



HUMAN RESOURCES
HR UPDATE
Managing Your Most Important Resource: P E O P L E

Managing the Human Dynamics of Mergers and Acquisitions

The impact of mergers and acquisitions on employees is significant. Although creating a new organization by combining separate companies can be a time of excitement and opportunity, for workers it is often one plagued by confusion, discontent, and disillusion.

According to research, 60-80% of all mergers and acquisitions fail to meet their business objectives due to a lack of planning and attention to people issues.

Organizations have much to gain by thinking through the human dynamics of a merger or acquisition very carefully. While each business combination is unique, there are a number of specific ways all business leaders can plan for and manage the people issues that are sure to surface during this time of organizational change.

Due Diligence and the Human Spirit

Merging with or acquiring an organization can be like buying a house. In addition to ensuring that you get the best value for your money, you also want a house that fits the lives of those who will live in it. In an M&A, your decision is more than just combining numbers on a balance sheet or changing the name of the organization. It is a significant culture and climate change. While the combined business will be new and

different, it will still retain some of the original organizations' characteristics.

Obviously, it is vital to conduct an extensive evaluation of the organization's economic conditions prior to the deal. Many leaders, however, fail to be as thoughtful about the human elements of the business. A review of the human dynamics of an acquisition must be conducted so the acquiring organization has full knowledge of the culture, HR systems, and the people talent of both organizations. This evaluation provides key information when negotiating the M&A and also reveals critical facts needed during the integration phase. Three HR areas must be assessed:

1) A Business and Its Culture Go Hand-in-Hand — Every organization has its own culture embodied in its unique values, operating methods, employees' work ethic, and decision-making processes. Potential buyers usually get a general feel for the culture they intend to acquire, but lack data to support their intuition. If the deal has great financial potential, the buyer may overlook culture differences and naively think the differences can be worked out. This attitude can have disappointing or even disastrous consequences.

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RSM McGladrey, Inc.
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**More for
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Selecting and Retaining the Right People for Your Organization

What employment issue concerns most U.S. companies today? Recruitment and retention is at the top of the list according to a recent survey of HR executives of 388 organizations by Rewards Plus of America. With concerns about recruitment and retention at 52%, other issues included cost of benefits (6%), management change and growth (4%), and employee motivation (3%).

Employee selection is a key responsibility of managing and building your team. If you select quality people, managing them becomes a pleasure. If you hire people who are a poor fit, it can be difficult and may require many hours solving employee-related problems.

Selection

So how do we go about preparing for the important selection process? Often we are reactive. "Our bookkeeper just gave notice, let's find another as fast as possible." What is missed is an evaluation of current needs and definition or redefinition of the vacant position.

Good recruiting can start by exit interviewing the person leaving. What did that person have to say about the position? Is there still a need for it? Has it changed in some way? Spend some time talking to the person's co-workers. Carefully evaluate any technical changes or changes in your company's strategic direction and objectives. In other words, hire for the future as well as your immediate needs.

You should also ask yourself several other questions. Are there any interested internal candidates? Could the position be divided or merged into other jobs? Is your job description updated and accurate? What are the tangible and intangible qualities you seek? Is the salary competitive?

If all these ducks are in a row, you are ready to start sourcing candidates. The

best recruiting methods depend on the type of job you are offering. Certainly newspaper ads, state job services, the Internet, employment agencies, colleges/vocational schools, search firms, career fairs, and trade journals all have their place in recruiting. Also consider word of mouth, referrals by current employees, and walk-ins or people who have been referred to you in the past.

In addition, be proactive by encouraging your managers and employees to keep their eyes and ears open to competent and successful individuals in the community who could make a contribution to your organization.

Screening

After gathering applications/resumes from all sources, careful screening is important to obtain a reasonable number to interview by phone and, later, in person. Prune your list by only interviewing those who meet most or all of your key criteria such as: minimum

How you introduce and welcome people to your company does make a difference.

educational and experience requirements, industry experience, specific technical skills, and willingness to work in your geographic location.

Consider whether your biases are valid for screening out candidates for your position. For example, job hopping is generally seen as a negative. Many traditional companies consider the frequent changes made by Gen-Xers (21-35-year-old candidates), especially in technical fields, to be unacceptable. Some companies will not interview candidates who have below a certain college grade point average. They may be missing some highly motivated

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Gather data on the culture of both organizations through interviews, surveys, and other assessment tools to compare the acquiring and target organization's cultures. Potential problem areas can be located and time estimates developed for combining the various systems of the organization in order to achieve the financial goals of the acquisition.

2) Legal Compliance: Know the Facts Before You Buy — Unknowingly, buyers can face significant legal and financial liability if they are careless. This can stem from pending charges or litigation with federal, state, and local human rights agencies, violation of wage and hour statutes, and failure to comply with collective bargaining agreements. Acquiring or merging with an organization that has these problems can create significant direct and indirect costs, including liability for compensatory and punitive damages to employees and penalties to government agencies.

3) Employee Compensation and Benefits: Deal Maker or Deal Breaker? — Wage and salary programs, incentive plans, insured employee benefits plans, and retirement programs are often complex and have many hidden variables and costs. These issues can make an M&A extremely difficult for employees and affect retention of key employees. People can be very protective of their current compensation and benefits programs, especially retirement plans, and these can be deal breakers during negotiations. Understanding each organization's compensation and benefit program will help deliver a more acceptable final agreement to employees.

Integrating Organizations

Each business combination varies in the degree of integration necessary to achieve the goals of the deal. Several

human issues are commonly cited as reasons for unsuccessful integrations:

- poor communications
- unclear reporting structures
- loss of key talent
- conflicting cultures
- resistance to change
- decreased productivity

Develop an integration plan during the due diligence phase rather than after the deal is closed. The new organization can make a number of decisions to ensure a timely, successful integration. The first is to agree on the new organization's mission, vision, strategy, and values. That becomes the basis for most other actions taken during the integration phase. Next, plans need to be developed and executed in the following areas:

Mission, Vision and Values

The first, most critical step is to agree on the new organization's mission, vision, strategy, and values. These elements will serve as the foundation for addressing people issues and for the decisions made during the integration phase.

Addressing the "Me" Issues

Immediately, questions will arise: What does all this mean for me? Will I have a job? Will my job change and if so, will I receive new training?

It is important to respond timely and honestly to these questions to help with employee retention, especially key employees. Decisions about reporting relationships, work processes, and product/service offerings must be made early on also, then communicated to employees along with answers to their early questions. Management must stay close to employees, listen, address their questions and concerns, and work through the resistance to change employees normally experience.

As an organization considers structural changes, employees commonly begin to "keep score." The integration of management teams and the selection of organizational leaders is usually where the scorekeeping begins, but it may also follow changes in employee benefits, human resources policy, compensation, and other human resources programs. Any we/they attitudes can impede the blending of organizations. These attitudes need to be addressed in making people decisions as well as in the communication of organizational change.

Communicating is Key

Employee reluctance to change is frequently cited as a primary contributing factor in the failure of an M&A. Effective and adequate employee communication is needed to overcome resistance to change and move employees in a positive direction.

Never underestimate employees' need for information or the value of getting feedback from employees during a business combination. Ample communication needs to occur both upward (from employees) and downward (from management). Processes need to be put in place to achieve both. Initially, management should communicate:

- What is the problem? Why are we taking this action?
- Who said so, and on what evidence?
- What could occur if action isn't taken?
- Is there an opportunity the company is acting on?
- What are the organizational and personal benefits of this opportunity?

Too often in an M&A, management overlooks employee communication. This results in management failing to meet employees' information needs. If they don't play a part in the transition, they often begin looking for other opportunities.

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To overcome this problem, an organization should form a communications team to identify communication issues and develop strategies to ensure effective upward and downward communication in the organization. Having a designated team focusing exclusively on employee communications issues can lead to greater success in the integration phase, and ultimately, the business combination.

Beyond the balance sheets: The melding of cultures

Again, the extent of integration of cultures will vary with each business combination. However, conflicting culture is often a primary cause of failure in the integration phase. Culture does matter, and it is essential to understand the cultural differences between the two organizations, define the essential cultural characteristics for the new organization, and establish a plan for creating a new culture. There are few quick fixes here; it is a long and arduous process.

The first step to enacting a cultural change is to conduct an assessment. This is typically accomplished with survey instruments, focus groups, and/or interviews. Through the assessment process, similarities and differences in the cultures of the combining organizations will be identified.

Actions designed to implement the new culture commonly include:

- Leadership training and development
- Policy development
- Team building
- Reward and recognition programs
- Performance management systems
- Communication strategies

Management and employees should have an understanding of how people typically react to change and how to become more resilient in the face of change.

Integrating Other Human Resources Systems

Each organization has its own unique systems for motivating, rewarding, managing, and developing employees. Determine how to integrate or create new human resources systems, such as compensation, benefits, performance management, policies and procedures, organizational planning, hiring systems, and training and development. Establish priorities and develop short and long-term action plans to best accomplish this sometimes overwhelming task.

Because mergers and acquisitions are complex business transactions, managing the human dynamics involved is as critical to its success as any other aspect of the transaction. By obtaining information about the people issues, and planning for and taking appropriate action, many risks can be eliminated.

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candidates who worked full-time while attending school. These are subjects you may want to explore further in a phone or personal interview.

Interviews

When candidates come in for an interview, we all know how they perform can make or break the deal. But how do you and your staff perform? Are you asking the right questions? Do you dominate the interview time? Ideally, 70% of the interview should be listening to the candidate, 30% should be describing the organization and the opportunity. Can you explain the realities of the job—drawbacks as well as the benefits? Can you communicate your company culture—not only what you *want* it to be, but what it is? As a representative of your organization, can you sell it to a prospective candidate?

Obviously, there are many factors other than basic qualifications that enter into your final decision to select one candidate over another. What did you learn from reference checks? How did other interviewees rate the candidate? How will a candidate fit in with co-workers and the organization? What potential does this person bring to the job?

Retention

Once the offer is made and accepted and the new employee is on board, how do you keep them challenged and happy? It begins with orientation. How you

introduce and welcome people to your company does make a difference. There is the usual paperwork and organization tour. But, we can all take a lesson from the Disney organization which spends a whole day instilling pride by sharing the heritage, traditions, values, vision, and philosophy of Walt Disney. New employees walk the theme parks and see the quality standards in action. They continue the training on the job for several days while they learn the routines.

While many companies try to “buy” loyalty with ever-higher offers, signing bonuses, etc., these “perks” tend to lose their meaning after a few years, and other things become more important— family or community time, a good boss, performance feedback, flexibility, profit sharing, retirement programs.

While most of us do not work for an organization like Disney, we *can* institute people-friendly practices and put more energy into recruitment and retention and becoming an employer of choice. Then when our employees think about leaving for those greener pastures down the street, their friends will all say, “Are you nuts? Everyone would like to work for a company like the XYZ Company!”

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