



# UNDERSTANDING THE ROLE OF HR IN MERGERS AND ACQUISITIONS

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## Abstract:

HR plays a very important role in all M& A, although some people believe that HR has no role to play in M& A. The key issue in every merger is combining the two entities with different cultures and values. Unless the cultures get well integrated the result of M&A cannot get visible. It is here that the role of HR becomes of immense importance in the company. Of course the support and confidence of the top level is required for integrating the culture and the values. The two entities have to ensure that the gelling takes place as soon as possible. Any delay in this regard can prove detrimental to the process and it can fail miserably. The earlier steps are taken the better it is for the company. The HR has to understand and analyze the key differences and understand the same and ascertain the manner in which the integration can happen. This case makes an attempt to effectively merge two different entities smoothly and effectively.

## Introduction:

To ensure a successful M&A, it is important to involve HR as early as possible. The role of HR in the entire process is of immense importance. Ignoring the HR issues in the matter shall be detrimental to the company and its stakeholders. The role has to be analyzed from different perspective and only then the matter should be approved. Of HCL merger with IBM presents global perspective to the matter so it is being analyzed in detail.

## Company Background:

The following case considers the issues from the HR perspective and provides a go ahead in the matter. When HCL decided to acquire IBM on December 7, 2018, though they announced a definitive agreement wherein it decided to acquire select IBM software products for \$1.8 billion. The transaction was expected to close by mid-2019, subject to completion of applicable regulatory reviews. The software products in the scope of the agreement represented a total addressable market of more than \$50 billion and included:

- **AppScan** for secure application development,
- **BigFix** for secure device management,
- **Unica** (on premise) for marketing automation,
- **Commerce** (on premise) for omni-channel e-commerce,
- **Portal** (on-premise) for digital experience,

- **Notes & Domino** for email and low-code rapid application development, and
- **Connections** for work stream collaboration.

Rajesh Iyer, VP and Head of Product Management at HCL was responsible for driving this initiative. The HR function was headed by R. Sundararajan as executive vice president-HR from April 2018. When the issue was brought to his notice he expressed some concerns related to HR as stated below. He said the following issues needed a deep study before the initiative was taken forward. Here is the role of HR during mergers and acquisitions needs to be looked in the following areas:

- Culture
- New Policies
- Compensation and Benefits
- Retention and Downsizing

### **(1) Culture:**

Cultural fit is a major aspect of every M&As. The task involved here is to ensure that both the company cultures come together and do not clash. Avoiding this clash is the biggest HR 'biggest roles in the entire process. If the cultures do not fit properly, the merger or acquisition is going to fail in all probabilities. It is imperative to understand the reasons behind M&A deals. The basic purpose that can be identified on this front is to create growth and open up a multitude of opportunities for the buying company; while benefitting all the stakeholders. But if there a friction between the two companies, it would be detrimental to the success of the merged business and it becomes a lose-lose case. To ensure this does not happen, the HR department needs to assess the selling company's culture and identify any areas that may be an issue. Finding these problems before the transaction occurs is the key essential to the success of the M&A.

### **(2) New Policies:**

Following a merger or acquisition, new policies need to be created in order to ensure a smooth and effective transition for the new entity. This includes, but is not limited to, new policies pertaining to employee benefits, allowances payable to employees while on duty or vacation and notice periods that needs to be followed when an employee resigns from the job. There is a wide range of areas these policies will have to cover and once the transaction is over, employees may have lots of questions, such as what will happen to their healthcare schemes and if they need to take any actions to ensure they are covered by the new policies, for example. Lots of these policies may not change because they contain the best HR practices that are in used across organizations. However, this time provides a good opportunity to update any outdated policies and ensure they are in-line with the latest research and trends across a wide spectrum of industry.

### **(3) Compensation and Benefits:**

Another key area the HR needs to look into is to creating new policies. HR also needs to work with managers to make new benefits and compensation plans for the employees white collared and blue collared employees retained by both the companies. Employees of both the companies would like to know if their bonuses and raises will be impacted, how they can book time off or if they are still entitled to the same or better healthcare for their self and family. Unless these issues are not addressed instantly, employees may decide to exit the company due to uncertainty and absolute lack of corporate communication. This is why HR's should convey any such changes to the staff without any loss of time

and providetimely updated information. In order to communicate the changes HR holds a training session for all the employees to ensure that the proposed changesare thoroughly understood by the workforce and they get an opportunity to seek clarification of crucial issue.HR should encourage such practices and keep the workforce happy and satisfied.

#### **(4) Retention and Downsizing:**

Mergers and acquisitions bring together the whole companies; implying there may be a lot of roles at the new company that may no longer be needed. This of course depends on the type of M&A being carried out as not all the entities do not decide to combine the two companies into one single unit. An example of this would be when eBay bought PayPal in 2002. eBay chose to keep the PayPal brand and did not combine the two into one entity. PayPal became a subordinate under eBay, so it is technically the same business but maintains its own corporate identity, culture and departments. Thus one finds, redundancies do tend to happen after once M&A takes place. For example, it is likely that both companies will have a marketing department, so the buying company will need to consider if two marketing teams are necessary or just one? It is possible to combine the two teams but that may not always be the best way forward. So a strategic decision is needed on this front. Another thing that needs consideration is whether the selling company is in another country. Then international laws will need adherence too. The employment law will be different from the United States, meaning you may not be able to lay off employees of the selling company and if you do, you may have to pay severance. Similarly deciding who to retain and whose contract to terminate is another strategic decision required to be taken and it's equally crucial to ensure the all the related processes are managed effectively. Ideally, HR and management teams will work together to assess the skills, capabilities and potential of key employees at the new company and the skills available within the company. It would also call for recruiting new employees. Historically, there have been a lot of mergers and acquisitions that have failed for reasons that could have been easily avoided but the right decisions were not taken at the right time causing problems.

In the light of these discussions we can say that decisions such as entering new markets to sustain the existing markets and creating and distributing a wider array of products, successful mergers and acquisitions have a variety of benefits. However, when if they fail, they can be disastrous for the companies involved. The good news is that the majority of failed M&As could have been avoided by addressing the all the common mistakes companies make, as well as understanding the solutions to be adopted to ensure that doesn't happen with your merger and acquisition.

While these issues were being looked into some additional responsibilities needed to be handled by HR that included:

**(1) Defining current and future organizational structures:** The organizational structure is critical to the success of the organization. Having the right structure with a right number is what is determined herein. HR teams are typically called upon to provide detailed organizational charts before a merger or acquisition, as well as to provide an outline for what a future structure could look like under the newly formed organization. Sometimes, HR teams are also required to model different potential HR structures and present the set a board for decision-making. This means being searching for the answers to some critical questions very quickly and accurately such as

- Who will assume which roles in the new business?
- Which roles, teams or departments will become redundant?
- In terms of specific roles, how can the workforce best be merged?

Answering these questions ensure future problems get avoided.

**(2) Centralizing information:** During a M&A, important HR-related information often ends up spread out across the different organizations or departments, residing in disparate files, spread sheets or data bases, etc. For effective M&A, this information needs to be consolidated and centralized, and this task often falls upon the HR team's shoulders. Having an accurate and centralized record of information required to ascertain an answer to the questions facing the company should be a key priority for the organization to move forward without any hindrances, and this should be a focus of any M&A from the very outset.

**(3) Enabling data-led decision making:** There are lots of very important people-related decisions to be made during a M&A, and HR teams are often called upon to provide quite detailed information very quickly and accurately. This could include information related to the structure of a team, payroll structure, time and attendance record maintenance, or even individual staff performance. Unless the organization has consolidated HR systems in place throughout the merger or acquisition, it can be difficult for HR teams to extract and collate the information needed.

**(4) Ensuring a smooth transition for employees:** It's very easy for discontent to follow a M&A, and for employees to leave the organization in considerable numbers. To minimize attrition rates, and ensure a positive overall experience, HR teams need to find ways to establish unity and cohesion, provide clarity regarding new structures, and accurately answer questions from staff.

**(5) Hiring new staff/adapting existing contracts:** From the outset of a M&A, there's also typically a huge workload for HR associated with moving employees to new contracts, hiring new staff, making any necessary redundancies, and communicating this information to the broader workforce so that they remain motivated. Meeting with individual staff, and completing required paperwork, can alone be a huge and very time-consuming responsibility.

**(6) Ensuring governance and compliance:** HR teams are also responsible for ensuring that the organization stays up to date with current requirements regarding governance and compliance, especially if the business operates in multiple countries or geographical regions.

**(7) Extracting and acting upon employee insights:** As well as ensuring a smooth transition, HR teams are often responsible for monitoring employee progress, and reporting to boards/ management teams regarding employee sentiment during and after a merger. Without the right tools at hand, this can be very difficult to attain.

#### **(8) Transitioning HR during a M&A: Challenges and Opportunities:**

While the transition is on the company faces numerous challenges and generate a number of opportunities. While looking into these challenges the areas studied in detail with their opportunities and challenges included:

**(1) Maintaining a positive employee experience:** The challenges and opportunities included in this aspect of HR identified included

##### **The challenges:**

- Employees can find change unsettling and unnerving and this often impacts productivity.
- In 2 weeks following a merger, the amount of work an employee does drops to between 1-2 hours a day.

##### **The Opportunities:**

- Make HR a priority in M&A planning – before, during and after.
- Communicate regularly and effectively so that everybody is in sync with the organizational objectives
- Provide self-service tools so employees can find the information they need from the entity.

##### **The additional Challenges include:**

- Attrition rates are typically high following a M&A. Research in this area shows 47% of employees leave a business within a year after a merger or acquisition, and 75% leave within 3 years. Managing this is a big challenge for HR

**The opportunities include:**

- Be open and collaborative regarding any structural changes.
- Check in regularly, especially if employees are working remotely.
- Use data-led insights about an employee's performance to nurture them.

**The challenges further include:**

- Employees don't feel listened to, which leads to is engagement. Recent research by Gallup suggests that only a third (34%) of American employees are engaged at work anyway, and disengaged employees would leave the organization for almost any increase in salary, even if it's a miniscule amount.

**The Opportunities identified here include:**

- Use modern tools to actively capture employee feedback and spot potential disintegration in the employee experience.
- Learn from your people to help your people.
- Communicate with employees before, during and following business changes to reassure and prevent "water cooler gossip" which is a big challenge for HR

**The Challenges involved are:**

Culture becomes "us" versus "them." When two separate firms are merged, it's easy for it to feel like there are still two separate entities.

**The opportunities include:**

- Ascertain smart ways to merge tools, culture and ways of working so that everyone feels valued and aligned to the organization.
- Consider tools which can help capture sentiment and ensure cultural issues that are addressed before they escalate and become unmanageable.

**The Challenges include:**

- Remote working can exacerbate is connectedness.
- Without a consistent technology experience, or regular face-to-face contact with colleagues and managers,
- it's easy for discontent or a lack of engagement to settle in, and for it to escalate.

**The Opportunity further includes:**

- Devise ways to regularly connect and engage people using cloud based tools.

**(2) Bringing disparate tools and systems together****The Challenge include:**

- Merging disparate HR tools and processes can be very complex.
- Research shows around 30% of CFOs say merging IT systems and technology such as HR is the no. 1 challenge during a business transformation

**What's needed to tackle the situation:**

- Have a sound strategy in place from the beginning.
- Engage an expert partner.
- Identify and update all manual processes and centralize existing systems.
- Communicate extensively.
- Provide in-depth training and learning for staff on new systems.

**The challenges under this head include:**

- Disconnect in terms of HR priorities across the new organization.
- Different businesses, teams and departments will all have their own needs and priorities that are difficult to align.

**What's is needed for attaining success:**

- Put systems in place to capture information on different priorities, so you can identify shared needs.
  - Empower managers to implement targeted changes and measures relevant to their teams and departments.
- Make collaboration on HR a priority from the outset.

**The Challenge are:**

- Solutions are short-sighted.
- In the rush to integrate, solutions can bead-hoc and not supportive of growth.

**What's needed to be done:**

- Seek expert advice in selecting, assessing and rolling out the right HR Management practices and solution to meet the changing needs of the organization.

**The Challenge include:**

- Compliance complexity.
- Staying on top of spiraling compliance requirements as organizations grow and adapt, or enter new markets, can be a major challenge.

**What's is needed to counter the situation:**

- Seek expert guidance.
- Invest in proven tools with compliance in-built and appropriate for different regions.

**3. Enabling data-fueled decision-making****Here the challenges are:**

- Need for data and analysis increases exponentially during a M&A.
- The need for strategic analytics increases astronomically during an M&A.
- In particular, HR teams typically need to report to boards and possibly equity firms with information around workforce planning, compensation and attrition targets.

**What's is needed for countering the situation:**

- A comprehensive assessment of your analytics maturity to identify gaps and opportunities.
- Investment in a consistent, highly-governed reporting and analytics solution that can integrate with your current workforce.
- Archiving of any dated legacy data to de-risk and “de-clutter” the migration to the new solutions.
- Rapid integration of data from all aspects of the new business– right from the outset – so you have immediate insights about your new, combined workforce.

**The challenges are:**

- Lack of insights as to existing skills regarding new roles.
- Without the right tools in place, it's easy for existing staff to get overlooked for a promotion in the newly merged company, or to get placed in the wrong area.

**What's is needed as a counter strategy:**

- Use modern tools to get the insights you need to more effectively plan for migration, so you're deploying the right people into the right roles

Research shows the human capital component can equate to between 10 to 15% of the total purchase price of an acquisition.

**The advisor can help i:**

**Business transformation services:** Achieving digital transformation requires more than just implementing new technologies and tools. It can also mean revamping your HR strategy and analytics, business process design, change management, and training. If your organization is embarking upon a digitalization initiative, we can help you maximize its success by providing these other transformative services.

**Managed services (ongoing partnership and configuration support):** What happens in your business after a new solution is implemented? Our experts can ensure you're prepared for the road ahead – whether it's providing a modest level of support, or offering a more comprehensive and strategic plan. We offer support in administrative services, preventative tactics, adaptive and corrective measures, payroll support, change control, release management, and more so that we can empower your HR teams to focus on strategy and improve resource utilization. When embarking upon a period of change or disruption, it's important to have a strategic partner

who can guide you in your decision making from the outset. Experts have the experience and deep expertise to give you the foresight, insight and future view to make optimal decisions at every step.

**Business technology services (integrations, IA, analytics etc.):** The Technology team can provide assistance with, and insights into, many aspects of your technology and business strategy. One can say to proceed SAP Business Technology Platform, to Geospatial Information Systems, to Advanced Business Application Programming – and more.

**Business process design:** Our experts can also help you identify gaps between current and future states. We partner to create business processes and documentation that provide a high-level overview of process activities

and tasks – presenting the solution in depth, understanding project requirements, enabling process alignment, and allowing HR specialists to identify areas of improvement.

**Change management and strategic consulting:** The expert consultants provide about line and tools needed to support the change management process, activities, equip your organization with a plan for a smooth transition from current state to future state, and foster stronger system acceptance and higher user adoption. This can improve employee morale, productivity, quality of work, and key performer retention – allowing you to design and deliver training to stakeholders in methods that suit their individual learning styles.

**Reporting and strategic analytics:** Leveraging reporting and analytics is paramount to making smart, data-driven decisions. But most talent acquisition functions spend 80% of their time capturing data, which leaves little time for analysis and action. The reporting and strategic Analytics, supplemented by guidance from the experienced advisor team, businesses and them

HR teams can develop reports and reporting best practices to enable timely, actionable insights that drive improvement across the organization.

**Training and digital adoption:** Implementing an HR system helps execute and roll out training that ensures maximum end-user adoption and measures productivity and bottom-line improvements. How? Through training that supports a variety of learning preferences and a strategy that is customized to fit your organization. Our experts help put together and execute a targeted training plan to boost business outcomes and drive user adoption and best practices.

**Conclusion:** Thus we can conclude by saying that HR is a very sensitive issue in M&A. The HR Managers needs to be involved throughout the process so that all the issues pertaining to human resource are effectively tackled and the entity does not face any type of employee unrest. If that happens the very purpose of M and A stands defeated.

