PREFACE:

This topic lists the human resource planning challenges faced by modern organizations, and the contribution of strategic human resource management to the success of mergers and acquisitions.

1- HR PLANNING IN MERGERS AND ACQUISITIONS

The overall purpose of a merger or acquisition is to generate shareholder value by creating a more competitive, cost-efficient company by combining two existing companies. Strategic HRM can contribute to the success of mergers and acquisitions (M&As). Research has clearly shown that the majority of M&As fail to deliver on the expected financial, marketing, or product gains, with only about one-third of companies reporting that they achieved their goals.

A significant number of failed ventures can trace their roots to HR issues that were not properly addressed such as loss of key staff, culture clashes, and poor communication. To maximize the chances of a successful integration, HR should be involved before, during, and after the deal is completed. **Figure 04** shows the HR activities and focus during each stage of the merger process.

1-1 Before the Deal

To determine whether or not the two organizations should combine, a rigorous process of due diligence is conducted. Due diligence is a comprehensive assessment of all aspects of the business being acquired. Financial, sales and marketing, operations, and human resource staffs are all involved before the final decision is made to merge or acquire the company. Each function determines the assets and liabilities of the target company to ascertain whether there are serious risks to the buyer. HR professionals review issues related to legal compliance, compensation and benefits programs, quality of talent, and labor contract obligations. Early identification of potential problems such as underfunded pension liabilities or incompatible labor agreements helps management plan for an orderly transition. Due diligence is even more complex when the M&A involves companies in different countries. A thorough, objective analysis of the HR-related issues is critical to make good business decisions.

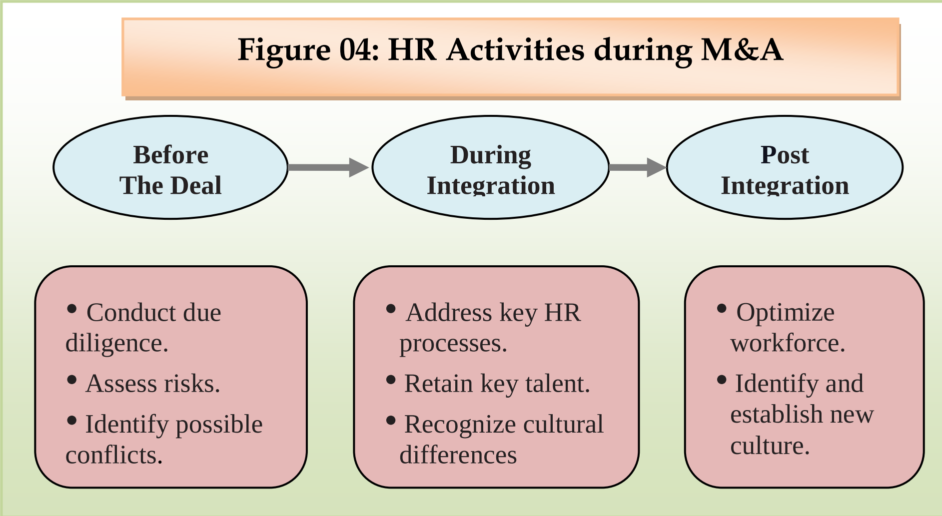

Figure 04: HR Activities during M&A

2. DURING INTEGRATION

After the deal has been closed, the focus of HR activity switches to the orderly transition of basic HR processes such as payroll and benefits migration. During the first 60 days after the acquisition, HR must deliver high quality administrative and operational support to employees and managers.

The immediate concerns are often about basic services needed to run the operations. Frequent communication, employee hotlines, and guidance for managers all contribute to employee retention and loyalty during the chaotic early days of the transition. Early in the transition, managers focus on identifying key talent and establishing initiatives to retain these critical employees.

Retention bonuses, special assignments, and enhanced severance can be used to keep key talent in place during the integration stage.

Integrating HR information systems is important to provide managers with information about employee capabilities, performance, and potential. The acquiring organization cannot make optimum human resource assessments without access to historical information on all employees. An inventory of knowledge, skills, and expertise along with performance information provide the data for making suitable assignments for employees from both organizations. Gathering all relevant HR information in a single database helps managers to analyze and compare employee skills and to make informed decisions about which employees should be retained.

As the businesses are merged, culture conflicts will emerge. For example, when HP and Compaq merged in 2001, cultural differences were recognized and addressed. HP had a culture that fostered innovation by giving employees autonomy and opportunities for professional development. Compaq, on the other hand, was a fast-paced company that made decisions quickly. The merger has been successful because of the blending of the best parts of the culture in each company.

Changing the organizational culture depends upon changing behavior in the organization. Four important factors in changing culture are:

• ***Define the desired behaviors***: Provide behavioral examples of how people are expected to act and tie these behaviors to the performance management system.

• ***Deploy role models***: Select leaders that exemplify the desired behaviors and make them visible throughout the organization.

• ***Provide meaningful incentives***: Reward the role models with recognition to reinforce their behavior and to signal the rest of the organization.

• ***Provide clear and consistent messages***: Align what you say with what you do and reward.

3. POST INTEGRATION

To realize the expected benefits of a merger, the months following the initial integration are critical. Culture changes started in the early days must be maintained. Practical issues regarding talent management and development along with combining compensation systems will solidify the new, united organization. Failure to effectively blend the workforces and move beyond the "us-and-them" mentality can lead to inferior business results, a loss of shareholder value, and the failure of the merger. Continued change efforts are needed to bring all employees to the "one organization" mentality. Breaking down the barriers between the previous practices at each organization and implementing the best from both organizations will give employees a sense of value and importance. Ultimately, the outcomes of the deal result from how HR issues are addressed. The HR Perspective details the strategies that Dow uses to ensure that acquisitions deliver as promised.