The Human Equation of Mergers and Acquisitions

by Wayne R. Pinnell, Managing Partner, Haskell & White LLP

Completing a merger or acquisition requires the assessment of numerous factors, including funding, growth potential and profit. However, these important components have a direct connection to an intangible, yet critical asset: people. To better ensure success, the "human equation" must be measured alongside all of the quantifiable factors related to the bottom line. Companies don't generate profits, people do, and people often hold the key to strategic customer relationships and possess institutional knowledge that can't be captured on a spreadsheet.

Wayne R. Pinnell

The Right Cultural Fit

A core component of the due diligence process involves assessing the cultural fit between the two organizations and the similarity of corporate goals. Each company culture is different and without employee retention, the deal may never live up to the profit potential envisioned. At the end of the M&A process, the financial assets won't get up and walk out the door – but people sometimes do.

Acquiring CEOs should begin by spending time with the employees in the firm being acquired to assess how they interact and determine if the pace of the work environment is compatible with that of their own organization. People are attracted to jobs where they feel comfortable and they leave when they are uncomfortable and/or under appreciated. As you analyze the feasibility of the deal, take time to uncover how similar or dissimilar the two pools of employees are and if you are going to significantly rely on the acquired company's employees. Also, be sure to carefully assess if the top executives in the two firms can work together, as competing egos often stand in the way of progress.

Next, review the prospective company's policies and procedures to gain a deeper understanding of its operating philosophy. Policies and procedures will reflect such nuances as whether employees have autonomy in decision-making, or are accustomed to layers of decision-makers above them. Employees who prefer structure will be lost without it and employees who relish autonomy don't like being told what to do.

Finally, don't assume that all of the important employees hold the top management positions. Spend time with employees in one-on-one meetings and quickly identify any personnel who hold vital customer relationships or institutional knowledge. Key knowledge holders or customer relationship managers work throughout all facets the organization, from customer service to accounts receivable. Don't overlook these critical employees when you're deciding who must be retained as part of your assimilation planning process.

Best Practices in Communication

CEOs should communicate frequently and include as many specifics as possible about the pending transaction throughout the entire M&A process. When the time is right, communicate internally with employees and externally with customers and suppliers. People are always concerned about change and the absence of information may exacerbate employees' fears. 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.

The Role of the CPA

While the CPA is paramount to the financial success of a deal, he or she is also important to the human side of the transaction, assisting on a comprehensive transition plan that ensures a successful end result. A sound assimilation plan should cover sales and marketing, operations, finance, R&D, customer relations and human resources. The human resources portion of the plan should address compensation, benefits, titles, training, retirement plans, bonus structures and other people-related issues to assure retention. Your accountant should leverage his or her experience to draw from ideas that have been successful for other CEOs facing similar challenges and run financial models comparing compensation and benefit plans.

There are myriad factors at play during a merger or acquisition, many of which have a profound impact on the employees of the companies involved. Individuals who feel valued throughout the M&A process are more likely to stay on board and contribute to the new organization, and that's good news for the bottom line.

For additional information, please contact Wayne Pinnell at 949-450-6200 or email at wpinnell@hwcpa.com.