

M&A Due Diligence

Checklist for Human Resources

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CHECKLIST FOR HUMAN RESOURCES

M&A Due Diligence: Checklist for Human Resources

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1 INTRODUCTION

One of the many professional experiences related to M&As, due diligence or restructuring that I have been through really stands out. A bit more than ten years ago I was involved in the M&A process of three complementary businesses, and culturally very different organizations, as responsible for the HR integration. The three companies employed over 3,000 people in total and operated in a highly competitive market with practically no unemployment. We completed the merger successfully in one-year. It was a great achievement, but also a stressful time for all those involved. It really requested the best of everyone, including courage and the ability to deal with a lot of ambiguity. For me, it was a remarkable and forming professional experience that shaped my mindset and approach for the rest of my career in Human Resources.

The Human Resource function has evolved professionally in the past 20 to 25 years from a purely administrative and bureaucratic personnel function to a strategic partner to business.

The effectiveness and strategic role of Human Resources are never more obvious than in times of transformation, and mostly during mergers and acquisitions. HR professionals are called to: identify sensitive people issues, find solutions to solving integration challenges, keep management aligned, propose the right change management programs to ensure a smooth integration process, and be a role-model for the other areas of business.

“An estimated 70 percent to 90 percent of all M&As fail to achieve their anticipated strategic and financial objectives. This rate of failure is often attributed to various HR-related factors, such as incompatible cultures, management styles, poor motivation, loss of key talent, lack of communication, diminished trust and uncertainty of long-term goals.”

(Society for Human Resource Management)

This is step-by-step guide to make the HR due diligence as simple and comprehensible as possible.

The first chapter creates the context, gives a general overview of the human resource function and sets the terminology.

The second chapter refers to the role of HR before the transaction is completed and introduces a thorough checklist of people-related information, policies, practices and programs helping HR professionals to obtain an accurate view of the activities under scrutiny.

The third chapter completes the HR due diligence checklist with a roadmap of the key areas of HR involvement post-transaction, referred to as “integration” in the e-book. Some of the milestones are: making sure you’ve got the right people, getting management focused on the right things, driving the right behaviors through business, managing employee costs and risks and delivering operational HR during integration.

I would be very happy if the HR due diligence checklist and the HR integration roadmap would bring you a bit of clarity in times of uncertainty. Thank you.

2 THE HUMAN RESOURCES FUNCTION

2.1 DEFINITION OF THE HUMAN RESOURCES FUNCTION

Human Resources is the strategic business function that focuses on people and people processes. Business strategy and business model, organizational structure and people are linked and all are essential to the company's success.

The saying “the right people in the right job” has a new meaning today – a meaning that is about people satisfaction and engagement, as much as it about getting results. When people are happy and feel fulfilled by their work, then the organization benefits much more from their strengths, talent and effort in achieving business objectives. This is the ideal world in which people come at work engaged, operating from a place of personal values put in service of the company's shared-value.

“Organizations should manage people within a planned and coherent space that reflects the business strategy. This helps ensure that the various aspects of people management work together to develop the performance and behaviors necessary for the delivery of organizational value. These means understanding the requirements and interests of a range of organizational stakeholders – business owners, people, customers, and the wider society – and building an effective framework of sustainable relationships between them.

But there's no single Human Resources Management strategy that will deliver success in all cases. Organizations need to define their own unique strategy according to their specific context, culture and objectives. This is where HR professionals are instrumental to applying their expertise in understanding organizational circumstances, and designing human capital value chains that reflect stakeholder demands.”

(Chartered Institute of Personnel and Development)

Fulfilling its mission, the Human Resource function is accountable for a number of key areas, processes and programs to maximize the company's human capital – defined as the collective intelligence, knowledge, skills and abilities of all employees in the workplace.

“Human capital management assumes that people are treated as assets rather than costs. It focuses on the importance of adopting an integrated and strategic approach to managing people, which is the concern of all stakeholders in an organization, not just the people management function.”

(Chartered Institute of Personnel and Development)

Human Resource competencies are becoming increasingly sophisticated and HR staff is today knowledgeable in more than the historical administrative areas, such as working conditions, payroll and labor legislation. HR has today a strategic role and is expected to be the change role model in times of business transformation.

One of the modern competency models relevant to strategic Human Resources, applicable for both global and local companies – because we live in an inclusive society looks at **seven competency dimensions for Human Resources** (Claus, 1999):

- Human resources professional body of knowledge;
- Business acumen and an understanding of market conditions;
- Inclusion, cross-cultural awareness and cultural sensitivity;
- Communication skills, including influence, negotiation and, in general, stakeholder management;
- Change management mindset;
- Leadership skills and an appreciation of the corporate culture;
- Personal attributes such as flexibility, openness and adaptability.

2.2 ROLE AND RESPONSIBILITIES OF THE HUMAN RESOURCE FUNCTION

Human Resources management is responsible for designing the strategy and policies, as well as the formal processes and systems necessary to support human capital growth and its contribution to achieving organizational goals. Human Resources activities must be linked to business needs and must serve the customer.

The role of Human Resources may vary as it depends on the business context and has to adapt to practical business life realities. The ‘traditional’ way of looking at HR roles includes three categories: strategic HR, operational HR and administrative HR.

Strategic HR suffers sometimes, when the function needs to answer to immediate business priorities – so the focus should be first on building a solid operational and administrative HR. Human Resources cannot afford to be an inwardly looking function; it needs to look outwardly and to be ready to offer solutions to unexpected business challenges, and to long-term strategic requirements, at the same time.

Creating the Human Resource strategy should start with an analysis of the external or market factors, e.g. PESTLE analysis (political, economic, social, technological, legal and environmental factors influencing the company from the people perspective) followed by an internal SWOT analysis (strengths and weaknesses of the function, as well as opportunities and threats that HR encounters in the company context).

For the past two decades the “mantra” in personnel matters was the transfer of the responsibility for people issues to line management. As a result, line managers have become more effective people leaders, who are today responsible for operational processes related to people that were in the past associated with Human Resources. As a result, the role of the HR professional has shifted, so that they act nowadays not only as internal consultants to line management, but also have a role in:

- Creating the corporate culture and in communicating it;
- Formulating human resource policies and implementing related programs, systems and analytics;
- Contributing a priori to strategic planning;
- Supporting succession planning, talent management and senior management development;
- Being an external advocate and important contributor to employer branding;
- Connecting stakeholders to coordinate information related to the company’s human capital;
- Internal consultancy and mediation services, as well as being a messenger of corporate responsibility;
- Delivering operational HR during times of change.

Guidelines to Boost Human Resources Success

- 1) Have a global mindset;
- 2) Build your credibility through operational excellence;
- 3) Listen and learn from business people;
- 4) Understand the company's business and corporate strategy;
- 5) Align Human Resources to the company's strategy and direction;
- 6) Foster positive relations with your clients, including senior management;
- 7) Take ownership of key Human Resource initiatives;
- 8) Demonstrate Human Resource's capital value to business;
- 9) Permanently upgrade the HR leaders' and HR practitioners' skills level.

2.3 CURRENT TRENDS IN HUMAN RESOURCE MANAGEMENT

The world is changing fast and it's not always easy to guess what direction will future events take. External factors, international forces and local movements, science and technology all evolve at a fast pace and influence business development. People have started doubting the very idea of globalism, although it is still difficult to see how exactly a less global world would look like, as we are globally connected more than ever before in human history.

The American Society for Human Resource Management proposes for discussion the following **trends relevant to the HR profession** that we will look at separately:

- 1) Higher awareness of the ramifications of globalization;
- 2) The use of HR technology;
- 3) The significance of metrics in Human Resources.

2.3.1 RAMIFICATIONS OF GLOBALIZATION

Distance and time will continue to "shrink", as technology will continue to bring everything closer and to make it more accessible. It is probable that this tendency will continue one way or another even in the face of uncertainty, economic crisis or turmoil.

On the positive side, globalization is a chance to expand leadership skills, to focus on selecting talented and skilled people, and to develop strong global competencies in support to business. There are also other consequences that influence HR policies and employee-related decisions, such as the reduced influence of local cultures, working conditions in some countries and loss of jobs in more developed countries.

2.3.2 HR TECHNOLOGY

The development of HR technology impacts today all human resources and employee communication areas. Historical HR Information Systems, containing demographic data, employee records and history, have developed into more complex web-based systems with applicability in resourcing and talent management, training and development, and in performance and reward management.

2.3.3 METRICS IN HUMAN RESOURCES

The use of metrics and the creation of HR analytics – both practices of the past decade, offers great support in aligning human resources solutions to business needs, in driving value through people and in demonstrating the role of HR as a business function. The Balance Scorecard is probably better known as a strategic planning and management tool in which HR has an important place. (Balanced Scorecard Institute)

Strategic Workforce Planning – practically non-existent ten years ago, is a concept that links methodically business with HR strategy and HR planning, leading to customized solutions for various issues and problems in all human resource areas. (The Boston Consulting Group)

2.4 CORE HUMAN RESOURCES SUB-FUNCTIONS

The **CIPD Profession Map (Fig. 1)** offers a complete picture of the Human Resources core sub-functions and of the desired, most effective behaviors of HR professionals.

The **core Human Resource functions** are: organizational design, organizational development, resourcing and talent planning, learning and development, performance and reward, employee engagement, employee relations, and service delivery and information. (Chartered Institute of Personnel and Development)

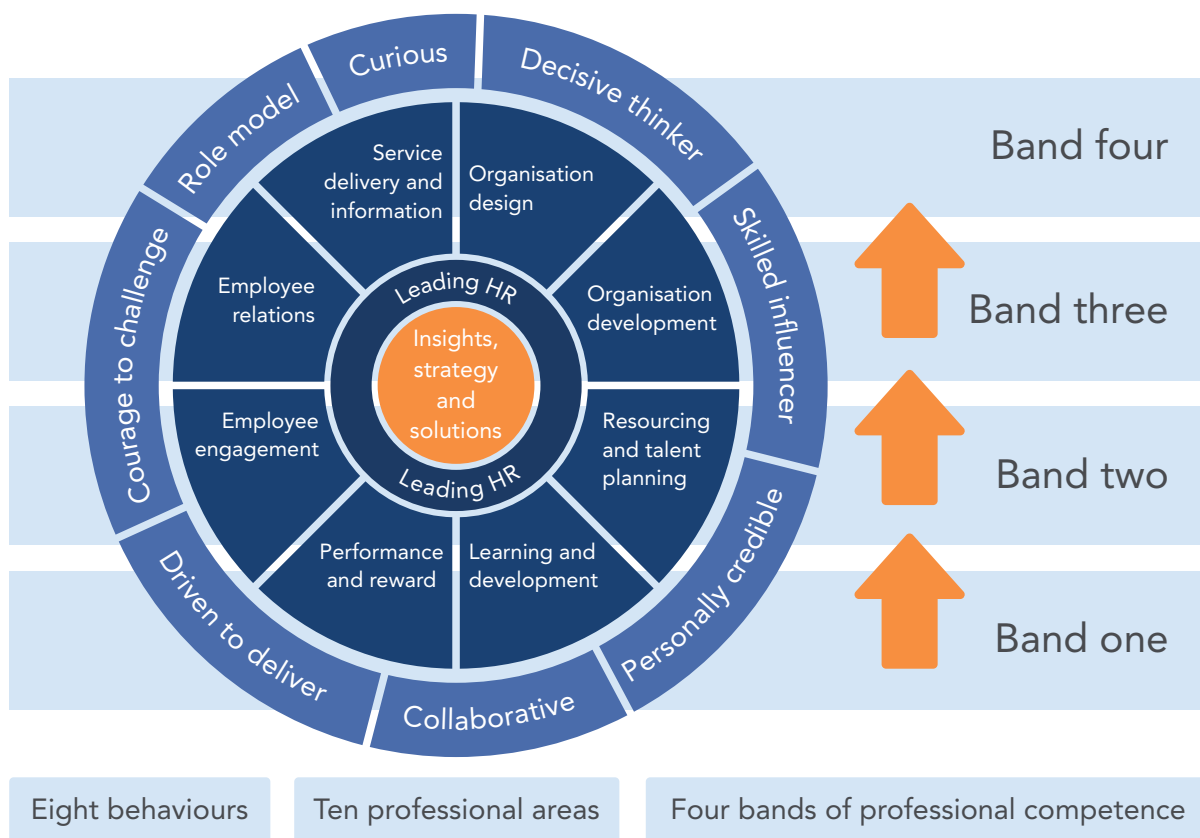


Fig. 1 The CIPD Profession Map

The **ten HR professional areas** are defined by CIPD as follows (Chartered Institute of Personnel and Development):

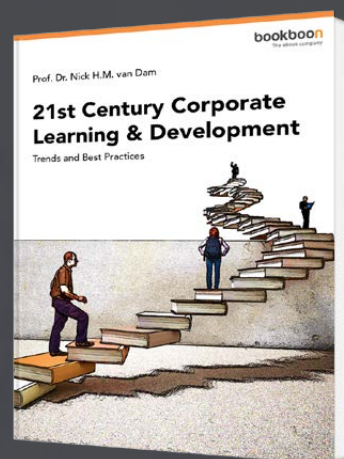
- 1) **Organization Design** HR function ensures that the organization is appropriately designed to deliver its objectives and that structural change is effectively managed;
- 2) **Organization Development** is about making sure that the company's workforce is 'fit for the future'. The OD function takes leadership on the development and execution of all change activities and cultural programs;
- 3) **Resourcing and Talent Planning** is the HR area responsible for attracting and retaining key people and high potentials able to create competitive advantage;
- 4) **Learning and Development** ensures that all employees have the skills and knowledge, and develop new abilities and a growing experience in support of the company's strategy and operational needs;
- 5) **Performance and Reward** is the HR function dealing with building and implementing the company pay, and seeing that reward systems market-bound, equitable and cost effective;

- 6) **Employee Engagement** is about the psychological contract the employee has with the company, in addition to pay and material rewards. Employee engagement delivers programs and bespoke solutions so that employees feel engaged and have positive relationships at work;
- 7) **Employee Relations** is responsible to create the by-law HR framework of policies and practices that are clear, transparent and timely communicated in the organization;
- 8) **Service Delivery and HR Information** ensures that service and information shared within the organization is accurate, efficient, timely and cost-effective and that human resource data is managed professionally;
- 9) **HR Insights, Strategy and Solutions** ensures that HR delivers to business and is an agile function that offers people-related strategies and solutions that make the difference;
- 10) **Leading HR** focuses on personal leadership, leading people and leading for performance for the Human Resource function and its specific areas: HR design and service delivery, HR resource planning and delivery, value and performance in HR teams, and managing HR budgets and finances.

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3 GUIDELINES FOR HUMAN RESOURCES DUE DILIGENCE

3.1 WHAT IS DUE DILIGENCE?

In the previous chapter, we have discussed about human resources, about its role in general and as a strategic human capital function, as well as about expectations, various responsibilities, existing business models and current trends relevant to the human resources future development.

In this chapter, we will focus on the human resources due diligence process. What is it, really, and why is it useful to discuss due diligence?

“The investigation of an asset, investment or anything else to ensure that everything is as it seems is called due diligence. Due diligence helps a buyer or investor make sure that there are no unexpected problems with the asset and that it is not overpaid. Due diligence can be complex and is a formalized process during the acquisition of a company. Even when buying a house, for example, due diligence involves time consuming and, at times, expensive endeavors such as a home inspection. Due diligence is seen as a necessary part of doing business or buying an asset.”

(The Free Dictionary by Farlex)

“Financial due diligence provides peace of mind to both corporate and financial buyers, by analyzing and validating all the financial, commercial, operational and strategic assumptions being made. It uses past trading experience to form a view of the future and confirms that there are no ‘black holes’.”

(PWC UK)

There are different ways of looking at assets acquisition and, whereas the **financial due diligence** is quite self-explanatory, other due diligence processes relevant to a buyer include such areas as:

- Technology;
- Intellectual property;
- Customer base;
- Sales pipeline;

- Strategic fit with buyer;
- All material contracts that the company holds (license, contracts, settlements, agreements, powers of attorney, etc.);
- Litigations;
- Tax matters;
- Antitrust and regulatory issues and
- Employee and management issues, i.e. HR Due Diligence as we address it in this e-book. (Forbes)

Although not the traditional way of defining and working with due diligence, I would extend the understanding of **HR due diligence** as a “health check” of the organization from the human capital perspective. In this case, HR due diligence can be used – both as a concept and as a process, not only in mergers & acquisitions, but also in change and business situations such as:

- New leadership or a new manager taking responsibility for the HR function;
- Strategic and organizational change;
- Change of business or HR business/operational model;
- Strategic workforce analysis and planning, including review or introduction of new KPIs or HR analytics;
- Employee engagement.

At this point – and considering the “stretch” proposed, you may be asking yourself what is the difference between the HR due diligence and an HR audit.

In the past two decades, Human Resources has become a relevant partner to business and an important contributor to a company’s strategy, planning and operational success. As its level of professionalism increased, HR now employs complex performance methods and data analytics to measure employee engagement and performance. The HR Audit responds to the need for future improvement of the Human Resources function through questions, responses, reviews and evaluations of the function versus certain pre-defined benchmarks.

“The audit of Human Resources is a four-step process: information gathering, evaluation, analysis and action planning. Each step [...] begins with specific and detailed instructions.”

(McConnell, 2011)

HR Due Diligence is applicable at any given moment to gather information about the current status of the human resources function without necessarily focusing on benchmarks; it is a snapshot of the employee-related organizational perspective.

3.2 KEY HUMAN RESOURCES DUE DILIGENCE ACTIVITIES

In the first part of this chapter we defined due diligence, introduced a link between human resources and due diligence, and we have referred to the scope and application of HR due diligence, which has started from and remains an essential tool for mergers & acquisitions.

Human Resources sub-functions important for due diligence that support an enhanced contribution during this comprehensive business appraisal are:

- 1) Human Resources Information Systems;
- 2) Workforce Planning and Development;
- 3) Resourcing & Talent Planning;
- 4) Training and Employee Development;
- 5) Performance and Reward;
- 6) Employee and Industrial Relations;
- 7) Safety and Security;
- 8) Diversity and Equal Employment Opportunity;
- 9) Human Resources Management, including Organizational Design.

Note: The above-mentioned functions may or may not all fall under the responsibility of Human Resources, and are not all under the coordination of Human Resources according to the CIPD profession map. However, they have been taken into consideration in this guide because of their relevance to the human capital due diligence process.

3.3 CHECKLIST FOR HUMAN RESOURCES DUE DILIGENCE

Here below is an overview of human resources sub-functions, policies, procedures and activities that are closely connected and applicable to due diligence.

The following is an **empirical, hands-on checklist to guide you successfully during the HR due diligence process**.

3.3.1 DETAILS OF DIRECTORS AND OFFICERS

- Organisation chart for executive officers, senior level employees and others where applicable;
- Executive officers and senior level employees' biographies and resumes;
- Information regarding continuity of management in the past 10 years;

- Information regarding dependence on key personnel and risks associated with it (loss of key personnel, change in roles or limitations of availability of key personnel);
- Related party agreements with respect to executive officers and senior level employees (loans, consulting contracts, etc.);
- Standard management and/or employment contracts of the Company's executive officers and senior level employees or similar employees, plus significant deviations;
- Individual management and/or employment contracts of the Company's top management (members of the Board of Directors and executive officers heading main divisions);
- Individual management and/or employment contracts of top management of the Company's subsidiaries.

3.3.2 DETAILS OF EMPLOYEES

- List of the Company's personnel including, but not limited to: name, job, title, main office or subsidiary, fixed and variable pay, social security, pension benefits, other benefits (please specify), company car, commencement of employment, notice period, unused vacation, employee loans (if applicable), sabbaticals, information regarding expatriates (if the case);
- Copy of the Company's standard employment contract;
- General information and status of employment and industrial relations;
- Copies of work safety regulations and orders/decrees by work safety authorities;
- Information regarding employee participation rights, if applicable;
- List of members of the active trade union committees within the Company;
- Details of any claims, disputes, litigation or arbitration relating to union employees or ex-employees, and sums paid and costs incurred in connection therewith, in the last three years;
- Details of all pending personnel litigations;
- Information regarding personnel leasing contracts;
- Standard employment contract for employees of the Company's subsidiaries;
- List of the Company's subsidiaries' staff including, but not limited to: employer, name, job, title, fixed and variable pay, company car, commencement of employment, notice period, unused vacation, employee loans, sabbaticals, expatriates (if the case).

3.3.3 COMPOSITION OF THE COMPANY'S STAFF

- Breakdown of the Company's personnel by level: Board of Directors, Management (Executive) Board, senior management, further levels of employment;
- Breakdown of the Company's personnel by age;
- Breakdown of the Company's personnel by total number of years of experience and by number of years of employment in the Company;

- Breakdown of the Company's staff by educational background, i.e. university graduates, non-university graduates, technical schools, apprenticeships;
- Breakdown of the Company's personnel by division and by subsidiary (including a segregation between customer experience frontline and back office support).

3.3.4 EMPLOYEE AND INDUSTRIAL RELATIONS

3.3.4.1 Current Legal Framework of Employment and Industrial Relations

- Information regarding legal or other restrictions to potential mergers, outsourcing, restructuring or redundancies;
- Information regarding potential opposition or unwillingness to accept change from employee representatives and trade unions, and knowledge about their reasons to oppose;
- List of areas or group of employees benefiting from legal protection;
- Existing pre-approved internal framework regarding collective redundancies and transfer of undertakings (protection of employment) regulations.

3.3.4.2 Industrial Relations Related Expenses

- Legal requirements for financial compensation for redundancies;
- Financial compensation reflected in Human Resources budget or any other budget;
- Amount of cost savings targeted by redundancies (comparison to incurred costs);
- Details of any programme of redundancies instituted in the last three years.

3.3.5 WORKFORCE PLANNING AND DEVELOPMENT

3.3.5.1 Fluctuation/Staff Turnover

- Personnel turnover rates for the past three years by location, split between university graduates and non-university graduates, direct and indirect staff, by division and job families and by years of employment, including permanent, temporary and flexible work information;
- Contracts with long-term freelance and consultants acting as staff members;
- List of protected employees, e.g. employees with disabilities, employees on maternity or paternity leave etc. if the case;
- List of employees approaching retirement in the coming three years;
- Overview of absence of employees due to sickness for the past three years.

3.3.5.2 Projected Headcount Development

Information regarding headcount budgeting and planning as follows:

- Redundancies for the past three years;
- Information regarding the scope of headcount development by number of full-time employees, part-time employees, permanent and temporary employees;
- Information regarding the time frame and quantitative targets for redundancies by location, division and level of employment;
- Number of targeted redundancies, with a focus on specific locations, divisions and levels of employment, and their current status;
- Policies and procedures in what concerns responsibility to implement redundancies and if this lays with Human Resources or line management;
- Accompanying measures taken with respect to organizational structure and individuals in the case of past redundancies;
- Existing agreements and settlements with trade unions or employee representatives with regard to redundancies;
- Details of redundancies, including a redundancy list for the past three years.

3.3.6 RESOURCING & TALENT PLANNING

3.3.6.1 Recruitment

- Copies of existing recruitment policies and procedures and/or employee handbook;
- An overview of the number of new recruits for the past three years by major location and business area and with a split between university graduates and non-university graduates, customer-related and back-office, and per job families;
- Past three years' recruitment dashboard comprising KPIs regarding number of hires, time to hire, time to start in new role and cost of hiring.

3.3.6.2 Training

- An overview of existing training policies and procedures, including access to training, selection criteria, appointment procedures, etc.;
- An overview of training costs and training days for the past three years on an overall basis and by average/employee;
- An overview of training by area of responsibility and by focus, i.e. sales training, product training, IT systems, languages, management skills, etc.
- SWOT analysis for Recruitment & Training.

3.3.6.3 Employee Development and Talent Management

- List of company employee development and talent management policies, procedures and instruments;
- KPIs for employee development and talent appointments;
- List of promotions and/or appointments of talents and high potentials in the past 2–3 years, including moves at executive and senior employee levels;
- Criteria for promotions, pay increases and employee/leadership appointments.

3.3.7 PERFORMANCE AND REWARD

3.3.7.1 General Information

- Copies of employee handbook performance and reward related procedures;
- Information regarding the performance appraisal process, i.e. qualitative vs. quantitative measurements, frequency, tasks and objectives, KPIs to measure success;
- KPIs for performance evaluation and consequence management.

3.3.7.2 Details of Remuneration

- Range and average remuneration for the Company's executive board, senior management and employees, and the Company's subsidiaries' management respectively;
- Industry market surveys and comparison to domestic competition per job family, if possible;
- Details of benefits schemes for all Company staff by level (executive board, senior management and employees), including but not limited to: bonus schemes, profit-sharing schemes, share incentive schemes, fringe and flexible benefit schemes, voluntary benefits, pension and insurance schemes, donations to charity funds, etc.;
- Regular pay increases based on collective bargaining agreements applicable to the Company, including its subsidiaries, if applicable and different;
- Remuneration policies, procedures and ranking/banding salary system (if not included in the collective bargaining agreements);
- Vacation and holiday schemes (if not included in the collective bargaining agreements);
- Pension schemes and other retirement plans, by-laws of pension funds, agreements with third party pension funds;
- Description of the Company's employee procedures and other company schemes that could constitute binding obligations vis-à-vis the company's employees.

3.3.8 SAFETY AND SECURITY

- An overview of Company's safety and security framework and employee protection rules;
- Health and accident insurance plans and policies, incl. directors and executive officers' insurance;
- List of violations of the rules for safety at work, accidents, illness due to profession, as and if the case.

3.3.9 DIVERSITY AND EQUAL EMPLOYMENT OPPORTUNITY

- Information regarding Company's framework ensuring equal access to employment, equal pay and equal access to training and development, as well as management of diversity and inclusion;
- List of Company's policies and procedures regarding age and race discrimination, religious discrimination, bullying and sexual harassment, disability and sexual orientation discrimination, etc.

3.3.10 HUMAN RESOURCES MANAGEMENT AND ORGANIZATIONAL DESIGN

3.3.10.1 Organizational Design, Organizational Structure and Responsibilities

- Company Organizational charts and structure, and details of roles, and role incumbents;
- Copies of Company's model job descriptions per job family/role, as well as per headquarter/subsidiaries;
- Human Resources division/department strategy and mission statement;
- Required competencies and responsibilities of Human Resources division/department overall;
- Description of information Human Resources information systems used, including payroll related, and future information systems development plans;
- Human Resources service delivery model, structure, roles and responsibilities;
- Company Analytics under the responsibility and coordination of the Human Resources division/department (HR Analytics).

3.3.10.2 Human Resources Division/Department Responsibilities Specific to Due Diligence

- Role and responsibilities of Human Resources in relation to employee redundancies;
- Details regarding personnel expenses, budget and general Human Resources costs;
- Responsibility for personnel budget and segregation of control duties between Human Resources and business areas;
- Budgeting and budget control approved procedures (centralised or decentralised within the Company);
- Role of HR in the implementation of remuneration policies and elaboration of guidelines, including fixed vs. variable and other special bonus/incentive schemes.

4 HUMAN RESOURCES ROADMAP FOR MERGERS & ACQUISITIONS

This chapter aims to be a roadmap for HR practitioners who manage mergers & acquisitions.

In the first chapter we spoke about the HR function in general and we defined the concept of due diligence in the context of mergers & acquisitions in particular. We further pointed out the difference between HR due diligence and HR audit, to finally detail the HR activities, as well as the level and type of data involved in the HR due diligence process.

In the second chapter we looked at the applicability of the HR due diligence in real life situations – particularly in M&As, and we discussed about what HR can do to understand the basis for a rapid and solid integration of two (or more) separate business units.

We will now look more specifically at the role of HR, and of the HR due diligence process, during the main three phases of a merger, i.e. during the due diligence process, in the first 100 days and later on, during the remaining part of the M&A process until completion.

In my experience, the integration process lasts for 6–9 months for small and medium companies, could last for at least 1-year for a medium-sized company with 1,500 to 3,000 employees, and even longer depending on the magnitude and complexity of the merger.

The HR integration is more complex than it might appear at a first glance. Beside delivering operational HR during times of uncertainty for people and for the company, HR is a major contributor to the business, legal, technical/technological, cost and human capital integration processes.

Areas of Interest for HR during Mergers & Acquisitions

- 1) Identify HR issues that affect cost;
- 2) Make sure you've got the right people;
- 3) Get management focused on the right things;
- 4) Drive the right behaviours in business;
- 5) Manage employee costs and risks;
- 6) Change management programs;
- 7) Deliver operational HR during integration.

4.1 SUMMARY OF THE HUMAN RESOURCES ROADMAP FOR MERGERS & ACQUISITIONS

4.1.1 IDENTIFY HR ISSUES THAT AFFECT COST

4.1.1.1 Hidden Potential Cost Liabilities

Look into account-hidden cost liabilities, e.g. pensions, employee share plan and employee tax arrangements (Fig.2)

4.1.1.2 Employee-Related Cost of Change

Identify employee-related cost of change, e.g. redundancies (Fig. 3)

4.1.1.3 Cost of Aligning Reward

Assess the cost of aligning people pay and evaluate risk of current subpar performance; consider and/or budget a “cushion” for unforeseen expenses in the business plan (Fig. 4)

4.1.2 MAKE SURE YOU’VE GOT THE RIGHT PEOPLE

4.1.2.1 Key Positions

Identify key positions essential to business continuity (Fig. 5)



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4.1.2.2 Positions under Restructuring

Identify a legally relevant method to determine continued employment, positions and people under restructuring, and new skills you need to hire (**Fig. 6**)

4.1.2.3 Managing Retention

Evaluate, create and roll-out retention measures (**Fig. 7**)

4.1.2.4 Protection of Employment and Transfer of Undertakings

Map and progressively coordinate exit of positions under restructuring in line with protection of employment regulations and transfer of undertakings (TUPE) agreed as part of the merger (**Fig. 8**)

4.1.3 GET MANAGEMENT FOCUSED ON THE RIGHT THINGS

4.1.3.1 Clarity and Communication of the Integration Plan to All Stakeholders

Ensure clarity and communication of the integration plan to leaders/managers/employees, making sure that everyone knows what they are required to do and how they fit into the bigger team (**Fig. 9**)

4.1.3.2 Management Aligned towards the Common Goal

Facilitate and follow-up with stakeholders regularly to make sure that leaders and managers work together as a team, preparing and implementing consistently the common merger strategy (**Fig. 10**)

4.1.3.3 Talent Retention and Attraction

Make reward arrangements (i.e. compensation, benefits and other incentives) that allow you to attract talent, appeasing achievement of key business targets through people (**Fig. 11**)

4.1.4 DRIVE THE RIGHT BEHAVIOURS THROUGH BUSINESS

4.1.4.1 Clarity and Communication of Future Strategy, Principles and Values

Support the leadership team in clarifying strategy and values, and communicate them to engage people (**Fig. 12**)

4.1.4.2 Skills, Competencies and Training for the New Organization

Identify the most relevant and useful skills and competencies for the new organisation and target training to get employees ready accordingly (**Fig. 13**)

4.1.4.3 New Policies Designed with Employee Engagement in Mind

Identify ways to engage employees towards the right goals with the appropriate incentives (Fig. 14)

4.1.5 MANAGE EMPLOYEE COSTS AND RISKS

4.1.5.1 Costs Associated with Reorganisation, Restructuring and Redundancy

Manage costs associated with reorganization, restructuring and redundancy: identify costs with restructuring and establish costs to have the right level of skills needed post-merger (Fig. 15)

4.1.5.2 New Contractual Terms and Conditions

Define new contractual terms and conditions and make sure that pay arrangements support the business in a cost efficient way (Fig. 16)

4.1.6 CHANGE MANAGEMENT

4.1.6.1 Change Management Initiatives

Identify change management initiatives to support the integrated business and employee engagement, considering both internal (post-merger business plan) and external conditions (local competitors) (Fig. 17)

4.1.7 DELIVER OPERATIONAL HR DURING INTEGRATION

4.1.7.1 Critical HR Services Needed

Identify critical services needed to deliver post-merger HR Operational Excellence (Fig. 18)

4.1.7.2 Availability of HR Information Systems

Acquire and/or merge HR Information Systems to know who is employed where and to be able to use HR Data/Analytics to support merger and business (Fig. 19)

4.1.7.3 Positive Relationships and Cooperation with All Social Partners

Establish positive relationships and good cooperation with trade unions, employee representatives or workers' councils (Fig. 20)

4.1.7.4 HR in Alignment with Business Needs

List the services HR should provide in support to business and the resources needed to do so efficiently (Fig. 21)

4.2 DETAILED OVERVIEW OF THE HUMAN RESOURCES ROADMAP FOR MERGERS & ACQUISITIONS

4.2.1 IDENTIFY HR ISSUES THAT AFFECT COST

4.2.1.1 Hidden Potential Cost Liabilities (Fig. 2)

	Due Diligence	First 100-Days	Further During Integration
<p>Look into account-hidden potential cost liabilities, e.g. pensions, employee share plan and employee tax arrangements</p> <p>* LTP = long-term incentives plans</p>	Identify existing pension schemes and other similar expenses		
	Assess implications of LTP in accounting		
	Consider taxes at all levels		
	Take into account funding for replacements		
	Calculate cash costs for awards promised		
	Assess position of LTP		
	Assess options for closing out existing benefits/transfer/buy-out		

Fig. 2

4.2.1.2 Employee-Related Cost of Change (Fig. 3)

	Due Diligence	First 100-Days	Further During Integration
<p>Identify employee-related cost of change, e.g. redundancies</p>	Develop a business case for headcount management		
	Define redundancy costs and potential barriers to implementation		

Fig. 3

4.2.1.3 Cost of Aligning Reward (Fig. 4)

	Due Diligence	First 100-Days	Further During Integration
<p>Assess the cost of aligning people pay and evaluate risk of current subpar performance; consider and/ or budget a "cushion" for unforeseen expenses in the business plan</p>			
		<p><i>Understand roles (positions) and other people-related potential synergies</i></p>	
		<p><i>Define restructuring scheme, costs and milestones vs. overall integration plan</i></p>	
		<p><i>Analyze employment market and its evolution during integration and afterwards</i></p>	
		<p><i>Define and catalogue recruitment issues</i></p>	

Fig. 4

4.2.2 MAKE SURE YOU'VE GOT THE RIGHT PEOPLE

4.2.2.1 Key Positions (Fig. 5)

	Due Diligence	First 100-Days	Further During Integration
<p>Identify key positions essential to business continuity</p>			
		<p><i>Design and present post-merger leadership structure</i></p>	
		<p><i>Establish new board charter and way of working between boards during integration</i></p>	
		<p><i>Define employee objectives and performance targets during integration</i></p>	

Fig. 5

4.2.2.2 Positions under Restructuring (Fig. 6)

	Due Diligence	First 100-Days	Further During Integration
<p>Identify a legally relevant method to determine continued employment, positions and people under restructuring, and new skills you need to hire</p>	<p>Identify key individuals in business and establish dialogue</p>		
	<p>Identify critical skills and behaviors for external recruitment brief</p>		
		<p>Define, get approved and communicate the internal selection process for people in leadership and management roles</p>	

Fig. 6

4.2.2.3 Managing Retention (Fig. 7)

	Due Diligence	First 100-Days	Further During Integration
<p>Manage retention</p>	<p>After evaluating importance to business, understand current position of each individual to be retained in terms career aspiration and financial expectations</p>		
	<p>Develop retention approach for those needed</p>		
	<p>Identify specific compensation and benefits schemes to retain key employees</p>		
	<p>Align definitions of "talent" for the future and assess if specific skills should be excluded</p>		
	<p>Liaise with global functions and consider potential international moves for talents</p>		
			<p>Roll out retention measures; implement retention compensation and new benefit schemes</p>

Fig. 7

4.2.2.4 Protection of Employment and Transfer of Undertakings (Fig. 8)

<p>Map and progressively coordinate exit of positions under restructuring in line with protection of employment regulations and transfer of undertakings (TUPE) agreed as part of the merger</p>	Due Diligence	First 100-Days	Further During Integration
		<p>Develop options for redeployment or severance, as well as applicable operational and social criteria</p>	
		<p>Check and align with protection of employment requirements Develop contracts, letters and employee communication</p>	
			<p>Start/formal consultation process involving trade unions, employee representatives and/ or worker councils Reach necessary agreement and acceptance for the restructuring plans from all business and social partners, and initiate roll-out</p>

Fig. 8

4.2.3 GET MANAGEMENT FOCUSED ON THE RIGHT THINGS

4.2.3.1 Clarity and Communication of the Integration Plan to All Stakeholders (Fig. 9)

<p>Ensure clarity and communication of the integration plan to leaders/ managers/ employees, making sure that everyone knows what they are required to do and how they fit into the bigger team</p>	Due Diligence	First 100-Days	Further During Integration
	<p>Understand existing job families, roles and capabilities</p>		
		<p>Define a clear structure (organizational chart), future business and operational roles - including job specifications, and understand the need for control vs. autonomy for each role</p>	
	<p>Understand regulatory implications and review governance requirements for future roles</p>	<p>Develop business targets (KPIs) for each future role</p>	

Fig. 9

4.2.3.2 Management Aligned towards the Common Goal (Fig. 10)

<p>Facilitate and follow-up with stakeholders regularly to make sure that leaders and managers work together as a team, preparing and implementing consistently the common merger strategy</p>	Due Diligence	First 100-Days	Further During Integration
		<p>Be knowledgeable and able to translate the business vision for human resources</p>	
		<p>Understand team dynamics in general, and assess the kind of rapport and dynamics, as well as the current level of efficiency for the teams under merger</p>	<p>Know your stakeholders, put in place team facilitation as necessary and maintain two-way communication between HR and management during integration</p>

Fig. 10

4.2.3.3 Talent Retention and Attraction (Fig. 11)

<p>Make reward arrangements (i.e. compensation, benefits and other incentives) that allow you to attract talent, appealing achievement of key business targets through people</p>	Due Diligence	First 100-Days	Further During Integration
		<p>Develop executive, key potential and high-value specialists' reward strategy beyond retention packages</p>	
			<p>Adjust and align salaries between internal entities as best possible</p>
			<p>Align incentives to targets</p>
			<p>Develop new reward packages</p>
			<p>Introduce, negotiate and gain approval of remuneration committee or equivalent</p>
			<p>Communicate changes internally</p> <p>Implement approved salary system changes and new incentive schemes at all organizational levels</p>

Fig. 11

4.2.4 DRIVE THE RIGHT BEHAVIOURS THROUGH BUSINESS

4.2.4.1 Clarity and Communication of Future Strategy, Principles and Values (Fig. 12)

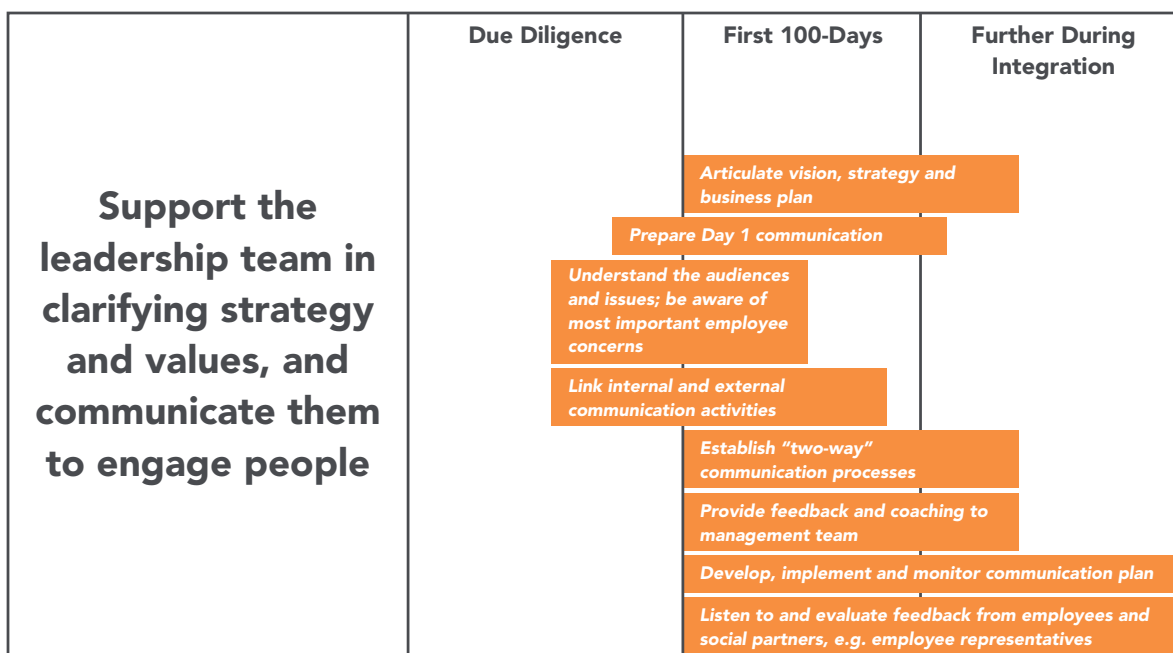


Fig. 12

4.2.4.2 Skills, Competencies and Training for the New Organization (Fig. 13)

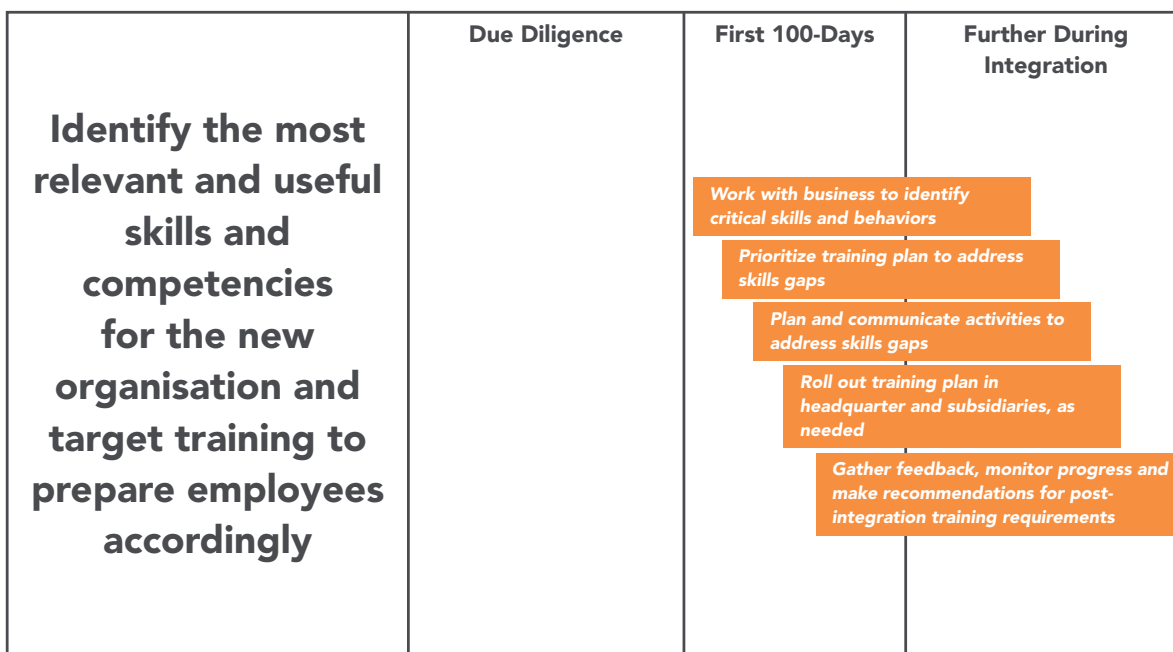


Fig. 13

4.2.4.3 New Policies Designed with Employee Engagement in Mind (Fig. 14)

	Due Diligence	First 100-Days	Further During Integration
<p>Identify ways to engage employees towards the right goals with the appropriate incentives</p>		<p>Understand and build agreement between merger partners for key performance measures in each business</p>	
		<p>Understand current reward policies, including bonus plans, fringe benefits and other incentives</p>	
		<p>Design, model and analyze cost of new common bonus scheme and incentive plans</p>	
		<p>Agree timing of appraisal processes and link to training, reward and recruitment</p>	
		<p>Work with business to tailor reward-related processes and objectives and get input from employees</p>	
			<p>Communicate and drive implementation of the new reward policy and procedures</p>

Fig. 14

4.2.5 MANAGE EMPLOYEE COSTS AND RISKS

4.2.5.1 Costs Associated with Reorganisation, Restructuring and Redundancy (Fig. 15)

	Due Diligence	First 100-Days	Further During Integration
<p>Manage costs associated with reorganisation, restructuring and redundancy: identify costs with restructuring and establish costs to have the right level of skills needed post-merger</p>	<p>Define plans and detail costs with restructuring</p>		
	<p>Determine pools of employees and potential issues and constraints (legal, operational and logistical) for restructuring</p>		
	<p>Consult as legally required</p>		
		<p>Develop redundancy packages and roll out restructuring plan</p>	
		<p>Run a workforce planning exercise to assess demand and supply of skills & competencies needed post-merger</p>	
		<p>Be creative in identifying new business solutions together with business to accommodate current employees, as best possible</p>	
		<p>Set up an internal moves platform and prepare temporary assignments to transfer people in post-merger positions at the right moment</p>	
			<p>Monitor progress and track potential savings against business case</p>

Fig. 15

4.2.5.2 New Contractual Terms and Conditions (Fig. 16)

	Due Diligence	First 100-Days	Further During Integration
<p>Define new contractual terms and conditions and make sure that pay arrangements support the business in a cost efficient way</p>		<p>Conduct a contractual terms and conditions market benchmarking - qualitative for senior employees, as well as salary surveys for performance and reward policies</p> <p>Identify issues to be addressed by the post-merger performance and reward strategy</p> <p>Develop intermediate procedures and integrated contractual terms and conditions post-merger</p> <p>Develop cost model, budget proposal and implementation plan during and after merger is completed</p>	

Fig. 16

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4.2.6 CHANGE MANAGEMENT

4.2.6.1 Change Management Initiatives (Fig. 17)

	Due Diligence	First 100-Days	Further During Integration	
<p>Identify change management initiatives to support the integrated business and employee engagement, considering both internal (post-merger business plan) and external conditions (local competitors)</p>				
		<p><i>Identify change management initiatives in alignment with the post-merger business plan</i></p>		
			<p><i>Do a PESTLE and SWOT analysis to understand your human capital market position post-merger</i></p>	
			<p><i>Develop plan for change, considering all elements of the Due Diligence previously completed</i></p>	
			<p><i>Prepare a communication roadmap for all phases of employee communication during integration</i></p>	
			<p><i>Consult with management and social partners, communicate and implement change management program</i></p>	

Fig. 17

4.2.7 DELIVER OPERATIONAL HR DURING INTEGRATION

4.2.7.1 Critical HR Services Needed (Fig. 18)

	Due Diligence	First 100-Days	Further During Integration
<p>Identify critical services needed to deliver post-merger HR Operational Excellence</p>		<p><i>Identify HR services critical to business; analyze current status and where appropriate, build into transitional new HR service agreements (applicable during integration)</i></p>	
		<p><i>Determine internal delivery needs and negotiate with future external providers</i></p>	

Fig. 18

4.2.7.2 Availability of HR Information Systems (Fig. 19)

	Due Diligence	First 100-Days	Further During Integration
<p>Acquire and/or merge HR Information Systems to know who is employed where and to be able to use HR Data/ Analytics to support merger and business</p>		<p>Decide if current systems respond to post-merger business needs</p>	
		<p>Establish which HR data/information/ analytics are required and capture, validate and calibrate it between the separate systems</p>	
		<p>Clarify which employees transfer with the transaction and their status (e.g. contractors)</p>	
		<p>Match information regarding employees, candidates and conditions of employment from the separate HRIS</p>	
			<p>Manage headcount and headcount projections according to the post-merger strategic and tactical workforce planning</p>

Fig. 19

4.2.7.3 Positive Relationships and Cooperation with All Social Partners (Fig. 20)

	Due Diligence	First 100-Days	Further During Integration
<p>Establish positive relationships and good cooperation with trade unions, employee representatives or workers' councils</p>	<p>Identify legal issues that need to be discussed any survey compliance with legal obligations</p>		
		<p>Develop legal strategy during and post-merger to meet legal obligations and in order to be able to establish communication that impacts company policies and procedures with all social partners</p>	
		<p>Start formal consultation process with trade unions/ employee representatives/ workers' council</p>	
			<p>Maintain "two-way" dialogue with all social partners (management, trade unions, employees)</p>

Fig. 20

4.2.7.4 HR in Alignment with Business Needs (Fig. 21)

	Due Diligence	First 100-Days	Further During Integration
<p>List the services HR should provide in support to business and the resources needed to do so efficiently</p>		<p><i>Review the HR function, data and resources available business perception of delivery</i></p>	
		<p><i>Check current business perception regarding HR delivery and clarify their future expectations</i></p>	
		<p><i>Identify and secure interim resources to ensure successful merger completion</i></p>	
			<p><i>Conduct benchmarking against market data, identify opportunities to improve the HR business model and consider alternative delivery models</i></p>
			<p><i>Develop and implement a plan to drive additional efficiencies in the integrated HR function</i></p>

Fig. 21

5 ABOUT THE AUTHOR



For more than twenty years as an HR executive, Daniela knows that the best business results are greatly supported by an effective Human Resource function. For ING, Daniela progressively covered HR roles in Bucharest, Amsterdam and London. Her efforts throughout the company continually merited further promotion as she not only created and implemented effective strategies and programs for talent development and management, but integrated elements of banking and insurance functions as well as cut costs and lead multi-national project teams.

Over the course of her career, Daniela's various HR leadership roles saw her perform commendably through the companies' start-up, growth and restructuring, acquisitions and mergers in many European countries.

Today Daniela aids top leaders in mining their own cache of talents, skills and experience for the solutions they need to succeed. Executive coaching is a natural extension and blend of Daniela's familiarity in practical business know-how with her educational background, understanding of relationships and motivation for on-going positive development.

Prior to her coaching and career in Human Resources, Daniela was a high school science teacher and an award-winning television broadcast journalist. She brings a unique mix of professional knowledge and life experience to her coaching and consulting practice.

Daniela is a Chartered Member of the UK Chartered Institute for Personnel and Development. She earned a Bachelor of Science in Physics from the University of Bucharest (Romania) and additionally holds a Bachelor's degree in Psychology and a Master's degree in Cognitive and Behavioral Therapies from the Titu Maiorescu University-Bucharest (Romania).

Daniela lives in Birmingham, UK and works with individual clients and teams across Europe. She is curious about pretty much everything, gets her energy from people and nature, and loves pets – both cats and dogs. Daniela believes in kindness and compassion, and is happy to learn from others and to openly share her life experiences.

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