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Four Ways Technology Companies Can Create a Winning People Strategy During M&A

HR has a big job to do when two organizations come together, as the success of a deal often depends on how well you address people issues.

People issues— from culture to total rewards— can be one of the biggest reasons mergers and acquisitions (M&A) fail. This is particularly true in the technology sector where the value of a deal is often found in the employees as much, or more so, than a product or service.

Oftentimes, HR professionals are not well-equipped to address key people issues that emerge before and after a deal is closed. People issues during a transaction aren't easily solved by simple formulas or templated solutions. They require an understanding of business strategy and practical knowledge of how HR programs and processes work to effectuate change.

Given the complicated nature of people issues during M&A, we gleaned insights and data from Aon's **recent Human Capital in M&A survey** of nearly 100 global organizations across 14 industries to understand how those companies leverage HR and total rewards programs to address critical people challenges. From the survey, we took a subset of technology and telecommunications respondents and came up with the following tips for companies to keep in mind.

Issue #1: Understand why you are doing the deal and how people fit into the overall strategy.

Not all deals are the same, and strategy should drive your approach, actions and decisions. A single, template-based approach can work with some deals but be disastrous in others. We categorize deals into the following broad strategies:

- **Bolt on**: Acquirer buys target and lets it run independently within the overall portfolio.
- **Products and people**: Acquirer purchases the target for its technology and/or its people; this typically involves buying product and talent and integrating them into the acquiring organization. These types of transactions are common in the technology sector and often involve acquiring smaller, founder-led organizations.

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- **Expansion**: Typically a larger transaction that allows the acquirer to move into an adjacent or new market segment or business model; usually this involves integrating some aspects while leaving others independent.

- **Transformation**: Mega deals where two companies are getting together to create an entirely new enterprise.

HR leaders need to understand the underlying drivers of a deal before determining how to properly integrate employees at both companies. While contingency plans can be developed prior to any deal, they should be nimble and adaptable for different types of transactions. Figure 1 shows the implications for each type of deal.

Figure 1

Aligning Human Capital Plans with Type of Transaction

	Bolt-On	Products & People	Expansion	Transformation
Focus of Integration	Minimal integration	Absorb into existing business	Selective short-term integration; long-term synergies	Transformation of industry and enterprise
Governance	Driven by buyer with minimal interventions	Managed by acquiring unit via playbook	Basics managed tightly; exceptions more common	Unique process for transformative deals
Style	Selective coordination	Directive taken from acquirer	Coordinated with significant input from target	Collaborative with both entities
Culture Implications	Minimal	Acquirer culture dominates	Integrating with the enterprise over the long-term	Significant impact at both organizations
HR Programs	Minimal change except selective HR policies and benefits	HR programs for acquirer are adopted	Consolidation over the long-term	Blending of HR programs across business units and locations
Change Impact	Minor at target; no impact on acquirer	Major impact on target	Moderate impact on both parties	Major impact on both parties
Duration	Rapid integration and consolidation	Rapid integration	Depends on extent of expansion	Long-term

Source: Aon Strategic Advisory Integration Model

Issue #2: Take steps to retain your high-performing employees during the transaction.

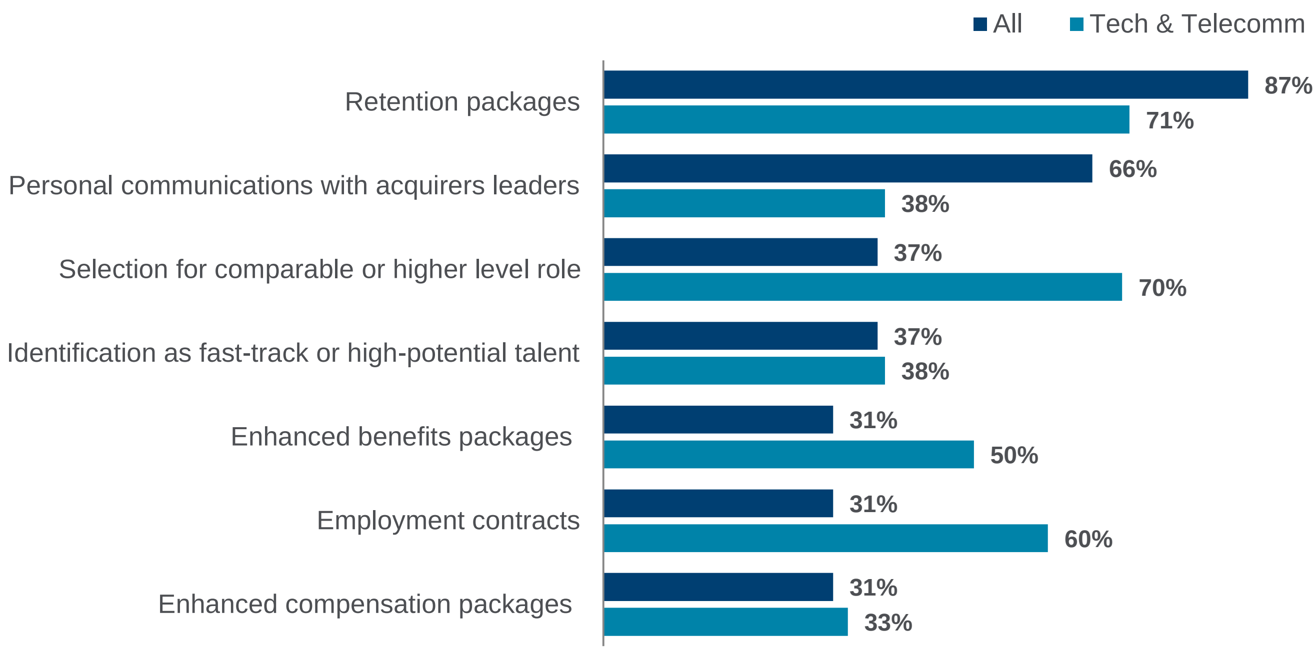
While all employees should be treated with dignity and respect during M&A deals, you should pay special attention to those people who are most crucial to deal value. In fact, retention of pivotal talent was listed as the number one HR priority for technology companies in Aon's study. Key talent will be different depending on the deal (e.g., engineers, sales reps, key managers), and identifying who they are early in the deal process is a critical component of your M&A strategy.

For example, one of our technology and analytics clients conducts a formal culture and retention assessment as part of their financial due diligence process. This helps to assess the cultural and retention risks as part of the overall evaluation of the target entity. This assessment identifies individuals who are critical to keep and pinpoints the retention and engagement drivers for those employees. It also informs the integration strategy and the deal model.

Figure 2 highlights the formal retention programs that technology and telecommunications companies say are most effective during M&A. Some of the programs are much more important to technology companies compared to the general industry group in the survey, including selecting employees for comparable or higher-level roles, enhancing benefits packages and creating employment contracts. Retention compensation packages are still popular but not as widely used among technology companies in the survey.

Figure 2

Most Effective Retention Programs



Source: Aon Total Rewards M&A Survey, 2017

While retention and engagement are very personal issues, focusing on the driving factors behind both is one of the most important jobs of HR leaders. In some instances, the transaction creates a wealth creation event that no amount of additional compensation will help address (oftentimes the case with founder-led businesses). In these situations, it's important to craft retention packages that go well beyond compensation; they must address the underlying motivations of those individuals.

Issue #3: Take a holistic approach to total rewards to keep employees engaged beyond the closing of the deal.

During M&A we see too many companies take a piecemeal approach to each component of total rewards. This can lead to decisions that seem to make sense in each programmatic area, but when evaluated holistically, the total rewards package does not align with the market or to what employees value. In many instances, companies end up misallocating their investment in total rewards spend towards things that add very little value to employee or company interests.

We define total rewards as everything an employee gets from the employer that they find valuable or rewarding. That includes cultural aspects (work environment, work-life balance and leadership), development opportunities (training, coaching, goal development, career opportunities, etc.), benefits (health and wellness, retirement, paid time off, etc.) and compensation (base salary, bonus and equity).

Figure 3 shows that about two-thirds of technology companies don't manage their total rewards holistically by making decisions on each reward element in the context of all rewards elements. We see this as an opportunity for technology firms to take a more integrated approach to total rewards that could lead to better outcomes.

Figure 3

Holistic vs. Segmented: Approaches to Managing Total Rewards

Approach to Managing Total Rewards	All	Tech & Telecomm
Manage elements of total rewards holistically with decisions on each reward elements made in the context of all elements of rewards	41%	35%
Prefer to manage holistically, but currently we are only able to manage in a more segmented manner	32%	24%
Manage selected reward elements within the context of reward segments (e.g., benefits)	23%	35%
Manage each reward element separately with minimal consideration of the "total" package	3%	6%

Source: Aon Total Rewards M&A Survey, 2017

Issue #4: Invest in change and communication, connecting it to the overall integration strategy.

One of the biggest challenges companies have during M&A is keeping their employees engaged throughout the deal lifecycle. The percentage of highly engaged employees is cut in half during an M&A event, according to

analysis of Aon's global engagement database. Employees feel at risk during M&A and this affects their ability or willingness to focus on their immediate work. In turn, these distractions often lead to impaired productivity and heightened regrettable turnover. Conversely, those organizations whose employees stay focused and engaged are more likely to achieve their deal objectives.

In our survey, participants who said they were "very successful" in their M&A transactions had one primary thing in common: they implemented effective change and communications programs during and following the deal. In other words, the ability to successfully *manage* change translated into companies achieving their strategic objectives.

We believe it is critically important to construct a comprehensive change and communication program that incorporates the following elements:

- A clear **understanding** of the change and what is expected— communications and messaging are crucial to ensuring people understand what the change is all about and how it impacts them;
- Addressing the **emotion** that employees are experiencing and converting it into positive energy that is channeled into productive actions;
- Ensuring employees have the **ability** to do what is expected of them; this often involves learning and development activities that equip them to be successful in affecting the change; and
- Having the right **intent** and motivation to work and act differently.

Managing change and communication during M&A is especially important in the technology sector where demand for scarce talent is at an all-time high. A small investment in change management can pay multiple dividends in keeping and retaining coveted talent that feel at-risk due to changes triggered by the transaction.

If you have questions about people issues during M&A and want to speak with a member of our consulting group, please write to consulting@radford.com.

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