

HR Integration and Divestiture Tuning up the talent machine

The cost of people is generally the largest line on a company's income statement, yet HR concerns remain on the periphery of many M&A deals. This isn't because the function is overlooked – more often, it's suboptimized. Talent leaders are busy with the blocking and tackling of compensation programs, benefit plans, functional integration and other basics, but during a merger they face additional urgent tasks like scrutinizing financials and negotiating terms. That squeezes the time available for strategic communications, leading organization and workforce changes, planning for retention of critical skills, rationalizing the workforce and other ways in which HR can contribute to the overall value of a transaction.

Not everything that counts can be counted

The talent picture is about more than people. It's also about leadership, managing change and shaping culture, all of which are important assets for an organization at a crossroads. These can be hard to quantify, however, and during M&A transactions, leaders tend to focus on what they can measure. Yet it's important to plan for the ways in which people issues can influence the structural, talent and cultural risks that go along with change. HR can help drive more effective transactions by taking the lead in these areas – which includes strategically building relationships with counterparts in a target company.

Organizations whose M&A deals have reached financial and operational targets often attribute those outcomes to how well they anticipated the challenges that come with integrating different sets of people, processes and systems. Our cross-functional HR Integration and Divestiture teams help clients effectively manage these foundational factors. We focus on working early in the transaction lifecycle so that HR doesn't miss opportunities to add value.

How we can help

Our professionals emphasize the critical value of using HR to accelerate effective business integration. We draw upon the experience earned in more than 1,000 global engagements to advise clients on how to enable growth, support value capture and bring the business together. Our subject matter experience includes traditional HR subjects, such as total rewards, HR service delivery, organization and talent development, and actuarial services, all of which are backed by Deloitte's deep breadth of experience across the disciplines of Consulting, Audit, Tax and Financial Advisory.

Our services in this area include:

- Change management
- Compensation and total rewards
- Comprehensive communications
- Culture integration and planning
- Employee experience on Day One and beyond
- HR service delivery
- Leadership alignment
- Organization design
- Talent retention
- Workforce planning and employee selection



Bottom-line benefits

Elevating the strategic role of HR during the M&A lifecycle can lead to significant advantages, including:

- Promoting effective retention of valued people, knowledge and organizational focus
- Accelerating the economic value of the deal
- Expanding synergy capture objectives of business simplification, process integration, infrastructure rationalization, spend reduction and revenue enhancement
- Enabling rapid business integration of the HR function, policies, processes, programs and roles to position the organization for sustainable performance
- Aligning the leadership and culture of the redefined organization with pre-transaction expectations

Five ways to get more value now

Business transactions like mergers, acquisitions, spin-ins, spin-outs, divestments, joint ventures and strategic partnerships take companies outside their normal course of business. To step up, HR practitioners need to more effectively engage, accept accountability and contribute to the transaction process from beginning to end. Here are five points for HR organizations to consider when building competencies:

Develop acquisition competency throughout the HR organization. If you have a shared services platform, find a resource that you can draw on as needed and be confident that you understand each other's requirements in terms of flexibility in the mainstream systems.

Build an HR acquisition toolkit. Create a template for your positions in preliminary evaluations, negotiations, the structure of contracts, integration plans, communications, restructuring, executive arrangements and retention.

Facilitate and lead integration processes. Take ownership and accountability for the results of the integration, solve problems, handle the unique deals and surprises, and lead change. Resist the tendency to abdicate functional integration activities to other people and spread the accountability too far, which can cost the HR function credibility.

Resource projects properly. Transactions are the most intense work most people will ever do. Find people who have tolerance, judgment, open minds, and an ability to solve problems – and who are generally fun and interesting. Once you find them, align them to you and reward and recognize them beyond their expectations. You will almost certainly work them harder than either of you anticipate.

Document processes. With the help of a corporate development person or your business unit management team, focus on what is most important and how you will get there. Find experienced HR teams to benchmark against, but recognize that there are different models for different types of transactions and corporate styles.

HR Integration and Divestiture in action

- When a global health care and life sciences company was closing facilities, it needed a comprehensive organization design and staffing playbook to provide consistent processes and guidelines in executing staffing activities, along with a detailed plant/distribution center restructuring guide. Deloitte helped develop and implement these plans, under which about 17,000 global employees were staffed across all levels in five global regions during an aggressive four-month timeframe. The client is on track to realize more than \$700 million in synergies, which exceeds expectations by 20 to 30 percent.
- Working with an international technology company on a separation and functional carve-out, Deloitte accelerated time to Day One and reduced the reliance on transition service agreements (TSAs) for sale to private equity investors. The project included due diligence, the carve-out itself, and selective outsourcing across more than 40 countries and legal entities. Our collaboration resulted in a Day One with no operational service issues. Synergies reached £63m within six months, with a further £64m expected in the next year.
- A \$5 billion enterprise telephony technology and call center systems company, owned jointly by two private equity groups, had an opportunity to purchase significant parts of a major competitor that had declared bankruptcy. We teamed with the client to understand and combine the two organization structures and select approximately 5,000 employees (a 25 percent workforce reduction) as part of the acquisition, successfully onboarding them in the first week and minimizing the loss of key talent through careful communications strategy.

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