



Leaders must “Walk the Talk” M&A Reveals the Special Role of HRM in Change Processes

M&A already happens always and everywhere but it will further grow in speed and magnitude and become more global every day. The more global M&A transactions become, i.e. the more countries or continents are involved, the more complex and typically risky they become because of bigger differences in languages, cultures, and legal / economic systems. This is where the role of HRM likewise grows in importance because of exactly their expertise in terms of people, cultures, and values.

For the big corporate world, global M&A is nothing new. It is mainly the peer pressure that now triggers also the more traditional, family-owned companies to get out of their comfort zone into the riskier waters of global M&A. They typically grew organically with small local add-on acquisitions at best. However, once they are

ample for one of the most active M&A companies that seek targets in Europe. Further key trends: global M&A will continue to grow and even mid cap companies will not be able to afford missing it out as part of their business strategy. Low interest rates and easy access to money reduce the hurdle to global M&A. The fragile state of the economy combined with present international conflicts make the world more and more unpredictable and volatile which makes planning ahead for M&A transactions very difficult. Very professional and sound private equity funds will thus be interesting partners to moderate the risk and provide competent guidance. Not only acquisitions but also divestitures activity will increase as companies shed non-core assets in order to focus their business and raise capital.

- ▶ Cultural Due Diligence taking both hard and soft facts into account.
- ▶ Quickly screen and evaluate the new management potential within the new company and make the necessary people and staff decisions.
- ▶ Process lead of the post-merger integration process, which – if done properly – actually starts with the planning and preparation long before the merger is actually completed.
- ▶ HRM stream in the PMI process to establish a newly combined HR organization with clear processes, roles, and responsibilities.

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surpassed and outdistanced by their fellow competitors, they start to become part of the game.

Worldwide M&A transactions grew by 30 percent from 2014 to 2015 to an all-time high of \$ 4.7 trillion. Several years of consistent growth, big piles of cash, and cheap money will continue to fuel the global M&A activity where cross border transactions will continue to provide a significant source of value creation. According to a recent report of J.P. Morgan, \$ 6 trillion in cash reserves were held at the end of 2015 globally waiting to be deployed before corporations come under pressure to return it to shareholders.

Furthermore, Asian outbound M&A will continue to grow and again initiate European companies to act for themselves. ChemChina, a Fortune 500 Chinese state-owned chemical company is only one ex-

THE ROLE OF HRM IN GLOBAL M&A

Everyone has encountered the role of HRM in different companies from a purely admin type of role to a true strategic one that supports management in change processes, especially one of the magnitude of an M&A transaction. In IT departments, people typically differ in “run the company” and “change the company”; i.e. you will find roles that make sure of a well-oiled day-to-day operation and roles that take care of necessary changes. From our experience, that applies for HRM even more. It would be a big mistake to devalue the HRM roles to a purely “run the corporation” type of department and not use their resources and “people” competencies in major change projects.

The major accountabilities of HRM in global M&A transactions:

- ▶ HRM in the role of the executive management team: strategic planning of M&A transactions as important part of the company development and growth.
- ▶ In time planning and provision of the necessary management resources for the merger process.

Does that mean that HRM is necessary to get involved everywhere and every time? Yes and no. Before making an educated recommendation we have to take the following criteria into account: size of the acquiring company: small / family-owned vs. multinational stock listed corporation; experience with mergers: beginner vs. pro; experience with the handling of diversity, i.e. differences in how things are done, tasks achieved, or people managed; number of people involved: small number vs. couple of thousands; acquisition: minority vs. majority share in the new company; extent of integration: standalone vs. full absorption; timing of inclusion of HRM in the M&A process: early stage / i.e. planning process vs. PMI phase or when troubles arise; involvement of different cultures: within the own country vs. cross border / cross continent.

One of the most important and often neglected roles for HRM specifically in post-merger processes is the management of speed: just 6 months after the billion-dollar takeover of Metco through Oerlikon in 2014, the analysts officially stated the integration as completed. However, taking into account the behavior of social systems, these analysts had no clue. A company with more than \$ 700 million in sales and a couple of thousand people cannot be integrated overnight other than with

brutal force, which is usually followed by massive aftershocks in the form of repulsion effects.

CAREFUL BALANCE OF THE PACE OF DEVELOPMENT

Courageous leadership takes into account that speed is neither a magic bullet nor an end in itself. It is not a question of yes or no. It is rather the challenge of managing speed as a very important parameter in an integration. Brave leaders do not strive for speed at any cost; they maintain a very careful balance of the pace of development. Once we acknowledge that there is no correct or incorrect speed for the integration of two companies with their distinct cultures, the question is how to arrive at the ideal speed. Key here is to speed up and slow down at the same time; i.e. you need several different “speeds” at the same time.

However, how could HRM help finding the right speed for the different parts of a company, stream of projects, or type of tasks within a complex integration process? Here is an example for an HRM supported approach to manage a world of multiple synchronous running speeds. After the compilation of the key themes that are relevant for the success of the merger, HRM together with management commences a priority assessment of these themes with the following criteria:

- ▶ **Urgency:** What are the deadlines triggered by internal or external factors?
- ▶ **Importance:** Impact on success or failure of the venture?
- ▶ **Preliminary decisions:** How much of the execution has already been decided?
- ▶ **Participation:** At what time and to what extent should the relevant people be involved?
- ▶ **Emotions:** Proximity of the subject to people’s emotions and feelings?

GETTING INVOLVED EARLY AND DEEPLY

The different themes can now be more easily attached to a certain speed. There will be critical areas where external factors will not allow for any hesitation such as financial reporting, key staff decisions, or legal compliances. However, other, more operational areas may have more leeway to slow down on purpose. It just needs some time for excitement, creativity, and completely new solutions to arise.

The biggest challenge for HRM in M&A is to get involved early enough and deeply enough! HR executives of big M&A-experienced companies like Borealis, Mondi, and Semperit, say that the higher the HR participation in the M&A process – already starting with the target search, continuing with due diligence, and followed by the integration planning and change management – the better the deal outcomes and the value growth. The role of HRM in M&A is changing from a pure support function (to line managers and deal professionals) to a guidance role for top management of high value added – but only if HRM is involved right



The basic challenge for HR departments is similar in almost every organization: Which people do we need in order to achieve our business strategy? What kind of services concerning talent acquisition, evaluation and retention does management help to achieve their goals?

from the start. What are the different dimensions of the HRM challenges in M&A transactions?

THE OPERATIONAL CHALLENGE

If you are not yet sitting at the M&A table from day one – claim your seat! Find answers to the so called “purpose questions”: What are the expectations of the – new to build – organization? What is the dominant goal – e.g. midterm growth potential or quick synergies? What does this goal mean for HR topics? Translate the dynamics of your industry and the strategic direction of your company into actions that are tailored to the intended deal. What operational, organizational, and human capital actions will make the deal successful? Have an active part in the formulation of the search profile: What kind and size of company would be the best fit? Which human capital factors are important?

HRM should also take the lead role in the HR Due Diligence process in order to help identify red flags and other key people

related questions that are important. They can even halt the process if necessary. Looking at legal issues and human capital risks, the following questions might help: What are the existing employment contracts, retirement obligations, and health plans? What skills and competences do the managers of the target company have in order to reach the planned goals? How long will they stay with the company?



THE TALENT CHALLENGE

The basic challenge for HR departments is similar in almost every organization: Which people do we need to achieve our business strategy? What kind of services concerning talent acquisition, evaluation and retention does management help to achieve their goals? Any bigger M&A transaction will quickly uncover any weaknesses in your talent management processes:

- ▶ Upfront consideration of the necessary resources that your company needs both for the M&A process itself and the management of the newly combined organization.
- ▶ Provision of the required HR infrastructure to manage the transition in parallel with the day-to-day concerns of communication, payroll, benefits administration, compliance etc.
- ▶ Support from modern IT-supported HR systems: a big variety of survey tools like "employee pulse" surveys, feedback apps, anonymous social networking tools, or cooperation software.

Some tools can even predict flight risk, assess high potential job candidates, or find toxic employee behavior.

- ▶ Identification and evaluation of the key people of the takeover candidate and a smart plan how to get their engagement and excitement. Solve the question of redundancies as soon as possible and in the best possible way.
- ▶ Need for clear human capital key performance indicators linked to the strategy and a continuous monitoring system to identify shortfalls as quickly as possible.

THE CULTURAL CHALLENGE

There are plenty of companies that start thinking about culture integration not before the closing of the transaction. That is a big mistake. Start looking for cultural similarities and differences even before the first meeting takes place. Go to websites, read articles, do research in social media. How does the target company present itself, what is important to them, what is their type of business organization (matrix or line)?

Literature is full of Post-Merger Integration topics. A few of the best tips to succeed in this field and avoid an "us versus them" mentality:

- ▶ Identify desired future culture and behavior.
- ▶ Be clear about the purpose of the transaction and communicate it – otherwise employees will not follow the new strategy and goals.
- ▶ Transparency is key! Create clarity about what will change inevitably. Without transparency, you open the gates to waves of rumor you can hardly contain.
- ▶ Encourage and support any activity that strengthens the interconnectedness between the people within the company.
- ▶ Promptly take the necessary personnel decisions in order to quickly restore security for the future of each employee.

- ▶ Show appreciation to all employees involved, but specifically to the acquired organization and their people; what they have achieved in the past and during the merger.
- ▶ Stay to your values, build trust, and be patient.

After closing the deal, it is all about speed regarding communication. Top management must be visible for the employees, present themselves and their ideas, and acknowledge possible anxiety. Develop an internal communications strategy for the management team either by yourself or in cooperation with the communications department. Make sure that there are also dialog opportunities for the employees. Be aware that what works in one language or culture might not work in another. Define a communications manager as observer (who says what to whom) and monitor feedbacks. Start communicating right away on the closing day simultaneously in each subsidiary. For all further communication: do not only think in "cascade" terms – encourage live communication between all levels of employees as much as you can.

SECURING LONG TERM SURVIVAL OF ORGANIZATIONS

The engagement of the top leadership team is essential. Leaders must "walk the talk" during the whole integration phase and sustain their effort over time. Clear messages of the purpose of the deal and what behaviors are desired are most important to success. Global M&A plays a vital part for organizations to secure their long-term survival. In addition, as the world becomes more and more unpredictable and volatile, the M&A transactions themselves become riskier and more complex. It is the challenge for HR to leverage their change and people competence in order to make management aware that there is something beyond just facts and figures that might have an impact on success or failure of acquisitions and help them to succeed. ●