M&A PLAYBOOK: A VALUABLE GUIDE TO A WINNING STRATEGY

When companies engage in a merger or acquisition there is an understandable focus on getting the numbers to work, and the broader issues of blending the two organizations into a synergistic entity often fall victim to the old adage, ‘too little, too late.’ Ironically, it can be this failure to address the so-called soft issues that leads to the financial objectives of the deal being missed.

Failure or success is typically defined in terms of shareholder value creation, and by this measure it is estimated that historically 50-60% of the deals destroyed value for the acquirers’ shareholders.

WHY?
In a global study by Mercer and the Economist Intelligence Unit, business leaders ranked people integration issues and organizational cultural differences as the two most significant challenges in their latest M&A transactions. Lack of employee engagement and retaining key talent also ranked among the top six factors.

Cultural differences between companies can result in blockages to the two sets of employees – including management – being able to readily work together, share expertise, make sound decisions, and perform as a team. The greater the cultural differences between the two firms, the longer it takes for leaders to capitalize on the potential of pooling their talents and expertise. In other cases, key people sometimes decide to leave the new company due to uncertainty about their future or because there is conflict between the management teams.

HR IS CRITICAL TO DEAL SUCCESS
To an HR professional these findings are likely not surprising. However they do reflect that the role of HR is critical to the success of the deal. Although HR is increasingly involved in M&A, many organizations still fail to take advantage of HR as a strategic business partner in realizing the broader financial and operational objectives of the deal.

Traditionally the HR function has not been involved in the merger and acquisition activity in the early stages when strategic decisions are being made. HR is usually brought into the deal at a later point and asked to address operational issues such as assessing the pension and benefits plans, compensation levels and employment contracts - primarily from the financial perspective. The challenge facing HR is to demonstrate its value by playing a role in setting the broader strategy and developing the business case. To step up to the role of being a vital member of the core M&A team, HR needs to both earn the right - and prepare itself - to be a business partner at the strategy table.

---

1 A return to deal making in 2010, David Cogman and Carsten Buch Sivertsen, McKinsey Quarterly JANUARY 2011
2 Source: “M&A Beyond Borders: Opportunities & Risks”, The Economist Intelligence Unit conducted the survey and wrote the paper, March 2008, sponsored by Marsh, Kroll and Mer
GET READY

Vince Lombardi, the legendary American football coach, is often remembered for saying, “Winning isn’t everything, it’s the only thing.” For him and many others, the playbook was an essential element of a winning strategy.

Playbooks are a predetermined set of “plays” that team members practice. They help players anticipate and understand their roles and responsibilities, the time frame for each play and the measures of success. Then, during the game, they can respond quickly and confidently. Similarly, in the throes of a merger or acquisition where the stakes can be high, an M&A playbook provides valuable guidance to HR staff.

PLAY BY PLAY

An M&A playbook gives the HR team a head start, through access to standardized processes and tools, so they are not beginning from scratch. What the playbook does not do is specify the technical details of how to handle deal-related people issues – such as how to merge retirement plans or calculate change-in-control payments. Instead, the playbook complements the typical tools, processes and technical knowledge already present in HR by providing a step-by-step foundation for organizing and executing the key activities at each stage of a deal.

A playbook organizes and prioritizes HR activity within the wider deal context. It ensures that the right things get done and helps prevent people focusing on ‘comfort zone’ activities to the detriment of the wider process. It is often combined with the creation of a repository of best practice tools and templates successfully tested in previous deals.

Developing a playbook facilitates HR connecting with all the stakeholders involved in the transaction including the strategy and business development groups, finance and the legal department. It enables HR to have an open discussion about its role and responsibilities and its interdependencies with the business and other functions involved in M&A. It is also an opportunity to reflect on the effectiveness of HR’s governance model for transactions and to get feedback on HR’s performance in past deals.

THE VALUE

Ultimately a playbook helps an organization achieve better results. It can accelerate executive decisions and reduce the barriers that prevent team members from focusing on the implementation of the deal and the creation of value for the organization. For example, HR can speed up communications and take away distractions. Following the playbook practices can accelerate the integration process – or even the closing of the deal – by several months. Cost savings can be realized sooner, synergies achieved earlier and targets met on schedule.

PEOPLE ISSUES ARE BUSINESS ISSUES

In an M&A transaction it is often relatively easy to achieve initial short-term benefits, usually financial benefits gained through cost cutting. However, it can be much harder to achieve the long-term synergies between companies that accelerates the creation of value.

Cultural alignment, talent management, retention, organizational design and the ongoing integration of people and HR systems, group benefits and retirement plans, employment contracts and compensation plans are all significant challenges. These people issues need to be addressed with the same priority and diligence as the financial aspects of the deal. Preparing an M&A playbook, before the organization is in the throws of a transaction, can help an organization achieve the full shareholder value and long-term benefits of the merger and acquisition.