In an ongoing quest to increase stakeholder value, CEOs often include mergers and acquisitions (M&A) in their strategic planning. Unfortunately, most M&A deals fail to add stakeholder value. Many M&A deals cause a loss in value, in part because organizations struggle with human resource issues – such as cultural integration and high turnover – during these periods of transformation. Besides, the growing skills gap threatens to make M&A even more challenging and could increase the already high failure rates.
Current trends in M&A

Mergers and acquisitions is a primary strategy for CEO’s and organizations to create stakeholder value. However, M&As have not always been as popular as they are today. In 1985, when R.J. Reynolds acquired Nabisco for 4.9 billion dollars, it was the largest of only 2600 global mergers that year. In comparison, in 2018, when Cigna bought Express Scripts for 69 billion dollars, it was the largest of over 49,000 transactions that took place that year.17 Per a 2018 Deloitte survey, 79% of M&A executives responding expect the number of deals to increase in the year ahead.18

The High Failure Rate of Mergers and Acquisitions

Considering that over 800,000 M&A transactions have occurred since 2000, it would be easy to assume that their popularity correlates with an increase in stakeholder value.19 In a seminal study by KPMG, 82% of survey respondents, who had recently completed a significant deal, believed the deal had been a success.20 Follow up research studies, which include quantitative and qualitative measurements, over the past 20 years, show that between 70-90% of all mergers and acquisitions continue to fail.21

Why Mergers and Acquisitions fail

For a merger or acquisition to succeed, two organizations must effectively merge and integrate their processes, technology, and culture. M&As fail for many reasons, but multiple studies suggest that the primary reason is the neglect of human resource issues. This neglect can lead to absenteeism, high turnover, and even sabotage, all of which will contribute to the failure of a deal.22
The Human Factor

While senior management tends to express confidence about the chances of M&A success, the rest of the organization often feels quite differently. Employees commonly feel doubt and distrust during an M&A—wondering what will happen in the future and how it will impact their workload, and feeling a lack of trust about stakeholder management.

The impact of the talent and skills gap

Having the talent and skills to ensure that the leaders of the new organization can execute its business strategies is critical to mergers and acquisitions. This consideration is one of the reasons that it is so vital to ensure you have the right talent in place. What makes this even more important for organizations is the current challenges most leaders are facing in finding and retaining talent with the skills they need. The skills gap alone could have a significant impact on economic output and jeopardize organizations growth plans.
The following is a 5-step plan to manage the human factor during an M&A more effectively. This plan will help manage the emotional and psychological responses that employees typically feel, reduce unwanted turnover, and mitigate the risks from the current and future skills and talent gaps.

1. **Have a Clear Communication Strategy**
   A lack of communication signals organizational leaders’ apathy towards employees’ reactions and interests, which is a significant contributor to missing M&A goals. Thus, a communication strategy should focus on reducing employee confusion, uncertainty, and distrust. PWC recommends a communication strategy that includes timing, message, audience, media, and method of delivery. The messaging should include the reason behind the M&A as well as timing and steps in the process. Other strategies include welcoming new employees on day one after the transaction has closed, celebrating the vision for integration and laying out the plan for post-day one. After the M&A completes, leaders need to continue to communicate around key milestones and to reinforce the vision and strategy.

2. **Explore Workforce Planning**
   Because of the skills and talent shortages organizations are facing, it is more important than ever for leaders to have clear visibility to the critical needs and gaps in skills in the new organization. Especially with the risk of losing key talent during the M&A process, and therefore, must take inventory of their people and skills preparing for both the short and long term.

3. **Manage Performance**
   The overall intention of performance management in the new organization is to establish a high-performance culture that focuses on executing the new strategy, continuous improvement of business processes, and to elevate the skills and competencies of all employees across the organization. In a merger or acquisition, this becomes even more critical because of the increased investment and risk associated with the transaction and shortened time frame to create value. Therefore, it is leadership’s responsibility to set clear performance expectations from the beginning and to put in place the structure to ensure regular feedback and accountability.

4. **Onboard New Employees Effectively**
   Onboarding during an M&A needs to go beyond the typical onboarding process. All employees joining the new organization should be viewed as candidates deciding whether or not they want to join the organization. The length of the onboarding process and the activities during the process can go a long way in impacting retention. Recommended onboarding processes include:
   - **Cultural acclimation to reduce uncertainty** – This is a critical time to acclimate new employees...
around your culture, to ensure they feel a part of the new organization and to reduce some of the psychological responses previously discussed.

- **Career development conversations** — If organizational leaders want to engage and retain talent after a deal completes, those leaders should begin career development conversations with their manager early on in the employee’s tenure.

5. **Training**

Training is critical to ensure that employees are competent in new systems or processes. Employees want to feel competent, and the sooner they feel comfortable with new systems and processes, the more comfortable and productive they will be. Besides, training is an opportunity to help drive engagement and retention. The opportunity for employees to learn new skills, both technical and professional, can enhance their commitment to the new organization while also helping the leaders to close some of the critical skills gaps. Training also provides employees with the skills to self-manage during this transition. Assisting employees to learn how to cope and manage change can be a critical skill that leaders should consider teaching employees during the integration process.
1. Have a clear communications strategy

Reduce uncertainty by:

☐ Establishing a cadence of key in-person interactions (i.e. “get to know you” introductions between new leaders and departments or teams, or regular ongoing all-hands meetings to communicate outcomes and change broadly).

☐ Determining how to communicate outcomes and next steps after key milestones are achieved.

☐ Determining how employee questions and concerns will be answered and the role managers play in answering these questions.

☐ Creating “emergency” channels to quickly respond to unexpected actions either to the business or the workforce.

Portray the strategic direction and employee value proposition by:

☐ Communicating the most valuable key drivers and data points of the M&A to the workforce.

☐ Communicating what employees need to do to contribute to the strategic direction of the M&A.

☐ Communicating wins, milestones or deliverables to quickly build employee trust.

☐ Developing assets to enable the “sell” of the employee value proposition such as internal webinars from HR, a PDF that summarizes benefits, or training for managers.

☐ Communicating any positive changes from the M&A to employees.

☐ Developing a plan to reinforce these messages over time and through multiple channels.
2. Engage in workforce planning

Determine the skills necessary for the integrated organization to prosper over the longer term by:

- Determining how to scale skills assessments to the new organization quickly. This can be done through interviews with managers or formalized assessments.

- Identifying key individuals with strategic knowledge or skill by identifying employees commonly acknowledge as SMEs, or individuals who are key to processes, information systems or teams.

- Looking at existing data to discover the weak points of the business. Determine what further sales, operations, marketing or other data would help you to identify strengths and gaps.

Determine if the right talent is being deployed in the right positions by:

- Determining if the acquired company brand can be used for recruiting in the short term.

- Determining how to communicate openings internally across the two organizations.

- Determining how employees find and pursue opportunities internally.

Identify new systems, processes, and skills employees will need to do their jobs by:

- Identifying the short-, mid-, and long-term changes to systems and processes.

- Identifying human and technological resources already available to support the changes.

- Determining the role of managers to help support the changes.

- Determining additional assets that will ease the pain of changes.
3. Manage performance early and often

Determine how managers are aligned with performance evaluation processes by:

- Determining what training managers need to align themselves with new performance processes.
- Communicating expectations about raises, promotions, and development.
- Identifying tools to have more meaningful performance conversations.
- Determining how you will get feedback from managers and employees regarding business risks that may arise.

Develop a plan for surveying your workforce by:

- Determining how you will track and measure employee sentiment and determine key indicators that will help you foresee and avoid problems.
- Determining how often and by what means you gather anonymous feedback.
- Developing a plan to gather feedback to changes you propose to make.
4. Onboard new employees effectively

**Acclimate culture to reduce uncertainty by:**

- Determining the key workforce, benefits and other employer value proposition points that are highly valued by the newly acquired employees. This can be done via a survey or interview.

- Determining the onboarding experience for acquired employees in the first 30, 90, 120, 365 days after acquisition.

- Developing videos, online classes, introductions from senior leaders, and opportunities to participate in out-of-office activities to help set cultural expectations and “sell” the organization to your new employees.

**Start career development conversations at the time of onboarding by:**

- Meeting with acquired employees to discuss skills they would like to learn or experiences they would like to have in the new organization.

- Communicating with those employees the short-term and long-term direction of what career development will entail.

- Determining how you will make development resources such as training available.

- Determining how you will gain feedback from new employees to further or pivot their development track already in progress.
5. Provide training opportunities

Support new processes and technology by:

☐ Determining the technologies employees are expected to use day-to-day.

☐ Staggering adoption or provided resources, subject matter experts to quickly overcome barriers for individual employees.

☐ Determining and introduced compliance certifications and security practices.

☐ Establishing access to training systems, how-to guides and other resources.

Develop a plan for engagement by:

☐ Determining the preferred means, format, and length of training content.

☐ Removing barriers for new employees to engage with training such as using existing technologies they’ve already been trained on.

☐ Determining how to measure engagement with training content.

Self-management

☐ Determining the training resources you can make available on-demand.

☐ Developing a wiki or forum area that provides resources to answer potential questions.

☐ Empowering managers with their own decision making and response to questions through FAQs, “manager support teams”, or manager community groups.

Want to learn more about how Cornerstone can help you thrive in the face of an M&A transformation?

get in touch
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