

# The people equation in M&A

How staff retention and cultural cohesion are vital to merger and acquisition success **Interviewed by Leslie Stevens-Huffman**

**W**hile appropriate funding and growth potential are critical factors for a successful acquisition or merger, the people who come along as part of the acquisition could be one of the most important assets. Companies don't generate profits, people do, and they often hold the key to strategic customer relationships and possess institutional knowledge that just can't be captured in a computer program.

For CEOs, an important part of the due diligence process lies in assessing the cultural fit between the two organizations and the similarity in corporate goals between the two groups of employees. Without employee retention, the merger or acquisition may never live up to the profit potential that was promised on paper.

"You can't just look at the assets because, at the end of the M&A process, the assets won't get up and walk out the door, but sometimes people do," says Wayne Pinnell, managing partner with Haskell & White LLP. "It's critical for the CEO of the acquiring firm to spend time communicating with key personnel and be appropriately transparent in his or her communications throughout the M&A process in order to minimize turnover."

*Smart Business* spoke with Pinnell about how CEOs can evaluate the intangible match between companies when considering potential mergers and acquisitions and how to effectively manage the communication process with employees and other constituents.

## How can CEOs evaluate the prospective cultural match between two companies?

First, acquiring CEOs should spend time with the employees in the firm being acquired to see how they interact. You want to observe how the employees communicate with one another and the pace of the work environment to see if you think those employees will blend with your company's work force. Each company develops its own culture; people are attracted to jobs where they feel comfortable and they leave when they are uncomfortable.

Second, review the prospective company's policies and procedures to get a deeper understanding of the operating philosophy.



**Wayne Pinnell**  
Managing partner  
Haskell & White LLP

For example, if the company allows its employees a great deal of autonomy in decision-making, it will be reflected in the way the policies and procedures are written and the way decisions are made. Conversely, companies with a great deal of structure will have lots of rules and binders containing forms and approval procedures. Employees who like structure will be lost without it, and employees who relish autonomy don't like being told what to do.

## How can CEOs assess which employees must be retained?

Spend time with employees in one-on-one meetings and quickly identify any personnel who hold key customer relationships or institutional knowledge that must be retained. Also, assess if the top executives in the two firms can work together, because competing egos can get in the way. You can address some of the ego issues through the M&A planning process, but you need to take those challenges into account before proceeding. Last, don't assume that all the important people hold top jobs in the organization. The key knowledge holders or customer relationship managers often work throughout the organization, from customer service to accounts receivable, so don't overlook them when you're deciding who must

be retained as part of your assimilation planning process.

## What are the communication best practices for executing successful mergers and acquisitions?

CEOs should communicate frequently, and be sure to include as many specifics as possible about the pending transaction throughout the entire M&A process. Remember to communicate internally with employees and externally with customers and suppliers because it's important to communicate with all constituents. People are always concerned about change and, in the absence of information, those fears will grow.

Whether you're talking about executive egos or valuable employees, proactive outreach can help the acquiring company cultivate champions for the acquisition among key managers and executives within the candidate company. Having leaders on board with the idea will ensure a smooth assimilation because others will naturally follow.

## How can my CPA assist with the human side of mergers and acquisitions?

Your CPA should have experience with mergers and acquisitions and should be able to give you advice and transition plan assistance. Having a comprehensive assimilation plan that covers sales and marketing, operations, finance, R&D, customer relations and human resources is vital. Within the human resources portion of the plan, you should address compensation, benefits, titles, training, retirement plans, bonus structures and other people-related issues to assure retention through creation of a win-win situation. Your accountant can assist by suggesting ideas that have been successful for other CEOs facing similar challenges and by running financial models comparing comp and benefit plans. Employees who feel valued throughout the M&A process are more likely to stay on and contribute to the newly combined organization, and that's good news for the bottom line.

**WAYNE PINNELL** is the managing partner for Haskell & White LLP. Reach him at [wpinnell@hwcpa.com](mailto:wpinnell@hwcpa.com) or (949) 450-6314.

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