



M&A and Human Resources Risks

Successfully managing people
in an M&A context

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Managing HR Risks in M&A

According to a study* carried out by Deloitte, there are a number of risks associated with M&As:

- **60%** of all mergers fail due to failures in the approach and execution of the merger;
- Cost reduction targets are not achieved in **70%** of cases;
- Only **25%** of M&As earn a return on investment;
- In the first 4 to 8 months following an M&A, productivity drops by **50%**.

Most of the barriers to a successful integration are related to people and company culture:

- Gap between the business strategy and employees' objectives and behaviors;
- Liabilities linked to employee benefits and compensation challenges;
- Employee engagement issues leading to less productivity and higher turnover;
- Basic processes essential to team performance functioning are not successfully effective;
- Gap between the cultures of the two companies not assessed and leadership unclear on the attributes of the desired company culture that aligns with the overall business strategy post M&A.

To ensure a successful integration, it is crucial to identify potential HR risks which can impact the cost of the integration, and have the answers needed to launch responses to these risks:



* Deloitte – M&A Trends – Year-end Report 2016 <https://www2.deloitte.com/content/dam/Deloitte/us/Documents/mergers-acquisitions/us-ma-mergers-and-acquisitions-trends-2016-year-end-report.pdf>

Deloitte's Human Capital approach in M&A

	Key challenges	Deloitte's approach
Pre bid	Make a Go/No-Go decision (LOI, NBO, BO, exclusivity)	<p>HR profile of the target company:</p> <ul style="list-style-type: none"> • Summary of the HR situation and social risks within the target • Portrait of the key managerial and expert people • Summary of HR KPIs to be valued in the put option • Key stakeholders mapping • First estimate of the target's capacity to reorganize and move forward
Due Diligence	Estimate HR costs and debt impacting the valuation of the transaction	<p>Estimate costs affecting the valuation of the target: Employee social debt and cash-out (benefit plans, pensions plans, medical plans, profit sharing scheme, share ownership, etc.):</p> <ul style="list-style-type: none"> • Top executive package and LTI • Employment contracts and working conditions • Compensation and Benefit plans • Severance and change-in-control payments • Assess feasibility of the targeted business plan: • Estimate Post-deal restructuring costs • Quantify and qualify risks and synergies (e.g. Cultural differences Assessment, identification of structural/operational challenges) • Anticipate social strategy and calendar • Social climate
Pre-closing	Ensure deal completion/social agenda	<p>Ensure the buyer is ready to present the project to employee representatives:</p> <ul style="list-style-type: none"> • Support in relations with employee representatives • SPA review and TSA preparation • Action plan for Day1 and takeover phase • Social strategy for the acquisition to reassure the buyer that HR aspects will be well managed, limiting its reputation risk • Monitor PPA achievement (debt adjustment)
Post Merger Integration	Set up HR conditions to ensure value and expected synergies	<p>Ensure Day 1 Readiness:</p> <ul style="list-style-type: none"> • Implement and secure HRIS • Apply expected HR plans linked with the acquisition strategy (restructuring, integration, employees transfer, etc.) • Monitor and coordinate HR activities (collective relations, legal requirements, etc.) <hr/> <p>Secure Takeover phase:</p> <ul style="list-style-type: none"> • Deploy cultural and change integration action • Align HR governance, HR structure, HR processes & tools • Adjust leadership and performance models • Define compensation strategy and design physical environment <hr/> <p>Boost Integration:</p> <ul style="list-style-type: none"> • Monitor integration projects on HR aspects • Support social harmonisation (compensation, healthcare, grading, structure of package, profit sharing plans, working conditions. etc.) • Deploy cultural and change management integration actions

Deloitte's Human Capital capabilities



More than 200 multidisciplinary French experts in Human Capital are involved in mergers, acquisitions and divestitures, as well as integration processes for organisations of all sizes to secure and boost the value creation expected from the deal on HR aspects.

A full range of HR global tools to support your M&A strategy:

- CulturePath™
- CultureLab™
- CulturePulse™
- EngagePath™
- Job Evaluation System, JES™
- Retention/separation plan
- HR Playbook
- Management briefings/Workshops
- Quick Survey
- Restructuring support
- Stakeholders mapping

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