Mergers and Acquisitions Guide for HR
In the fast-paced business realm, mergers and acquisitions (M&A) have become integral strategies for growth and adaptation. This guide for HR professionals aims to be your go-to companion, offering practical insights and best practices to ensure a seamless journey through the complexities of mergers and acquisitions.

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Mergers and acquisitions are complex processes, but if done correctly, they can provide significant opportunities for the business. They serve as a catalyst for rapid growth, representing a strategic approach to accelerating business expansion. Mergers and acquisitions are made for various reasons, ranging from market growth, acquiring new functionalities, or entering new product areas. It is important to differentiate between “mergers” and “acquisitions,” as even though they are similar, there are significant differences.

Below, you will find a precise definition and a practical example for each of these terms.

**Merger**

A merger takes place when two or more companies come together to form a single, new company. It's like two puzzle pieces fitting together to create a bigger picture. In a merger, the companies typically agree to combine their resources, operations, and ownership, and they become one entity. This is often done to achieve certain strategic goals, such as expanding market reach or combining complementary strengths.

**EXAMPLE**

TechCom, a software development company, and InnoSolutions, a tech consulting firm, decide to merge. After the merger, they become TechInnovate, a single company offering a wider range of services, including software development and consulting.

**Acquisition**

An acquisition takes place when one company, often referred to as the acquiring company or acquirer, buys another company, known as the target company. In an acquisition, the acquiring company gains control of the target company’s assets and operations, including its employees.

**EXAMPLE**

PharmaCorp, a large pharmaceutical company, decides to acquire BigTech, a smaller biotech research company. PharmaCorp wants to expand its research capabilities and product portfolio. After the acquisition, BigTech is absorbed into PharmaCorp and no longer exists as an entity.
The Reasons to Embark on M&A

**Strategic growth**
Mergers and acquisitions are vital for strategic growth, allowing companies to expand market share, diversify, acquire talent, or enter new markets swiftly.

**Risk mitigations**
To manage risk, mergers and acquisitions help in diversification, spreading risk across various industries or markets.

**Global expansion**
Mergers and acquisitions facilitate global expansion, enabling companies to enter new territories or access resources otherwise inaccessible.

**Economic gains**
Mergers and acquisitions can lead to increased efficiency, cost savings, and economies of scale, fostering long-term financial benefits.

**Market positioning**
Mergers and acquisitions are a strategic tool to gain a competitive advantage, solidify market positioning, or disrupt the market with innovative offerings.

**Access to talent**
Mergers and acquisitions can provide access to specialized talent, knowledge, and resources, augmenting the company’s capabilities.
M&A Best Practices

Here are five best practices to understand the context of mergers and acquisitions:

• Conduct comprehensive due diligence to understand the financial, legal, operational, and cultural aspects of both entities involved in the merger and acquisition.

• Ensure that the mergers and acquisitions align with the overarching business strategy, vision, and long-term goals to avoid mismatched objectives.

• Adopt a structured integration approach with an integration steering committee focusing specifically on bringing the different entities together.

• Maintain transparent communication channels to manage expectations and mitigate uncertainty among employees and stakeholders during the mergers and acquisitions process.

• Devise strategies to retain key talent and develop plans to foster a positive and engaging environment for employees during the transitional phase.

How to get it right

Manage integration well
47% of integration issues are around system and process integration, while 60% are around people components.

Have a planned, structured approach
92% of high-performing mergers and acquisitions start planning at the due diligence phase, while 48% integrate faster than average.

Employee impact with great integration and change

Stay engaged 81%
Intend to stay 70%

Employee impact with great integration and change

Become disengaged 42%
Intend to leave 63%

70%–90% fail to achieve anticipated results. Over 50% diminishes shareholder value. Why?

Of mergers fail due to issues with communication and culture 25%

Of integration problems stem from people issues 80%
The Role of HR

The involvement of HR in mergers and acquisitions is crucial for several key reasons.

- HR is instrumental in aligning stakeholders, facilitating communication, and managing expectations among employees and leadership.
- HR plays a key role as part of the integration steering committee to ensure that all the different workstreams are delivering in alignment with the intent of the mergers and acquisitions.
- HR plays a pivotal role in leading the culture and strategy integration, ensuring that the transition aligns with the existing and evolving company cultures.
- From a risk perspective, HR assesses and manages people-related risks, ensuring a smoother transition and reducing potential disruptions.
- HR also takes charge of the people implementation stream, driving initiatives for talent retention and development and creating a conducive environment for successful integration.
- Depending on the environment, HR will be leading discussions with unions and other stakeholders as part of the integration process.

To ensure a smooth transition and the success of the integration, HR professionals need to employ a set of best practices. From cultural alignment to talent retention, these best practices encompass the crucial aspects of HR involvement in mergers and acquisitions.

- HR must be engaged early as part of the due diligence process to contribute insights into cultural differences, employee concerns, and potential integration challenges.
- Conduct a comprehensive analysis of both companies to identify similarities, differences, and potential areas of conflict, allowing for a structured integration strategy.
- Develop and implement a clear communication plan that keeps employees informed about changes, addresses concerns, and maintains transparency throughout the process.
- Implement strategies to retain key talent, offering incentives, career development, and reassurance during the transitional phase to prevent valuable personnel loss.
- Utilize change management practices to guide employees through the transition, offering support, training, and resources for a smoother adaptation.
- Identify and develop key leaders from both entities, ensuring a unified leadership approach that supports the new organizational goals.
# M&A Phases

A systematic mergers and acquisitions approach is made up of five distinct phases. The objectives and corresponding activities for each of these phases are described briefly in the table presented below, as well as what HR does during each phase.

<table>
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<th>Phase</th>
<th>Objectives</th>
<th>Activities</th>
<th>What does HR do?</th>
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<tr>
<td>1. Predeal</td>
<td>This phase involves the preliminary groundwork before the actual deal-making. It includes strategic planning, identifying potential targets, conducting due diligence, and evaluating the feasibility of the merger or acquisition.</td>
<td>Research, financial analysis, identifying synergies, assessing risks, and evaluating the cultural fit between the entities</td>
<td>HR professionals collaborate in profiling potential partners, assessing compatibility, and evaluating the impact on the workforce. They contribute to risk analysis from a people perspective and engage in activities such as workforce assessment and talent due diligence. The HR team ensures alignment between the human capital strategies of both organizations, laying the groundwork for a smooth transition in subsequent phases of the mergers or acquisitions.</td>
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<td>2. Dealmaking</td>
<td>This phase marks the formal negotiation and execution of the deal. It involves finalizing terms, contracts, and agreements.</td>
<td>Negotiating terms and valuations, drafting legal agreements, obtaining regulatory approvals, and finalizing the financial aspects of the merger or acquisition</td>
<td>HR conducts due diligence, negotiates employee terms, and plans for integration with a specific focus on people risk, culture, leadership, and workforce.</td>
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<td>3. Implementation of 90-day plan</td>
<td>After the deal is sealed, this phase focuses on putting the plans into action. It involves the initial steps toward combining the operations and structures of both entities and focuses specifically on the first 90 days.</td>
<td>Setting up the organizational structure, integrating systems, initiating cultural alignment programs, and announcing the transition to employees and stakeholders</td>
<td>HR forms part of the integration steer committee and leads the people, change, leader, and communication streams. HR also plays a critical role in stakeholder management.</td>
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<td>4. Workstream implementation</td>
<td>This phase is about actively merging the entities into a unified operation. It’s where the actual integration of systems, cultures, and operations takes place.</td>
<td>Cultural integration, aligning processes and procedures, combining workforces, training programs, and establishing a cohesive and unified identity</td>
<td>HR executes a 90 to 120-day plan, finalizes organizational structures, provides role clarity, transitions employees, tracks benefits, and ensures effective project governance. This phase focuses on embedding changes seamlessly, sustaining business as usual, and tracking the ongoing success of the integration.</td>
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<td>5. Monitor</td>
<td>The postintegration phase involves monitoring the progress, identifying and addressing issues, and energizing the combined entity for sustainable growth.</td>
<td>Continuous evaluation, addressing challenges, refining strategies, employee engagement initiatives, and leveraging the combined strengths for innovation and growth</td>
<td>HR implements corrective actions, embeds changes into business as usual, and tracks benefits derived from the merger. This involves addressing deviations, ensuring stability, measuring ongoing success, emphasizing agility and proactive risk management to sustain the integrated entity’s effectiveness.</td>
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**What does HR do?**

- **Objectives**: This phase involves the preliminary groundwork before the actual deal-making. It includes strategic planning, identifying potential targets, conducting due diligence, and evaluating the feasibility of the merger or acquisition.
- **Activities**: HR professionals collaborate in profiling potential partners, assessing compatibility, and evaluating the impact on the workforce. They contribute to risk analysis from a people perspective and engage in activities such as workforce assessment and talent due diligence. The HR team ensures alignment between the human capital strategies of both organizations, laying the groundwork for a smooth transition in subsequent phases of the mergers or acquisitions.

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**Activities**

- **Dealmaking**
  - Research, financial analysis, identifying synergies, assessing risks, and evaluating the cultural fit between the entities

- **Implementation of 90-day plan**
  - Setting up the organizational structure, integrating systems, initiating cultural alignment programs, and announcing the transition to employees and stakeholders

- **Workstream implementation**
  - Cultural integration, aligning processes and procedures, combining workforces, training programs, and establishing a cohesive and unified identity

- **Monitor**
  - Continuous evaluation, addressing challenges, refining strategies, employee engagement initiatives, and leveraging the combined strengths for innovation and growth

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- **Objectives**: HR professionals collaborate in profiling potential partners, assessing compatibility, and evaluating the impact on the workforce. They contribute to risk analysis from a people perspective and engage in activities such as workforce assessment and talent due diligence.

- **Activities**: The HR team ensures alignment between the human capital strategies of both organizations, laying the groundwork for a smooth transition in subsequent phases of the mergers or acquisitions.
Phase 1: Predeal

1. Strategic intent
   This phase begins with defining the strategic intent behind the merger or acquisition. It involves understanding the company’s objectives, whether it’s market expansion, diversification, or gaining a competitive edge. It involves assessing internal strengths and weaknesses, identifying strategic goals, and aligning them with potential merger and acquisition opportunities.

2. Profile potential partner
   This stage involves a deeper dive into the identified potential partners or targets. It’s about exploring their fit, assessing the potential synergies, and evaluating the risks associated with the partnership. It involves conducting due diligence, assessing risks, evaluating cultural alignment, and examining the compatibility of business models and operations.

3. Search and screen
   Once the strategic intent is clear, the next step involves identifying and profiling potential partners or targets that align with the established strategic goals. This involves conducting market research, identifying companies or assets that complement the strategic intent, and analyzing their financial and operational status.

4. Short-list
   The short-listing phase involves narrowing down the options to a select few that align most closely with the strategic intent and exhibit the most promising potential for a successful merger or acquisition. This involves evaluating the viability of partnerships, ranking potential partners based on various criteria, and identifying those that best align with the company’s objectives and offer the most potential for a successful merger and acquisition deal.

Case Study

ST Insurance wants to expand its business by acquiring complementary businesses that add to its current product portfolio and enable cross-selling to existing clients.

The executive team and board have identified acquisition as the chosen growth strategy, and they have developed a target profile of organizations that will meet the criteria to be considered.

At the end of this phase, the ST Insurance executive team has a short list of five potential companies that meet the criteria set out that they want to consider further.

The outcome of this phase: Several companies that meet the merger and acquisition requirements based on defined strategic intent are short-listed. The organization is now ready for deeper due diligence.
Phase 2: Dealmaking

1. Approach potential partners

With potential partners short-listed, this phase involves initiating discussions and opening potential negotiations. Depending on whether a merger or acquisition strategy is pursued, this phase could either be an open discussion between the two entities to explore synergies or, alternatively, it could entail a third party guiding the process of valuation. The goal is to further narrow down the short list.

2. Profile potential partner

Once initial discussions show promise, a more detailed due diligence process begins. This involves a thorough examination of financial records, legal obligations, operational aspects, and potential risks associated with the merger or acquisition. This includes conducting financial audits, legal reviews, operational assessments, and cultural due diligence to gain a comprehensive understanding of the potential partner's strengths and challenges.

3. Search and screen

After successful due diligence and negotiations, this stage involves finalizing the terms of the deal. Legal agreements are drafted, and both parties work toward consensus on key aspects such as valuation, structure, and any conditions for the transaction. This includes negotiating final terms, drafting legal documents, obtaining necessary regulatory approvals, and finalizing the financial arrangements to formally close the deal.

4. Short-list

Finalization of the transaction, legal announcements, and formal documentation signals the end of this phase, usually ending in a formal announcement to all organizations involved and the public where required.

This stage could include legal engagements in the case of public companies related to shareholder communication.

Case Study

ST Insurance has conducted due diligence on three potential partners with different strengths. Negotiations for the first partner, KL Insurance, did not continue due to a legal risk identified by ST Insurance as part of the due diligence process. The second potential partner, GoGo Insurance, was open to negotiations, yet this broke down after three conversations as the executive teams realized that the deal would not be financially viable for ST Insurance.

The third potential partner yielded a lot more promise. Health Inc. is a medical insurance business with an existing client book and a strong regional footprint. Their product compliments ST Insurance well and after negotiations facilitated by a third party, a deal is proposed.

The current Health Inc. executive team and board approve the deal with a few additional conditions, which ST Insurance agrees to. The transaction is concluded, and a public announcement is drafted as part of the legal proceedings.

The outcome of this phase: Formal transactions are finally concluded, and announcements are made where required.
Phase 3: Implementation of 90-day plan

1. Appoint executive committee and integration steering committee

The first step is to finalize the new executive team as quickly as possible and to appoint a steering committee that will guide the transition. Ideally, this steering committee needs to have representation of all organizations involved for the duration of the integration process, even though some of these individuals might only remain with the organization for a short time. A clear sponsor needs to be appointed, which is usually the new entity CEO or COO.

2. Create clarity on vision and strategy

During this step, it is important for the revised executive team to discuss the integrated strategy and prioritize short-term objectives that need to be driven throughout the transition period.

Even though longer term objectives will still be discussed, at this stage, it is important to have clear short-term focus areas.

3. Change and communication

The steering committee needs to set up a clear communication plan that helps employees understand how the transition will take place, where they can ask questions, and how they will be enabled during the process. The steering committee needs to act as the visible representatives for the merger and acquisition, and there needs to be consistency in their communications.

Launch the following work streams and allocate resources to them:

Customer and marketing
This workstream will be responsible for how to transition customers to the new integrated entity and how we will manage the customer relationship. This includes brand, marketing, and external client communication on what the merger means for them.

Skills in this workstream:
Marketing, customer services, sales

Organizational design
This workstream will be responsible for the new business and operating model design. This includes the new target operating model and high-level functions or divisions and regional designs.

Skills in this workstream:
Strategy, business analysis, organizational design

Technology and systems integration
This workstream is responsible for the integration of systems, platforms, and IT infrastructure. This includes data infrastructure and decommissioning of current systems.

Skills in this workstream:
IT architects, data analysts, system developers, IT security
People practices and integration

This workstream is responsible for the integration of people practices and policies. As a first priority, it is important to ensure legal alignment in terms of employment contracts and agreements, as well as any negotiations with labor unions to be done proactively where required. People practices can be integrated over time to ensure consistency and standardization across the employee lifecycle and HR value chain.

*Skills in this workstream:*  
HR, legal

Logistics and relocation

This workstream is responsible for logistics and offices. Often, depending on where different business units are located, people might need to be relocated or transitioned to new offices. This process needs to be mapped out to understand the impact on individuals and the options available for those unable or unwilling to move.

*Skills in this workstream:*  
Facilities

Cultural integration

This workstream is responsible for the integration of the different organizational cultures and the establishment of a new value system. This team should also provide support to senior executive leaders during the transition and be responsible for monitoring organizational climate and wellbeing.

*Skills in this workstream:*  
Organizational development

ST Insurance has appointed the steering committee with representatives of both ST and Health Inc., and their priority is to create a clear strategy for the short term and put a communication plan in place. They decide that the CEO will communicate every month via their internal social channels with key updates, while a quarterly town hall will be held with employees for formal and bigger roadmap updates.

The steering committee members each have a responsibility to lead one of the following workstreams and implement the set 90-day plan for each area:

- Mary, the chief marketing officer for ST Insurance, will lead the customer stream with Bryan, who was the sales executive for Health Inc. They prioritize client communication and the integration of the new client acquisition process for the first 90 days. For now, they will keep the two client relationship management systems separate and only implement that during the integration phase.
• They partner with a consulting business to help with the new integrated organizational design model. The steering committee member responsible for this is the CFO for the joint business, Hilda. They will complete the high-level design of the first three levels for the 90 days.

• Ivan will lead the technology and systems stream. For the first 90 days, they will only finalize the analysis of the current systems and ensure the migration of data to one central database. During the 90 days, they will also finalize the longer term integration and decommissioning plans.

• Layla is the head of HR operations and will lead the people practices stream together with Lily, a senior team member from Health Inc. They prioritize the review and alignment of employment contracts and benefits for the first 90 days. Beyond the 90 days, they will evaluate the recruitment, onboarding, and performance practices as a priority.

• Corey is the head of organizational development. He will lead the culture workstream and work closely with the leadership teams on defining the new integrated culture for the future business and providing input into the communications and change efforts for the first 90 days. He will also manage a wellbeing support program specifically to help employees deal with the stress and uncertainty as a result of the merger.

• Gavin is the head of facilities and will evaluate the office and equipment requirements. As a first step, they want to collocate the teams in the first 90 days. To do so, they will implement a new floor plan in the ST head and regional offices to accommodate the employees transitioning from Health Inc. Beyond the 90 days, they will be evaluating how to optimize the real estate the business owns and manage existing leases.

• Chantel is the head of learning. She will lead the employee training workstream and prioritize training on basic organizational processes, culture, and operational priorities for the first 90 days. For example, they will train the sales teams on the new acquisition process while also doing some online system training on business systems that will be unfamiliar to the Health Inc. employees.

The outcome of this phase: Develop and implement the 90-day transition plan to manage the priorities immediately after the integration.

A second deliverable for this phase is the longer term plans and priorities that will be executed within the next phase and aligned to each of these workstreams.
Phase 4: Workstream implementation

1. Implement

The implementation of longer term plans beyond 90 days occurs during this phase. This could be done via subprojects or, alternatively, allocated to specific individuals who will be leading these functions going forward.

2. Risk tracking

Continuously monitor and assess potential risks that may arise during the integration process. This proactive approach allows for timely identification and mitigation of challenges.

3. Stabilize Structure

During this phase, it is important to stabilize the structure and transition the longer term priorities to individuals who will be responsible for them in the longer term.

Case Study

After the first 90 days, the workstreams transition to the longer term priorities that were identified during the initial stages. This includes transitioning to one client relationship management approach, rebranding some traditional Health Inc. products, and a detailed organizational design and workflow implementation. The technology team kick-starts various projects, with the largest being the transition to one ERP, which will be a multiyear project. The HR team will focus on transitioning the remainder of the HR practices to create standardization as well as bringing the new ST Insurance employees onto the self-service platforms. The HR team will also work with the organizational design team to transition talent to new roles and ensure adequate training to facilitate the transition.
The ST Insurance Steering Committee disbands as the key components related to the integration have been delivered. All work that will continue now forms part of the business-as-usual structures, which have all been resourced and are in place. The executive team has reported to the board on the progress related to the original business case for the merger and acquisition. Thus far, some benefits have been realized, but the longer term benefits will still need to be monitored as part of annual reporting.

**Phase 5: Monitoring**

1. **Implement**

   Continuously monitor the integrated operations and address any issues or challenges that may arise. The focus is on identifying deviations from the planned outcomes and implementing corrective measures to realign with the strategic goals of the merger or acquisition. Regularly assess performance metrics, gather feedback, and promptly address any emerging issues. This subphase emphasizes agility and adaptability to ensure the integrated entity stays on course.

2. **Risk tracking**

   Integrate the new way of operating into the everyday practices of the organization, making the changes a seamless part of the business-as-usual operations. The goal is to transition from the integration phase to a stable and sustainable state where the merged entity operates smoothly. Ensure that employees are comfortable with and accustomed to the new processes, technologies, and structures. Embed the changes into the organizational culture to promote long-term stability and efficiency.

3. **Stabilize structure**

   Monitor and measure the actual benefits derived from the mergers or acquisitions against the anticipated benefits outlined in the initial strategic plan. This involves assessing the return on investment and ensuring that the integration is delivering the expected value to the organization. Establish key performance indicators (KPIs) to track the identified benefits. Regularly evaluate the impact of the merger on financial performance, operational efficiency, and other relevant metrics to ensure the integration is contributing positively to the organization.
On this page, you will discover valuable tips and tricks for HR to ensure a smooth merger and acquisition process.

Ensure that you meet regularly with the sponsor and the steering committee to guide their actions.

Make sure that you look after both the customers and the employees during the process, or you’ll run the risk of losing both.

Create certainty and clarity on key decisions as quickly as possible. However, do not promise things you cannot deliver.

Place a significant emphasis on the transition of the HR team, acknowledging that they, too, are experiencing similar emotions while simultaneously navigating these changes for the organization.

Make the vision and strategy visible and have a clear narrative that explains the reasons for the mergers and acquisitions.