Human Resources Strategy and Change: Essentials of Mergers, Acquisitions, and Joint Ventures

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Abstract

Acquisitions, mergers, and joint ventures are key, strategic options that organizational leaders may consider in the pursuit of growth or survival. The challenge is that these options have a high rate of failure. HR can increase the likelihood of success by deepening the focus on the people aspect as these options are considered and executed.

These strategic avenues have five phases in common: discovery, due diligence, agreement and announcement, integration, and sustainable performance. During each phase, HR has an opportunity to help organizational leaders understand the risks associated with the people factor and make informed decisions.

This chapter will provide you with an understanding of your role during these phases as well as a summary of dos and don'ts to enable success. We will share a case study with questions to help you think about what you would do as the HR professional.

Keywords

Acquisitions • Mergers • Joint ventures • Discovery • Due diligence • Agreement and announcement • Integration • Sustainable performance

Introduction and Overview

The drive to grow or survive motivates many organizational leaders to consider acquisitions, mergers, or joint ventures. From a strategic perspective, these options can open new avenues, but they are not without considerable risk. Any web search will yield failure rates of 50–90 %. In other words, the majority of mergers, acquisitions, and joint ventures will fail to achieve the desired outcomes. Even though the odds are against success, organizational leaders are not going to stop considering these options – and they shouldn't because these are viable and valuable growth strategies. Business sources, such as Bloomberg, predict increased activity in these areas, particularly across borders due to globalization. However, given the investment of resources and time that options require, and the long-lasting and significant aftereffects of a failed effort, organizational leaders must look for ways to improve the odds in their favor. While there are financial and legal factors to consider, we believe that human resources (HR) professionals have a significant contribution to make by helping organizational leaders focus proactively on the people part of the equation. The HR role in acquisitions, mergers, and joint ventures will be explored in this chapter.

What Is the Role of HR in Increasing the Odds of Successful Acquisitions, Mergers, and Joint Ventures?

As an HR professional, increasing the odds of success starts with having a basic understanding of acquisitions, mergers, and joint ventures and the challenges each represents. There is an abundance of literature on acquisitions, mergers, and joint ventures so the intent in defining the terms here is simply to start with a common understanding for the purposes of this chapter.

Acquisitions

Acquisitions involve one organization acquiring another. In the last several decades, accelerated growth through acquisitions has been a key value driver and one of the key factors in building market capitalization to enhance a company's competitive advantage.

The main drivers for acquisitions relate to growth opportunities such as acquiring new products, expanding into new geographical areas; and/or gaining access to new customers. Other motives include improving profitability and a company's strategic capability and marketplace positioning.

An acquisition is more likely to fail to meet the expected strategic, financial, and operational benefits than a merger or joint venture. The turmoil, confusion, and tension employees of the two entities experience can undo the most careful financial and strategic planning. However, acquisitions can be a win–win when both entities:

- Are invested in the outcome.
- See the upside potential.
- Have clearly defined the nature of the acquisition.
- Experience positive outcomes from the actual integration of the entities.
- Are prepared for the emotional ups and downs.

Given the failure rate, more often than not, this does not happen and people feel that they are losing something – particularly those who are being acquired. This can result in a range of reactions such as grief, anger, anxiety, and/or resistance. A certain degree of this is natural and to be expected. However, over time, if acquired employees do not begin to develop a sense of connection to their new organization and acquiring employees do not recognize the value of those who were acquired, then morale, performance, and retention issues can surface. Researchers have found that these personal, interpersonal, group, and intergroup dynamics following an acquisition can be significant determinants of success or failure.

Unrecognized or unacknowledged cultural incompatibilities should be added to the list of determinants. Cultural differences exist at multiple levels including interpersonal, group, functional, and organizational, with the latter having the potential to be the most divisive. Acquiring companies are often attracted to acquisition targets that will fill a deficient area or enhance their existing capabilities. However, acquirers often nullify these benefits by driving consistency with and assimilation to the dominant organizational culture. While it is necessary to achieve synergy through integration, pressures to conform can be disruptive to the strengths that the acquired company brings to the table. HR can help the entities navigate through the complexities of integrating people and the cultures.

Mergers

Mergers involve entities that are approaching each other as equals. The end result will be a new organization. The challenge will be how to combine the entities in ways that:

- Build on their strengths.
- Compensate for their weaknesses.
- Create a differentiated entity that is new and energizing to employees.

Mergers can be a win–win, especially when employees identify with the new organization, believe in its benefits, and, most importantly, see themselves in its future. This requires clear and consistent communication followed by actions that demonstrate that the merger values the contributions of both the originating entities. Otherwise, employees will begin to believe that the merger is actually an acquisition in disguise and the same downside risks of an acquisition can occur.

The leaders of the original entities have an opportunity to define a new organizational identity and culture. This requires vision, patience, and consistency over time and HR can be a key partner in defining the new entity.

Joint Ventures

Joint ventures allow entities to work together without altering their organizations. Usually, they agree to create a third entity to facilitate the partnership. Joint ventures can be permanent or in existence for a predetermined period of time. They can be a way to test the waters to see if the two entities can work together prior to making a permanent commitment. The partnering entities will have to design an organizational and management structure that will enable the joint venture to be successful. This includes figuring out policies, practices, compensation and performance management systems, paths to promotion, etc. If the joint venture is time limited, then the path for returning employees to their original employers without a negative impact on their careers must be determined as well. Employees from the partnering entities will have to work together to develop an identity for the new venture that is differentiated. They have to overcome the tendency to feel and act as representatives of their original organizations as they shift allegiance to the new entity. These are all areas where HR's expertise is essential.

Increasing the Odds of Success: The HR Role

HR professionals are experts in the people factor and can increase the likelihood of success by ensuring that organizational leaders are focusing on this factor in tandem with legal, financial and other considerations. HR can help leaders see the people factor from an investment rather than a cost perspective as they navigate through the phases that are common to acquisitions, mergers, and joint ventures:

1. Discovery
2. Due diligence
3. Agreement and announcement
4. Integration
5. Sustainable performance

As an HR professional, it is important to understand each phase to help organizational leaders navigate through them and to be able to provide insights that will help these leaders make informed decisions.

Phase 1: Discovery

Discovery starts when the organization begins to consider the possibility of a merger, acquisition, or joint venture. There is a tendency for HR to be perceived as being focused on operations or transactions so the value that you can bring during this phase may not be recognized. Therefore, as an HR professional, first understand your organization's business model and the strategic drivers that are motivating exploration of these options at this time. Armed with this understanding, you will be able to share your insights in a context that adds value.

It also is important to educate yourself. If you have never been involved in a merger, acquisition, or joint venture, then there is a wealth of information available to help you understand the process, key decision points, and the pitfalls. Leverage your network to talk to other HR professionals who have been involved in these types of ventures to benefit from their experiences.

During discovery, the tendency is to start by looking at the organizations that could be potential partners or targets. We suggest that you start introspectively by developing a "profile" of your own organization. Even if this is just a private exercise rather than something that you share openly, it will help as a basis for comparison and identifying potential pitfalls. Here are areas to think about as you develop the profile:

- What is your organization's public persona or reputation? What is it known for?
- What are your organization's core values (explicit and implicit)?
- How would you describe your organization's culture? (Hint: if a close friend was joining your organization as a new employee, what would you tell him or her about what it takes to be successful and the absolute dos and don'ts?)
- How would you describe the preferred management style (e.g., open, collegial, command-and-control)?
- How would you describe the degree of employee engagement and morale? You may have internal data that helps you answer this but you can also search social media to see what employees are saying.
- How effective is your organization at managing diversity? This question can be answered on multiple levels. First, how effective is your organization at attracting, developing, retaining, and leveraging the talents of women and those who are underrepresented in your geographic population? The literature suggests that organizations that are effective at this outperform peers who are less effective in this area.

On another level, how open is your organization to diversity of thought and experience? For example, diverse teams outperform homogeneous teams – but only if the diversity is welcomed and managed effectively. How do people in your organization work together? Does your organization encourage the expression and exploration of different points of view to innovate?

Think about diversity as an organizational competency. Organizations that are adept at recognizing and responding positively to diversity are more likely to adapt or look for opportunities to co-create in working with other entities. Those that find diversity threatening or an element that increases uncertainty may be more likely to try to control, limit, or assimilate diverse elements. This is one of the factors that contributes to the failure of entities being able to work together. The pressures to get diverse elements to conform can outweigh or overpower the unique elements that were attractive in the first place.

- What is your organization's experience with change and change management? What other change initiatives has your organization undertaken, and how effectively were they managed and executed? Understanding how your organization approaches change will help you to anticipate potential problem areas while leveraging best practices.

The intent of developing an organizational profile is to help you think critically about the areas where your organization could experience challenges in working with another entity.

As possible partners emerge, you can develop a similar profile of these entities by using the Internet, annual reports, press, media, and other publically available information. In addition, important information can be gleaned about the senior leadership team from public sources. This research will help you to begin thinking about potential challenges.

Phase 2: Due Diligence

The due diligence phase starts when your organization is ready to formally begin explorations with another entity. After safeguards such as nondisclosure agreements are in place, you can begin to communicate directly to people from the other entity although your access may be restricted to just a few people at the top of the house and HR leaders. The purpose of this phase is to gather information and insights to assess feasibility and draft a path for moving forward. To do so, the potential "partner" companies exchange information and expectations regarding:

- *Hard facts*: This includes a host of information such as the number and location of employees, organizational structure, salary and benefit structure, pension obligations, pending labor law cases with employees, reintegration commitments for employees on foreign assignments, maternity leave, military leave, absenteeism rates, and average years of service. The hard facts provide an indicator of the health of the other company and alert you to potential incompatibilities.
- *Systems and processes*: It is possible that you will need to merge or integrate systems used to capture and manage HR information as well as HR policies and

practices. A thorough understanding in these areas can help you anticipate problems with merging or integrating them.
- *Soft facts*: Oftentimes, the "soft facts" are overlooked or underestimated, but more often than not, they have a major impact on the success or failure of the merger, acquisition, or joint venture. They include but are not limited to culture, leadership styles and competencies, the talent pipeline, employee satisfaction and engagement, and retention risks of key leaders and employees. You may be able to conduct interviews with top or select executives so that you can begin to understand leadership capabilities, strengths, and challenges. These interviews can help the acquiring organization understand the organization's structure and operating model.

If you developed a preliminary profile of the other organization during discovery, you can modify and expand it based on the information and insights you gather during due diligence. This will serve as a basis to compare and contrast this profile with the one you developed for your own organization to identify similarities that can be leveraged and differences that could become challenging if the effort proceeds. These challenges can be incongruent values, culture, people systems and practices, leadership styles, approaches to diversity, tolerance for uncertainty, etc. All of these challenges present significant risks to the success of the effort but you can develop approaches to mitigate these risks if they are identified early.

Whether you are asked to do so or not, it would be useful to prepare a write-up or report that captures your findings from the discovery and due diligence phases and your assessment of the strengths and potential pitfalls. Even if this is just a working document for yourself, it will help as a frame of reference during the subsequent phases of the process, especially as you begin to think about how to integrate the organizations if the effort moves forward. Your write-up should include your insights and risk assessment of:

- Leaders and key employees, particularly those that could be retention risks
- The organizations' culture and values congruency highlighting similarities and differences that could become pitfalls
- HR practices and systems compatibility
- Both organizations' change readiness

With this as a foundation, your write-up should then include a preliminary plan for moving forward and integrating the organizations. It should include actions to mitigate the risks identified above.

If you have not been asked to formally produce and share a report on your due diligence assessment, then you will have to take the initiative. Your insights are a valuable part of increasing the likelihood of success and are an important part of the road map for moving forward if the organizations decide to proceed.

The other organization might also conduct its own due diligence so you could be called upon to provide information to them. Make sure that you understand what you can or cannot disclose.

Phase 3: Agreement and Announcement

Once due diligence has concluded, leaders must decide whether to proceed or not. If they decide to move forward, they must work through the details of what form the relationship will take and the financial arrangements. Information from the HR perspective also can be incorporated into the agreement. For example, the retention of key people and the assignment of roles in the new configuration could be included.

The agreement phase culminates in the public announcement of the arrangement. Consistency of the message at all levels of the organizations and on a continual basis after the initial public announcement is key to helping people internalize the change. HR can help organizational leaders and the communications teams think through the communications strategy. You can help them anticipate employee reactions so that they can design the communications strategy accordingly. You can leverage HR's management development expertise to help develop talking points and guides that managers can use to continually reinforce the message.

Employees will have concerns about the announcement and what it means for them. You can help leaders and the communications team anticipate the questions that employees might ask or might be afraid to ask so that they can address concerns proactively. The insights about your own and the other organization from discovery and due diligence will be useful. For example, if your observations are that one of the organizations has a culture where information is closely held and not shared broadly with employees, then this will have an impact on how to approach sharing information during pre- and post-announcement. In the absence of information, employees will construct their own reality so they may create a narrative that does not help them to accept the change. For example, imagine a company that is experiencing challenges with expanding the market for their product line where little information is shared with employees. Sometimes, this is done with the best of intentions – leaders do not want to cause anxiety among employees, or they may not want to share information when they don't have all the answers. The outcome is that employees do not have an accurate picture of the challenges the organization is facing. For this company, being acquired to gain better access to the marketplace or a joint venture could be necessary for survival. The company could try to paint a very positive picture of the new endeavor, but employees, because they don't have an accurate picture of the dire straits, could see it as a betrayal or abandonment. This is an example of how the culture of the company can have a negative impact when, in actuality, it is a positive move.

The agreement phase formally starts the process of transition from old to new because once the agreement is announced, nothing will ever be the same. Consultants influenced by Gestalt psychology talk about the importance of good endings and beginnings. When people do not have a "good ending" to the old state, their energy gets stuck in their unresolved feelings about the past. They cannot cap the experience and direct their focus toward what is to come. So, as you think about this phase and help your organization navigate through it, go deeper than just the formal announcement. Think about how the transition can be acknowledged symbolically or through ritual. We heard of one organization that held a memorial to acknowledge and celebrate the strengths, contributions, and history of the old organization. While this is an extreme example, it created a space for employees to acknowledge what was and express grief so that space could be made for the new entity that they would be part of going forward.

In addition to letting go of what was, this is the stage where people begin to learn about what's ahead and to form opinions about whether it is something they can identify with or want to be part of. There may be some skepticism about the future so leaders have to begin communicating a compelling vision and path forward. It is important to be real and not paint an overly rosy picture. As with any transition, there are going to be challenges and leaders should acknowledge them along with the commitment and confidence to work through them. For organizations with open, collaborative cultures (or ones who want to create this type of culture), this is an opportunity for a call to action to enlist employee involvement in helping to craft the future.

Phase 4: Integration

Once the integration phase starts, the hard work really begins because everything up to this point is hypothetical. Once the agreement has been announced, the work of actually creating the new arrangement begins. Although new organization structures may be announced right away, it takes months and maybe even years to successfully transition into the new arrangement and to begin to see sustainable benefits and performance.

Issues will arise as the reality of integrating different organizations takes hold. Lack of understanding of and agreement on the vision, values, and the value proposition of the new entity can cause friction. There can be communication breakdowns, power struggles, jockeying for position, "we–they" attitudes, and a lack of trust that result in waning commitment, a decline in productivity, and the loss of key players. Employees new to their managers or the organization may not be integrated into career development processes so their potential goes untapped. Key employees and senior executives may leave resulting in the loss of the intellectual capital and key relationships – internal and external. This can lead to a decline in financial performance, and the organizations can be left without the value they envisioned and paid for.

The integration phase continues activities that were started during due diligence, but now that the effort has been announced, they can be undertaken publically and on a broader scale. The activities include but are not limited to:

- Conducting formal leader assessments to identify leaders who have the potential to take on increased leadership responsibilities and incorporate them into the existing leadership development practices.
- Designing and implementing an onboarding process assigning buddies to all and mentors to senior and middle management to help orient them to the new structure and expectations.

- Planning and conducting leadership alignment meetings to engage leaders in aligning strategies, resources, and business models.
- Engaging employees from both sides in a collective process of mapping values and culture from both organizations to identify the similarities and differences that can help and hinder integration.
- Developing and executing a transition/change management plan that extends for at least 2 years. This gives the organizations sufficient time to shift to the new structure and achieve sustainable performance.
- Continuing to communicate early and often.

Diversity of thought and business models can create additional issues during integration. This is an opportunity to explore those differences in practices to identify and leverage best practices but it requires fluidity and adaptability.

Phase 5: Sustainable Performance

The goal of an acquisition, merger, or joint venture is to achieve a steady state where operations are fully integrated, and sustainable performance can be achieved without the necessity of the extraordinary efforts required during integration. HR continues to play a role during this phase by monitoring indicators that can identify longer-term issues. Useful indicators include but are not limited to:

- Progress toward goals and objectives, change milestones, and metrics
- Employee and customer satisfaction
- Retention and attrition rates (this is essential if there are agreements about how long key leaders must remain)

HR also can facilitate yearly leadership alignment discussions to insure there is a unified understanding and approach to strategy, vision, value proposition, strategic objectives, and critical success factors intended to drive the acquisition. Cross-business alignment sessions to assess cross-unit collaboration around joint objectives and coordinated business model are also imperative.

This discussion of the phases underscores the important role that HR plays over the course of what can be several years as an acquisition, merger, and joint venture are considered, implemented, and integrated until it becomes business as usual.

Evaluations from Four Business Perspectives

People Perspective

At the core, organizations are social systems of people who have thoughts and feelings, who can make good decisions and bad decisions, and who will choose to be engaged or not. Oftentimes, it is the cultural dynamics of the social system and the emotional dynamics of the people that undermine the success of a merger, acquisition, or joint venture through:

- Lack of vision and planning for the entire process and for the course of action required during each phase
- Lack of a transition and change management strategy
- Not anticipating and compensating for potential blind spots
- Unrealistic expectations of the synergies that can be achieved
- Ignoring or not being able to navigate differences (organizational, values, cultural, operational, etc.) effectively
- Not anticipating the emotional impact and employee reactions
- Poor execution

People are at the heart of all of these failures as those who are making the decisions, providing input, executing, or being impacted. HR can help people do all of these things better.

As discussed previously, HR can ensure that leaders are considering the people factor as they make key decisions and implement a course of action. HR professionals also can help leaders in *how* they are processing information and making decisions. Leaders can rush to judgment or become overwhelmed by the complexity and uncertainty. They can place too much credence on information that confirms their point of view while giving less weight to contrary information. They can avoid deep discussion if it could be contentious, and they can get stuck in disagreement and fail to move to consensus. They can rely too heavily on past experiences when new approaches are needed to address novel situations. They can act alone when they should be engaging others, and they can look to others for a clear direction when they should trust themselves. HR professionals can help leaders see these blind spots and work through them – if they are perceived as trusted advisors. This is a different facet of the relationship that an HR professional can have with organizational leaders – the key elements of which are trust, credibility, and the ability to provide feedback in the spirit of learning and increased effectiveness. This type of relationship develops over time, through shared experiences, and with intent on the part of the HR professional.

HR professionals can be relied on for gathering and synthesizing information that will help inform leader's decisions. If not aware HR can be subject to the same types of blind spots as leaders. They can become victims of groupthink and fail to consider other points of view. They can consciously and unconsciously filter information based on what they think the leaders want to hear. If teams are involved, they can fail to leverage the diversity of the team to ensure that they are considering options fully. By playing a facilitative role, even informally, HR professionals can help individuals and teams function more effectively and optimize the quality of the information they provide.

We have talked about the impact that acquisitions, mergers, and joint ventures can have on employees previously and would like to explore this at a deeper level here because of the potential risks related to trust, loyalty, motivation, and momentum. Organizational changes can be disorienting as evidenced by people feeling that they have more questions than answers. A lack of clarity around direction can be disconcerting and feed into concerns such as the following: will I have a job? what will my role be? will I have the necessary skills? who's going to be my manager? and will I like the new situation? They may suspect that the leaders have not been forthcoming and feel as if they are just waiting for the other shoe to drop. Even the most secure can feel that their world is becoming destabilized. All of these unanswered questions and uncertainty can lead to a weakening sense of trust and loyalty.

Also, because most people have had little or no part in the decision making process, they may not feel a sense of ownership, putting employee support at risk at a time when it is needed most. The heightened state of uncertainty can pervade the climate and lead to an environment of self preservation. People can become more vulnerable to recruiters or focus on jockeying for position, which diverts time and energy from achieving the new entity's goals and objectives. In addition, there could be undercurrents that corrode the environment and lead to covert or overt resistance.

Collectively, these feelings and behaviors are de-motivating and can result in an increasing spiral of negative energy and momentum that can be seen in productivity declines, turnover/attrition, and declining morale and engagement. In short, these behaviors are incompatible with what the organization needs at this point. In discussing the phases earlier, we emphasized the importance of monitoring key measures during the integration and sustainable performance phases. Data that allows you to identify early indications of negative energy coupled with an effective change management process and communication plan with executive alignment at the outset can short-circuit many of these issues.

Before concluding this section, we would like to focus on the impact of globalization. Navigating the feelings and behaviors described above becomes even more difficult when entities cross geographical, national, or ethnic boundaries. Culture at this level has a profound impact in people's beliefs, values, and behavior patterns. Cultural differences lead to misunderstandings and miscommunication. Unaddressed, the incompatibility can cause deals to fall apart or contribute to unrealized goals and expectations. HR professionals can help their organizations recognize cultural differences and develop productive ways of recognizing and dealing with the tensions that are sure to arise.

Economic Perspective

There is a wealth of information that will help organizational leaders develop a cost–benefit model for an acquisition, merger, or joint venture. In addition, HR can help organizational leaders project the intangible cost and benefit associated with the people factor. As with any significant change, destabilization of the workforce can result in a decline of performance characterized by losses in productivity, revenue, opportunities, retention and attrition, extensive costs of hiring and replacement, and loss of customers on both sides of the equation derailing financial objectives of the deal. Ideally, these declines will be short lived, and the gains will begin to take hold as integration progresses and will stabilize as sustainable performance is achieved. Oftentimes, organizational leaders fail to anticipate the decline. They assume that intangibles such as in productivity and morale will continue on their pre-acquisition, merger, or joint venture trajectory. HR can help leaders expect and anticipate the decline that can occur when the change is announced and executed as people feel a sense of uncertainty and begin to adjust to the new reality. However, if the decline endures too long, then interventions may be necessary to get the effort back on the right track. HR can help to anticipate, project, and monitor the intangible costs and benefits associated with the people factor and plan additional actions when necessary to ensure that synergies are achieved.

Retention is another area of economic threat where HR can provide leadership and guidance. Retention issues arise with the potential loss of key talent. Expertise and intellectual capital can be lost and key client relationships can suffer with the loss of key people in either organization. In addition, employee morale and productivity can be impacted negatively if well-regarded leaders leave. HR can help to reduce the possibility of retention issues by identifying key personnel during due diligence and working with organizational leaders to develop retention plans. During the integration phase, HR can ensure that these people have a positive, high-touch experience to increase the likelihood that they will want to stay.

Risk Perspective

Risk is inherent in every phase of an acquisition, merger, or joint venture. If actively involved, HR can serve a vital role in mitigating the risk factors associated with the people element. When employees are distracted, competitors can swoop in and try to win away business in this time of uncertainty.

Operations Perspective

Ultimately, the success of the acquisition, merger, or joint ventures is evident in the operations of the resulting entity. Synergies are achieved by minimizing disruptions to productivity, product or service quality, and customer relations while transitioning to operational efficiencies that are sustainable. Decisions made by functional areas in addition to support functions such as HR, legal, and finance impact operations and key value drivers.

Operations integration helps the companies achieve early wins, build momentum, and instill confidence of stakeholders. The new processes may require new skills. Consequently, there are several questions to be explored:

- How compatible are the organizations' operations?
- Where will operations need to be merged, transitioned, or allowed to coexist?
- What training will be needed?

Understanding the operational perspective starts during due diligence as you gather preliminary information. Once the integration phase starts, you can engage employees in a process of mapping the operations and answering these questions. Collaboration is critical because employee involvement can help to avoid or alleviate problems discussed previously in this chapter.

Summary of Dos and Don'ts

Dos

We have presented a number of ideas in discussing the role HR plays in increasing the odds of success for acquisitions, mergers, and joint ventures. The dos can be summarized as follows:

Do get involved early.

In advance of acquisitions, mergers, and joint ventures, there are two key phases where HR should be involved early: discovery and due diligence.

During discovery (before ever setting foot on the ground), HR can research and review information regarding the company culture through the Internet, annual reports, press, media, and any public information available regarding the other company. In addition, important information can be gleaned about the senior leadership team from this public information. This helps you to begin to understand potential strengths and challenges that the combination may present and aids in the formulation of the most effective integration team to support and enable deal success. You can also use this time to develop a profile of your own organization that will be useful as the effort proceeds.

During due diligence, it's critical that HR get involved as well. At this point, feasibility and potential for future success are evaluated. To do so, the potential partner companies exchange information and expectations regarding:

- **Hard facts** (e.g., salary levels and costs of benefits, pension obligations, pending labor law cases with employees, reintegration commitments for employees on foreign assignments/on maternity leave/on military leave, absenteeism rates, and average years of service): The hard facts provide an indicator of the health of the other company and alert you to potential problems.
- **Systems and processes** (e.g., HR information systems, policies, and practices): It is possible that you will need to merge or integrate systems used to capture HR information so it is useful to begin to identify the challenges that may present.
- **Soft facts** (e.g., culture, leadership competencies and potential derailment factors, leadership style, talent pipeline, and employee satisfaction): Oftentimes, the soft facts are overlooked or underestimated, but more often than not, they have a major impact on the success or failure of the merger, acquisition, or joint venture (see the next "Do").

Do spend more time than you and others think is needed on the soft aspects.

Soft aspects can become hard aspects when they impact the bottom line. Evidence has shown over the years that when soft aspects start to impact the bottom line, they become hard aspects. If they are overlooked, performance lags behind and retention issues begin to surface. In addition, culture clashes can completely derail deal success.

The more complex organizations are, the more important it is to have clarity around all hard and soft aspects in order for leadership to steer the combined organizations in the right direction.

Successful integration and realizing the full potential of the deal is always a challenge, but there are a few guidelines that can enable success:

1. Ensure that HR is an integral part of all work streams with finance, operations, sales, etc.
2. Formulate the most effective integration team by including members from both sides of the deal.
3. Conduct interviews of top executives to begin to understand cultural aspects, strengths and potential derailment factors, potential retention challenges, and opportunities.
4. Clarify the value proposition of the combined companies as early as possible; identify risks and challenges and actions to be taken that will realize success of the deal.
5. Begin to formulate the communication plan (who to communicate to, how, when, optimum frequency) so you are ready to execute as soon as the signing is complete and deal becomes public knowledge.
6. Establish a change management plan.
7. Craft compensation plan.
8. Clarify expectations of leaders – roles, responsibilities, and accountabilities.
9. Develop leadership and management development plans.
10. Create buddy system for the new organization to link employees from both sides.
11. Facilitate alignment meetings for senior leadership.
12. To create sustainability, continually take the pulse of the organization by conducting ongoing employee surveys, including new talent in succession plans, and conducting periodic roundtables and town halls.

Take note that in acquisitions, mergers, and joint ventures, major challenges exist because many things are new for all involved. In phases when there is lack of transparency and uncertainty, it takes discretionary effort (e.g., stepping in for others, doing things which are not part of the job description, clarifying things, explaining things to others, and simply working harder) of all involved to drive the new company to success. If everybody just does what he/she is being told, the odds of failure are high.

Too many open questions regarding the hard facts such as legal issues, financial questions, changes in payroll setup, etc., already capture a lot of capacity on top of the usual day-to-day HR challenges. As a result, HR leaders themselves hardly find the time to deal with the soft aspects. In order to cover both hard and soft aspects, you have to reevaluate priorities to determine where it would be advisable to shift priorities or reach out for external support in such situations.

Don'ts

Don't proclaim your HR strategy, policies, and processes as being the only way forward.

Even though you have good reasons for the way you do HR, the partner side also has good reason for their way.

Early on, you should get in contact with HR of the partner company and try to understand their HR strategy, policies, and processes. Particularly in global companies, your HR strategy might not be appropriate in other countries or cultures.

It may be advisable to maintain different HR philosophies in parallel for some time and then to gradually merge those. Obviously, this can mean higher cost compared to a fully integrated solution, but the return on investment far outweighs the cost.

Don't give in to the pull to assimilate the other.

Resist this pull because it will result in marginalizing employees from the other company. Look for strengths of both sides and leverage those strengths to integrate for the benefit of the combination.

Don't tell the acquiree that it will be business as usual – that is like waving a red flag in front of a bull. It never will be business as usual again.

Case Study

Here is a case study to give you an opportunity to apply ideas presented in this chapter. The purpose of the practice case is to give you an opportunity to think through some of the issues associated with acquisitions, mergers, and joint ventures and what you can bring to the situation as an HR professional. There are no perfect answers.

Part One

You are the VP of HR for a family-owned Korean drill bit manufacturer with 6,000 employees. You have been with the company for 6 months after a 15 year career of HR roles with increasing levels of responsibility. This is your first VP role and you report to the company president. Your predecessor was his daughter who left the company for reasons that have never been fully explained. Since joining the company, you have a standing meeting with Mr. Soo, the president, every 2 weeks. These meetings tend to be very formal and he drives the agenda. He lets you know what he wants to focus on in advance so that you can come prepared with data and recommendations. So far he has focused on executive compensation in comparison to the market, work–life balance, and recruiting. Of late he has also expressed a desire to understand gender diversity. You have not yet brought a topic of your own to these meetings. During the discussions, Mr. Soo listens carefully and asks very incisive questions. He does not make a decision on the spot but will usually come back to you during the next meeting with a course of action. You have found that he does take your recommendations into account and has said that your opinion helped him to make his decision. You also sit in on the senior leader meetings that are also bi-weekly. Mr. Soo's style in these meetings is similar. He sets the agenda in advance, asks for input from the senior leaders, and then announces his decisions during the next meeting. You have not been invited to share input on any of the discussions thus far.

Mr. Soo is the 5th generation of the family to lead the company that just celebrated its 75th birthday. The company has grown significantly over its history at a constant rate of double-digit growth until the last 2–3 years where it has slowed to 5 %. Its strongest market is Asia where it has 60 % market share followed by Latin America with 40 %. The market share in other parts of the world ranges from 0 % to 5 %.

With the slowing growth and minimal market share in growing markets, there is general recognition that the company may need to change its strategy. In talking to the other senior leaders privately, you have found that there are varying opinions among the senior leaders about what to do:

- The CFO is advocating for doing nothing. He has been with the company for 30 years and believes this is just another storm to be weathered. If they stick to doing what they do best then the company will be fine. The company has a track record of adopting this strategy during hard times and has been very successful.
- The CMO is Mr. Soo's grandnephew who joined the company 10 years ago. His father was the president before Mr. Soo. He is advocating for a new approach. He argues that the company's purpose is not to make the best drill bits but to help customers make holes. In his view the company should make a radical shift and move into laser technology. He has gone so far as to identify a small US company that is innovating in this area that would be a good target for acquisition.
- The head of manufacturing is Mr. Soo's son and the heir apparent. He believes that something needs to be done but in a moderate fashion. He has identified another drill bit manufacturer that could be a good candidate for a joint venture. The company has strong market share in the Middle East, Africa, and Europe.
- The VP of Sales was a professional hire from Canada. He has been with the company for 7 years and is credited with modernizing the company's approach to sales and cultivating customer relationships. One of his previous employers, a Canadian drill bit manufacturer, has sought his opinions on whether the company leadership would be open to considering a merger.

There has not been an open discussion among the leaders on these options and the path forward. You have not been involved in an acquisition, merger, or joint venture, but you believe that you can help the senior leaders navigate through the process of considering the strategic options.

- How would you educate yourself on the options?
- Given that you are relatively new to the organization, just getting to know the senior leaders, and still developing your relationship with Mr. Soo, how well-positioned are you with the senior leaders to be perceived as a valuable contributor to the strategic process? What can you do to better position yourself?
- What aspects of the company and its culture could be challenging if the company decides to pursue an acquisition, merger, or joint venture? Which option do you think would be most likely to succeed at this point?

Part Two: 6 Months Later

Mr. Soo's nephew – with his father's influence – has been very persuasive. Mr. Soo has decided to explore the possibility of acquiring the laser technology firm. In his one-on-one meetings with you, he has expressed a desire to make an investment in the company's future and with some sadness acknowledged that just focusing on manufacturing drill bits might keep the company going but will not position it to thrive and take leaps. Over the past 6 months, you have deepened your relationship with Mr. Soo and he has come to value your input. Your one-on-ones are much more interactive where you now have healthy discussion and debate. You have been able to position yourself as a strategic partner with insights on the people factor of the business.

The American company is open to the possibility of acquisition. They need an infusion of capital to bring their first commercial product to market. It appears that this will be a game-changing technology if it can be introduced within the next 2 years. There are other firms developing similar technology who could go to market in the next 3–4 years.

Mr. Soo has asked you to join the team that is going to conduct due diligence. The team will be led by Mr. Soo's son. You asked Mr. Soo why he was not sending his grandnephew who originated the idea. Mr. Soo replied that he needs an objective opinion which his son will provide since he will be looking for every reason to say NO because it was not his idea. Mr. Soo hoped that the possibility would be so compelling that it would overcome his son's reservations and turn him into a champion of the effort. Also, Mr. Soo feels that if this is to become the future of the company, then his son must be integrally involved as the future leader. In addition to the parts of the due diligence that you want to look into as the HR leader, Mr. Soo has asked you to observe how his son conducts himself during the due diligence and to provide coaching if needed. However, he does not want you to tell his son that you have been given this directive.

- What do you want to cover during the HR part of the due diligence? Who do you want to talk to? What do you want to see?
- What recommendations will you make to Mr. Soo regarding his grandnephew? What might be the risks of not including him to the full extent in the process for the future or the company?
- How will you position yourself with Mr. Soo's son? Will you tell him that you are there to observe and coach or not?

Part Three: 1 Year After Due Diligence

The acquisition of the laser technology company has been finalized and will be announced in 2 months. Mr. Soo has asked you to develop a draft integration plan that he will take to the senior leaders for discussion and buy-in. He wants to finalize the plan within the next month so that it is ready to go once the announcement is made.

- What are the key components that you would include in the integration plan?
- What are your timeframe and key milestones that could be incorporated?
- What leadership challenges do you anticipate? How would you advise Mr. Soo to incorporate the leadership team from the acquiree?
- What cross-cultural issues might occur and what can you do to mitigate against them?

Final Comments and Outlook

Acquisitions, mergers, and/or joint ventures come with a high risk of failure. There are, however, factors that can increase the likelihood of success:

- Seamless and effective integration of two entities in order to achieve the original aspirations of the deal.
- Ensuring that the benefits to the customers and their businesses are transparent to them early on in the process.
- Retention of key talent long enough to transfer knowledge and meet revenue targets.
- Accelerating integration of acquired executives, enhancing their ability to drive innovation and business results.
- Implementation of the execution plan.
- Willingness to create a new culture. Not all senior teams are willing to embrace the new culture.

HR professionals have much to contribute to increasing the odds of success because of the knowledge of human systems that they can bring to bear in encouraging these success factors. This starts with having a seat at the table and being perceived as a valued business partner. There is a tendency to see HR as the people police who get in managers' way rather than a strategic partner who can add an invaluable perspective to the process. To ensure the success of a deal from the people and cultural perspective, it is essential to have HR involved starting with discovery and continuing through to sustainable performance and growth.

Note The majority of this chapter is predicated on our personal experience, but there are a few key readings that have informed our thinking and where we think you can derive significant benefits

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