

Chartered Institute
of Personnel and
Development

People implications of mergers and
acquisitions, joint ventures and divestments



Survey report

September 2000

Contents page

Key findings	Page 1
Introduction	Page 2
Survey organisations and respondents	Page 2
Reasons for transactions	Page 2
Nature and extent of HR involvement in mergers and acquisitions	Page 3
Understanding of people management issues by 'deal makers'	Page 4
Handling of HR issues and 'due diligence'	Page 5
The impact of HR on the viability of the deal	Page 7
The success of mergers and acquisitions and added value	Page 8
Methodology	Page 8
Further reading	Page 8

Acknowledgements

The CIPD wishes to thank Richard Greenhill of Bacon and Woodrow, Judy Brown of PriceWaterhouseCoopers and Frances Wilson of CIPD who directed this project, Berl Steiner who carried out the statistical analysis and Tony Edwards and Chris Rees of Kingston University who researched and wrote the survey report.

CIPD values the contributions of Vice President International, Peter Squire, and former CIPD Vice Presidents Ron Collard and Bob Morton who advised the consortium team.

Thanks are also extended to those who responded to the questionnaire and their companies and colleagues at Bacon & Woodrow, PriceWaterhouseCoopers and CIPD who supported the project.

Key findings

Against the backdrop of an unprecedented increase in the rate and scale of mergers and acquisitions the CIPD, together with Bacon & Woodrow and PriceWaterhouseCoopers, conducted a survey in order to investigate the views of HR practitioners on mergers and acquisitions. This report draws upon data from the questionnaire survey.

A number of key findings emerged from the survey:

- **People Management professionals generally consider 'HR due diligence' to have been performed well during recent deals**
This suggests the importance of recognising the contribution of people issues in merger and acquisition situations
- **Significant areas affecting the viability of deals are employment law, employee relations and HR strategy**
Respondents considered these areas of HR to have the most impact on the potential of the deal during the merger & acquisition process
- **Only a small number of HR specialists are involved in the post-transaction period**
Personnel managers surveyed felt that people issues are imperative in the post-transaction period to make the merger & acquisition successful, yet few are involved at this stage of the process
- **Respondents consider those advising the parties to transactions to have a poor understanding of people issues**
This contrasts with the results concerning managers involved in the deal – those surveyed believe managers have a good understanding of the people issues involved
- **Integration issues contributing to transactions deemed unsuccessful**
Personnel managers surveyed tend to point to a mixture of senior management failings and insufficient attention to integration issues (both structural and cultural) as major contributing factors in unsuccessful transactions.

As well as highlighting key themes emerging from the survey, the report also indicates important areas where further research would be necessary to probe the findings in more detail, in particular the nature of HR involvement in transactions and the ways in which this involvement impacts upon performance outcomes.

Survey report introduction

Mergers and Acquisitions

The last few years have witnessed a wave of mergers and acquisitions which is without precedent. Merger activity is affecting a wide range of sectors including banking, telecommunications, cars, pulp, paper and oil. Increasingly, these mergers are cross-border in nature, bringing together firms based in different national business systems. In 1999 the total value of these cross-border tie-ups reached \$1.1 trillion, a ten-fold increase in eight years (UN, 2000). Europe has been the scene for much of this activity: many large firms have been involved in mergers with their counterparts in other European countries. Within Europe, levels of mergers and acquisitions are highest amongst UK firms.

Mergers and acquisitions have important implications for people within organisations. One common consequence of mergers is for the rationalisation of merged activities to lead to a significant number of redundancies. The reorganisation of operations following mergers also commonly involves a shake-up of existing teams and changed reporting lines for many employees. Moreover, where the terms and conditions of employment in the merged firm are different prior to merger, harmonisation can represent the opportunity for some employees to benefit while others may see this as a threat.

The survey organisations & respondents

The majority of the survey organisations (80 in total) are international firms and between them they have a wide geographical spread. A presence in the EU was reported by 36 respondents, in N. America by 24, in Ireland by 23, and in other European countries by 21. The Middle East and India are also represented (28 and 18 respectively), whilst a number also have a presence in the Far East (25) and Australasia (18). There is also a very wide spread of types of organisation in the sample: the largest sector represented is financial

services (12 organisations), followed by the public sector (9), telecommunications (6), engineering (5), chemicals, professional services and utilities (4 each).

The majority of these organisations have been involved in between two and five mergers, acquisitions, joint ventures or divestments during the past 10 years.

The bulk of the respondents are in senior personnel positions. Most report in the UK either to the CEO (51%) or to the HR Group or Main Board Director (28%). A further 19% report to the Head of HR. A large majority (69%) are responsible for the workforce across the whole group. Most of the respondents have been personally involved in at least a couple of mergers since 1990. From 43 responses, 23% reported involvement in one merger and 40% in 2-5. The figures for acquisitions are similar (17% and 46% respectively from 71 responses), as they are for joint ventures (12% and 34% from 41 responses) and divestments (15% and 37% from 54 responses).

Reasons for transactions

Respondents were asked a number of questions concerning the most recent transaction (including mergers and acquisitions, joint ventures and divestments) that they had personally experienced, with subsequent questions focusing on these deals. The size of these deals varied widely, with a number being large. Nine reported the last transaction to have been a merger worth more than £100m and fifteen had had recent experience of an acquisition of similar magnitude. The bulk of these deals had taken place in the UK, though a number of others took effect in other European countries, the US, the Far East, India and South America.

As for the primary business reason for these transactions, 35% of respondents reported that it was to increase market share, and 28% that it was due to rationalisation. A further 10% said it was to enter

new markets. The largest proportion (40%) said the deal had come about as a result of a meeting of the CEOs. A further 33% said the deal had been opportunistic and 24% that it had resulted from the rationalisation of the group.

The nature and extent of HR involvement in mergers & acquisitions

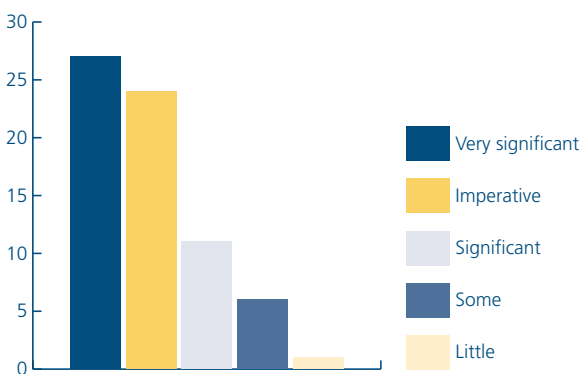
One of the major substantive themes of the survey was the nature of the role of personnel managers in transactions and the extent to which the personnel implications are considered fully by those involved. Perhaps unsurprisingly, given the profession of the respondents, they were virtually unanimous (65 out of 66) in saying that the most recent deal they had been involved in had definite personnel implications. 84% felt that these were important, either 'imperative' (39%) or 'very significant' (45%).

Of more note here is the stage at which personnel managers were involved in the transaction (including mergers and acquisitions, joint ventures and divestments). The bulk of respondents (66% from 43 responses) reported HR involvement during the transaction negotiations, and a further 28% during the planning of implementation. Many (43%) reported that HR was an integral part of the deal team and a further 39% that it was part of the project team or teams. However, only a very small number (6%) reported HR involvement either at the time of the public announcement or after completion of the deal.

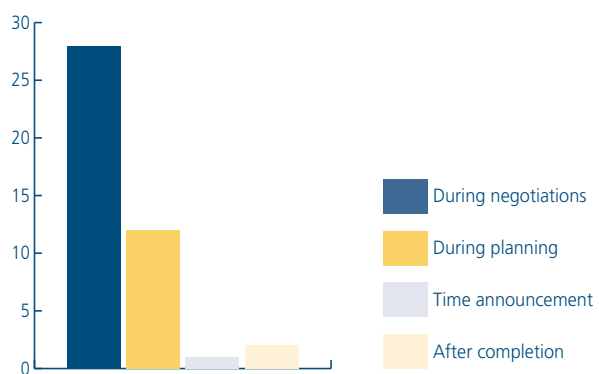
The failure rate of mergers is generally high, and there is some evidence that issues around communication and the sharing of training and development are key factors in post-merger problems. Many of the transactions in this survey are considered to have been successful by those involved and the evidence here supports the view that personnel's input is crucial at this stage.

Table 1: HR involvement in mergers & acquisitions

Extent of HR implications of the deal



Stage at which HR was involved in the transaction



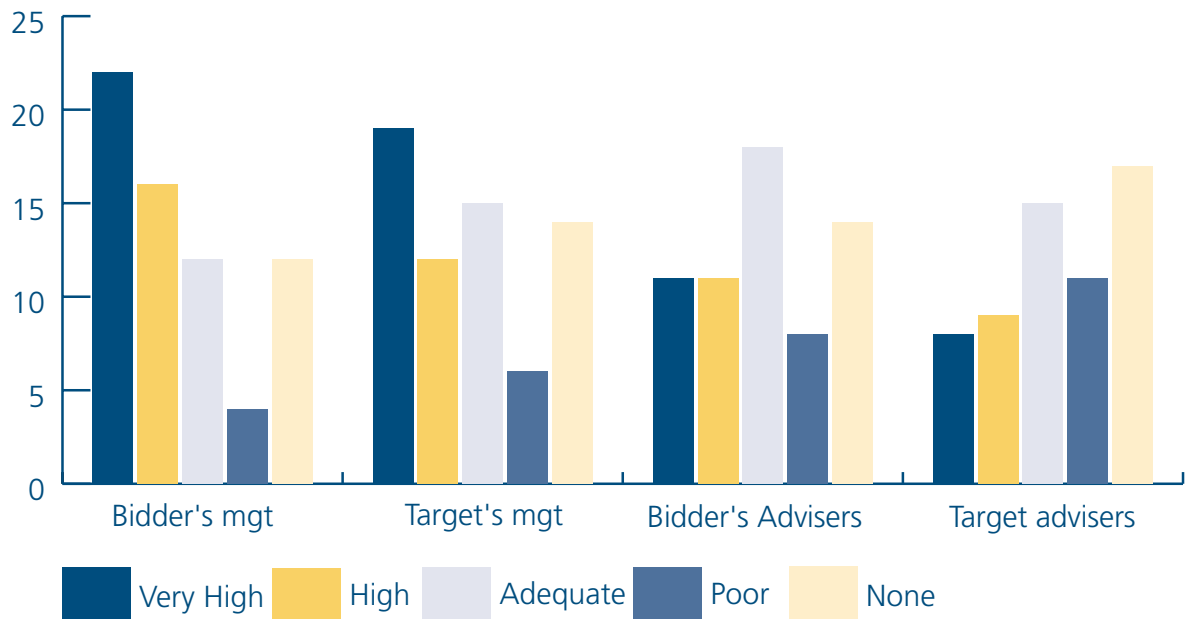
Understanding of people management issues by 'deal makers'

The survey then sought to investigate the perceptions of personnel managers concerning the understanding of people management issues on the part of those closely involved in the merger process. In particular, respondents were asked about the extent to which managers and their advisers in both the bidder and target firms understood HR issues. Generally, personnel specialists considered both sets of managers to have a good understanding; 58% of respondents rated management in the bidding firm as 'high' or 'very high' in this respect, while the corresponding figure for the target's management was 47%. While management in the majority of cases were viewed favourably, therefore, a worrying one in five were seen as having no understanding at all of HR issues. The advisers to the deal come out of the survey much less

favourably than managers. More than one in three respondents (36%) considered advisers to the bidders to only have a poor understanding of HR issues or none at all. For advisers to the target firm, this figure rises to nearly one in two (46%).

Overall, the picture that emerges is mixed. On the one hand, the majority of managers are perceived by personnel specialists to have a good understanding of HR issues. On the other, a significant minority had only a poor or non-existent understanding. The data suggest that this deficiency is not likely to be rectified by advisers. Indeed, it might be the case that the role of advisers, who presumably are mainly financial specialists and lawyers, leads to the sidelining of people management considerations.

Table 2: Understanding of HR issues on the part of 'deal makers'



The handling of HR issues and 'due diligence'

A third substantive area where the survey sought information was the way in which various aspects of personnel were handled during the most recent transaction. A broadly favourable picture emerges here. Respondents were asked a series of questions about how nine different areas of personnel management were handled and used a five point scale ranging from 'very well' to 'very badly'.

The survey also sought to investigate the extent to which preparations were made for the HR issues arising from the merger. Respondents were asked about the performance of 'due diligence' across a range of ten HR issues. The data indicate that personnel managers considered this due diligence to have been conducted favourably. For seven of the ten issues, more than 60% of the respondents said that it had been performed 'adequately' or better. Moreover, on five of these issues, more than 50% viewed the process as having been done 'well' or 'very well'. This favourable picture was not universal, however. In relation to 'taxes and social security' and to 'international issues' more than half of the respondents considered the process of due diligence to have been done 'badly', 'very badly' or 'not at all'. Furthermore, on average across the ten issues, one in three (34%) of the respondents considered the process of due diligence to have been done badly, very badly or not at all.

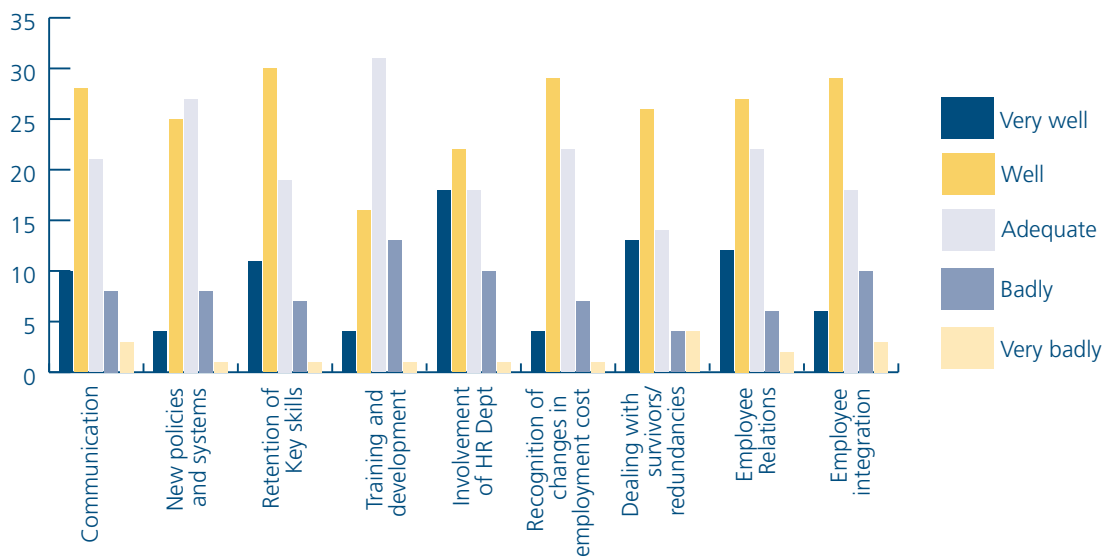
Subsequent questions in the survey enquired about the extent to which information gathered from the process of due diligence was used in HR planning.

The vast majority said that it was (84% from 49 responses) and to a subsequent question the vast majority said that it was 'very useful' or 'useful'. The picture to a follow-up question produced less favourable responses; more than two thirds (68% from 62 responses) of the respondents said that the process of due diligence had not been performed on both parties.

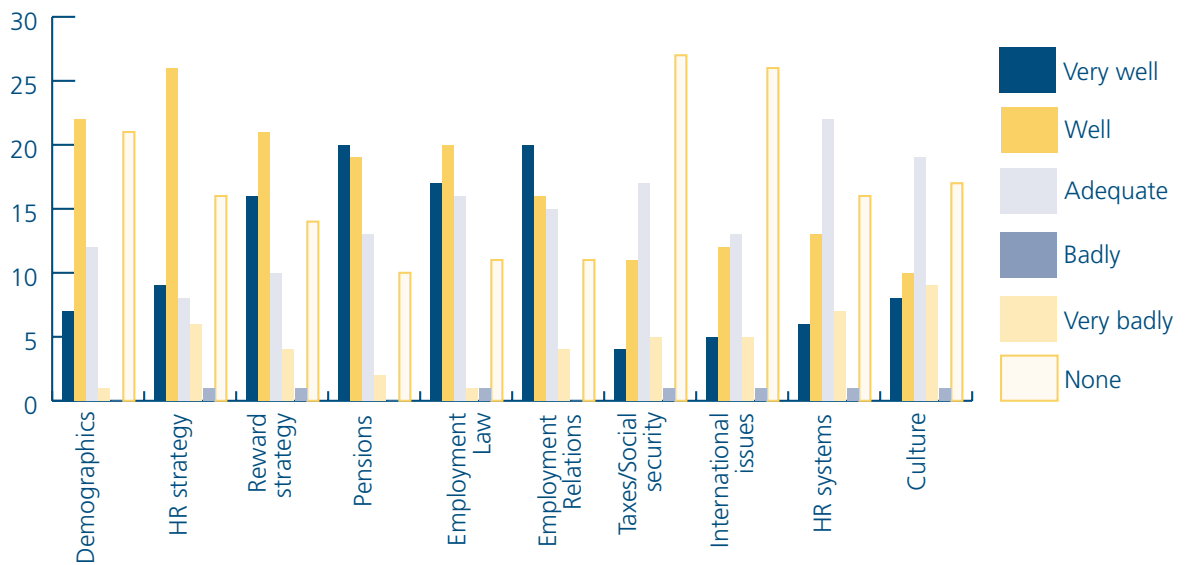
In general, then, a favourable picture emerges from most respondents on most of these issues; a majority of the respondents considered HR issues to have been handled well, that HR due diligence was performed favourably, and that this due diligence had been useful in the planning process. However, this generally positive picture requires two qualifications. First, arguably the results are not too surprising given that respondents were asked to assess a process in which many were probably involved in some way and were probably also partly responsible. However, this has to be seen in the context of wider interest in people issues in merger situations. Second, there are a significant number of respondents who report that no due diligence was performed, that it was performed badly, or that it was not performed on both parties. Once again, therefore, the survey data provide mixed results.

Table 3: Handling of HR Issues and Due Diligence

Extent to which HR issues were handled well or badly

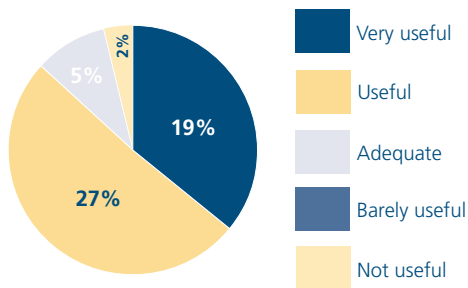


Level at which due diligence was performed across a range of issues



The impact of HR on the viability of the deal

Usefulness of information through due diligence to HR planning



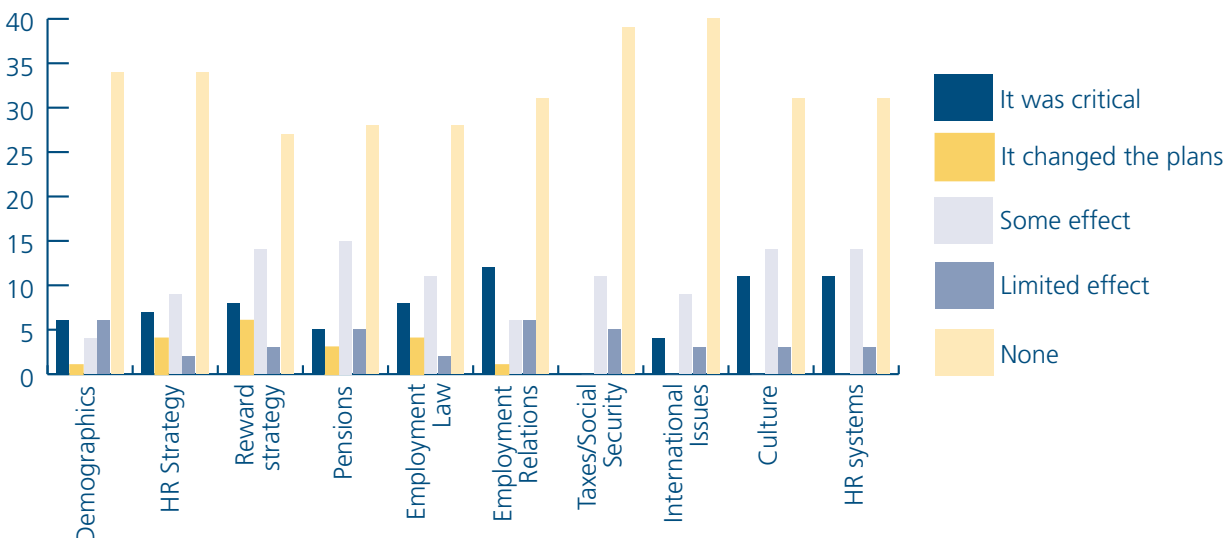
impact on the viability of the deal. This option was chosen by more than half of the respondents for all but one of the issues (reward strategy). There were, however, some issues that were seen as being very important in this respect. Around one in four respondents considered reward strategy (24%), employment law (23%) and employee relations (23%) as critical to the viability of the deal or having changed the merger plans. A further one in four said this for HR strategy (20%), culture (19%) and HR systems (19%).

The survey sought to establish the extent to which people management issues played a part in whether the merger or acquisition proposal was assessed favourably. The majority of respondents (60%) said that HR issues ‘impacted on the viability of the deal’. To probe this issue in greater depth, they were then asked about the importance of ten personnel issues to this viability.

It is not possible through this kind of raw numerical data to ascertain the meanings of respondents here in terms of exactly how these issues were important to the deals - this would have to be investigated in follow-up interviews with respondents. However, the data do reveal the importance of certain areas of people management, most notably issues around HR and reward strategy, employment law and employee relations. These areas are those, in particular, for people management specialists to involve themselves in during the post-merger phase.

For each of the ten personnel issues, the largest number of respondents said that there had been no

Table 4: Extent to which HR issues impacted on the viability of the deal



The success of mergers and 'added value'

The responses to many of the questions in the survey indicate a generally favourable picture of the way that personnel issues were considered and handled during mergers and acquisitions. In keeping with this, the respondents tended to view the overall merger process in a favourable light. When asked whether there were any indications that the deal had 'added value' to the organisation, 48 said 'yes' and 14 said 'no'. This is an interesting result given past research from the 1980s and 1990s which points towards disappointing performance in the post merger period. However, it does align with recent findings from The Conference Board which show that as the number of mergers increases, so does the realisation of the importance of people issues and the skills of those involved in them.

It is interesting to look at the answers given to an open-ended question at the end of the survey which asked respondents if they had experienced a transaction which their organisation deems to have been unsuccessful. Just over one-quarter of the sample (16 out of 63 respondents) said that they had. When asked to describe the circumstances of these transactions in their own words, the responses revealed problems in three interrelated areas: (i) a lack of post-transaction integration; (ii) failures on the part of senior managers; and (iii) insufficient attention to HR issues.

Concerning the first of these, respondents variously mentioned a 'lack of integration', that 'post acquisition integration was too slow which resulted in decline of market share', or that there were 'no dedicated resources 100% on integration'. The blame for these problems also tended to be placed squarely at the feet of those managers in charge of the deals: typical comments were that there was a 'poor choice of general management' or an

'inexperienced macho team running integration', and that the result was a 'lack of management longer-term perspective or investment to achieve integration', with 'little foresight into business capacity for growth'. One HR Director at the UK location of a major multinational organisation reported a case where the organisation's capital was lost within nine months and the newly-formed company was forced to close, attributable in his opinion to a 'bad business decision driven by a self-centred egoistic senior manager. HR had no say or input at outset nor during start-up. We did however, have to 'clean up' the debris'. The manager has now 'retired'.

Others also reported a lack of awareness of people management issues, in particular those around cultural aspects, both organisational culture and national culture. Concerning organisational culture, respondents referred to there being 'no respect for culture/teams in the acquiree' or a 'fragmented work unit with distinct cultural differences'. Regarding national culture, one particular respondent mentioned a cultural awareness programme that was cancelled by the MD: 'I did organise cultural awareness training (this was most useful for transfers to Italy or France) but the newly appointed MD was not a supporter and it was cancelled'. Others referred to 'no due diligence on HR other than the basic legal requirements'.

Conclusions

The survey has thrown up a number of issues worthy of further investigation. Some of these were positive, others less so. Many respondents reported that personnel issues had been handled well, that personnel specialists were involved in the planning for mergers and that other managers had an appreciation of HR issues. However, only a small number of personnel managers are involved in the post-transaction period, those advising the parties to the transaction are seen as having a poor understanding of people issues, and a process of HR due diligence was only rarely conducted on both parties to the deal.

One implication from the survey is that a more consistent role for the personnel function is needed during, and particularly after, the merger process.

Methodology

This report is based on a postal questionnaire of the members of the CIPD's International and Compensation and Benefit Forums. This produced eighty replies, a response rate of 12%. While this is not as high as had been hoped, it is not uncommon for social surveys of this sort to have response rates of between 10% and 20%. It is likely that many of the non-respondents did not return the questionnaire because they had no experience of mergers and, therefore, had very little to say on the matter. The questionnaire asked about the perceptions of HR managers as to the way that HR issues were handled during mergers and the role of the HR function in this process. Towards the end of the questionnaire respondents were asked two open questions in order to allow them to expand on any issues they felt were relevant.

Further Reading

CARTWRIGHT, Sue and **Cooper, Cary L.** *HR know-how in mergers and acquisitions*. London, Chartered Institute of Personnel and Development, 2000. 116pp.

DEVINE, Marion. *Mergers and acquisitions: the Roffey Park mergers and acquisitions checklist: a guide to effective people management during a merger or acquisition*. Horsham, Roffey Park Management Institute, 1999. 21pp.

DEVINE, Marion and **LAMMIMAN, Jean.** 'Original synergy.' *People Management*. Vol 6 No 8, 13th April 2000. pp 28, 30-33.[Includes a review of Roffey Park's research into the psychology of mergers.]

GALPIN, Timothy J. and **HERNDON, Mark.** *The complete guide to mergers and acquisitions: process tools to support M&A integration at every level*. San Francisco, Jossey Bass, 2000. 249pp.

GAUGHAN, Patrick A. *Mergers, acquisitions and corporate restructurings*. New York, Wiley, 1999, 636pp.

HABECK, Max M, KROGER, Fritz and **TRAM, Michael R.** *After the merger: seven strategies for successful post-merger integration*. Harlow, Financial Times/Prentice Hall, 2000. 146pp.

MARKS, Mitchell Lee and **MIRVIS, Philip H.** 'Managing mergers, acquisitions and alliances: creating an effective transition structure.' *Organizational Dynamics*. Vol 28, No 3, Winter 2000. pp35-47.

OVERMAN, Stephanie. 'Learning your M & ABC's'. *HR Focus*. Vol 76, No 8, August 1999. pp7-8. [Mergers and acquisitions that fail due to culture and people issues; how could the HR manager assist?]

Notes

Chartered Institute
of Personnel and
Development

CIPD House Camp Road London SW19 4UX
Tel: 020 8971 9000 Fax: 020 8263 3333
E-mail: cipd@cipd.co.uk Website: www.cipd.co.uk
Incorporated by Royal Charter Registered charity no.1079797



Issued: September 2000 Reference: 1928