

Axis HR Solutions LLC | 2023 White Paper

M&A Integration: The Complete Guide for Buyers



HR and human capital integration forms the greatest challenge in any M&A transaction. We help preserve and optimize M&A value through strategic HR and human capital integration.

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We help both buyers and sellers through every phase of the transaction lifecycle, from pre-bid and pre-closing due diligence to post-merger/acquisition integration, starting Day 1 — all to preserve deal value and drive current and future growth and operational efficiency.

1 Post-Merger/Acquisition Integration – Human Resources



The past decade has seen an increase in M&A activity. Investment bankers have justified valuations of acquisitions **in terms of synergies, cost savings, increases in market share, etc.** However,

Nearly 75% of the mergers fail

Projected synergies and figures fall flat. If companies go through a detailed analysis and due diligence review in all areas — business, markets, financial, legal, etc., then **what is preventing companies from achieving the expected level of success?**

HR integration forms the greatest challenge in any M&A transaction.

Statistics have proven that one of the major reasons for M&A failures is the management of human resources/human capital. Companies that failed to realize the importance of HR integration in an acquisition have not been able to achieve their merger objectives. Moreover, poorly managed HR integration can destroy a company.



One aspect of the HR/HC integration process is the optimal deployment of pre- and post-merger/acquisition strategies — which is normally not viewed as a key component of the M&A process.

Nearly 75% of mergers fail because of:



Inability to integrate people in the new entity



Inability to integrate cultures effectively



Toxic work environments created pre- and post-integration



Lack of commitment by employees due to poor communication during/after the process



Lack of trust in the new entity due to poor change management execution



Poor morale due to failure to achieve an ideal employee relations/communications campaign



High post-integration turnover (for a myriad of reasons)



HR compliance/legal risk/exposure

3 Issues that Arise in HR Integration

Top Management Combination







Integrating top management to lead and achieve the future organizational goals is a sensitive issue since not all personnel can be accommodated.

The challenge is retaining the desired talent for the merged entity and dealing with departing people quickly and effectively with dignity.

The practical issue here is that **internal politics often dictate which individuals fill certain roles**, meaning an objective, competency-based selection process may be difficult to achieve.

However, the long-term benefits of a thorough and objective leadership selection process **far outweigh** the advantages of a short-term politically-correct leadership appointment.

Issues to consider:

-  How soon and how well will the leadership ensure 'Vision Sharing' and the 'Mission Accomplishment in the reorganized top management?
-  What criteria will be used to choose the new management team and when will the names be announced?
-  Which of the executive positions are expendable?
-  Will the existing team be augmented by external managers (to foster restructuring efforts)?
-  How can top performers at the target company be identified early on and their commitment to the new company secured?
-  Which areas are likely to face particularly strong resistance from management?

4 Issues that Arise in HR Integration

Development of Vision and Mission

The development of a corporate vision is not as easy as one might think. A merger without a clear and realistic vision may lead to negative results in terms of shareholder value.

Visions are born from **innovative ideas**, often developed by **visionary people** in endless meetings and projects.

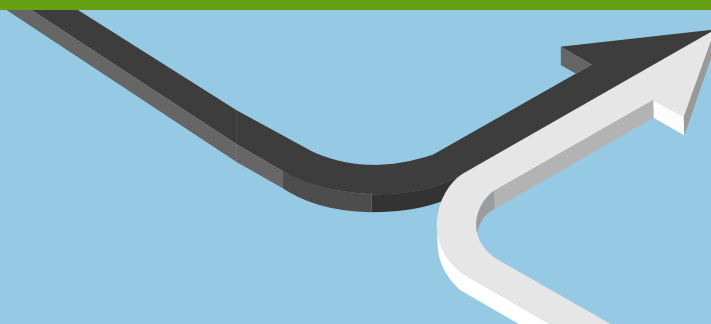
The problem is that **many ideas look promising** at first sight but **prove to be useless later**.



Redefining Organizational Goals

When two companies come together, they need to work as a team to redefine their organizational goals as one entity — otherwise a misalignment disaster could strike the two entities.

The first step in HR integration is defining the organizational goals of the merged entity. These goals provide a clear-cut direction to the merged entity and a course of action for the organization to adopt post-merge.






5 Issues that Arise in HR Integration

Merging Employees

The uncertainties surrounding M&A transactions shift most employees' focus from productive work to interpersonal conflicts, layoffs, career growth with the acquirer company, compensation, etc.

Issues to consider:

-  Employees are concerned with how well they will interact with new colleagues.
-  Most mergers involve downsizing, so employees will be fixated on job security.
-  Mergers lead to changes in the career paths of employees as defined by the acquired company.

Employees find themselves in a completely different situation with changes in job profiles and work teams. This can have a negative impact on the performance of the employees.

6 Issues that Arise in HR Integration

Cultural Integration

Culture consists of long-standing and largely implicit shared values, beliefs, and assumptions that influence behavior, attitudes, and meaning in a company.



An organization's culture defines its management style, structure, and organizational practices. Each company has its own set of values that may conflict with those of the acquired company.

When it comes to cross-border M&A, be careful to see that the national cultures of the two companies are not drastically different. **Follow a structured approach in dealing with cultural differences.**



Culture has emerged as one of the dominant barriers to effective integrations.








Employees may struggle to acclimate to a new culture, **which can lead to cultural shock.** Inability to adapt to a new culture increases stress levels among employees and results in low job performance.

7 Issues that Arise in HR Integration

Organizational Structure

In addition to the difference between the organizational structures, there can be differences in compensation packages and designations can take place. The company must maintain employees at equal levels. If the company fails to do so, employees can feel dissatisfied.

Issues to consider:

-  How will the selected organizational changes affect staffing requirements?
-  What should be the timing of the organizational and staffing changes? Who should be responsible for them?
-  What functions are duplicated and might be areas for replacement/reassignment of talent?
-  What areas of corporate knowledge/expertise need to be protected?
-  What type of the organizational structure to choose — will it be flat with empowerment or will it be hierarchical with defined relationship and reporting prescriptions, etc.

8 Issues that Arise in HR Integration

Interpersonal Issues

The following questions need to be addressed, at the group and individual level.



Do employees feel integration is proceeding smoothly? If not, why?



Can they recommend ways to expedite or facilitate the process? Are efforts being made to mitigate the “us vs. them” mentality?



If there have been layoffs, do the employees who have been maintained feel confident in their current standing and future prospects? How do they feel about the fact that there were layoffs (e.g., do they harbor resentment toward management)?



Are remaining employees more likely to follow their key influencers out the door, or have they been given compelling reasons to stay?



Do employees feel there has been an equal distribution of responsibility granted to managers from both of the merging companies?



Do employees feel there has been inequality in assignments or territories?



Do acquired employees feel like second-class citizens? In general, do they feel both sets of employees are being treated fairly?

9 Issues that Arise in HR Integration

Interpersonal Issues

The following questions need to be addressed, at the group and individual level.

- ✓ = Do employees understand what will be expected of them in terms of specific new job responsibilities, as well as how they will be evaluated?



Do they understand what criteria will be used in the appraisal process, and when promotions and salary increases will be granted?



Do employees know how the merged firm is structured, who the key executives are, and how the lines of reporting are set up?



Do they understand how the merged company runs on a day-to-day basis (e.g., in terms of purchasing procedures, time and expense reporting)?



Do employees fully understand their new benefits and benefits programs? Do they know how to file health insurance claims? Do they fully understand the particulars of the company's retirement plans?



Do employees understand the reason for the transaction and strategic direction of the merged company - including how it is positioned in the marketplace vis-à-vis competitors?



Do they understand what customer service or customer relations roles employees play at various levels of the organization?

The Role We Play in the Merger Stages

Pre-Deal

In addition to defining the financial and business aspects of a good merger or acquisition candidate from the HR/HC side, we **help define the cultural aspects, identify bench strengths and key employees, mitigate potential talent acquisition and retention issues, and solve other HR/HC strategic hurdles.**

Due Diligence

Once a partner has been identified, we **assess its culture and perform a due-diligence deep dive into potential pitfalls** associated with, but not limited to, non-compliance; potential employment law risk and exposure; and problems affiliated with performance metrics, compensation, and benefits, among other things.




Post-Deal Integration Planning

We **execute strategic integration-planning activities and develop effective employee communication strategies**, programs to retain key talent, organizational and staffing plans, and change-management plans.

11 How Axis HR Solutions Resolves HR Integration Issues

HR Due Diligence






The Axis HR Solutions Due Diligence Review will help merging companies:

-  Identify the presence of any hidden liabilities for the integrated business.
-  Examine their decision and its feasibility.
-  Identify those critical areas which need immediate attention if the deal is to be conducted successfully.

The common belief is that HR does not have any role to play during the due diligence review. This isn't true.

This is where we step in. Axis HR Solutions will both support internal HR infrastructure and provide real-time strategies to help your M&A transaction succeed.

Some of the duties we perform during the HR due diligence review are:

-  Assessing organizational cultures and structures
-  Evaluating employee compensation & benefits strategies
-  Addressing Industrial/Labor/Employee relations problems
-  Evaluating pending employee litigation and compliance/legal risks
-  Evaluating, recommending, and developing new HR policies and procedures
-  Analysis of key talent retention strategies

Resolving Cultural Issues



As early in the process as possible, we help announce the alliance explaining the “why,” “why now,” and “anticipated steps.” We keep communications **regular, frequent, and clear** throughout the process.



We perform a bicultural audit to diagnose differences and common ground.



We help the company agree on and communicate an exciting new vision **to focus people on the future and help them let go of the past.**



We create bicultural task forces on pertinent topics such as R&D, Quality, Communication, and Marketing, etc.



We provide training, promote cross-cultural dialogue, and train multicultural teams **in culture-bridging skills.**



We establish and communicate acceptable KPIs, metrics, and performance criteria for evaluation of management performance.



We provide strategies that promote internal transfers and short-term staff exchanges when required.



If applicable, **we ensure you have an international organizational structure** to support your international strategy.

Employee Communication







Whenever there is news of any merger or acquisition, anxiety prevails among the employees. This atmosphere of apprehension leads to supposition and rumors. The employees lose faith in their organization and tend to become demotivated.

To free employees from such fears, proper communication must take place between management and employees. Management must instill a sense of security among employees.



Most mergers bring with them:

-  Downsizing
-  Reallocation of work
-  Change in work profiles
-  Changes in career paths

If employees fail to adapt to the new culture, they face elevated levels of stress and eventually end up leaving the organization.

14 Our Role in Making M&A Successful

The success of a merger or acquisition depends on how well an organization deals with people issues.

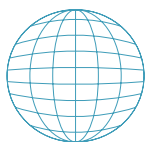


By engaging Axis HR Solutions early in the process as a strategic partner, we formulate strategies **without ignoring the decisions relating to the kind of people, capability, and commitment the company will require.** We efficiently manage this phase and undertake feasibility studies based on what you decide is important to the new organization.

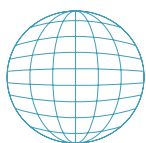
We can help your employees in the following ways:



We manage interpersonal conflicts, making employees better collaborators. This helps your people deal with existing cultural differences. **Clear communication content and channels are customized** to address each organization's needs.



We handle integration successfully. Effective employee communication is key. Questions about job security, relocation, changes in benefit programs, and new reporting relationships are answered by the company, **with direct support from us.**



We know employees can feel insecure and sensitive about their future during an M&A. We mitigate these negative feelings by **developing resources that help your people retain their faith in the organization.** We assist HR in retaining the confidence of employees and assuring job security.

15 Our Role in Making M&A Successful

In many cases of integration, companies become so focused on attaining synergies that they stop paying attention to integrating employees and retaining them.

This is where Axis HR Solutions is invaluable to a successful merger or acquisition. The loss of employees in the wake of a deal can be the most difficult blow to stomach – especially when synergies have been touted as a driving force behind the transaction.

When an employee leaves, revenue leaves with them. When a multitude of employees leave, management often follows. Projections of a post-merger employee base are often overly optimistic. **With this level of uncertainty, we make employee retention and preservation strategies a top priority throughout the merger process.** Our strategies will not only mitigate risk, but they will also pave the way for future revenue enhancement opportunities.

Mergers and acquisitions provide enormous potential for growth that simply cannot be achieved as quickly through organic, incremental development.

However, success rates are not very high, rendering them an expensive and very risky way to grow a business. **When companies pay close attention to the people aspects of a merger or an acquisition, they dramatically increase the chances that the deal will both fulfill its promise and be successful.** That's why HR M&A Integration can make or break an M&A deal.

**We can help. Our business is your success.
Contact us today at axishrky.com**

16 Contact Us

If you have questions or want to discuss what it would look like to work with Axis, contact us today. We would love to connect with you.

Matt Lockaby



Matt is the founder and CEO of Axis HR Solutions. As a labor-and-employment lawyer, Matt advises businesses of all sizes, from start-ups to Fortune 500 companies, on the full range of employment issues facing employers and management. Matt also helps buyers and sellers manage the complex employment issues that arise during a merger or acquisition, helping clients achieve the desired transaction goals and minimize integration risks.

Mike Newman



Mike is the COO and Partner of Axis HR Solutions. He has over 27 years of HR/OD experience. He has overseen executive level strategic full life-cycle human resources support to executives, managers, and employees of all levels in several different international industries. Mike has performed over 70 mergers and integrations, with nearly half being cross border integrations.



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