

Strategic Role of HR in Mergers and Acquisitions

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ABSTRACT

Economists and venture capitalists are predicting an increase in Mergers and Acquisitions as nowadays organizations want to grow their market share and presence by building synergies. It is therefore important to ensure the long-term success of an acquired organization and to achieve combined strength from a match well made. Through this article an attempt has been made to help HR professionals develop an insight into their role in M and A deals in the pre, during and post phases of such M and A transactions as well as in cross border M and A's.

KEY WORDS: Acquisition Hires, Due Diligence, Cultural Audit and Cultural Integration.

The ongoing fragility of global Merger and Acquisitions has impacted deals involving high growth markets. Slow progress of economic reforms combined with increasing inflation rates and depreciation of the Indian currency against the US dollar have led to an impact on the Merger and Acquisition activity in India as well. While the year began on a slow note, the second quarter of 2013 did see resurgence in the Mergers and Acquisitions activity on the back of some notable cross border deals such as Apollo Tyres-Coopers Tire, Mahindra-CIE along with Unilever's stake increase in Hindustan Unilever and the Jet-Eti had deal, Cognizant Technology solutions acquiring Equinox Consulting, Microsoft decided to buy Nokia's Mobile Phone Unit and Services, ABG

acquired Gujarat unit of Jaypee cement Corporation's (JCCL), and many more.

But, did you know that 30 percent and 70 percent of Mergers and Acquisitions fail, mainly due to people and culture issues taking place in the post acquisitions/mergers periods within firms?

According to various studies and researches, HR's indeed occupy a significant position in acquisition/merger scenarios as HR professionals typically play leadership roles in an acquisition's core due diligence activity and during the integration process.

Prior to explaining the strategic role of an HR, the process carried on in the limelight when a deal takes place is (see figure 1).

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Figure 1: Background process in a M and A deal.

Acquisitions may range from complex multibillion-dollar deals to small one-person "acquisition-hires". Some deals are completed through private transactions and others through auctions managed by investment banks.

However, due diligence with respect to organization can gain strategic advantage if it involves HR in the Mergers and Acquisitions on the deal table. By doing this many of the seen and unforeseen troubles can be averted. HR presents an opportunity to affect human capital decisions that impact a business's financial value, coaching strategy leaders and helping them identify and understand both merging organization's talent and culture issues associated with the workforce. A competitive HR team can demonstrate what the business needs at various stages of the deal process. However, in many organizations, HR professionals are kept out until the collateral damage to the organization has actually been made.

Companies should conduct a full fledged due diligence cultural audit as a part of a comprehensive pre-deal due diligence process. This will avoid senseless mistakes by increasing sensitivity and awareness thus stimulating much faster resolution of key disagreements.

While carrying due diligence process as an HR, firstly gather all the necessary information about the merger/acquisition and bring all human capital assets in the forefront and identify ways to that will help in maximizing their value. Employee relations, decision making and cultural integration form the three drivers in the due diligence process.

If HR is in a large organisation, there may be strategy teams or business development department as a whole for the Merger and Acquisition and in a small organisation, the responsibility of a merger is on the chief operating officer/legal department /business head. HR should stay in contact with at least one of the key individuals as in the early stages of a merger or acquisition there are numerous points of influence for HR professionals. Certain key decisions need to be taken with respect to

- Who will be hired and on what terms?
- What compensation and benefits will be there on going forward?
- What roles will new and existing employees play?
- Will your company be acquiring liabilities like employment contracts and labour issues?

HR in the pre Merger and Acquisition stage must analyse strategic expectations of employees and must alert the due diligence team to the ways people and related organizational or cultural issues can affect the deal's key strategic assumptions. HR should confirm the Leadership commitments of the founder employees by carefully integrating the cultures of the two companies validate People costs (salaries,

benefits, programs etc) and potential cost reductions and the legal compliances to verify the right of owners to sell the business. HR should also account the corporate attitudes and management style differences. For instance, if one of the companies follows an autonomous style and other is conservative, but both are very successful as different entities, it will require special concern when they enter into M and A.

HR during the Merger and Acquisition stage must keep the trust intact communicating effectively and appropriately as the HR policies and practises determines the condition of employee relations in any organisation. HR may also interview and assess key talent people in an organisation in order to determine their individual competencies, roles and potentials for advancement. Along with this assess the objectives for Merger and Acquisition, the goals to be achieved, and synchronisation of all the incentives and performance measures to retain the talent. One also needs to keep a track of the compatibility of the rewards and recognition procedures followed in both the dealing organisation. The alignment of the pay structures, incentives, stock options etc. is necessary; The IT platform should be made common across the whole of new organization. Some other factors that may be checked could be the retiree employee liabilities, health plan liabilities, termination benefits etc.

The role of an HR does not end here. Post the deal within the organisations, HR has to integrate the workforces, culture and HR programs, build the infrastructure required to support a stand-alone business (if divested from its parent company), restructure a major operating function

including structure, staffing levels, roles and responsibilities, and performance metrics, administer the new Total Rewards strategy and framework; and design and implement new compensation, benefits, and performance management programs to support new strategy.

In cross-border Mergers and Acquisitions, a HR must get information regarding the merging or acquiring company as is imposed and their impact on employees which is more urgent for the acquired firm in order to understand the goals or ideas and the philosophy of the foreign acquiring company

Coming towards the end of my article I can only say that early HR involvement and a robust discovery process will help prepare an organization for a worthy integration.

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