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High-value, "how-to" articles on customer-attraction, sales development, leadership, and best-practices in HR, IT, product development, communication, financial operations, engineering and M&A/value creation.

# ***The Urgent Role of HR in M&As***

Mergers and acquisitions are on the rise. Failures are on the rise as well: Fully 70% fail to create meaningful shareholder value. No one person can be responsible for success; however, it is crucial we look at all the possibilities which would lead to success.

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# *The Urgent Role of HR in M&As*

**How to increase the value of your company, when selling.**

The issue of underutilizing the Human Resources component of the business is not a new one. What is new, (or has only come to light in the past several years), is that many HR professionals have a very far-reaching understanding of business practices and have valuable contributions to make.

Mergers and acquisitions are on the rise. Failures are on the rise as well. Is it possible HR could play a significant role in turning the tide and helping future M&As succeed? Clearly, no one person will be responsible for a different and better outcome; however, it is crucial we look at all the possibilities which would lead to success.

## **Thinking of selling or merging? Be very careful!**

Is your executive team heading for an acquisition? Have you involved your HR leader? No? Stop right there! This isn't the way it should go.

Why, you ask? This is, after all, *real* business -- hardcore, not needing the "soft skills" of the HR department. Wrong. This is a business situation in which you must involve human resources, and, it is a situation in which a good HR professional can shine. Let's begin by looking at the reasons a company chooses to acquire another company. It could be they want to be a larger fish in the pond, perhaps it is to garner gains in efficiency. A stagnant company may need a "management infusion" and chooses to gain management change / improvement through acquisition.

Recently Danone acquired a Portland company, YoCream International, Inc. In this case, it was to shore up the missing pieces to their yogurt line to include frozen yogurt. Acquisitions are sometimes hostile, or at best, civil. The executive team is often targeted for replacement and the anxiety/fear has a trickle down affect. Once word begins to spread, it is likely productivity and quality will suffer.

## **Case Study: How to fail at merging companies**

Are you ready to be entertained? I'll tell you a story about a company in the Midwest which will cause you to think hard before going for the gusto of an acquisition without the involvement of your most knowledgeable HR professional.

Once upon a time, there was a very good company. This company was not in a growth mode; however, it boasted a steady, reliable bottom line which allowed employees the luxury of a small gym to use at lunch, a well-stocked cafeteria, and annual bonuses on

par with companies much larger. Employee length of service was about 18 years and it is safe to say the overall morale was high. In fact, one might say, it was substantially above average. The operative here is 'WAS' high.

One very cold autumn day, a high tech company in the Pacific Northwest became enamored with this smaller company and began the corporate mating ritual. You know the one: "*Your company is so attractive!*" "*I would love to spend more time with you.*" "*No, I don't like you just for your money.*"

The smaller company liked the attention it was getting! It thought about how much more it would have if it merged. The happy executives huddled together in the main meeting room and discussed the wonderful things the big company had promised. The following Spring, the little company gave in...hook, line and sinker. The merger began. They gave their suitor all the information it requested. It asked few questions. The suitor also asked few questions -- about the Human Resources side of the business. Here is the process the acquiring company used:

- ✓ Developed an Acquisition Plan
- ✓ Performed financial due diligence
  - IT
  - Accounting
  - Sales
  - Production
  - Marketing
- ✓ Prolonged transition to ensure thoroughness
- ✓ Changed management
- ✓ Updated signage/website/stationery, etc.

Within one year, the acquired portion of the newer, larger, company, had a 55% turnover. The financials tanked. Eye contact, even between employees on the front line was minimal. The work ethic was abysmal. The gym was closed. There were no bonuses. This company was on life support.

What happened? How could such a winner drop through the bottom so fast?

### **Why are failure rates so high?**

Researcher, Michael Lubatkin found that at least half of all M&As fail to reach their goals, and often with unintended and unexpected negative results. Weekly Corporate Growth Report showed 70 percent of mergers fail to achieve their anticipated value. Why? Here are just a few of the reasons:

- The companies are a poor match. (Culture, product, goals)
- Wrong motivations.
- The business culture doesn't allow issues/concerns/pitfalls to be raised.

- Failure to manage employee integration

*"By some estimates, 85 percent of failed acquisitions are attributable to mismanagement of cultural issues."*  
- Industrial Management

Ah hah! Those last two reasons brought down an organization which, until it was acquired, was in the most enviable of positions. What happened? Failure to manage employee integration. The human part of the business must be cared for in order to integrate successfully. People (not just management), must communicate and discuss their concerns. They must be given a picture of how they will fit into the new world. Human Resources must help in:

- goal-setting
- management styles
- expectations
- concerns of trust
- work environments
- spoken (and unspoken) values
- work rules

The company discussed earlier, failed to share information. They made no introductions. The employees received most of their information via email. They were not told how (or if), they would fit into this blended company. They felt estranged. There was, in their minds, no reason to stay.

Within two years, the acquiring company divested itself of its prize. Unfortunately, the "prize" did not survive.

HR's role in M&As is complicated and multi-faceted, but following are pieces that must be in place in order to have the best chance of success:

→ IN THE BEGINNING

- Know (and understand) the goals of the acquisition/merger (during and after).
- Create an integration plan.

→ DURING THE CONVERSION

- Create/maintain open communication with employees.
- Analyze/ compare all employment agreements/contracts
- Identify potential financial risk: Workers' Compensation/Future Benefits Increase
- Review benefits and look for opportunity.
- Create consistent paperwork/handbook, etc.
- Document HRIS data transfer plan

→ POST CONVERSION

Analyze merger process. What could have been done differently? How could this merger have been more successful?

The goal of this information is not to lay the foundation for a merger or acquisition in general, rather it is to clarify the expectations you, as an executive, should have of your Human Resources professional(s). Hopefully this article gives you that information.

### Plan to succeed

If you are even *considering* selling your company within the next five years, start sketching out your success plan now. Steps to executing the plan successfully:

- Establish ground rules. *How are decisions to be made? How are conflicts to be resolved? How will the merging teams interact with one another?*
- Communicate with all the stakeholders. *No, not just investors, customers, and the government -- also employees, suppliers, etc. They will feel like part of the team and be much more likely to support you, often in surprising and positive ways.*
- Integrate the employees, not just the financials. *Consider what an employee is thinking/feeling during the merging process. What can you do to mitigate any negative feelings? Simply recognizing them, is the first step. Don't make it your last!*
- Share whatever you can. *The more information that is hidden, the more difficult it is for people to trust the company.*
- Designate who can change the plan. *Once it has been approved, be sure to clarify who has the power to make changes. It is not uncommon for a second level manager to make a last minute change which could bring the process to its knees.*
- Feedback. Feedback. Feedback. *It is human nature to create information where there is none. Let people know where the process is. Give dates of milestones, if you can. Encourage questions.*

Finally, it is critical to select the team that will get you where you need to go. Oh yes, Human Resources can help you with that!

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### Authors Biography

Iris Sasaki has over twenty years of progressive Human Resources experience, in both large companies such as Tektronix, Inc. and Fluor Corp, and startups such as Chemica and ClearEdge Power, Inc.

It is rare to find, in one person, both the soft skills and the analytical capability to handle human resources issues. Iris has the compassion and integrity to work through problems with employees; and, she has the knowledge and strength to recognize and deal with critical situations.

The Equal Employment Opportunity Commission (EEOC), respects Iris' work enough to include her training modules in their library. The Oregon Employment Division asked her to provide training. Additionally, she has provided training for Oregon Graduate

Institute, Lake Oswego Business Alliance, Open Technology Business Center, Society of Women Engineers, etc.

Whether your business is well-established or you are now launching, Iris' deep expertise can be of great help. If you are a very small company, you may be asking why you need HR assistance. The moment you bring one employee onto your payroll, at least five employment laws come into play.



**We are here to support you and your business. We will provide:**

- **HR Office Setup**

Set up the basics of an HR function, including employee files, legal postings, forms, etc. If needed, we will work the requisite hours needed to maintain the department; we provide HR department assessment.

- **Staffing**

We will either provide your company with recruiting and onboarding services, or will find another excellent resource to do the recruiting. Onboarding includes the offer letter, confidentiality agreement, background check, I-9, W-4, and any other necessary documents mandated by the State/Federal government or insurance companies.

- **Training**

Equal Opportunity/Sexual Harassment training, Performance Management, Interviewing Techniques, and tailored classes.

- **Internal Investigation**

Investigations to provide response papers for local, State or Federal charges.  
Investigations to provide the company data.

- **Employee Relations/Information**

Respond to informational and/or problem solving calls.



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**Mark Paul**

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**Patrick Wheeler**

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**Gary Chin**

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