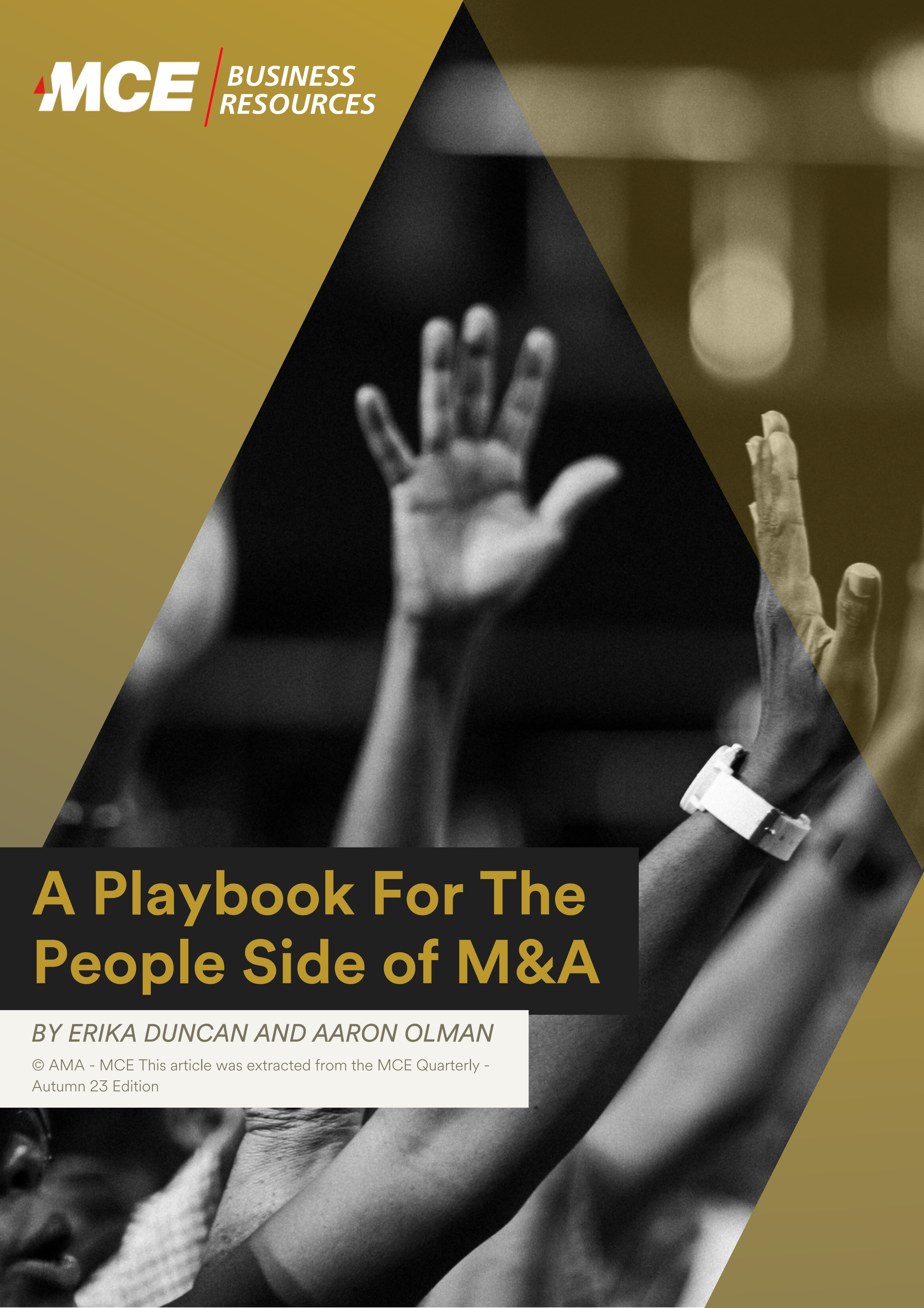


MCE BUSINESS RESOURCES

A Playbook For The People Side of M&A

BY ERIKA DUNCAN AND AARON OLMAN

Companies do not typically embark on high-stakes deals as significant as mergers and acquisitions without considerable assessment of the inherent advantages, disadvantages, risks, and opportunities.

Organizations have incorporated increasing rigor into every phase of managing the deal—from identifying the target through to integration. Finance, legal, and business development leaders typically vet and analyze the target company from multiple angles. Increasingly, HR is asked to participate in the due diligence stage to gather and assess the skills and roles of the target's workforce. Still, we continue to see a high number of deals that fail to yield the desired results. The reasons for failure vary, but disproportionately the crux of the problem lies in underestimating the role of human capital.

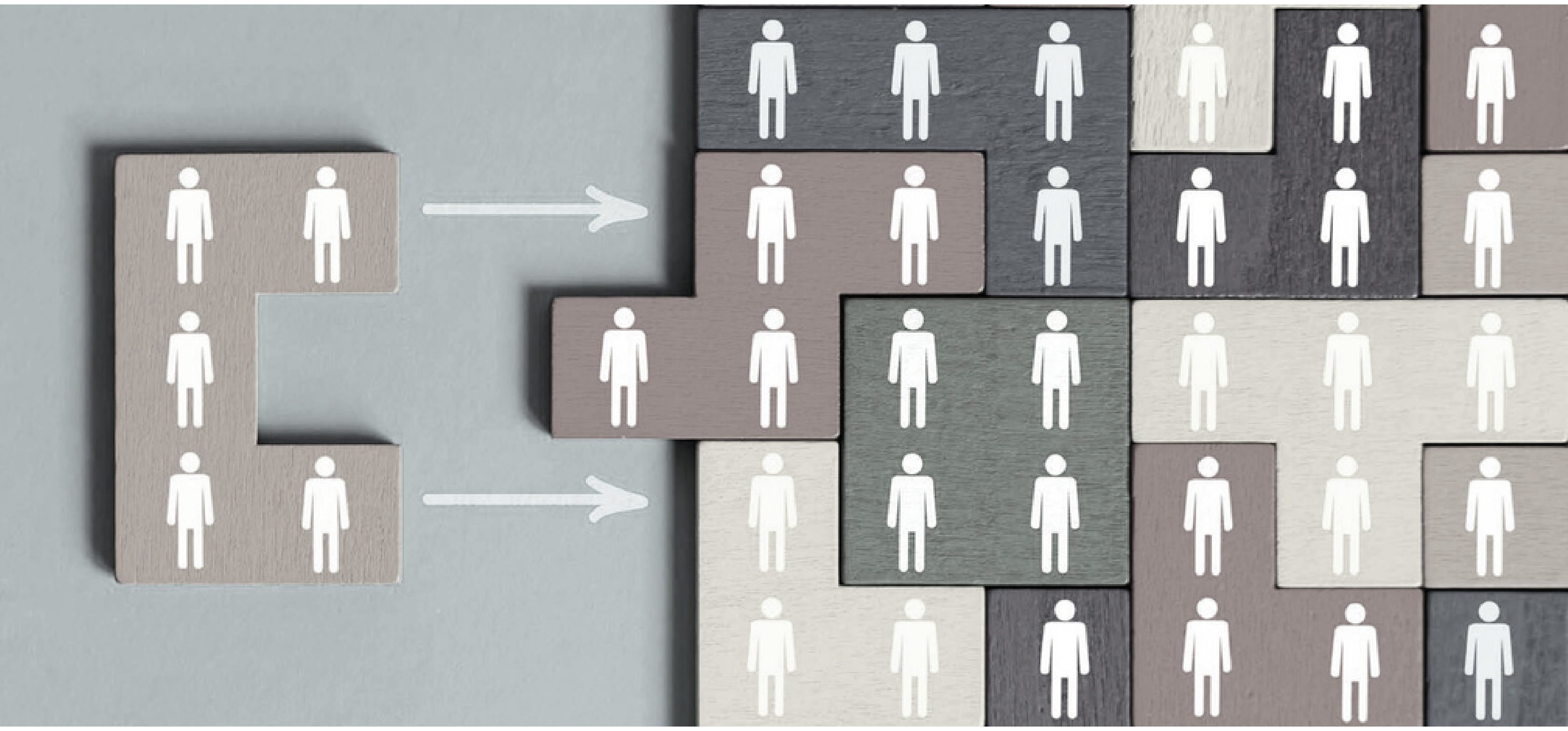
All the finances may be in order and show great signs of future growth, but future success can be erased by a gap in understanding how you will leverage your greatest futurestate asset (including the costs and risks)—the talent. The company does not sufficiently consider how it will leverage the future new profile of its talent when strategic people leaders are not at the table until a deal is finalized.

INVOLVING PEOPLE LEADERS DURING DILIGENCE IS PARAMOUNT

Many organizations fail to recognize the importance of involving people leaders during the diligence phase or simply don't possess the requisite strategic people leaders and related skill sets internally to do so. What will the future structure of the company look like? This question (and the answer to it) is typically overlooked in the due diligence process, and when the time comes to integrate the new company, we wonder why it does not fit within the current structure.

If the overarching blueprint—the end-state design for how people will fit in the future new company—is not considered, this could halt any growth and potentially cause a decline if the expectations are not set out from the very beginning.

However, involving people leaders during due diligence changes the conversation. This involvement is paramount to a holistic pre- and post-close M&A playbook.



This article was originally published in the MCE Quarterly!

CULTURE IS AN OUTPUT

Leaders often speak of culture and look to HR to quarterback a successful cultural transition through a merger or acquisition. But culture is an output of daily decisions, leadership behavior, and the workplace climate and environment.

To help drive culture, HR leaders must be part of the conversation early enough in the process to wrestle with the key questions that must be considered to form the culture with intention. Recognizing strengths, weaknesses and, most important, opportunities maximizes the likelihood of success in culture assimilation and business outcomes post-deal. The alternative comes with a steep cost and sometimes irreparable harm.

THE M&A PLAYBOOK IS IMPERATIVE

We must keep top of mind that while people are generally one of the highest costs to an organization, people are also undeniably an organization's most highly valued asset. It is no secret that the cost to acquire and/or retain quality talent is at an all-time high, which is why we continue to emphasize that human capital must be considered a strategic imperative.

By leaning into the space that drives talent, an organization can proactively assess and refine its human capital strategy. A detailed assessment of a potential acquisition target's human capital strategy will identify issues in a timely way and allow your team(s) to plan, avoid pitfalls, and help maintain and maximize acquired value. Primary areas of focus include the risks and rewards around people, processes, and technology.

A detailed M&A playbook is instrumental in enabling a seamless employee experience, an intentional culture, a solid continuity plan, an engaged workforce, and a leadership team that retains its sense of ownership. The M&A playbook ingredients generally are the same, but that plan must be adjusted based on each deal, the timing of the deal, the stakeholders involved, and more.

In the following section—under the categories of people, process, and technology—we provide guidance on developing an M&A playbook, including desired "run to" and "run from" states, topics or questions for consideration, and tips.

PEOPLE

Run to:

- Solid, integrated leadership
- Engaging, inclusive culture
- Curious, willing, entrepreneurial leaders

Run from:

- Bifurcation or lack of role clarity
- Toxic culture
- Self-focused culture
- Overemphasis on individualism
- Lack of clarity in behavioral expectations

Considerations:

- Are the total rewards (compensation and benefits) set up in levels with guiding principles for standardization and growth?
- What are the characteristics you expect of your leaders?
- What is the anticipated future leadership structure?
- What is the current-state culture assessment? How would you describe the desired future-state culture?
- What are the areas of talent redundancy? Areas of talent gaps?
- How can you ensure role clarity?

This article was originally published in the MCE Quarterly!

Conduct a bench-strength talent analysis before the deal or (at latest) during integration in conjunction with key leaders. It is imperative to anticipate and outline the desired infrastructure of culture, titles, connectivity, integration versus affiliation and, most important, role clarity. Without this anticipatory step, there is a guaranteed issue with role clarity, culture and operational haze, and dissatisfaction with the changes and leaders.

PROCESS

Run to:

- Defined leadership system
- Clear communication cascade
- Standardization and optimization
- Documented desired state

Run from:

- Lack of (or inconsistent) KPIs
- No communication plans
- Leading by exception
- Lack of accountability and line of sight to desired state

Considerations:

- How are we synergizing all processes?
- Is the org design and infrastructure conducive to adaptability?
- What documentation will exist to define processes?
- What are the expected KPIs?
- How do teams communicate among themselves and with one another?
- How is accountability maintained?
- What is currently being optimized/automated? What can be/
- should continually evolve over the long term?
- What is the process for reviewing and disseminating change notices?
- Will the companies (and their respective support departments) be fully integrated?

Through M&A, the company must decide whether the two organizations will fully integrate or not at all. There are very few examples in which operating somewhere between the two can be successful. If the plan is to integrate, everything from HR and finance to operations needs to fully integrate, and have technological support to make the union successful. If the decision is not to integrate fully, the entities should be allowed to operate completely independently of each other. However, this option can bring its own challenges, as the company will likely want to roll up data and information to the senior leadership team.

Prior to M&A activity, build a title levelling structure that allows the company to align compensation, benefits, and decision making ability while having the flexibility to accommodate a variety of titles. Title levelling is a robust framework that allows for flexibility and adaptation and supports recruitment, retention, and culture—while still standardizing—as a company grows. With this mechanism, leaders can encourage and reward "lateral" growth in a way that is not limited to promotions. Leaders need the ability to say "yes" to engage and retain top talent.

As an organization acquires smaller companies, typically the titles in the acquired company are higher than they would be as a part of the new company. It's difficult and certainly demotivating to reduce titles, but as a company grows, everyone cannot be an EVP, SVP, or even VP level. However, multiple titles and roles can fit into each "level," allowing for scalability, individuality, inclusivity, and perspective.

Building a flexible title levelling structure in the background can allow current titles to remain and avoid causing additional stress during the integration process. Over time, the goal may be to align titles as well, but not right out of the gate. The title levelling framework behind the scenes will still allow structure and consistency, giving the company the ability to scale quickly while avoiding ruffling any feathers and causing distress.

TECHNOLOGY

Run to:

- Integrated technology
- HRIS hierarchy
- Best-in-suite/class

Run from:

- No technology roadmap
- Lack of integration
- Paper and spreadsheets
- What is the HRIS hierarchy?
- Which finance system will be used?
- What are the existing internal communications tools for each company (such as Slack, MS Teams, etc.)? Which tools will be used going forward, and what is the transition plan for adoption of these tools?
- What will happen with the respective intranets? Will/how will they be consolidated?
- What is the plan for integrating the respective applicant tracking systems (ATS) and learning management systems (LMS)? What will be done to ensure nothing falls through the cracks in regard to hiring, onboarding, and professional development activities that are ongoing through integration?

Through the entire process, ensure that anything that is employee-facing (or candidate-facing) is seamless. For the employees, the less disruption to day-to-day tools and technology, the better. Also, focus on the way tools support the candidate experience for those in the middle of onboarding.

Erika Duncan and Aaron Olman are co-founders and human capital advisors for People on Point. Duncan is an experienced corporate human resource officer with a demonstrated history of working in the hospital and health care industry, and is skilled in HR strategy, organizational design, M&A/integration, HR technology and analytics, and operational leadership. Olman is an expert in HR systems, HR analytics, compensation design, and operational efficiency. With 10 years in progressive HR leadership for health care, home health, and other industries, he brings insight, expertise, and value to workforce planning and due diligence and has the unique ability to analyze people, data, and dashboards.

This article was originally published in the MCE Quarterly!

MCE KEY FACTS

MCE is your reliable partner for continuous success with agile people development solutions.

10,000,000

participants on AMA & MCE programmes in the last 10 years

92%

of Fortune 1,000 companies are our business partners

96%

of participants report they are using what they have learnt at AMA & MCE

1,000+

expert facilitators globally

100+

Open Training Programmes running throughout EMEA

98

year's experience working with our clients around the globe

For more information please contact:

+32 2 543 21 20

info@mce.eu

Visit mce.eu