HR AND THE MERGERS & ACQUISITIONS PROCESS

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INTRODUCTION

Mergers & Acquisitions have been the predominant growth strategies in the steel, aluminum, cement, auto, banking and finance, computer software, pharmaceuticals, consumer durables, food products, agro-chemicals and textiles sectors for a decade.

Today, fueled in part by added restrictions placed on initial public offerings (IPOs) by Sarbanes-Oxley legislation, by the proliferation of Internet and technology firms and the large capital investments being pumped into them by the private equity firms, by globalization, and deregulation of some market sectors, mergers and acquisitions (M&A) have become the dominant growth strategies of CEOs, entrepreneurs and investors seeking to quickly establish their organizations as market leaders in highly competitive industries.

This trend shows no signs of slowing down.

In order to continue to be valued contributors and leaders to their clients and employers, human resources (HR) professionals must understand the nature of, and the processes, practices and people involved in, planning and executing mergers and acquisitions, and in steering the newly formed organization toward success.

Research has demonstrated that HR's role in mergers and acquisitions is critical to ensuring that these multi-million dollar transactions, and the new organizations they create, achieve the financial, operational and bottom-line objectives established at the outset.

This module will provide HR professionals with a solid framework for approaching the M&A process, and a comprehensive understanding of the roles that they must assume in order to distinguish themselves as not only advisors and service-providers after the transactions, but as strategic partners and business partners before, during and after the transaction.

Upon completion of this module, you will understand every facet of the M&A growth strategy, the goals to be achieved, the metrics by which shareholders will judge the outcome, how the people-related issues that will inevitably crop up can be effectively managed and leveraged, and HR's critical role in the success of mergers and acquisitions.

THE MULTI-FACETED ROLE OF HR IN MERGERS & ACQUISITIONS

The mergers and acquisitions process is a complex, multi-stage process that impacts nearly every aspect of a firm's business—its finances, its operations, its personnel, its processes and systems, its customers and shareholders.

Accordingly, planning and executing a merger or acquisition requires the knowledge, skills and expertise of a cross-functional leadership and management team, including officers, board members, business leads, attorneys and human resources executives. And, even then, there is no guarantee of success.

Too often, human resources executives are brought into the mergers and acquisitions process too late to contribute to their full potential, too late to ensure that the personnel issues that are inherent in the mergers and acquisitions process do not adversely impact productivity and revenue growth forecasted at the start of the merger or acquisition.

At each stage of the mergers and acquisitions process, human resources professionals have a critical role to play. This module begins with an overview of the mergers and acquisitions process. The process is then broken down into stages, and the role of HR, the HR functions and the competencies required in order to add value and participate as a business partner, will be defined at each stage of the process.

Broadly defined, the roles of HR are:

- Strategic Partner
- Functional Expert
- Business Partner
- Project Manager
- Integration Manager
- Advocate
- Advisor
- Knowledge Manager
- Talent Manager
- Change Manager

The competencies required span four categories:

- Delivery of HR Services/HR Expertise
  - Recruiting & Staffing
  - Employee & Labor Relations
  - Executive Compensation
  - Talent Assessment
  - Leadership Development
- Understanding the Business
  - Strategic planning
  - Asset valuation

    - Data analysis
    - Problem-solving
    - Process management
- Change Management
    - Communication
    - Facilitation
- Leadership/Personal Credibility
    - Success
    - Understands the business
    - Confident enough to inform and advocate
    - Courageous leadership
    - Role-modeling
    - Inspirational vision
    - Team-building

It is imperative that HR professionals understand the reason(s) that their clients or employers might pursue an acquisition or merger, the company's overall business goals, growth strategy, and the mergers and acquisitions processes if they are to fully participate as strategic partners and members of the leadership team in an organization.

HR professionals must develop their own knowledge base on business practices and processes, and demonstrate business acumen, in addition to their human resources expertise, in order to be included early and at every stage of a major business initiative such as an acquisition or merger.

Research has shown that HR can help ensure the success of a merger or acquisition, or at least help minimize failures associated with the loss of key talent, low employee morale, miscommunications, lack of leadership, pension liabilities, labor relations and productivity losses. The time to identify and stem these issues is pre-deal, before the merger or acquisition is announced and executed. Yet, HR continues to report lower participation during in this stage and higher participation during latter, post-deal stages when their expertise is employed reactively.

Fortunately, business leaders are beginning to understand the value of including HR at earlier and at every stage of the merger and acquisition process. For this reason, human resources professionals must invest in developing competencies in the areas listed above.

MERGERS & ACQUISITIONS DEFINED

Generally, mergers and acquisitions refer to the combination or consolidation of organizations.

A merger is a combination of two or more organizations to form a new organization, while an acquisition is the purchase of one organization (the target) by another (the acquirer or buyer). Acquisitions may or may not result in a new organization formed.

Legally, an acquisition refers to the purchase of all of the assets or stock of one company by another. It is the transfer of ownership from one company, the target company, to another, the acquirer.

Acquisitions may be "friendly", with shareholders from the target company voting to accept the acquirer's offer for their shares, or "hostile"(as in hostile takeover), where shareholders from the target company strongly resist the purchase of their shares or assets. Here we'll concentrate on "friendly" acquisitions and the relationship between acquisitions and mergers.

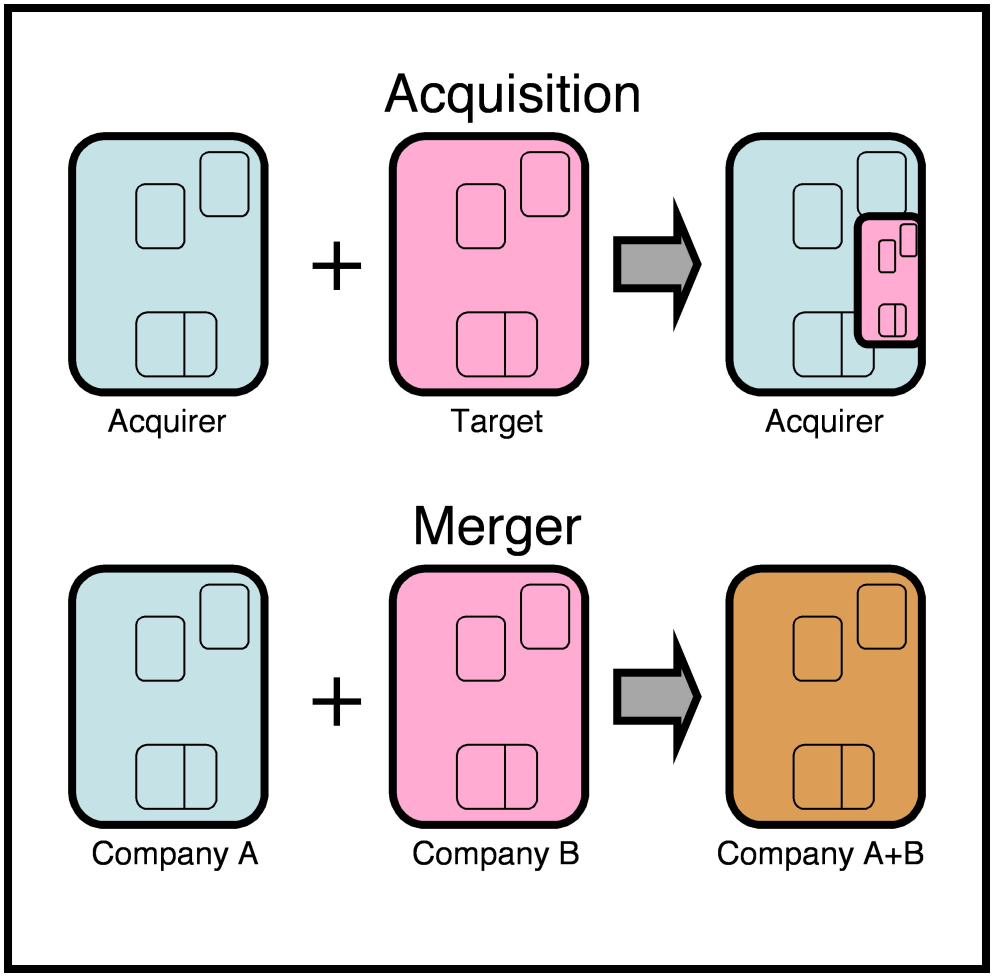

Figure 1. Acquisition and Merger Illustration
Source: Deshannee' D. Johnice, Spring4th, 2007.

There are several types of acquisitions, each characterized by the disposition of the target firm's stock or assets. Some acquisitions end with the acquirer completely digesting or integrating the target's assets, operations and staff; others end with the acquirer leaving the target company to operate as it did pre-acquisition—an acquisition and separation versus an acquisition and integration.

The table below features an abbreviated list of the types of acquisitions.

TYPES OF ACQUISITIONS

Type of Acquisition	Description
Acquisition	The Acquirer buys the stock or assets of a Target company.
Forward Triangular Merger	The Acquirer buys the target company and merges it with a wholly owned subsidiary of the Acquirer's company. Target company shareholders receive shares of the Acquirer's company.
Reverse Triangular Merger	A subsidiary of the Acquirer merges into the target company. The Subsidiary's stock is converted into the Target's stock so that the target becomes a wholly owned subsidiary of the acquirer. Shareholders of the target get shares of the acquirer.
Friendly Takeover	A target company's board and management agree to the acquirer's offer to buy the company's stock or assets.
Hostile Takeover	An acquiring company attempts to acquire a target company that does not approve its buyout and strongly resists an acquisition.
Leveraged Buyout	An acquiring company uses a large amount of debt (as much as 90%) to acquire a target company without having to commit a lot of capital.

Figure 2. Types of Acquisitions

Source: Deshannee' D. Johnice, Spring4th, 2007.

Acquisitions are, effectively, *mergers of unequals*; the acquirer buys the target company and merges it into its own company, either as a wholly owned but independently operated subsidiary or as a highly integrated division of the larger company managed by members of the acquirer's management team.

While some of the acquisition types include the word *merger*, the most accurate definition of a merger is what is called a *merger of equals*.

In a *merger of equals*, two or more companies of the same size that produce or sell the same/similar products or services combine to form a new company. Shareholders from both companies surrender their shares and are issued shares in a new, combined company; the original companies cease to exist.

True mergers of equals are rare. Even when they are intended as such, there is usually a dominant company, one that gains more from the merger, one with more to lose if the merger does not occur, or one that invests more and thereby wrests more control.

The high-profile merger of Daimler-Benz and Chrysler is an example of a purported merger of equals. Neither company acquired the other; both companies surrendered their shares and were issued shares in the newly formed Daimler-Chrysler. Both agreed to integrate portions of their operations to the mutual benefit of all. Neither ultimately achieved their pre-merger objectives.

There are several types of mergers. They include the following:

TYPES OF MERGERS

Type of Merger	Description
Merger of Equals	Two or more companies join together to form a new company.
Horizontal Merger	Mergers of one or more companies, usually of similar size, that produce similar product lines.
Vertical Mergers	Merger between companies that produce different goods or services for the same product, i.e. a chain of paint stores merges with a paint-manufacturing firm.
Conglomerate Mergers	Merger between firms involved in unrelated business activities. Can be pure (involve firms with nothing in common) or mixed (involve firms looking for product extensions or market extensions).

Figure 3. Types of Mergers

Source: Deshannee' D. Johnice, Spring4th, 2007.

A merger always results in a combined, or merged, company that operates as a hybrid of the two companies that entered into the merger. In many cases that means that the two will integrate some or all of its functions, operations, staff and facilities.

Mergers may take place between organizations of similar size or market position that produce and sell similar products or services, e.g. the merger between Albertson's, an Idaho-based grocery chain and Savon, a chain of drug stores. Such mergers are considered horizontal mergers.

Mergers may also take place between companies that produce different goods and services for the same product or service. For instance, the Home Depot, which sells cleaning chemicals, purchased Zep, a Home Depot vendor, and manufacturer of cleaning chemicals. This is an instance of a vertical merger. Vertical mergers can occur between

vendors and customers, or companies that produce the raw materials for the product and companies that manufacture or sell the finished product.

Finally, mergers may also take place between companies with unrelated business activities, as is the case with many private equity firms or holding companies that amass large portfolios of very different companies, each of which may share services such as HR, IT, Accounting and logistics. Organizations merged in this way are considered pure conglomerate mergers. Conglomerate mergers that involve companies that are similar are considered mixed conglomerate mergers. One such example is that of marketing and advertising giant, Omnicom. Omnicom's 1500+ marketing and advertising agencies have been merged such that the larger traditional advertising agencies are integrated with the smaller digital and new media agencies to create a full-service advertising and marketing offering, hybrid organizational structures, shared clients and some shared services.

MERGER OR ACQUISITION?

The choice to merge or to acquire is not mutually exclusive. Organizations that decide that an acquisition is their best opportunity to achieve their growth objectives may also decide to merge the newly acquired target company into their existing organization. Thereby creating a merger through acquisition, or an acquisition and integration.

Conversely, because organizations that enter into mergers are seldom true equals, mergers may play out in much the same way as acquisitions in that one organization may take the lead role in making the integration decisions and may preserve more of its original structure, staff or operations than the other organization. Depending on merger objectives, the more dominant organization may even retain its name as the name of the newly combined organization.

The decision to merge or to acquire may be influenced by several factors:

- Organizations' business and growth strategies
- Organizations' resources
- M&A strategy and objectives
- Cultural fit and strategic fit between organizations
- Price and value of the target or potential partner
- Intentions and desires of stakeholders, board of directors and business leaders
- Market conditions
- Organizations' relative market positions
- Tax, legal and regulatory considerations
- Risk involved

Ultimately, organizations will select the transaction that they believe will create the most value and provide the most advantages while balancing their risks and costs.

PROGRESS CHECK 1

1. A merger is ____.
   (a) Combination of one or more companies
   (b) What occurs when one company buys another
   (c) When two companies work together

2. An acquisition is ____.
   (a) Combination of one or more companies
   (b) A newly formed hybrid organization
   (c) When one company purchases another

3. A merger of equals is ___.
   (a) When two companies partner to purchase a third company
   (b) When two companies of the same/similar size join together to form a new company
   (c) An acquisition

4. A horizontal merger is ___.
   (a) When a new company is formed from two larger companies
   (b) A merger between companies that are located near one another
   (c) A merger between companies that produce similar products

5. A vertical merger is ___.
   (a) A merger between companies that product different goods or services for the same product
   (b) A merger between companies that formerly shared a vendor-customer relationship
   (c) Both a and b
   (d) Neither of the above

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