

## Planning To Merge?

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In times of economic stress, one of the options open to small businesses is to merge with another company so as to create a more solid financial foundation when the economy does pick up again. Alliances which would have not been considered even six months ago are being contemplated now.

For managers, the prospect of committing the necessary time and resources is always daunting, not least because a high percentage of mergers (70% or more) are reported to fall short of the originators' expectations. Why is it that so many mergers fail?

The major reason is that the focus of pre-merger due diligence is so often geared towards the financial and marketing outcomes that the critical assets in the merger process are overlooked – the people. The integration of organisation structures and systems, the retention of key clients and staff, all need to be carefully planned. But speed in decision-making is also essential, as talented employees on both sides will not wait very long before sending out their CVs.

In order to prepare for due diligence, it is helpful to identify what are the true intentions of the merger from both companies' points of view:

- Is the intention merely to acquire more products or a larger client base – a take-over? Will the acquirer want to restructure the target company, or will they essentially leave the business to continue running (for instance, because of geographic separation)? In other words, will the whole company be affected, or only certain areas such as corporate services?
- If the intention is to fully combine two organisations, how best will the synergies be exploited? What shape would the new organisation need to be? What new business relationships and competencies will be needed to make it successful? Do these competencies exist now? How can they be developed or acquired?

A checklist such as this will clarify the likely impact on employees *before* the merger announcement is made. In that way appropriate communications can be planned immediately so as to avoid disruption to systems and client service. From the employees' point of view, nothing is worse than not knowing what is likely to happen.

For example, suppose that one company's IT system is chosen for the new organisation. The second company's IT department will eventually be disbanded and some redundancies will occur. However the immediate priority is to maintain the current level of administrative support and manage the integration process, both of which will require the IT employees' full commitment for several months. This is where reward planning can assist. The IT staff can be offered a special bonus if they remain with the company until after the integration is complete. The bonus will be paid in addition to any

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redundancy entitlements for employees who leave, as well as to those who secure jobs in the new organisation.

Decisions stemming from the due diligence process tend to be geared towards the reduction of payroll costs, and do not always take into account the “knowledge capital” element. One major pitfall is to assume that technical and client familiarity can be replicated in a very short time. We have all heard horror stories of clients driven away by substandard service because the technicians they used to rely on are no longer with the company. Identifying and retaining these key personnel is one of the most important elements in a successful merger.

Even when the intention of both parties in a merger is to retain all staff members, there can still be deep-rooted differences of culture. A very strong clue to such incompatibility can be found by studying the reward policies. A company which places a high value on teamwork will tend to have very broad-based bonus schemes, with many employees effectively sharing the profits. Companies which focus on encouraging individual excellence will allocate bonuses only to a small number of staff, but the bonus payments themselves will tend to be high. Two such conflicting policies cannot be integrated successfully, so in practice one culture will eventually dominate the other.

If integration of staff is the key factor for success in a merger, then HR Planning should focus initially on the reward systems so as to avoid productivity and retention issues. Over the longer term, most successful mergers create completely new organisations which are able to exploit the best elements of their previous heritage, with a human resources strategy which is tailored to the requirements and aspirations of the new company and its people.

*To have a confidential discussion on the issues raised in this Article, how they affect your organisation and how I might help you, please contact me on +64 9 478 4684 or via email: [janet@rewardmanagement.co.nz](mailto:janet@rewardmanagement.co.nz).*

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