

## Using integration to catalyze HR transformation

Merger and acquisition (M&A) transactions often place significant stress on an organization and its employees. Recurring themes typically include resource shortages, competing priorities, an inability to meet deadlines... the list goes on. The idea of adding human resources (HR) transformation to post-deal integration activities may be daunting but its omission may prevent the new organization from realizing its full potential.

HR transformation can quickly become an imperative during M&A. Whether the transaction is a small bolt-on or a large “merger of equals” the number of employees served by HR will increase. The newly combined population, coupled with HR’s M&A-related synergy expectations, often makes transformation a necessity. In the simplest terms, HR will be expected to *do more while also spending less*. Yet, with the proper mix of planning, process, and execution, HR leadership can harness the integration’s momentum to transform the function, optimize HR’s service delivery model, and better support the business and its employees.

### Justifying transformation

At first glance, there appears to be a number of reasons to avoid a sweeping HR transformation on top of an already challenging integration. However, many integration activities can be a launch pad for transformation efforts, as long as each activity is viewed through a transformative lens.

### Identifying weakness

While it’s true that completing the laundry list of integration activities may strain time and resources, integration also provides opportunities to revisit HR programs and processes that may not be efficient.

Integration typically includes a detailed analysis of current-state HR activities at both legacy organizations and, as a result, sheds light on areas of inefficiency. HR leaders can capitalize on this period of “self-reflection” and conduct a non-biased inventory of what’s working (and what’s not).

### Harmonizing versus optimizing

A common goal of integration is to harmonize HR programs and processes across the legacy organizations. In many cases, the focus is on maintaining business continuity throughout the transaction and achieving the “new normal” as quickly as possible. However, when HR leaders undertake transformation as part of integration, they can expand the focus beyond harmonization to optimization. For example, a typical integration may include consolidating legacy HR shared services centers. A transformative integration, on the other hand, may identify opportunities to more efficiently deliver HR services, including technology-enabled improvements and process redesign.

### Funding transformation

Integration provides a number of funding opportunities for selling, general and administrative (SG&A) functions. Given that integration requires significant investments in contract resources, consulting spend, and system upgrades; executives, therefore, typically carve out budgets specifically for the integration. This can present an opportunity for HR leaders to request funding for transformation activities, especially if the transformation is aligned with potential synergies. By classifying transformation activities as a one-time integration expense, HR can concurrently fold the costs into the integration budget and potentially benefit from a large return on this initial investment.



### Transformation opportunity: HR service delivery

When identifying M&A-related HR transformation opportunities, it is important to consider changes that create business value. An initial focus area should be the overarching HR service delivery model—how HR serves its business customers. The service delivery model incorporates many of HR's most critical (and costly) activities. An optimized model can not only improve HR's support of the business, it can also improve the effectiveness of both internal and external resources.

A Chief Human Resources Officer (CHRO), supported by his or her leadership team, may consider assessing the end-to-end processes within the HR function. This includes a functional self-assessment, as well as candid conversations with customers. As HR service gaps are identified, the team can formulate a plan to address issues and better utilize HR resources. Oftentimes, leaders decide to either expand the existing service delivery model or engage in a full redesign of HR processes. High-impact HR service delivery transformation opportunities may include:

- **HR business partner (HRBP) optimization**—How do HRBPs add strategic value to the business? Many organizations provide HRBP services reactively and do not strategically align them to the business. Integration offers the opportunity to review the HRBP talent pool, the level of service provided by each individual (and as a whole), and ways to more proactively and strategically partner with customers in the future.
- **Talent management**—Do the talent strategies of the two entities align? Rather than force alignment to an existing strategy, integration is a good opportunity to review and improve performance management, career pathing and leadership development, topics that are generally sensitive and often not strategically aligned to business outcomes in large organizations.

- **HR shared services efficiencies**—How do shared services support the HR service delivery model? Even mature organizations can find ways to gain efficiencies through simplified and standardized processes and policies. Additionally, organizations can segment transactional HR activities into low-cost areas, realizing savings from labor arbitrage.
- **Technology**—Do current HR information systems (HRIS) enable efficient HR services? Advancements in HRIS may help the HR function move beyond master data management and payroll processing into a new realm of employee and manager self-service. New systems may allow HR to achieve technology-enabled efficiencies, especially since organizations often are faced with both an expanded employee base and budget limitations.
- **Controls & accountability**—Who really owns the HR function? By realigning budget ownership and reporting relationships, HR leaders may more effectively drive activity across global regions. Additionally, clearly-defined reporting relationships (both direct and indirect) can improve leadership's line-of-sight across the function and verify that the global organization is operating in unison.

### Transformation opportunity: HR process & data management

Often/Typically one of the most challenging post-Day 1 initiatives is integrating and consolidating business processes, systems, and data. These activities are integral to an organization's ability to function as a single enterprise. One of the initial activities in any system consolidation is to define the effort—what does consolidating processes and data mean to the organization? How will it impact existing or planned initiatives? Once leaders define the consolidation effort, they should identify and align key stakeholders and set expectations for the scope of consolidation activities to support Day 1 and beyond.

Process, system, and data consolidation challenges typically center on project size, complexity, and scope. Making service delivery model and technology selection decisions early will drive other consolidation decisions, such as business process and system design. Some activities critical to the success of process, system, and data consolidation are:

- **Data clean-up**—Thorough clean-up efforts can increase data accuracy prior to system consolidation. As part of the HR functional transformation, there may also be opportunities to improve existing data tracking and reporting processes.
- **Data standardization**—HR data should be business-driven, standardized, and aligned with other aspects of the budgeting process, financial planning, and position management.
- **Single source of truth**—Building a solid foundation of consolidated company data will be important to sustain the new organization and its future initiatives. Storing data in one system may reduce the amount of required future maintenance and enable better data management, reporting, and business performance monitoring.
- **Business process design**—The new organization's business processes will have a direct impact on forms, workflow, and security, and should be prioritized and aligned with the scope of the system consolidation.

### Transformation opportunity: HR technology

Consolidating and integrating HR technology with other operational systems during an M&A transaction is a large and complex process. By considering technology consolidations in tandem with service delivery, an HR organization may better achieve anticipated deal-related efficiencies and synergies. Executives should select technology that aligns with and supports strategic objectives such as talent strategies and other business-driven requirements. Another key consideration is the time and cost to deploy a consolidated, integrated HR system. The longer an organization takes to consolidate, the higher the cost will be to support multiple systems and business processes. Common questions during a technology assessment include:

- Can an existing investment be leveraged for the new organization? Or does the organization need to go through a vendor selection process for a new technology investment—one that can support the consolidated entity's size and complexity, including possible expansion into new regions or rapidly-changing markets?
- Do the skill sets and experience needed to implement a system consolidation reside in house? How about long-term operational support?
- Does the technology have global coverage and scale to support current and future business requirements?
- Is the technology flexible enough to support legal, union, or regulatory requirements if the delivered functionality cannot accommodate them? Will the consolidated entity be able to support ongoing compliance and regulatory updates?

### Managing transformative change

Getting senior executives to acknowledge and align behind the need for an HR transformation can be challenging, given the other issues and priorities associated with M&A-driven integration. Some common hurdles include:

- **Competing business priorities**—While the HR team may recognize the importance of investing in post-close HR transformation, other organizational initiatives may also require funding. HR leadership should prepare a business case for senior executives detailing the importance of HR transformation and its impact on the entire enterprise.
- **Post-Day 1 uncertainty**—M&A often generates a lot of uncertainty: Employees wonder if they will have a new job, a new manager, a new office, etc. HR, in tandem with Communications, is responsible for managing this uncertainty. Typically, organizations focus on pre-close communications; however, post-close communications should be a priority, as well. Creating a transparent, two-way communications process will likely help ease post-Day 1 employee anxiety and aid in retaining talent. Furthermore, a clear governance and decision-making model should be established to reduce role ambiguity among leaders.
- **Departmental roles and responsibilities**—Integration is an important time for all functions to work together. While HR typically leads people-related change management, communications, and organizational design, it requires significant input from all areas of the business. Engaging with functional leaders early in the M&A lifecycle will give HR an opportunity to understand their needs and consider their input on how employees should be managed pre- and post-close.
- **Employee mapping**—Combining two organizations requires comparing HR processes and policies and determining

new strategies for the combined entity. Differing salary ranges, titles, and benefits can be a hot-button issue. A good approach to successfully execute employee mapping is to research and evaluate industry standards and leading practices. Retaining both entities' current compensation structures until the new year may provide enough time to complete necessary due diligence.

- **Endless "to-do" list**—Completing myriad M&A-related tasks may feel overwhelming to HR staff members, especially since they must do so while also conducting regular business activities. To help ease the integration process, staff should first tackle the tasks that align with the new business strategy and have the most significant impact on employees across the entire organization.
- **Returning to business as usual**—Once a deal closes, many employees will no longer view the integration as a critical focus area and return their attention to business as usual. While deal close represents the legal transfer of ownership, integration is not complete. HR leaders should charge their team with carrying out post-close responsibilities for both HR functional changes and enterprise-wide initiatives. Designating an integration leader to handle pre- and post-close responsibilities can help keep all processes moving forward.

As a company's primary liaison with current and new employees, HR leaders and team members may feel they have more than enough responsibilities on their plate during an M&A transaction. However, with the proper mix of planning, process, and execution, HR leadership can harness the integration's momentum to transform the function, optimize HR's service delivery model, and better support the new business and its employees.

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