

Merger? Acquisition? – What's Next?

Understanding and Managing the Human Capital Challenges

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Over the past decade many M&A's have failed to achieve the results expected by investors, CEO's, shareholders, directors and others. This failure pattern continues. The reason is, the best intentions to create greater synergy from M&A activities have substantially ignored the '*people and culture*' factors in favor of customer base expansion and short term product adjustments.

Merged companies frequently suffer from leadership departures. With them go critical skills and knowledge. Mistrust, turf wars, confused strategies, and lack of directives sap the energy and morale of managers and employees, creating a subsequent drop in revenues and profits. As one manager commented "*no one knows who is on first*".

Much of the root cause of failed M&A's lies in the due diligence process; the financial and legal rigor supersedes if not overlooks other dimensions of the process. The CFO of a merged company provided insight when she said, "*The numbers looked good. They gave them a good scrubbing. The problem is they didn't look beyond the numbers. Behind every number is a person somewhere in the organization whose skill, values and behavior is adding or perhaps subtracting value. That is where the real profitability lies!*"

Dr. Rikard Larson's (Lund University, Sweden) research has found that successful M&A's are based on joining companies with complementary products or services and creating organizational integration that proactively identifies and addresses human capital challenges. Dr. Larson's work indicates that 70% of M&A success rests on: strategic, organizational and people issues-culture, communications, career and customer factors. Addressing these issues in the preM&A phase will prove to be the secret to long term profitability. Cultural clash is inevitable given the historical inertia inherent in each organization and its people. Employee resistance to change is a fundamental characteristic and potentially a serious roadblock to an effective M&A process.

Integrating two organizations requires a ***Transform 90*** strategy that prepares and establishes the conditions for change within the context of each organization's culture. Using Transform 90, diagnostics and assessments provide objective data on which to define an appropriate transition strategy. Employees of both organizations are polled through online questionnaires to develop a picture of their organization's operating norms, decision styles, communication issues, leadership and management character, and potential employee relations '*hot spots*'. Targeted interviews can also be used to derive qualitative data. As well, all employees complete a ***Trimetrix Personal Talent*** assessment. This pre-acquisition employee assessment provides useful decision-making information.

A transition team comprised of members from both organizations examines the resulting data and prepares a Transform 90 Action Plan. The Action Plan involves the following components:

- Branded process (i.e., to focus employees on defining endings and beginnings, an example of which might be "Transitions-Good to Great")
- Organization modeling (i.e., defining what the structure of the organization will look like, scorecard measures, benchmarked position descriptions)
- Finance strategy
- Sales and marketing strategy
- Leader/management strategy
- Customer integration strategy
- Communication strategy
- Team building strategy
- Outplacement strategy
- Training and learning strategy

- Performance management strategy
- Corporate orientation strategy

M&A's have the potential to create a greater whole from the sum of two parts. This must start with a wider definition of the due-diligence process and the recognition that people are the most single important ingredient for success. Recognition of the '*people factor*' requires a pre-emptive integration strategy that optimizes employee involvement and recognizes the inherent resistance to change. Newhouse Partner's ***Transform 90*** process targets the transition issues and assists in creating an enhanced performance based organization by utilizing the strengths of both organizations.