

Work Space

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BOSS

Human capital at risk in takeovers

One of the biggest and hardest tasks in mergers and acquisitions is to retain the right people, writes **Fiona Smith**.

By now, BHP Billiton should be working towards having its human resources war room in place. Instead of digging for minerals, a team of HR staff and external consultants will soon be mining for information on the people who work at their takeover target, Rio Tinto.

With competition for talent reaching crisis levels in the resources sector, it is essential that Australia's home-grown corporate giant manages to hang on to the people who keep the trucks rolling and the profits coming in at Rio Tinto.

Some of the personal information unearthed by the HR data miners will be publicly available, from annual reports, the media and Google searches. Other information will come from its own staff and executives. Some may be available from its external recruitment consultants.

Key executives will be identified, as well as "influencers", who are the sort of people who can induce their colleagues to stay.

Influencers are not necessarily senior managers, they might include the administration person who knows what everybody gets paid. It may be the catering manager who talks to everybody at lunch time, or it could be a foreman who is an informal leader on a work site.

Then, there will probably be a strategy to get those people on board, providing BHP Billiton is successful in taking over its rival. As with any takeover, the victor needs to find champions who can help broadcast its messages from the inside.

If BHP is on the ball, it will work out some individual incentive packages to encourage people to stay on in a combined organisation and its lawyers may try to structure agreements that certain people will be key to the takeover going ahead.

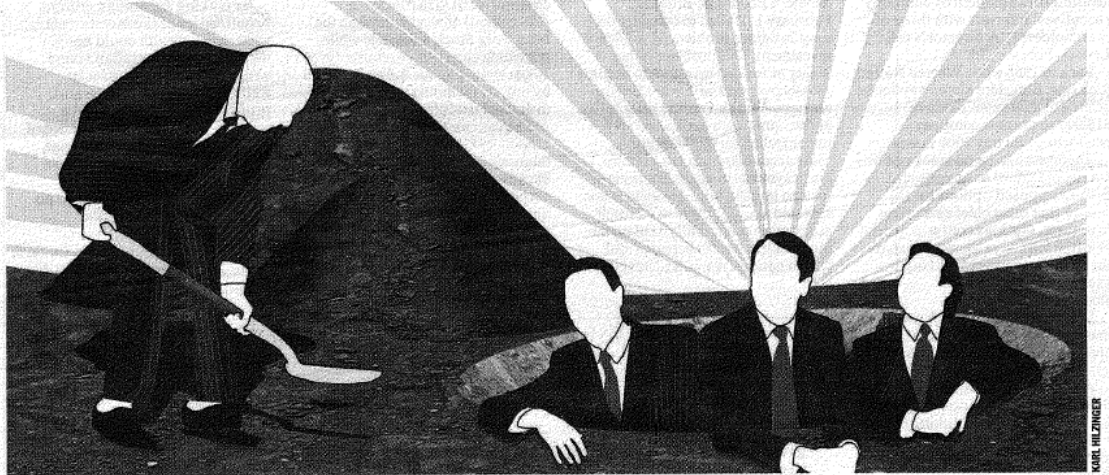
These are the preparations that would be underway in an ideal world. BHP Billiton has nine to 12 months of regulatory process to go through, so any human resources planning may still be at a very early stage.

Too often, staff retention becomes a bit of an afterthought in the heat of a takeover. Research shows that mergers and acquisitions have a high probability of destroying shareholder value: three years after completion, 48 per cent of merged organisations had a total shareholder return that was lower than their industry average, according to Mercer Management Consulting.

And McKinsey says 61 per cent failed to earn cost of capital, or better, on funds invested.

According to Mercer, which consults on human resources, managing human capital risks is both the most important factor for the success of the deal, and the most difficult to manage.

In a survey of 61 organisations in Australia in 2006, Mercer found that people and culture issues were cited as the underlying cause of disappointing results of M&A transactions.



Revolving door keeps on turning

Steve was out at dinner with his girlfriend, celebrating his promotion, when his BlackBerry beeped. "Check the news, we have just been bought," read the SMS from his colleague. It wasn't a surprise.

For the past year, software company Oracle had been splashed all over the newspapers in its battle to take over PeopleSoft, which culminated in 2005.

His first reaction, he says, was that he would go. As a senior people manager for the Asia-Pacific region, he knew that Oracle would want to retain the sales managers, but would be cutting a swathe through the ranks of management, whose roles were duplicated in the other company.

He was also aware of the massive

cultural difference between the organisations.

"PeopleSoft was all about people. It was a bit like joining a university when I signed on, it was lovely, but not necessarily a good thing. Oracle is run by investment bankers and they are just not people-people."

Despite his reservations, Steve says he resolved to be open to any offers Oracle made. His fate was sealed two weeks later when he was called in to a meeting to brief Oracle on his staff, but they asked no questions about him.

"Their intentions were pretty clear," he says. Of his team of 10 people, only two are now with Oracle.

Over the other side, at Oracle, Lenny's days were spent in a flurry of emails from colleagues, all with

snippets about how the takeover was going. The Australian operation was not in the information loop and most of the news was coming from the media or from contacts in the industry.

At least one of the local clients contacted the Australian leaders to demand that the PeopleSoft team servicing their account be retained.

Lenny, an industry account director, left Oracle the following year, and the giant has gobbled up another 32 companies since then. He says 90 per cent of the 40 people he worked with have now left the organisation.

■ Interviewees requested anonymity.

Fiona Smith

When survey respondents were asked to name what areas of human capital management they could have done better, communication, culture and leadership were the top three items on the wish list.

"In our last four deals, none was as successful as expected," one CEO told Mercer's researchers.

"We made very different mistakes each time, but the common denominator was that people issues were too far down the checklist and too far out in time."

This is an all-too-common refrain, Mercer M&A principal in Australia Karen Isely says.

"The 'culture' thing is hard to get your arms around. Organisations really struggle to make it tangible."

The risks of not getting the people and culture issues right are: the loss of key people; lower productivity before and after the deal; disruption to sales and customer service; industrial disputes; delays to the process of implementation.

"The organisations that get it right are the ones who do it [M&A] time and time again. They have learned the hard lessons and make the time to review how the last deal went," she says.

Isely says the acquirer's human resources department (and any retained HR consultants) should be at the table right at the beginning of plans for a takeover or merger.

"The human due diligence should

What the acquirer must do is identify the people that the target company can't afford to lose: executives, influencers, people with key customer relationships, and those with technical skills.

be going on at the same time as other due diligence on the company. Depending on how much time you have, and deal cycles are shortening all the time, you might have a week or a couple of months."

"If organisations don't start early enough, this is one area where they risk the deal falling over."

In a hostile situation, it can be difficult to get information on the people and working conditions at the target company — beyond the information that is publicly available — but in a friendly merger, the two HR teams can meet and swap information.

Details on salaries and performance reviews may be handed over, so long as there is no possibility the deal will fall over.

"On the closing of the deal, you would want to have information on the next level down [from the top executive team] and, perhaps, the next level down after that," Isely says.

"The aim is to get as much information as possible to help manage the risks."

Research shows that 30 per cent of people in a company that has been taken over or merged say they do not intend to stay.

However, Isely says anecdotal evidence is that many of them actually stay on.

However, this is not a good thing, because the damage done by a

disengaged or disheartened person can be greater than the impact of their loss to another company.

"You have someone who says they have an intention to leave still representing your company and dealing with your customers."

What the acquirer must do is identify the people that the target company can't afford to lose: executives, influencers, people with key customer relationships, and those with technical skills.

Communication is the first step to locking those people into the transition. Isely says this includes making sure the benefits of the deal are communicated through the media and through the company website.

"You must also take care of the 'what about me?' " factor. People want to know what will happen to themselves, their teams, their projects and their career paths."

It is equally important to make sure the people working on the deal, talking to the pay office and interviewing managers, are projecting the right image.

The promise of working in a company that values its people falls pretty flat if word filters through that its representatives and consultants have been threatening, cold or rude to those in the target company.

"Organisations do consciously train their people on these things," Isely says.

Golden handcuffs — financial incentives to get people to stay — can work, but only if they are tied to an agreed performance target.

Otherwise, the acquiring company may find that someone who gets a bonus for staying on for two years may just ride out the time without doing much.

It is important to tailor the retention strategy to each individual. Money may not be attractive to someone who would prefer a new challenge, a promotion, a relocation or the excitement of working in a bigger company.

On the other hand, nothing will convince someone who gets satisfaction from the independence and trail-blazing of working in a start-up company.

How you treat the people you have to sack will also have a big impact on the ones who stay.

"You need to treat them very generously, otherwise the ones remaining may suffer survivor guilt."