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Making Mergers Work: People are the Strategic Imperative

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Any Merger and Acquisition (M&A) has a profound and significant impact on the people involved in all affected companies, from senior leadership right down through the organisation. Managing this 'people impact' is a crucial dimension of managing a successful transition to the new business strategy, achieving a unified leadership, and developing the desired business model /organisation, yet often it receives scant attention.



M&As are usually intended to provide an increased scale of operations, resources and capabilities, achieving (or, at least at present, recovering) financial strength, and broadening both businesses' market reach to support growth and underpin medium and long-term competitiveness.

Although M&As are motivated by a myriad of factors, the most common objectives - even in a depressed market - are growing market share and industry consolidation. Yet research shows that only half of respondents are typically able to fully achieve those goals: worse, less than a third are able to enhance the strength of their brand image - a frequently cited goal of M&A activity. In an environment like the present, where M&As are often principally motivated by survival, this level of failure should ring an entire belfry of alarm bells: survival is not something you can achieve only a fraction of, after all.

But numerous global studies show that even well conceived deals can fail to deliver these promised benefits. Although the intended end result may be a single, stronger entity, no M&A is intended to be a *purely* reductive exercise. Showing M&A as a simple mathematical formula - ie $1 + 1 = 1$ - serves to illustrate the problem: in most aspects, the total should be *greater* than the sum of the parts .

Indeed, an M&A failure usually has little to do with poor strategy or paying too much to complete a deal. On the contrary, it all too frequently results from people-related issues - the loss of key talent, culture clashes as staff of two existing and differing cultures try to find ways of working together, and management conflict over the direction of the new company. Without careful attention to these issues, the price paid for M&A may be far more than just the valuation, no matter how fair: underestimating the effects of the impact on M&A activity of the people of both businesses can cost the successor organisation very dearly.

The human resources (HR) function can add value in the early stages of a merger or acquisition by positively influencing decisions that will ultimately determine success or failure - such as the fit of the two organisations to be joined, or the compatibility of the companies' management and cultures.

An informal survey carried out by ASK across all sectors and geographies among our customer base and social networking contacts in the second quarter of 2009 showed the following main obstacles to achieving M&A success:

- The impact on both businesses' ability to sustain financial performance
- The loss of productivity and distractions to business drivers as the merger is rolled out
- A clash of cultures that drives negative behaviours and business loss
- The push and pull factors that can lead to the loss of top talent
- The positioning for power and a clash of management styles and/or egos
- A lack of management understanding of the different dimensions of change and how to enact change management
- A failure to appreciate the need to synergise the changes of process and people
- A poor understanding and/or communication of objectives.

As all of these factors are related to the strategic management of people - many of them very directly - HR obviously has a potentially significant role to play. Of these, cultural differences between companies may be the single highest barrier to success. More than 50% of survey respondents identified cultural issues as a major obstacle to achieving the expected synergies,

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with many saying that addressing this issue early would have impacted positively on the outcome of the M&A.

Certainly, if vastly different or conflicting corporate-culture issues are not addressed, this will almost inevitably lead to problems. People and cultures do not respond to mergers in the same way as more literal business assets. Databases can be merged, office layouts and furniture can be streamlined, but biosciences have not advanced to the point where the desired elements of two people can be extracted and merged into a new, fully-functioning, committed and uncomplaining new person. Yet the failure to adequately address 'people issues' in M&As is unfortunately too frequent.

The same research also reinforces the importance and the difficulty of integrating two cultures, and confirms that early HR involvement in cultural integration can make the difference between success and failure. Responses reveal significant gaps in every aspect of cultural integration – even in agreement about the most important attributes of the new company's desired culture, attributes that should in turn influence the design of key HR programmes, including those for management development and succession.

It is vital, therefore, that HR takes proactive steps to develop strategies that will recommit and engage those mission critical employees who will make the new company a success. In any M&A scenario, at least some employees are being implicitly – or even explicitly – asked to 'remain' loyal to an organisation that may differ quite fundamentally to the one that have been previously working for.

To adapt to a new or changed culture – even one whose attributes have been outlined and defined – people must change the way they behave. And changing our behaviour is difficult, even faced with real imperatives for survival. (As the work of Prochaska and Di Clemente in observing recovery from addictive behaviour showed, only 5% of us can 'self-change' without false starts, failures and relapses: the rest of us need on-going support.) And our workplace behaviour is not just personal, but interpersonal. In the context of an M&A, many will be working in new teams or in new relationships with colleagues both new and old. Yet even old colleagues will be confronting new terrain.

The 'old certainties' of a previous culture may – especially where the M&A is driven by the need to survive – not have been the comforting advantage that it might have appeared to be, but as the M&A is implemented everyone is now facing new uncertainties. And simply being in the same boat is not necessarily a successful bonding and team-building activity, especially if no-one is familiar with the boat. The imperative to survive – and better yet to succeed – may be a powerful driver, but complex challenges remain. Popular cliché might tell us that 'every crisis is an opportunity', but business should not forget that the similarity can equally apply in the opposite direction.

These strategies must be underpinned with change management programmes and learning interventions that help managers to implement the programmes necessary for success. As awareness of the importance of people issues in M&A activities grows among CEOs and other senior management, it is imperative that HR professionals see the need to take a more strategic – and, in many ways, a more altruistic – role. This is no time for HR empire building, or for a clear intent of centralising HR just for the sake of exerting firm control.

Managing the impact of an M&A on the people of the businesses in question is a crucial dimension of managing the successful transition to a unified leadership, business model, and organisation. Ignoring or giving too low a priority to longer-term 'soft' issues can all too easily lead to a swift, hard lesson.

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