

# HR's Role in M&As



Corporate Research Forum

**Hewitt**

## Executive summary

This report examines the role of the human resources function in managing mergers and acquisitions (M&As). It starts by examining the track record of organisations in managing the people dimensions of M&As, the area where HR should be best able to make its contribution.

In this report, the term M&As is used as a convenient shorthand for a variety of forms of change of ownership, such as divestments, joint ventures and outsourcing transactions. While these have different characteristics, they also have much in common as regards managing the people aspects, and require similar skills.

### What's the issue?

There are good reasons to consider buying, selling or merging organisations, or parts of them. Such deals are mainly driven by a desire to grow or acquire new dimensions to the business. However, some are driven by investment motives, some by defensive strategies, or as in the public sector, the main driver is ostensibly greater efficiency.

However, there is striking unanimity among researchers and experts that the majority of M&As have under-performed and even destroyed value. Why such a high failure rate?

Undoubtedly some have been due to strategic miscalculations - or even bad luck when unforeseen events intervene. However, experts agree on these shortcomings.

- A failure to research and plan acquisitions sufficiently carefully.
- Frequent under-estimation of the people issues involved in M&As, and cultural integration in particular.

We cite recent surveys showing that most board members and senior executives now seem to recognise the importance of doing better in M&As. So, might behaviour change?

- Undoubtedly, some transactions have been undertaken by over-confident and even 'macho' deal-makers, with too little concern with what follows.

Corporate governance has tightened in certain markets, and may act as a constraint on such behaviour.

- At the same time, there is a tendency for M&A activity to operate in cycles. At present, there is a growing availability of funds from investors that is helping to drive such activity. In the past, this has led both to over-paying and risky deals - with the people aspects being neglected.

We remain sceptical that behavioural change is occurring, as do experts consulted during this research. What could help is giving greater attention to organisations with tried and tested methodologies for acquiring and integrating other companies.

- GE and Cisco are frequently quoted as examples.
- We provide four more good examples - SABMiller, Nortel, BT Global Services and Royal Bank of Scotland.

In these cases, HR has assumed a primary role in planning and orchestrating integration planning.

### The challenge for HR

If so many other organisations have been under-performing in managing M&As, what has HR been doing, or not doing?

Historically, the reality is that HR was often not involved early enough in the thinking and planning process - too often, it has just been brought in at the implementation stage.

In some cases, this is undoubtedly the result of a poor quality leadership culture - the kind that under-estimates the risks of cultural integration. However, some HR functions have simply not had the business knowledge and calibre of functional leadership to challenge such attitudes with evidence of better practice. Poor management often begets poor HR.

Across many large businesses, there is a greater realisation among leaders that they cannot afford a weak HR function, especially where major change is on the agenda. For some, this is because they have learnt the hard way.

Many HR directors in recent years have been seeking to improve or even transform their HR functions. In particular, their 'business partners' need to be fully engaged as members of management teams, and hence involved in all key decisions.

This report's case studies feature organisations that have learnt to involve functional experts in transaction planning from the start. Furthermore, they take steps to build the expertise of functions such as HR to play a full and integral part. This does not only involve 'training' - it requires picking the right calibre of people in the first place.

We undertook interviews with HR functions leading M&A practice in each of the case study companies. We also interviewed some top managers outside HR who had a good view of HR's role.

## The role of HR

What then should be the role of HR in managing M&As, as illustrated by our examples of good practice? Here is a summary of the practice areas which are expanded on in Section 2 and discussed in other sections of this report.

- Contributing to M&A strategy.
- Selection of the M&A team.
- Preparing the business case.
- Due diligence and analysis.
- Employer reputation and brand.
- Preparing your own organisation.
- Preparing the HR function.
- Developing the integration strategy.
- Shaping the integration methods and processes.
- Contributing to all aspects of communication.
- Evaluation and measurement.

## Conclusions

We formed these conclusions.

- There can be little excuse for senior leaders to be unaware of the dangers of poor preparation for M&As, as exemplified by many detailed studies on the subject.
- At the same time, there are clearly some organisations that have worked very hard to develop a coherent, rigorous approach to planning and executing M&As.
- Such organisations have learnt to develop considerable HR expertise and deploy this at every step of the process.
- Although line management must ultimately be responsible for achieving the intended benefits of a transaction, high calibre OD and project management skills within their HR function also play an essential part - alongside the contributions of colleagues in other key functions such as finance and IT.
- Our case studies demonstrate a consistent set of good practices and learning mechanisms, designed to deepen expertise in managing M&As - and change in general - among both line managers and functional specialists.
- There is no shortage of written guidance and pointers to good practice, and we list many of these sources - again, there is little excuse for ignorance about what good practice looks like.
- Analysts and financial commentators should also heed the expert advice we have quoted, and be more enquiring about the factors behind M&As that create lasting value.



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