



Chartered Institute
of Personnel and
Development

International mergers and acquisitions

a guide

International mergers and acquisitions

– a CIPD guide to the HR role in their success.

Acknowledgements

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Introduction

Mergers and acquisitions (M&As) are notoriously risky, and international M&As even more so. Mercer Human Resource Consulting, after examining the evidence, has concluded that as many as 60–70 per cent of M&As fail to deliver their intended benefits. Other research has shown that perhaps less than one-fifth of international M&As add to shareholder value.

Why should this be so? And what contributions can and should the HR function make to the successful management of an international merger or acquisition? The CIPD, together with Mercer Human Resource Consulting and PwC, is currently sponsoring research to investigate answers to these questions.

As part of this research, the Institute has brought together 20 of its members who collectively have experience at senior management level of acquiring or merging with well over 100 non-UK companies, to reflect on and share what they have learned from this experience.

Part 1 What makes for the success of an international merger or acquisition?

Management performance: the foundations for value-creating international M&As

The first conclusion to arise from members' experience is that the management performance required for the success of an international merger or acquisition is not very different from that which is expected from a domestic deal.

In either a domestic or international M&A, the aspects of management performance that minimise the risks of failure tend to be:

- a purchase price that reflects the reality of likely post-merger costs and risks
- a clear and realistic strategy for the combined business
- clarity on mission-critical issues and performance metrics
- achievement of the objectives of the merger/acquisition, eg cost, growth, cash flow, market and/or product benefits
- new and better ways of achieving business results, eg economies of scale, innovation processes
- retention of customers
- high morale and productivity
- retention of investor confidence.

Members pointed out, however, that, all too often, these business achievements are handicapped by:

- unintended legal errors that threaten corporate reputation
- a performance management system that does not support the strategy
- incompatible and/or dysfunctional IT systems
- duplication of effort inside the business
- costs out of control
- lack of an appropriate infrastructure for handling M&A implementation issues.

And the barriers to performance frequently arise from:

- poorly informed management decisions and behaviour
- lack of focus by management teams on pursuing the strategy

- lack of knowledge and experience of handling M&A implementation issues
- loss of key talent
- high levels of internal conflict
- focusing on internal issues and not on the strategy/marketplace/competition
- management time tied up on legal issues
- inability to attract new talent
- a workforce that is not committed to a future with the new business.

Managing unpredictability, complexity and new and unfamiliar situations: a key skill for success in international M&As

Members also pointed out that all M&As require the skilled management of risk and change.

However, they note that domestic M&As involve the combining of cultures that share many assumptions, traditions and regulatory/legal frameworks. But in an international merger or acquisition, the only certainty is likely to be that there will be differences, and often surprising differences, in these assumptions, traditions and frameworks.

When businesses combine in an international merger or acquisition, the only safe assumption may be that there will be misunderstandings and knowledge gaps between the managers of the combining businesses. For example, local stakeholder influences and cultural differences, both corporate and national, will affect both parties' approaches to doing the deal. They will also influence access to reliable information about the target business; the parties' approaches to anticipating and managing issues; and their internal and external communications.

How these differences are anticipated and handled will be critical to the performance of the new entity, and hence the success of the merger or acquisition.

Eight guiding principles for creating value through an international merger or acquisition

If the risks to post-merger business performance are to be minimised, the lessons learned by this group of senior managers point to a set of guiding principles for success in managing an international merger or acquisition. At the heart of these principles is the recognition of the critical importance of people issues, and the early involvement of people management expertise.

Members' collective advice suggests the following eight principles:

- 1 Integrate expertise in organisation and people management from the start**
Ensure from the beginning that expertise in organisation and people management is integral to decision-making and planning.
- 2 Organise early to learn and plan**
Get organised early to learn, as well as to find and assess possible targets, and to plan for integration with the new business.
- 3 Ensure HR is up to the job**
Ensure the HR function is up to the job – success depends on it.
- 4 Focus on business objectives**
Maintain focus on the business objectives to be achieved through this particular merger or acquisition.
- 5 Get the basics of organisation and people right**
Put the basics of legal compliance, communication, loyalty building, HR processes and procedures and corporate citizenship in place.
- 6 Target for compatibility**
Find a merger/acquisition target that is suitable not only in relation to business strategy, but also in terms of culture and capability.
- 7 Manage risks**
Accept from the start that business performance will depend on learning to manage the risks and uncertainties that this specific merger or acquisition will bring.
- 8 Integrate at the right speed**
Judge the speed required for different aspects of integration by considering their impact on the performance of the organisation and people.

How to succeed in international M&As



Part 2 Creating value through international M&As – the HR manager's checklist

Integrating expertise in organisation and people management from the start

- 1 Is HR in a position to influence plans early enough to make a difference?
- 2 Is our risk management process for the M&A able to deal with organisation and people issues?

Organising early to learn and plan

- 3 Does the M&A team have appropriate knowledge/experience?
- 4 Are we organised to create an integration strategy (eg hands-off, fully merged etc) that is timely, consistent with strategic objectives and value-adding?
- 5 Will there be continuity in the M&A team from due diligence through integration?
- 6 Are we planning to get cultural information about potential targets?
- 7 Are we considering the costs, risks and implications of legal complexities?
- 8 Will we have appropriate cost information for planning and managing M&A projects?
- 9 Have we decided the management style that will be appropriate for the new entity?
- 10 Are we able to make accurate judgements about the quality of the management team in the target business?
- 11 Are we planning to ensure that the IT infrastructure will be able to cope?

Ensuring HR is up to the job

- 12 Does HR have the capability to:
 - add value?
 - ensure appropriate integration?
 - facilitate change?
 - raise difficult questions?
 - intervene effectively?
 - manage relationships internally?
 - manage post-acquisition risks?
 - manage communications?
 - manage terms and conditions?
 - manage external relationships?

- 13 Does HR have the capability to handle uncertainty, unfamiliarity and complexity?
- 14 Is HR's style appropriate for the M&A task?
- 15 Do we have access to advisers with appropriate knowledge and appreciation of the company's situation, including:
 - good links with lawyers?
 - HR consultants?
 - pensions and benefits advisers?
- 16 Have HR roles been established early on in the M&A process?
- 17 Will there be continuity in HR advice and support?
- 18 Are we getting the HR function in order early?
- 19 Will HR be working as a business partner?
- 20 Do we have plans to handle the uncertainty for members of the HR function?
- 21 Do we have plans to deal with the fact that members of the HR function are 'never allowed to be just an employee'?
- 22 Does HR have appropriate relationships with the CEO and other senior people?

Focusing on business objectives

- 23 Will we have appropriate plans for:
 - clarifying governance structures and leadership roles in the new entity?
 - choosing the top team?
 - dealing with clashing management styles and egos?
 - retaining key people and key groups, building commitment to the new entity and confidence in the future?
 - getting teams 'up to speed' and focused on performance in the new entity?
 - phasing out the old brand (if part of the integration strategy)?
 - optimising the added value of corporate management (expatriates)?
 - improving the cost base?
 - getting added value through greater diversity?

Getting the basics of organisation and people right

24 Will we have appropriate strategies and plans for:

- dealing with clashing terms of employment?
- compliance with legal obligations in all countries, eg talking with employee councils, obtaining work permits?
- keeping employees and external interested parties (eg the City) informed and reassured about progress and its impact on them?
- ensuring people feel bonded to the new entity?
- exercising corporate social responsibility?

Targeting for compatibility

25 Are we planning to:

- find targets with high potential for successful implementation?
- decide about the importance of organisational culture to the success of this deal?
- quantify the risks from incompatibility?
- overcome inadequate information disclosure by the seller?
- understand local political realities and the political background to compliance requirements?

Managing risks

26 Do we know how we will:

- overcome lack of knowledge about specific countries/cultures/local ways of doing business/local custom and practice?
- build a shared view of the purpose of the acquisition, when results will be achieved and how success will be recognised?
- ensure a shared understanding between senior managers from different countries of what a merger or acquisition means?
- deal with differences between senior managers from different countries in their values and mindsets?
- handle politics at the top of the organisation?
- ensure a management style appropriate for an international business?
- deal with uncertainty for employees while waiting for regulatory approval?

Integrating at the right speed

27 Are we planning to decide:

- the degree of cultural integration actually required?
- how to balance the desired M&A scenarios with stakeholder interests and motivation?
- what timescales are realistic for integration plans?


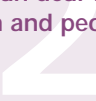
How to succeed in international M&As



Appendix 1

Integrating expertise in organisation and people management from the start

The HR contribution: when and how

	HR in a position to influence plans early enough to make a difference 	A risk management process for M&As that can deal with organisation and people issues 
PRE-DEAL STRATEGY AND PLANNING	Make the case to the CEO/head of M&As for HR presence on M&A teams throughout the process	Work with CEO/head of M&As to design the risk management process
DOING THE DEAL	Contribute as a full member of the 'due diligence' team	
POST-DEAL	Contribute as a full member of the integration team	
THROUGHOUT THE PROCESS	Ensure HR has the same overview of the acquisition and integration processes as the FD, CEO, core business and sales/marketing directors	Monitor and report on the performance of the process

Appendix 2

Organising early to learn and plan

The HR contribution: when and how

	3 The M&A teams' knowledge/ experience of M&As	4 An integration strategy (eg hands-off, fully merged etc) that is timely, consistent with strategic objectives and value-adding
PRE-DEAL STRATEGY AND PLANNING		<p>Ensure that an integration plan is put in place to cover the period from first rumour to achievement of the intended business return, taking account of the countries in which each business has a presence</p> <p>Develop people strategy at pre-deal stage</p>
DOING THE DEAL	<p>Identify people-related critical issues for deal success</p>	<p>Facilitate discussions about how integrated the two businesses need to be to achieve the intended business outcomes, and what that means in each geography</p> <p>Develop detailed people integration strategies to deliver value from the deal</p> <p>Identify differences in reward strategies and structures, and consider how to develop a common/unifying reward strategy; advise on risks and costs</p> <p>Propose ways of changing HR policies or processes to meet the goals of the M&A</p>
POST-DEAL		
THROUGHOUT THE PROCESS	<p>Run workshops for M&A team throughout the process:</p> <ul style="list-style-type: none"> • elicit learning from previous experience and incorporate protocols • progress reviews <p>Advise M&A team on the implications of decisions/actions</p>	

Appendix 2

Continuity in the M&A team from 'due diligence' through integration

5

Appoint corporate integration manager and HR integration manager when a target has been identified

Advise on the make-up of 'due diligence' and integration teams to ensure continuity

Deal with interim management questions before regulatory approval

Begin 'Day 1 planning' before regulatory approval; consider joint working parties

Begin as many relevant integration activities in the pre-merger period as possible

Ensure continuity between the deal-making team, the integration team and line management responsible for success

Cultural information about potential targets

6

Find out about other organisations' cultures by talking to customers, ex-employees or asking consultants/search firms, and consulting corporate websites

Conduct culture diagnostic

Costs, risks and implications of legal complexities

7

Find knowledgeable employment/legal advisers

Fully understand TUPE, consultation requirements, employee rights, and potential 'showstoppers'

Appendix 2

Organising early to learn and plan

The HR contribution: when and how

	8 Appropriate cost information for planning and managing M&A projects	9 Decisions about management style that will be appropriate for the new entity
PRE-DEAL STRATEGY AND PLANNING	Examine potential scenarios and do people costings as soon as possible	
DOING THE DEAL		Initiate debate about what management styles would best support the chosen post-merger integration strategy
POST-DEAL		
THROUGHOUT THE PROCESS		

Appendix 2

10
Accurate judgements about the quality of the management team in the target business

11
IT infrastructure able to cope

12
HR's capability to:

- add value
- ensure appropriate integration
- facilitate change
- raise difficult questions
- intervene effectively
- manage relationships internally
- manage post-acquisition risks
- manage communications
- manage terms and conditions
- manage external relationships

Conduct pre-acquisition assessment of key employees (either directly if access is open, or using search firms if not)

Anticipate the impact on the business and morale

Understand national differences and their likely impact

Look at the IT functions early to identify critical issues and the appropriate timing of changes

Advise on non-culturally-sensitive ways to select people

Ensure appropriate level of change management is in place in IT

Quantify the organisation, people and culture risks and the cost of failure

Influence by advising on how to decide, what decisions are needed, and headcount

Influence by advising on how to decide, what decisions are needed, and headcount

Demonstrate the people contribution to the business in financial terms by presenting arguments in cost, risk and payback terms

Appendix 3

Ensuring HR is up to the job

The HR contribution: when and how

	13 HR's capability to handle uncertainty, unfamiliarity and complexity	14 HR style appropriate to the task
PRE-DEAL STRATEGY AND PLANNING		
DOING THE DEAL		
POST-DEAL		
THROUGHOUT THE PROCESS	Listen and learn quickly	Expert Charismatic, not just policy-making Mentor Enable people to believe that HR is working for them Streamlined/well-thought through processes and initiatives

Appendix 3

15
Access to advisers with appropriate knowledge and appreciation of the company's situation, including:

- good links with lawyers
- HR consultants
- pensions and benefits advisers

Use past experience and information from other organisations to identify suitable advisers

Clarify costs and budgets necessary to obtain appropriate advice and support

Develop clear statement of what is/is not required from consultants/advisers

16
HR roles established early on in the M&A process

Identify key areas of HR responsibility throughout the pre- and post-merger process

Include in terms of reference for HR staff

Be seen to be doing the 'business as usual' job as well

17
Continuity in HR advice and support

Fully informed and trained HR team

Appendix 3

Ensuring HR is up to the job

The HR contribution: when and how

	18 Getting the HR function in order early	19 Working as an HR business partner
PRE-DEAL STRATEGY AND PLANNING	Look at the HR function early to identify critical issues and the appropriate timing of changes	
DOING THE DEAL	Do a mini-acquisition strategy for the HR function	
POST-DEAL		
THROUGHOUT THE PROCESS		Ask challenging questions up front in order to understand the commercial issues State the full facts

Appendix 3

Uncertainty for members of the HR function

20

Devise and implement HR function integration strategy

Ensure effective and early communication throughout the process

Members of the HR function are 'never allowed to be just an employee'

21

Devise and implement a strategy to sustain morale and commitment within the HR function throughout the M&A process

Include giving time to HR staff for dealing with their own interests as employees

HR's relationship with the CEO and other senior people

22

Become the trusted confidant

Go through a merger or acquisition and learn from it

Ensure that the organisation as a whole reflects on and learns from M&A experience

Appendix 4

Focusing on business objectives

The HR contribution: when and how

	23a Clarification of governance structures and leadership roles	23b Choosing the top team
PRE-DEAL STRATEGY AND PLANNING	Investigate other organisations with known good practice	
DOING THE DEAL	Work with company secretary on organisation design, role and competency definitions	Push for fast decisions about top two layers of management, with the intended business result foremost
POST-DEAL		Facilitate appropriate decisions <i>re</i> mix of local and corporate (ie expatriate) senior management Keep management aware of how the mix of top management will be a determining factor in the resulting organisational culture
THROUGHOUT THE PROCESS		Ensure that decisions are not fudged by politics Devise and implement selection processes to give all potential candidates fair consideration and to minimise risk of legal action

Appendix 4

<p>Clashing management styles and egos</p> <p>23c</p>	<p>Retaining key people and key groups, building commitment to the new entity and confidence in the future</p> <p>23d</p>	<p>Getting teams 'up to speed' and focused on performance in the new entity</p> <p>23e</p>
	<p>Analyse and advise on how retention and commitment will be affected by:</p> <ul style="list-style-type: none"> • the nature of ownership (eg family) • who is an employee and who is outsourced • legal entities • share ownership • business goals <p>Create lock-ins that will secure key talent during and immediately after the deal</p>	
<p>Advise on organisation structures to optimise contributions</p> <p>Assess who needs to stay/go</p> <p>Advise on termination arrangements</p>	<p>Develop long-term incentive and retention programmes</p> <p>Set up severance deals but take care not to antagonise those who are staying</p> <p>Devise a strategy for harmonisation of anomalies in terms and conditions over time</p> <p>Develop value propositions for people in the new entity</p>	<p>Anticipate impact on and by middle managers</p> <p>Work with directors to plan how to build new management teams and communicate business strategy as quickly as possible, in an appropriate style</p> <p>Examine what existing incentive schemes reward</p>
<p>Assess who needs to stay/go</p> <p>Advise on termination arrangements</p>	<p>Develop and implement a strategy for helping people to adjust to working for a different business</p> <p>Devise/implement systems and processes to help employees to think about their future careers and their career development</p> <p>Offer reward packages that are consistent both with business objectives and people's expectations</p>	<p>Shape the post-merger performance management strategy; focus on developing a process that brings together change and 'business as usual'</p>
<p>Analyse likely causes</p> <p>Facilitate meetings/workshops etc to address and resolve issues</p> <p>Keep senior management aware of how structural decisions will embed elements of organisational culture</p>	<p>Consider and advise on succession issues</p> <p>Consider and advise on the impact on key people/groups in deciding the speed of action required</p>	

Appendix 4

Focusing on business objectives

The HR contribution: when and how

	Phasing out the old brand (if part of the integration strategy) 231	Optimising the added value of corporate management (expatriates) 239
PRE-DEAL STRATEGY AND PLANNING		
DOING THE DEAL		
POST-DEAL	<p>Contribute to finding ways to both respect heritage and celebrate the future</p> <p>Align employee relations in different countries with the new brand</p>	<p>Research where expatriates are and their cost; discuss their value and other staffing options</p>
THROUGHOUT THE PROCESS	<p>Consider the impact on key people/groups in coming to decisions</p>	

Appendix 4

Improving the cost base

23h

Gaining added value through greater diversity

23i

Promote benefits to all parties

Promote international best practice

Analyse costs and develop strategy for 'downsizing':

- reducing headcount
- streamlining rewards
- outsourcing

Implement 'downsizing' strategy

Develop strategy for supporting line management in achieving business benefits

Appendix 5

Getting the basics of organisation and people right

The HR contribution: when and how

	24a Deal with clashing terms of employment	24b Compliance with legal obligations in all countries, eg <ul style="list-style-type: none"> • talking with employee councils • obtaining work permits
PRE-DEAL STRATEGY AND PLANNING	<p>Produce integration proposals asap</p> <p>Establish clear transition periods</p>	<p>Develop consultation strategy and messages</p>
DOING THE DEAL	<p>Harmonise terms and conditions</p> <p>Introduce flexible benefits programme</p>	<p>Use knowledgeable external advisers</p> <p>Carry out effective 'due diligence' on all employment legal issues</p>
POST-DEAL		
THROUGHOUT THE PROCESS		

Appendix 5

<p>Timely implementation of HR strategies and procedures eg</p> <ul style="list-style-type: none"> • reward strategy • payrolls up and running • insurances • pensions 	<p>Keep employees and external interested parties (eg the City) informed and reassured about progress and its impact on them</p>	<p>People feel bonded to the new entity</p>
<p>Gain knowledge of rules/common practice in countries where the new business will be operating</p>	<p>Ensure appointment of a senior communications manager to be responsible for a communication plan from first rumour to completion, and 12–18 months beyond.</p> <p>Establish monitoring processes that elicit feedback from employees at all stages of the M&A process</p>	<p>Anticipate implications of organisational and national cultures for intended results, and plan how to manage them</p>
<p>Carry out an employee benefits review</p>	<p>Engage line managers before closure of the deal in managing employee consultation and communications</p>	<p>Create and implement strategies for overcoming resistance from ‘survivors’ who continue to pursue pre-deal agendas</p>
<p>Anticipate types and nature of changes required and their urgency, and plan for timely action</p>	<p>Work with external relations function to identify both internal and external audiences, required messages and the best ways of communicating; plan jointly for timely action; ensure internal and external communications are seen as being joined up</p> <p>Take account of local culture and ‘custom and practice’ <i>re</i> communication</p> <p>Ensure communication continues regularly, especially during times when nothing seems to be happening</p>	<p>Create and implement strategies for building on and refocusing people’s loyalties</p>

Appendix 5

Getting the basics of organisation and people right

The HR contribution: when and how

Corporate social responsibility

24/7

PRE-DEAL STRATEGY AND PLANNING

Highlight people-related issues (eg reward discrepancies) that employees, trade unions, investors and governments are likely to raise

Identify risks and bring salient issues to the attention of the board

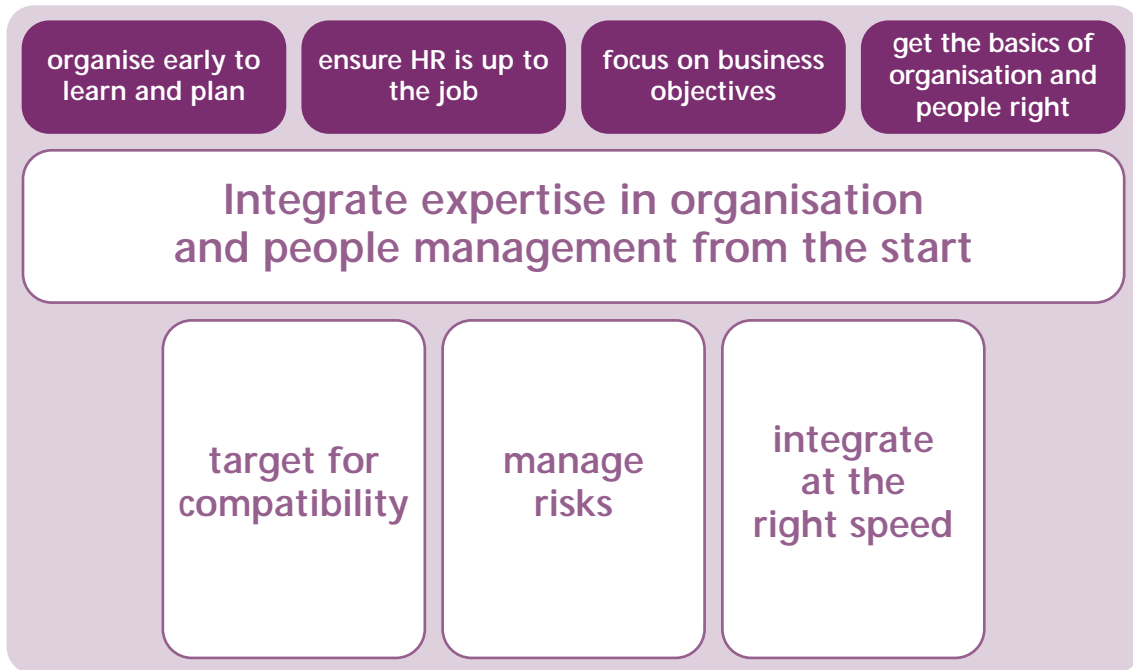
DOING THE DEAL

POST-DEAL

Highlight emerging issues

THROUGHOUT THE PROCESS

How to succeed in international M&As



Appendix 6

Targeting for compatibility

The HR contribution: when and how

	Finding targets with high potential for successful implementation 2.5a	Decisions about the importance of organisational culture to the success of this deal 2.5b
PRE-DEAL STRATEGY AND PLANNING	Working as part of the strategy team; identify deal opportunities with high potential due to their skill base, management style and culture, and people management practices ('people-oriented' deals) as well as other business criteria	
DOING THE DEAL		Use information about the intended post-merger scenario to assess degree of cultural integration required
POST-DEAL		
THROUGHOUT THE PROCESS		

Appendix 6

Quantifying the risks from incompatibility

25c

Use due diligence of operating practices to identify and quantify the costs and risks arising from differences in reward/benefits/pensions

Present to the CEO the impact and costs of culture clashes/capability gaps in financial terms

Inadequate information disclosure by seller

25d

Develop/acquire a comprehensive model/checklist for HR due diligence

Analyse data broadly, including assessment of short- and longer-term implications and risks

Understanding local political realities, and the political background to compliance requirements

25e

Select competent local and international advisers

Appendix 7

Managing risks

The HR contribution: when and how

	Lack of knowledge about specific countries/cultures/local ways of doing business/local custom and practice	A shared view of the purpose of the acquisition, when results will be achieved and how success will be recognised
PRE-DEAL STRATEGY AND PLANNING	Carry out background research on national contexts, eg legal, industrial relations, education, transfer of undertaking regulations and on practical issues such as travel	
DOING THE DEAL		
POST-DEAL		
THROUGHOUT THE PROCESS	Manage selection and introduction of external advisers	<p>Keep up to date with: key board members' views of the business purpose; the targeting and acquisition process; and assumptions on which they are based, eg core business processes, distribution channels</p> <p>Use this knowledge to help the M&A team make realistic assessments of degree and timing of change, and to anticipate issues and risks</p> <p>Keep asking questions</p>

Appendix 7

Ensuring a shared understanding between senior managers from different countries of what a merger/acquisition means

Act as ambassador to the other company
Foster cross-company working groups

Remain aware of who is communicating with whom throughout deal-making, announcement and early integration

Differences between senior managers from different countries in their values and mindsets

Gather information from other non-competing organisations with experience of M&A

Lead discussions on shared vision and values and the potential impact of differences of approach

Use psychometric and other assessment processes

Politics at the top of the organisation

Foster early consideration of potential governance issues

Raise the issue with the chairman and CEO

Appendix 7

Managing risks

The HR contribution: when and how

	26f Management style appropriate for an international business	26g Uncertainty for employees during the period when waiting for regulatory approval
PRE-DEAL STRATEGY AND PLANNING	Establish a management development programme – how to manage in a cross-national, multi-cultural organisation	
DOING THE DEAL		Develop and deliver communication/education programmes for all employees that make firm statements where possible, and keep employees informed of events happening and events to come
POST-DEAL		
THROUGHOUT THE PROCESS		

Appendix 8

Integrating at the right speed

The HR contribution: when and how

<p>Degree of cultural integration actually required</p> <p>2/1a</p>	<p>Balancing the desired M&A scenario with stakeholder interests and motivation</p> <p>2/1b</p>	<p>Realistic timescales for integration plans</p> <p>2/1c</p>
<p>Proactively determine the desired end-result for organisational and cultural integration</p> <p>Initiate debate on whether and when common culture is desirable or necessary, or whether it is better to leave things to work out in practice</p> <p>Be sensitive to differences and resist imposing a blueprint 'model culture' up-front</p>	<p>Foster consideration of the business impact of different stakeholder interests</p> <p>Encourage acceptance that some/many issues cannot be resolved immediately, but this need not impair the success of the integration</p>	
	<p>Prioritise 'mission-critical' issues and the resources to deliver them</p>	<p>Develop detailed people integration strategies to deliver value from the deal</p>
	<p>Balance desirability of speedy decisions with the benefits of better-informed choices but prolonged uncertainty</p> <p>Balance intended cost savings against the heavy demands/stress of the acquisition and integration process</p>	

Appendix 9

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