the integration manager.[30] Combinations that were guided by the integration manager:

- Retained a higher percentage of the acquired companies' leaders.
- Retained a higher percentage of the total employees.
- Achieved business goals earlier.

The results suggest several things about the integration manager:

- It is important to have an integration manager to focus exclusively on the particular acquisition or merger.
- This person is not one of the people running the business.
- Usually it is someone on loan to the business for a period of time to focus solely on integration issues.

- This person helps to provide continuity between the deal team and management of the new company. Such people “understand the company,” “feel ownership,” and “are passionate about making it work”.

- The integration manager may be part of a “steering committee” along with other top executives. This is the group responsible for setting the role, process and objectives of the integration and overseeing the progress of integration teams across various M&A projects.[31]

Another critical HR issue is the selection of a leader who will actually manage the new business combination. If an acquired business has unclear or absent leadership, the result will be crippling uncertainty, lack of direction, stalled new product development, and the postponement of important decisions. Strong leadership is essential to acquisition success - perhaps the single most important success factor. A strong leader’s influence will be quickly recognized and praised.[32]

Successful leaders of the new business are described as being:

- sensitive to cultural differences;
- open-minded;
- flexible;
- able to recognize the relative strengths and weaknesses of both companies;
- committed to retaining key employees;
- good listeners;
- visionary;
- able to filter out distractions and focus on integrating key business drivers such as R&D and customer interfaces.[33]

To the extent that the acquired firm is closely integrated with the acquirer, it is critical that the leader of the acquiring company has a solid knowledge about the acquired company.

Some of the essential tasks this new business leader can perform include:

- Providing structure and strategy.
- Managing the change process.
- Retaining and motivating key employees.
- Communicating with all stakeholders.

It appears to be crucial that restructuring should be done early, fast, and once. This minimizes the uncertainty of “waiting for the other shoe to drop”. A historical problem has been a tendency to restructure slowly and to rely heavily on people rather than structures and processes. A lesson learned by the folks at GE Capital that greatly aids successful integration is:

> Decisions about management structure, key roles, reporting relationships, layoffs, restructuring, and other career-affecting aspects of the integration should be made, announced, and implemented as soon as possible after the deal is signed - within days, if possible. Creeping changes, uncertainty, and anxiety that last for months are debilitating and immediately start to drain value from an acquisition.[34]

Integral to the integration and the activities of restructuring and change management, are the activities involving staff selection, retention, and motivation, communications and cultural integration. Watson Wyatt's survey results found that:

- In the US, Europe, and around the world, retention of key talent, communication and cultural integration are rated most often as critical activities in the HR integration plan.

- Cultural incompatibility is by far the most common 'bottleneck' affecting the integration process, cited by 42 per cent of European respondents.

- Clearly, more advance planning and work done in the areas of retention, communication and cultural integration will help achieve success in M&As.[35]

This selection process needs to be closely aligned with incentives for these employees to remain. According to Kay and Shelton, the pace and substance of the employee selection process shall match the kind of merger involved.[36]

Managing the communication process is also a valuable way to retain and motivate key employees. It plays a critical role in the process of change and the entire stage of integration. The process of communicating can take several forms:

> Acquiring companies are using the Internet, internal company Intranets and e-mail to dispel rumors and keep employees updated about pending changes.
>
> Some talk directly with the newly acquired hires they are determined to keep. When his former company, Intervu, took over Seattle-based Internet software firm Netpodium, CEO Harry Gruber met with every engineer at the newly acquired firm.
>
> "All of our senior people went up [to the company headquarters]," Gruber says.[37]

A final HR issue is the need to create policies and practices for learning and knowledge sharing and transfer. Helping to ensure that knowledge and learning are shared across units are HR policies and practices that appraise and reward employee sharing, flexibility, development and long-term orientation.[38]

Stage 3 - Solidification and Assessment of the New Entity

Particularly for an acquisition with high levels of inclusion, there is a clear and specific new entity that is created. This new entity, the new company, e.g., DaimlerChrysler, needs to address several HR issues to ensure its viability and success. These HR issues and their implications are outlined in Exhibit 3.

HR Issues and HR Implications and Actions

As the new combination takes shape, it faces issues of readjusting, solidifying and fine-tuning. These issues take on varying degrees of intensity, although not importance, depending upon the nature of the merger or acquisition. DaimlerChrysler, where Daimler was regarded, at least in Europe, as the acquirer, provides an example. DaimlerChrysler went through this for more than two years after the formal combination was completed.[39] They addressed virtually all the issues listed in Exhibit 3.

For example, shown at the top of Exhibit 3 is "solidifying leadership and staffing." During the past two years since the combination was announced, Daimler has gone through several leadership changes in the Chrysler Group, as the unit is now called.[40]

Of course, change is a constant in almost any company today, as the macro factors in the global environment continue to change and present new conditions for all companies.

ROLE OF THE HR DEPARTMENTS/PROFESSIONALS

As illustrated in the Three-Stage Model of M&As, there are many people issues on which the relative success or failure depends, particularly at the combination or implementation stage. Yet research indicates that only 35 per cent of senior HR executives are involved in M&A activities.[41]

At the same time, there are many activities that are consistent with and appropriate for the HR professional's skills and competencies. These include:

1. Developing key strategies for a company's M&A activities. Providing arguments for and against merger and acquisition activity. Outlining the social costs, for successful and unsuccessful combinations. Eighty-five per cent of HR executives say they should be involved in these activities.[42]

2. Managing the soft due diligence activity. This can mean:

    - gaining knowledge of the make-up and motivation of the two work forces;

    - understanding the potential impact on the companies' multiple stakeholders, including the employees, the communities, and the unions;

    - accessing management team of the other company;

    - conducting analysis of its organizational structure;

    - comparing benefits, compensation policies, and labour contracts of both firm;

Exhibit 3

Stage 3 – Solidification and Assessment

HR Issues	***HR Implications and Actions***
• Solidifying leadership and staffing • Assessing the new strategies and structures • Assessing the new culture • Assessing the new HR P & P • Assessing the concerns of stakeholders • Revising as needed • Learning from the process	• Leadership and staffing of the new entry are essential • Creating and evaluating a new structure • Melding two cultures needs assessment revision • The concerns of all stakeholders need to be addressed and satisfied • The new entity must learn

- assessing the cultural match between the two firms.

3. Providing input into managing the process of change:

   > HR is a change champion providing the change management skills to align the right people with the appropriate knowledge and skills base to meet the shared goals of the enterprise.[43]

4. Advising top management on the merged company's new organizational structure. Almost 75 per cent of HR executives think this, and only 9 per cent think that HR should have full responsibility.[44]

5. Creating transition teams, especially those that will:

   - develop infrastructure for new organization;
   - process and design systems;
   - address cultural issues;
   - provide training
   - managing the activities associated with staffing, in particular, developing and overseeing:
     - Selection processes
     - Retention strategies
     - Separation strategies.

6. Overseeing the communications. Develop a communication plan aimed at realizing a vision of the new organization through:

   - Assessing issues re: audience, timing, method and message.
   - Information delivery.
   - Information gathering.
   - Helping employees and communities cope with change.[45]

7. Managing the learning processes, e.g.,

   - Building learning into the partnership agreement.
   - Staffing to learn.
   - Setting up learning-driven career plans.

- Using training to stimulate the learning process.
- Specifying the responsibilities for learning.
- Rewarding learning activities.

8. Re-casting the HR department itself:

    - Develop new policies & practices consistent with vision of new organization.
    - Develop HR structure and staffing.
    - Determine service delivery model.

9. Identifying and embracing new roles and competencies for the HR leader, namely,

    - Innovator
    - Partnership
    - Strategy Formulator
    - Strategy Implementer
    - Change Facilitator
    - Collaborator.

RECOMMENDATIONS FOR IMPROVEMENTS

There are numerous recommendations and conclusions that can be made about M&A activity, especially at the company level and at the HR level.[46]

At the Company Level

- Business and integration strategies must be clear.
- The social costs must be articulated and understood.
- When the deal is concluded, there must be a clear vision of what the new combination will look like:
    - How will it be structured and run?
    - Will it be stand–alone or connected?
- Such decisions must be made as early as possible and avoid ambiguity in decision-making guidance.
- It is critical to have a clear plan on whether to merge acquired companies or leave them alone.
- Performance expectations must be reasonable and take into account market conditions, capital investment requirement, etc.
- The seller's picture is too often the starting point for ongoing operations (e.g., artificially inflated sales, lagging capital investment) - but is not realistic as a performance goal.
- Inflated performance expectations can lead executives to adopt short-term focus and delay making investments in the business.
- Financial expectations must be made clear, along with expectations with respect to other things.
- Discovery is a broader concept than legal "due diligence", covering internal and external analysis of all key functions and culture (soft and hard due diligence); concerns of all stakeholders should be considered.
- Thinking through the membership of due diligence teams and the responsibilities of key participants is critical.
- It is important to make sure that areas such as HR, IT, Operations and R&D are represented on the teams.
- This has implications for capital expenditures, new product development, management retention, etc.

- For acquisitions or mergers in new markets, it is essential to understand market dynamics and customers.

At the HR Level

- Companies should put their best people in charge of implementing M&A deals, and seek union and community involvement.

- HR leaders should make sure that other company leaders know the true social costs involved in the M or A activity.

- More emphasis needs to be placed on early planning of the integration process.

- Difficult decisions should be dealt with quickly; provisions for the impact on employees and the communities must be considered and provided for.

- The time taken to complete the integration of a deal should not be underestimated.

- Employee communications, retention of key employees and cultural integration are the most important activities in the HR area for successful M&A integration.

- Acquired company employees often identify cultural elements (e.g., flexibility in decision making) as integral to the company's success.

- It is important to be sensitive to cultural differences.

- Acquired companies often view their culture as faster moving than that of their new, larger parent.

- It is possible that each side will perceive its culture as "better" and does not want to give it up.

- Unmanaged cultural differences will lead to miscommunications and misunderstandings.

- It is also important to remember that each separate integration activity changes the acquired company in some way. It is important to recognize and preserve the important elements of the acquired company's culture.

- HR professionals still need to prove their worth in order to get a more central role in the M&A process.

- Companies with M&A as part of their future strategy should review how they have managed M&A deals in the past, and learn from these experiences when embarking on future deals. This review should focus on:

    - How to deal with inadequate information during due diligence

    - Employee communication

    - Identifying and dealing with integration bottlenecks.

- M&A management can become a core competency for an HR department.

Overall, with the likelihood of continued merger and acquisition activity around the world for the next several years, the future seems bright for a significant positive contribution to be made by the HR department and its professionals, in partnership with line managers and the employees and their representatives. This impact occurs through: 1) ensuring that company executives consider whether M&A activity is really essential; and 2) if companies go ahead, that success is more likely than has been the track record of combinations. This contribution will be beneficial to the employees, shareowners, communities, suppliers and customers of the companies involved in the merger or acquisition activity.

Glossary

Merger	- two companies come together and create a new entity
Merger of equals	- two companies of equal size come together
Merger of unequals	- two companies of unequal size come together with the larger one dominating
Acquisition	- one company buys another one and manages it consistent with the acquirer’s interests
Acquisition and integration	- one company buys another and incorporates its operations into the acquiring company
Acquisition and separation	- one company buys another but operates it as a separate entity
Soft due diligence	- thorough examination of the people-related issues in the company to acquire or merge especially its human resource proactive and policies, talent and leadership attitudes and values; includes an analysis of the impact on all stakeholders: communities, employees, unions, partners, and families of employees
Hard due diligence	- thorough examination of the operations of the company to acquire or merge, especially its financial characteristics
Cultural assessments	- thorough evaluation of how well the two companies in the merger or acquisition will fit in terms of their values, cultures, human resource philosophies and styles of leadership and behaviours

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