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Positioning for M&A Success:

Putting People Into the Equation

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M&A Pulse Survey Report

The pace of global merger and acquisition (M&A) activity has fluctuated over the past few years, mirroring ongoing economic volatility. Still, the desired outcomes from M&A transactions remain consistent — and subject to uniformly high expectations.

Companies “do deals” for various reasons, from service, product and channel expansion, to geographic expansion, to greater operational efficiency. Ultimately, though, their overriding objective is to improve financial results and shareholder return.

Although companies have gotten much better at managing deals and improving outcomes, many deals still fall short in areas such as talent, leadership and culture integration — all of which are highly critical in getting full value from a transaction. Failure to address the people aspects of bringing two organizations together can not only limit the effectiveness of the deal and desired outcomes, but in some cases can contribute to its demise.

To better understand the relationship between people issues and deal success, Towers Watson recently conducted a global survey on M&A people practices with more than 400 HR and business executives from 25 countries. (See page 10 for more details about the survey.)

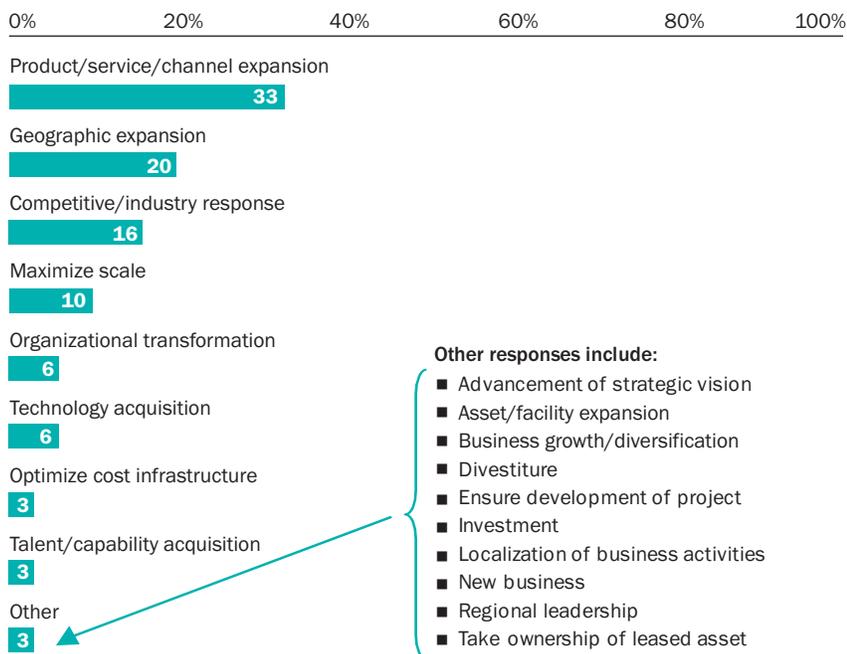
“The desired outcomes from M&A transactions remain consistent and subject to uniformly high expectations...”

Among our key findings:

- Companies that judge their deals as successful in meeting defined goals focus more heavily and more effectively on change and communication, as well as other traditional people issues.
- These same organizations are also more apt to emphasize strategic people management — for example, influencing the role and behavior of leaders in the transaction.
- Companies with successful deals are more likely to measure how the deal affects people than their less successful peers are.
- Companies with successful deals are more likely to involve HR earlier, and more heavily, in all phases of the M&A transaction.
- Even in successful deals, there is room for HR to improve its performance, especially in terms of enhancing so-called “next generation” skills.

The remainder of this report explores our findings in more detail.

Exhibit 01. Growth Objectives Drive Most M&A Transactions



Merging to Grow

To assess M&A effectiveness, we asked respondents why their organization undertook the transaction and, more critically, whether they believed the deal had delivered on that primary objective.

Not surprisingly, growth topped the list of deal objectives (*Exhibit 1*, page 2). Roughly a third of the respondents indicated their organization was looking to expand a product, service or channel. Another 20% cited geographic expansion. Responding to competitive or industry pressures was also a common rationale.

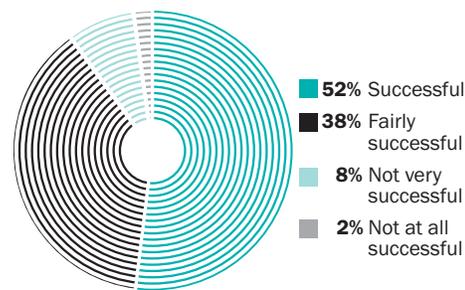
Interestingly, and perhaps a bit surprisingly, fully 52% of our survey respondents felt their companies' transactions had succeeded in meeting primary objectives (*Exhibit 2*). Is this an overly rosy picture? In some respects, perhaps, especially given the

For purposes of our analysis, we divided our respondents into two groups: those that deemed their deal successful in meeting stated objectives and those that felt the deal was not successful in this regard. We then looked at people practices across these two groups to identify differences that might explain or influence their differing perceived results. What we found is that companies judging their deals successful spend more time, and more productive time, on key change and communication activities with employees. Their HR functions, typically taking the lead in these areas, were good at communicating with employees throughout the transition, and at creating and implementing strategies to retain key employees. Indeed, respondents who said their companies performed very well in these areas were more than 60% more likely to rate their company's deal as successful in achieving defined objectives.

“Forty-two percent of companies judging their deals as successful gave HR a strong performance rating in helping senior leaders handle the process more effectively.”

mixed history of many deals in ultimately delivering financial results. Nonetheless, our respondents clearly felt the transactions they were focusing on had met specific outcomes, at least at the point in time when they responded to the survey. Whether those outcomes ultimately translate into sustained financial improvements remains an open question, of course — and one that the respondents may not even be able to answer yet.

Exhibit 02. How Well Deals Are Meeting Primary Objectives



However, it is in the more strategic people management areas that the real payoffs occur. One of the starkest examples involves the extent of HR’s influence on the effectiveness of senior leadership in the M&A process. Forty-two percent of companies judging their deals as successful gave HR a strong performance rating in helping senior leaders handle the process more effectively. By comparison, just 15% of companies judging their deals less successful rated HR very well in this regard (*Exhibit 3*). Stated differently, where deals were viewed as successful, HR was nearly three times as likely to provide very effective support to senior leaders as it was in deals deemed less successful.

Expected Priorities, Emerging Priorities

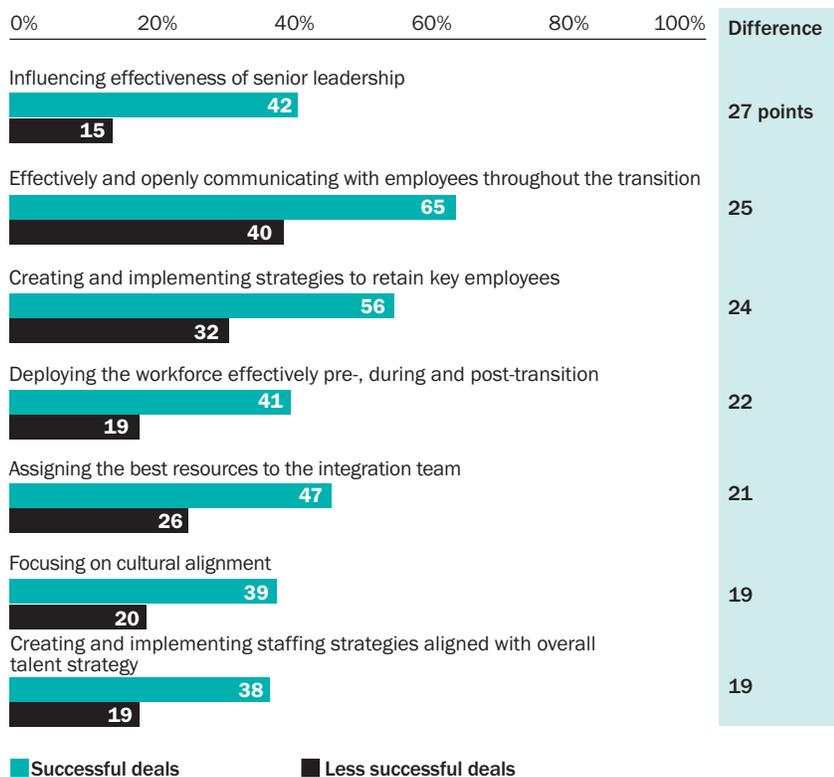
It’s no surprise that a company’s approach to the people side of a deal influences M&A success, beginning with the earliest stages of the process. And in many leading companies, HR has taken on an increasingly critical role and responsibility for driving the people agenda in an M&A. Our research suggests more companies need to build this into their process early on to ensure a more successful integration and more effective outcomes from the deal.

What’s the right starting point? Where should HR focus its efforts for optimal results? Perhaps most critically, how can it be more effective at supporting a transaction?

Respondents indicated that the top priorities for HR in an M&A include effectively and openly communicating with employees (69%), creating and implementing strategies to retain key employees

“On a broad scale, it appears that companies with deals deemed successful have an HR function that ‘gets it.’”

Exhibit 03. How Effectively HR Supports the Organization in Successful vs. Less Successful Deals



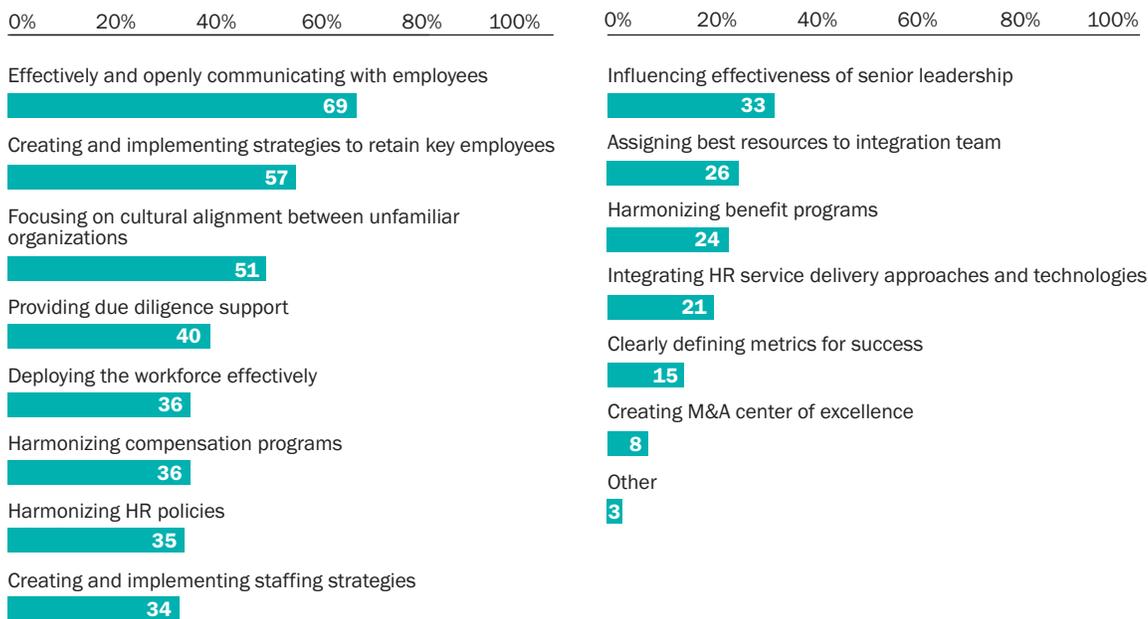
Bars indicate percentage rating effectiveness of 4 or 5 on a 5-point scale.

(57%) and aligning cultures between the combining organizations (51%) (*Exhibit 4*). While these priorities fall within HR's traditional role in supporting the people aspects of a deal, they remain critical areas for deal success.

Not surprisingly, then, survey respondents judging their deals as successful also tend to have HR functions that are much more effective in these and other key areas (*Exhibit 5*, page 6). As shown, organizations with successful deals have HR functions that are significantly better at helping the organization retain talent and communicate with employees, and supporting the organization

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Exhibit 04. Top Priorities for HR Focus on Communication, Talent and Culture



in due diligence and target acquisition. Much the same holds true for HR performance in staffing and selection, business acumen, and talent and performance management, where we also saw notable differences in HR performance between respondents citing more successful deals and those citing less successful deals.

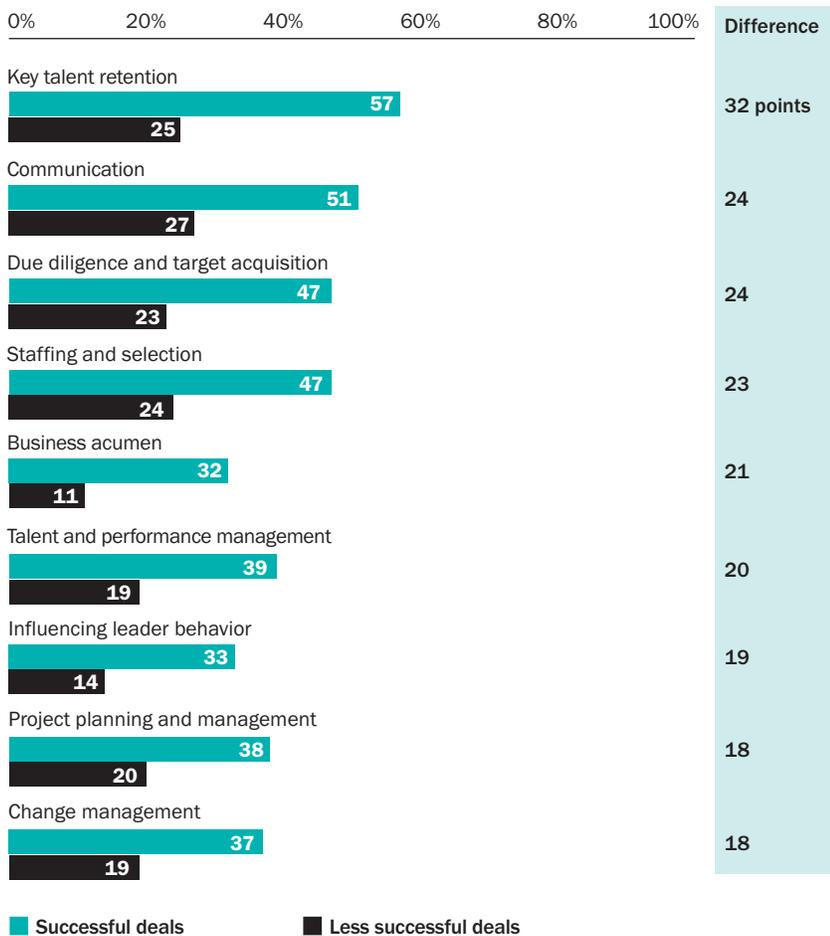
“Focusing on employee engagement and talent is especially critical in a period of tumultuous change, when anxiety levels rise.”

On a broad scale, it appears that companies with deals deemed successful have an HR function that “gets it.” That means:

- Understanding the company’s primary objectives and strategy
- Being adept at dealing with the people side of a transaction, especially in terms of leadership behavior and actions, communication and talent
- Developing people management processes and programs that align with and support leaders’ goals

When companies make these elements a priority, according to our data, it makes a difference in how effectively they achieve their key deal objectives.

Exhibit 05. HR is Seen as More Effective in Successful Deals



Bars indicate percentage rating effectiveness of 4 or 5 on a 5-point scale.

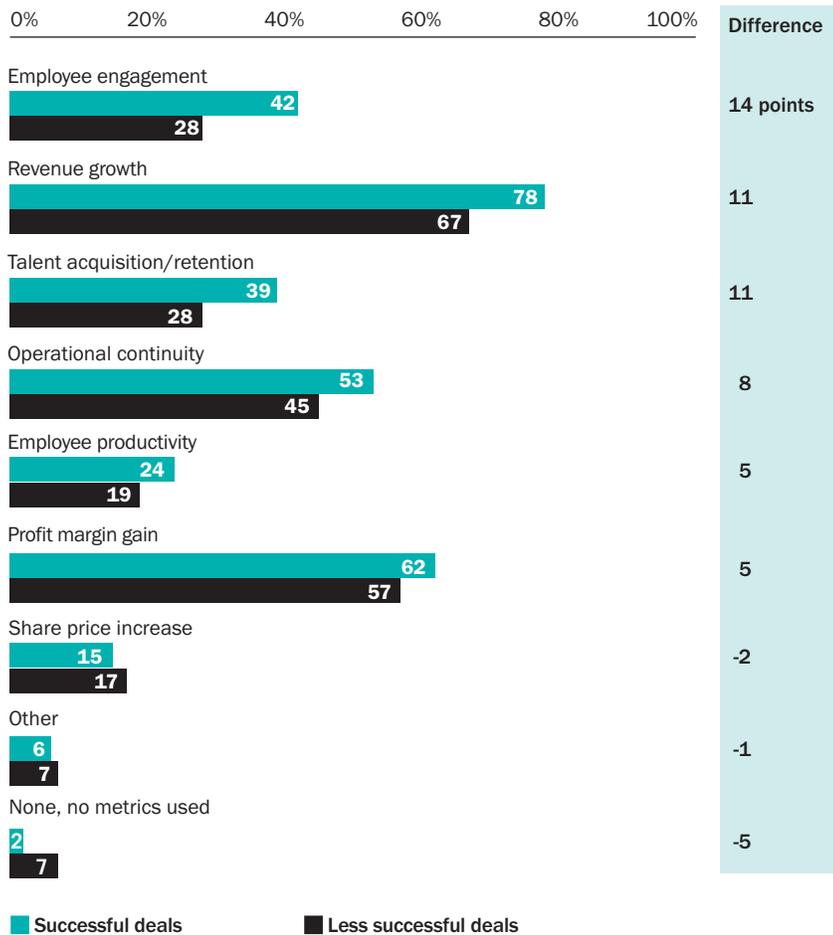
What Matters Gets Measured

Another encouraging sign in our survey findings was the relative importance of “people” measures — like employee engagement, talent acquisition and retention — in assessing deal effectiveness.

The companies in our survey that felt their deals were successful measured key “people” indicators much more frequently than did those rating their deals as less successful (*Exhibit 6*). Specifically, the former group was 50% more likely to measure employee engagement levels, and 39% more likely to measure talent acquisition and retention than were companies viewing their deals as less successful.

“HR expertise can be invaluable in understanding the pros and cons of prospective merger candidates from the perspective of cultural fit, and can help organizations anticipate key people integration issues and challenges that might otherwise be overlooked.”

Exhibit 06. Metrics Companies Use to Measure Deal Success



While these are arguably key measures companies need to track routinely, they take on added importance in an M&A, where people issues can become a make-or-break element in the overall success of the deal. Focusing on employee engagement and talent is especially critical in a period of tumultuous change, when anxiety levels rise, and our research clearly shows that companies with more successful M&A outcomes closely monitor both of these key people measures.

“There’s no doubt that HR’s traditional focus on communication, change and culture alignment make a difference in effective integration.”

The Case for a “Seat at the Table”

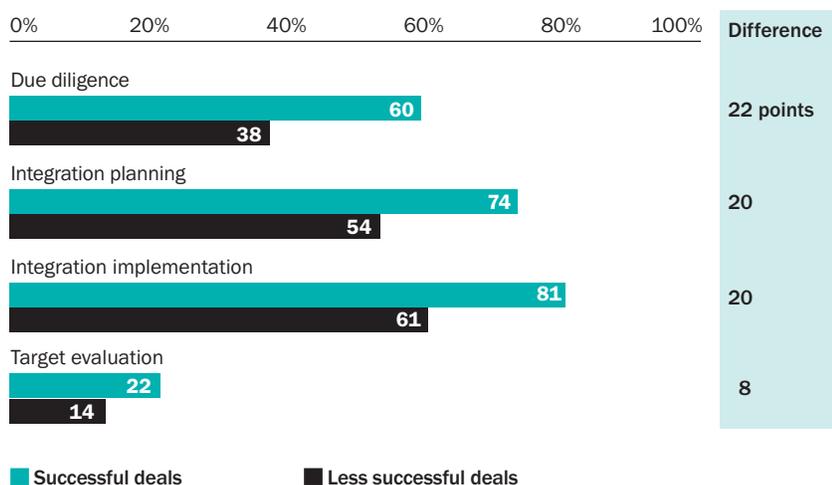
Another hallmark of overall transaction success is the early appearance of HR in key phases of an M&A deal. When compared with companies reporting less successful deals, companies with successful

deals involved HR more often in target evaluation (57% more often), due diligence (58%), integration planning (37%) and integration implementation (33% more often) (*Exhibit 7*).

It’s not surprising to see strong HR involvement in the integration planning and implementation stages of a deal, when many communication and talent-related activities — where HR historically plays a significant role — kick into higher gear. The real story here is not so much the nearly ubiquitous involvement of HR in these two stages, but the much greater than expected involvement of HR professionals in the earlier, formative stages of target evaluation and due diligence, when their insight, guidance and counsel can be extremely beneficial.

Moreover, involving HR earlier in the deal — for example, during target identification, where its involvement is still relatively low — can yield unexpected dividends. HR expertise can be invaluable in understanding the pros and cons of prospective merger candidates from the perspective of cultural fit, and can help organizations anticipate key people integration issues and challenges that might otherwise be overlooked.

Exhibit 07. HR Gets Involved Earlier in Deals Reported as Successful



The Growing Need for Next-Generation Skills

There's no doubt that HR's traditional focus on communication, change and culture alignment make a difference in effective integration. But our survey findings, and our own consulting experience, also indicate that there is a next-generation set of skills that may be even more critical in achieving positive M&A outcomes (*Exhibit 8*).

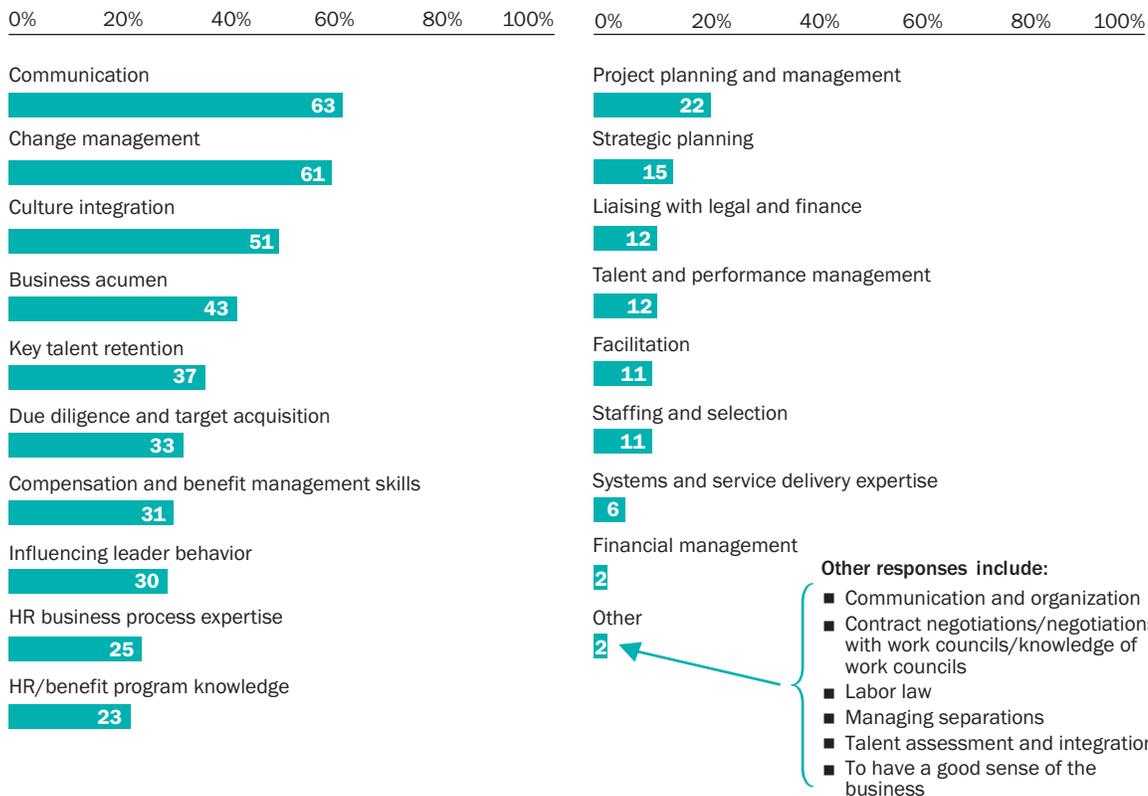
When asked what skills were most critical to drive M&A success from the people perspective, respondents cited not only traditional things like communication and change management, but also the ability to shape leaders' behavior and actions, deploy the workforce effectively pre- and post-transition, and assign the best resources to the integration team.

Ultimately, even for the companies viewing their deals as more successful, there is considerable room for improving people practices. Ratings for HR's effectiveness in a number of the areas deemed

important in an M&A were modest at best. And given that respondents were primarily from the HR function, this is likely a realistic self-assessment. For example, only 39% of respondents rated their HR function as highly effective at communication. Only 28% rated it as effective at change management, and just 23% rated it effective at culture integration. Equally troubling, respondents do not appear sufficiently aware of the need to develop or improve performance in some of the less traditional skill areas judged to be important in achieving positive deal outcomes. For example, while influencing leader behavior can impact deal effectiveness, only 30% of respondents felt this was a skill that HR needed to contribute effectively in a merger.

Taken together, these findings paint a picture of a series of gaps in both actions and perceptions that may be impeding companies from achieving certain key deal objectives. One is the extent to which a company has to focus on people issues in a transaction. Another is a clearer understanding

Exhibit 08. Defining Next-Generation People Management Skills



“Focusing on emerging and strategic skills and priorities now — whether or not the organization is currently involved in a merger — will pay dividends in the long run.”

of what's truly needed from HR to contribute to deal success. A third is what HR perceives to be its primary role and contribution in a merger. And the last, and perhaps most concerning, is HR's ability to deliver a set of traditional and emerging skills that are important to deal success.

Conclusion

With M&A activity on an apparent upswing, there has never been a better time — or a more conclusive argument — for organizations to understand the impact of early, intense and sustained involvement in all people-related aspects of the deal. And this is where HR can contribute greatly in both traditional functional areas like communication, talent and culture, as well as emerging and more strategic areas like influencing leader behavior and improved business acumen. These latter areas call for new skills, new priorities and new areas of growth for HR. But focusing

on them now — whether or not the organization is currently involved in a merger — will pay dividends in the long run.

The bottom line? HR is already making solid contributions to the effectiveness of M&As. And right now, it has a real opportunity to up its game by moving into more strategic and more demanding roles that can help improve transaction results as well as create a more effective HR function for the new organization as a whole.

About Our Survey

This survey is the fifth in a series of Towers Watson pulse surveys conducted in 2009. It assesses the impact of people management practices in achieving M&A success and the specific skills HR needs to contribute most effectively during an M&A. The online survey, which had a total of 404 responses, targeted HR and business executives in medium and large organizations in 25 countries (plus Hong Kong). It was completed in October 2009. Organizations had to have completed one or more merger(s) or acquisition(s) within the past three years to qualify for the study.

About Towers Watson

Towers Watson is a leading global professional services company that helps organizations improve performance through effective people, risk and financial management. With 14,000 associates around the world, we offer solutions in the areas of employee benefits, talent management, rewards, and risk and capital management.