Mergers & Acquisitions Leverage

Transforming insights into M&A solutions

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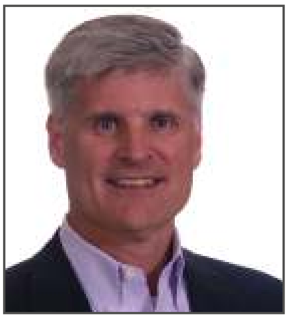

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Editor:
David O. Kompare
dave.kompare@aonhewitt.com

Editorial Team:
Abhay Singh
abhay.singh.5@aonhewitt.com

Marketing & Branding:
Sushil Bhasin
sushil.bhasin@aonhewitt.com

Bhuwan Kathuria
bhuwan.kathuria@aonhewitt.com

Editorial, Reprints & Syndication Office:
Building No. 2 | Candor Gurgaon One Realty Projects Private Limited
Candor Techspace IT/ ITES SEZ | Village Tikri | Sector – 48, Gurgaon – 122002 | Haryana, India
Tel: +91 124 4471000 (Consulting Board)
Tel: +91 124 4471001 (Reception)
Fax: +91 124 3079902

Subscription Requests and Editorial Feedback:
abhay.singh.5@aonhewitt.com

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2017 has so far been a mixed bag for M&A globally as multiple conflicting forces continue to impact deal activity across regions. As per Mergermarket, Global M&A witnessed a modest 8.4% value increase largely driven by the highest M&A activity in Europe since H1 of 2014. However, as global geopolitical chaos continues to dampen the investment climate, companies are increasingly following a 'wait and watch' approach as evident in the lowest quarterly values for deal volumes in US and APAC since 2014.

Europe spearheaded deal activity in the year till now, showing significant strength following a prolonged soft period and political uncertainties earlier in the year. Foreign investment restrictions in China have put a hold on Chinese investment overseas. Private Equity activity, on the other hand, has been boosted given the profusion of 'dry powder'; quarterly buyout values have been the highest since Q2 2007 and exit values have been the highest since 2001.

In the latest edition of M&A leverage, Sharad Vishvanath takes an interesting spin on a classic manufacturing technique and apply it to unearth core human capital issues behind business problems. I shed some light on the results of a recent study we conducted with our clients on Total Rewards practices in the context of an M&A event. Andrew Stemp shares some perspectives on the other side of M&A – divestitures and managing the people aspects related to separation. Bjoern Nientiedt discusses how companies can leverage M&A as an opportunity to design the HR department to best meet future needs. Lastly, Ken Oehler suggests some tangible steps that organizations can take to manage employee engagement during a strategic transformation (including M&As).

I hope you find some valuable insights and perspectives in this edition of M&A Leverage to support you in your own M&A activity. Please reach out to any of us if you would like to have a conversation and learn more.

David O. Kompare

David O. Kompare
Strategic Partner
Aon Strategic Advisory

M&A as a Driver to Design Your HR Department to the Future Needs

Imagine a situation where your company is one step away from an organizational re-set-up caused by a merger or acquisition. This would be the moment you need to ask yourself how a modern HR structure looks like – which organizational set-up and skills are needed for tomorrow? Facing this situation you are able to magnify an M&A deal as a driver to design your HR department, which fits best to your future needs.

Historically, HR has been viewed as more an administrative or personnel function charged with sourcing and paying people, providing benefits and handling employee relations. But business today is about people! The ability of leaders to drive the strategic agenda for their organizations, innovativeness of talent, the quality of services, products and outcomes, drives the success of these organizations.

To be future proof, traditional HR has to transform into HR 2.0

The 'new' HR 2.0 is central to achieving organization's people goals and objectives.

But what are the differences? For the future, it requires Human Resources expertise and skills to develop and change the social infrastructure, accomplish business transformation goals and engage leaders and employees in new strategic directions and processes.

By focusing on those areas within HR service delivery management, talent management, HR function management and Business Transformation, HR can charter a course that yields demonstrable value. For this, a high-level of commitment and a strong alignment with industry needs in a changing environment are required.

Traditional HR	HR 2.0
Administrative Function	Strategic Function
Manpower Sourcing	Talent Management
Payroll & Benefits	Business Alignment
Employee Relations	Driving Outcomes
Transactional	Business Transformation

In a nutshell: What are the HR 2.0 Imperatives?

- **Alignment with Business Priorities:** Deliver High-Impact HR and prepare for a High-Performance. HR requires a deep understanding of business imperatives. HR professionals have to understand and meet local business priorities and become partners to the business.
- **Stakeholder Alignment:** An HR organization needs to evolve the most up-to-date awareness of internal and external customers, markets and regulations.
- **Constant Evolution:** Adaptability, agility, and analytical acumen are key competencies.
- **Cultural & Situational Awareness:** In change situations, HR needs to adopt a new cultural understanding, readiness for new roles, and the implementation of tailored development programs to overcome challenges.
- **Mentoring Mindset:** Executives, HR and business leaders need a different mindset that empowers the organization or unit to function as advisors and change agents.

> If I’m a high potential, I don’t want to be stuck in one function or one business forever. I want opportunities. So we have to understand, to move them around and let them understand the pains of different functions, different businesses. As long as an organization can facilitate movement, employees are attracted. If you give a person all this, why would they leave and join multiple other companies?
>
> **Telecommunications Company**

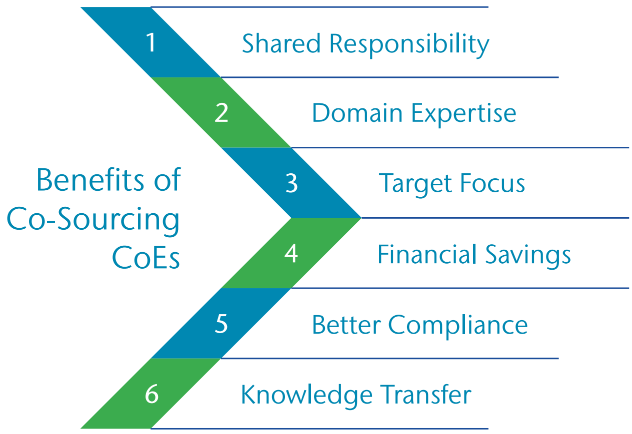
In summary, the new HR function will bring together varied best practices in HR program development, deployment and measurement to achieve better speed to market, consistency and reduced complexity. During an M&A deal HR is regularly the most critical and valuable function and connection to your employees.

Centers of Excellence can help build on the successes of the practice of HR Business Partnering

Going Beyond Business Partnering

How can this be reached? The skills make the difference. In lots of market leading companies, HR Business Partnering empowers already highly competent, credible “account managers” operating at senior levels of the organization to orchestrate solutions designed to solve organizational priorities. For the Future HR, it is important to go one step further by implementing an effective business partnering and centers of expertise model as this is one way to accelerate the evolution of your HR function.

A center of excellence (CoE) is a team, a shared facility or an entity that provides leadership, best practices, research, support and/or training for a focus area. The focus area might be a technology, a business concept, a skill or a broad area of study. Within an organization, a center of excellence may refer to a group of people, a department or a shared facility. It may also be known as a competency center or a capability center. The term may also refer to a network of institutions collaborating with each other to pursue excellence in a particular area.



To fit future HR needs, it is critical that the CoE should be focused on improving HR practices, skills, compliance levels, policies, support, awareness and measurement across HR programs. It is also highly focused on building a culture of HR excellence that will have a measurable impact on the business. Essentially a CoE brings together varied people and skills that promote collaboration and best practice usage around a specific focus area to drive incremental business results.

An M&A is an opportunity for HR to switch from a transactional to a transformational role

Focusing on the HR functions during an M&A deal gives you the opportunity that your HR professionals shift the HR function from a transactional to a transformational role. Therefore, it is essential to develop a roadmap outlining a methodical plan. By focusing on those areas within HR service delivery management, talent management, and HR function management that align with the organization's strategic objectives - while at the same time, building internal capability - HR can charter a course that yields demonstrable value. At the same time, you can establish HR Center of Best Excellences which will bring together varied best practices in HR program development, deployment and measurement to achieve better speed to market, consistency and reduced complexity.

Practices, Principles & Factors used in structuring CoEs

1. Focus on Value-Adding HR Processes

Each CoE should reflect a core or critical HR process-set that is a driver of the organization's strategy.

2. Establish Accountability for HR Process Success

Accountability for the success of the HR process-set is owned by its respective CoE. Organization processes extend across organizational units requiring that the process be considered in its entirety to enable its optimization. Responsibility for operations or process delivery may occur outside of the specific CoE.

3. Organize to Assure Work Done by Right Resource

A CoE ensures that work within its HR process-set is done by the right resources to assure effectiveness and appropriate cost structures.

4. Collaborate across HR Roles and Operations

Cross-functional integration is necessary so that HR Business Partners, Local HR, HR Services Network, other CoEs, as well as Operations Managers provide input into process design, share responsibility for process excellence and corresponding metrics, and constructively use feedback to improve performance.

5. Support Enterprise Standards & Division Specifics

Enterprise CoEs are accountable for enterprise-wide policies and processes, as well as execution standards. CoE committees are accountable for defining frameworks for adaptation and variation. Division CoEs adapt division-level policies and processes to unique business requirements and conditions.

> "The implementation of our HR CoE was one successful milestone for an innovative collaboration model and lean approach within HR"
>
> **Pharmaceuticals Company**

Additional Factors

CoE structuring is also subject to factors such as the range of processes within the process-set, the balance of process responsibility between the enterprise and the division and the extent of mutual responsibility for process performance among non-HR stakeholders. In addition to the above factors, the numbers of those stakeholder groups and the relative importance of a process-set to the success of the company will also impact CoE structuring.

Björn Nientiedt
Senior Consultant,
Aon Strategic Advisory
Germany

bjorn.nientiedt@aon.com

Breaking-up is Hard to Do – People Aspects in Divestitures

When a company is due to sell a part of its business to a third party ('divestiture') as part of an M&A deal, managing the associated people issues both from a legal compliance and wider Human Resources standpoint is paramount to the success of the transaction.

When people are leaving your organization as part of a divestiture, it's easy to take your eye off the ball and focus only on the part of the business which remains. There are or there may be some issues which companies do not consider on a timely basis, if at all, when the primary focus is on business continuation and ensuring that customers are minimally impacted by the transaction.

In a divestiture situation, there are a number of crucial people issues which need to be managed as part of the process to ensure that the transition is seamless and that both, the business and employees thereof, experience the minimum level of disruption possible.

This article helps to explain why managing a smooth employee transition out of your organization to a new employer is crucial. Some of the key areas for consideration are set out below:

Due Diligence Focus: Human Capital Aspects of Mergers & Acquisitions

- **Talent and Continuity Considerations:** Talent transitions are critical components in a divestiture process. Sellers must be aware of the key talent which may be leaving the business, particularly where their skills are used across more than one business area, and think early about succession planning and skill gaps that will be created.
- **Employment and Labour Law:** For any company either selling or acquiring as part of a divestiture, there is a myriad of essential employment and labour law issues which need to be considered and the more international the transaction, the more complicated these can be. They include accretion, acquired rights, discrimination, employee representation and works councils.

- **Compensation Issues:** When employees transfer from one company to another, it is likely that their respective compensation and benefit policies will differ within and across geographies. Early and focused consideration must be given to base salary and incentive arrangements, deferred compensation, equity compensation, executive compensation, retention payments and severance arrangements. With regards to benefits, retirement programs (defined benefit and defined contribution arrangements), supplemental executive benefits, company car arrangements and other perquisites must be considered along with the requisite compliance and financial considerations related to benefit programs. It is important to consider the comparability of benefit programs, contractual and legal limitations on integration and cost considerations. This issue has a strong geographical and sometimes sector-based focus and requires local expertise.

- **HR Administration:** As a seller, it is important to ensure that there is continuity in the management and availability of HR systems following a divestiture. As a buyer, your systems need to be able to cope from day 1 with an influx of new employees who expect, above all, to be paid!

- **Cultural Considerations:** Cultural considerations are key but often overlooked and can be one of the biggest obstacles to a successful integration. Particularly where the transaction is international, it is important to understand the cultural differences between current and acquired populations and how culture can impact the nature and speed of post-acquisition integration. Ensuring that leaders from both legacy organizations are involved in and take a pivotal role in bringing two organizations together can be an important catalyst in this regard. Cultural training for key employees involved in the integration process may also be required. It is a common misconception that just because two groups of people speak the same language that they automatically understand each other!

Many of the areas described above are as important to consider as part of a divestiture as they are during a merger and/or acquisition process. However, depending on the nature of the deal itself, there are some key HR areas which specifically must be addressed during a divestiture, both for buyers and sellers, depending on the particular situation. Some of the key questions and areas to consider are set out below:

- **Employee Transfer:** What are the legal aspects in any situation or country of transferring employees from one company to another? Is this automatic or does some kind of formal legal process need to be followed? If so, what is that process, both from a legal and best practice standpoint? How long is it likely to take? What happens in the situation where the business has transferred but the acquiring company is unable to support new employees for a period of time due to inadequate processes, systems, etc.? Transitional agreements or arrangements may be required.

- **Notification and Consultation Requirements:** To what extent do employees need to be involved in the transfer process and what information must they be given and by whom? How should information on any divestiture be disseminated to employees – there are several ways this could happen, whether on an individual or team basis, via meetings, works councils and union meetings. What is the content requirement of the process? What is the real difference between notification and consultation? It may be a case of just telling employees they are transferring, but at the other extreme an individual agreement may be needed. Again, consider the process required, take advice and build in

enough time to ensure it happens correctly. Both formal (legally required) and informal (typical or best practice) requirements need to be taken into consideration here.

- **Unions and Works Councils:** The required and best practice involvement of Unions and Works Councils in different sectors and geographies varies widely. It is important to understand how these bodies need to be involved in any employee transfer process, the likelihood of disruption or employee dissent, and what companies can do in these circumstances. The level of power and influence of these bodies need to be clearly understood and any potential issues built into the transfer timetable. Employee bodies may resist change but it is important for the company to consider the extent to which change can be implemented anyway, and how any messaging will need to be managed. Increasingly for companies, it is as much about managing external, reputational risk issues as it is about managing individual employees or groups internally. The increasing power of social media can potentially compound any risk.

- **Acquired Rights:** In many countries, employees transfer with their employment rights, compensation and benefits intact, and it may be that the acquiring company cannot change these for a period of time, if at all. However, this is not always the case. In cases where employee rights do not cover this area, a clear strategy needs to be developed on the transfer of any compensation and/or benefits, along with the implications of employees losing certain elements on transfer.

- **Offer and Acceptance Process:** Does there need to be a formal offer and acceptance process in place for employees to transfer to a new organization? If so, what are the mechanics of this? What happens if the employee declines to transfer? Does the seller have to retain him? What happens if the seller cannot or does not want to retain him – what is the legal process which must be followed? What documentation must be kept with respect of such issues and by whom? What are the termination and/or severance implications for any employees who lose their job (voluntarily or otherwise) as a result of a divestiture?

- **Benefits:** What happens to benefits when an employee transfers from one company to another? Do they take their benefits with them and, if not, how and when should they be enrolled in benefit plans with their new employer? What happens to benefits such as accrued vacation which has not been taken on transfer?

- **Government Filings:** Is there any legal or best practice requirement to inform any government institutions about divesting employees and, if so, what are they and when must they happen? Who needs to know? Is there any public information required, for example in local or national press?

- **HR Vendor Management:** When employees leave or join a business, this is going to have an impact on benefit costs as, if a significant number of employees either leave or join, this may impact the premium the company must pay going forward. This issue needs early consideration, along with the seamless termination or amendment of any existing arrangements with vendors, which may be predicated on a certain number of participants in any benefit. Benefits to be considered include pensions, risk and other benefits, as well as any lifestyle benefits in place.

Key Considerations During Separation

Business Valuation - Develop an integrated strategy aligning human capital terms and conditions with the offering memoranda, human capital pro forma financials (including business standalone financial statement adjustments), sale & purchase agreement, management presentations, and negotiation strategy.

Leadership Engagement - Implement leadership incentive/ retention strategy aligned with transaction objectives (e.g., successfully manage the business through transition; provide stability and continuity; maintain focus on customers; retain key personnel).

Internal Due Diligence - Identify population by country, employing legal entities, terms and conditions of employment (e.g., compensation and benefit programs), retirement and other liabilities (+ funding/ book reverse status), workforce separation risks and obligations, and potential curtailment and other charges to gain/ loss on sale.

Due Diligence Data Room - Collect and populate data room with corporate-sponsored HR, Executive Compensation and Benefits programs and business-specific/ country-specific programs as applicable/ data room review and HR/ risk assessment on behalf of potential buyers.

Sales Agreement Negotiation - Review 'seller' initial purchase agreement covering reps and warranties, conduct of business between sign and close, employee matters provisions (including potential employee 'lease' arrangements), no-hire/ non-solicit protections and transition services. We also assist with purchaser or seller negotiations.

HR Operations - Assess the HR operational implications (e.g., HRIS, payroll, HR functional structure) of a divestiture, including the timing and alternatives to the existing structures and programs.

Communications - Develop announcement strategy and rollout, consider need for ongoing employee updates, identify country-specific communication requirements and implement process for addressing questions and concerns.

Transition Planning and Separation Support - Determine Global HR separation issues (legal entity, compensation/ benefit plans, labour relations/ workforce transfer, HR operations), establish separation strategy and provide support for a seamless separation of divested business with necessary standalone setup (e.g., vendor identification/ selection/ implementation) or HR transition services agreements (TSAs), as needed.

Summary

In short, the people aspects of a divestiture are equally as important as the business aspects and must be considered in parallel, on a timely basis and both from a legal compliance and best practice perspective. Failure to manage the people aspects of a deal can and almost certainly will result in problems down the line, either of a legal, process or reputational nature. Be prepared and work through each area to ensure that such problems do not become yours.

Andrew Stemp
Associate Partner,
Aon Strategic Advisory
UK

andrew.stemp@aon.com

Managing Engagement in Times of Change

The world is going through an incredible amount of political and economic change these days. Populist movements in the United States, the United Kingdom, and throughout Europe have aroused fears of walls and borders - causing anxiety about both job security and leaders' ability to attract talent from other countries. Furthermore, rapid technology advancement in robotics, drones and driverless cars, artificial intelligence, machine learning, and the Internet of Things is threatening both blue collar and white collar jobs.

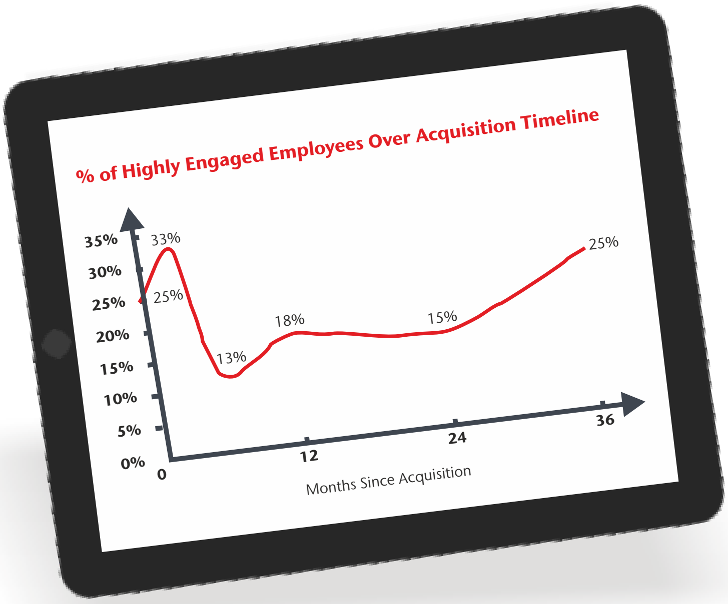
In this rapidly evolving environment, we can expect company leaders to adjust with strategic transformation, mergers, acquisitions, restructurings and divestures. Combined, these internal and external events will have a significant impact on the very employees who are required to drive value through them.

Despite these pressures, leaders and companies are still expected to engage their employees and preserve healthy cultures. It is important, therefore, to understand that the rules of engagement are altered in the face of disruption. This article examines what happens to engagement during times of change and what can be done to manage employee engagement throughout that change.

Defining Employee Engagement

We define employee engagement as "the level of an employee's psychological investment in their organization." We measure an employee's engagement level by the extent to which they 'Say' positive things about their organization, their intent to 'Stay' with the organization, and their willingness to 'Strive' to give their best efforts to help the organization succeed.

Aon's upcoming 2017 Trends in Global Employee Engagement report reveals that engagement levels are falling around the world and well over a third of all employees fall in the 'Passive' or 'Actively Disengaged' categories. Engaged employees are an even more powerful asset during times of change - and disengaged employees become an even greater liability. With these abysmal numbers, the average organization cannot possibly reach its performance goals quickly, much less manage through a disruptive internal or external change.



> It takes a significantly long time for employees to return to baseline engagement levels after a transaction event

Engagement in Times of Change

Whether it is the wave of populism that we are seeing sweep through many countries, the disruptive technology that threatens millions of jobs globally, or a deep recession like the one we saw nearly a decade ago, societies and organizations must battle through transformation. As external disruptions occur, there will be an eventual outcome for certain vulnerable or opportunistic organizations - a merger or acquisition. Not surprisingly, employee engagement is influenced by any of these changes.

In a merger or acquisition situation, most organizations experience a dramatic spike and then a precipitous fall in the engagement of those employees who are most significantly impacted by the transaction. Within that group, the proportion of actively disengaged employees increases in a manner similar to that of other types of transformation - but the percentage of highly engaged employees is cut nearly in half during an M&A event. By contrast, many employees appear to become highly engaged when their company makes an acquisition that has no impact on their individual jobs. Perhaps they see an opportunity to expand their sphere of influence or see positive possibilities for the future that holds no personal threat.

Organizations should also consider how these M&A engagement effects play out over time. We have found that individual reactions to organizational changes fluctuate at various stages of the acquisition process. Immediately after any merger or acquisition, employees tend to be engaged by the prospect of a new direction. However, the reality of the changes that come with integration and restructuring may cause employees to disengage.

Not surprisingly, the increase in job demands and loss of control that occur soon after the merger or acquisition may increase employee stress and fatigue. But after employees become accustomed to the new demands and controls of the job, their engagement levels recover over time.

The graph on the previous page follows and validates the "change curve" often cited by change management professionals. This finding suggests that it can take a long time for employees to recover to baseline levels after transaction events.

Issues of Control, Career, Capability & Connection are the most important factors irrespective of the level of transformation

What can organizational leaders do to decrease the depth of the engagement dip and/or to accelerate the time to recovery? To help inform about potential interventions, we examined data from a diverse panel of employees who had experienced any type of change that impacted their jobs (e.g., merger, acquisition, transformation, restructuring). The drivers of employee engagement do, in fact, have different priorities depending on the presence of change. The highlighted items in the table to the right, are those that are different depending on whether or not there is a significant amount of change occurring in the organization.

Top 5 Employee Engagement Drivers in Times of Change vs. Times of Stability

	Times of Change	Times of Stability
1	Involved in decision making	Understand career path
2	Understand career path	Involved in decision making
3	Co-workers make personal sacrifices to help the organization	Have the necessary resources to do job
4	Company provides encouragement for development	Company provides encouragement for development
5	Company provides a two-way dialogue	Employees are provided proper training to do job

The findings indicate that three issues—
1) control (involvement and empowerment),
2) career (understanding of one's path), and
3) capability (training and development)
- are important regardless of the amount of change taking place in the organization. However, during times of change, it appears that the need for control supersedes the need for a career path.

In addition to these three important ingredients of engagement, employees undergoing change appear to have significantly more need for a fourth ingredient, connection:

- **Connection with leaders** — employees want more two-way dialogue with organizational leaders.
- **Connection with co-workers** — employees need to see their co-workers pulling together, providing reliable support and making personal sacrifices during these stressful times.

A proactive, time bound 5-step process is essential to manage employee engagement in times of change

Managing Employee Engagement in times of change

Our research has identified five tangible steps organizations can use to assess, understand, and take action on the engagement levels of employees as the organization undergoes strategy transformation:

- **Set Expectations:** Define the type of change your organization is experiencing and what is required from employees. Defining the behaviors that employees need to stop, start and continue becomes critical as significant changes occur.
- **Understand:** Measure engagement, change readiness and other work experiences throughout the change. When undergoing dramatic change, it is paramount for your organization to understand your employees' readiness for change. Many organizations delay assessing understanding, emotional state, readiness, and engagement levels during times of change, but this is actually the perfect time to get a baseline measurement - not only of how engaged your employees are, but also on critical organizational levers to manage transformation risk. Enacting a pulse survey strategy with quarterly or even monthly measurement can enable proactive change interventions.
- **Intervene:** Tailor interventions that meet employees' engagement needs during change. Our analyses identified four key themes that are important for employees undergoing change:
    - **Connection**: Employees want a personal connection to leaders and co-workers.
    - **Control:** Employees almost always feel some loss of control with change events.
    - **Career:** The need for a clear career path showed up consistently in our analyses.
    - **Capability:** Employees' need for skill building and development is a constant but takes on increased importance in times of change.
- **Go!:** Based on your findings, develop an action plan for each organizational unit with clear accountabilities. It should spell out, in very concrete and behavioral terms, the actions to be taken, who is to take them, who is overseeing the efforts, when the action will take place, what resources are needed, what risks exist, what (if any) time restrictions are imposed, and how success will be measured. The action can be small at first—but it is extremely important, especially in times of change, that employees see action being taken.
- **Reinforce:** Once your organization implements its action plans, it is critical to ensure that the plans do not lose steam. Ideally, engagement and proactive planning will become part of your ongoing culture through regular discussion. This feedback loop allows you to manage existing change as effectively as possible and future-proof your organization against the disruptive forces of future change.

Regardless of the type of change, the degree to which employees can identify with their organization, see a clear future, or strive toward organizational objectives seems to be most significantly at risk during change events. We know it can take months or years for employees to re-engage once they have been negatively impacted by a change event. We also know that employee engagement, and particularly the percentage of highly engaged employees, is positively correlated to higher performance and business value creation. These findings suggest that employee engagement is both an opportunity and a risk to be managed during times of transition.

Dr. Ken Oehler
Global Culture & Engagement Practice Leader
Talent, Rewards & Performance

ken.oehler@aon.com

Feature

Beyond Rewards in M&A

Aon recently completed a new study entitled "Addressing Workforce Challenges in M&A: A Total Rewards Perspective", focused on reward practices in M&A transactions. What we learned goes far beyond reward practices.

More than a year ago, we embarked on a research study to learn more about reward practices in the context of M&A transactions. We were interested in learning more about how reward elements were being approached in transactions. How are short-term incentives treated? What retention tools are most effective? With almost 100 companies participating, we learned the answers to those questions and much more.

Priorities and Productivity

In seeking to provide some context for how participants were approaching M&A transactions, we asked participants about their post-signing priorities. While we weren't surprised that retaining key talent was a leading priority, we were interested that the number one priority was maintaining productivity. Moreover, in a related question on the most challenging elements to manage, managing competing priorities was again the number one response. It is clear from the responses that declining productivity is a significant challenge and concern in transactions.

Most Important Post-Signing Priorities

1. Maintainaing productivity or minimizing disruption to current work
2. Retaining top (BEST) talent
3. Identifying cost savings
4. Maintaining or enhancing employee engagement
5. Integrating target into buyer programs and administrative platforms

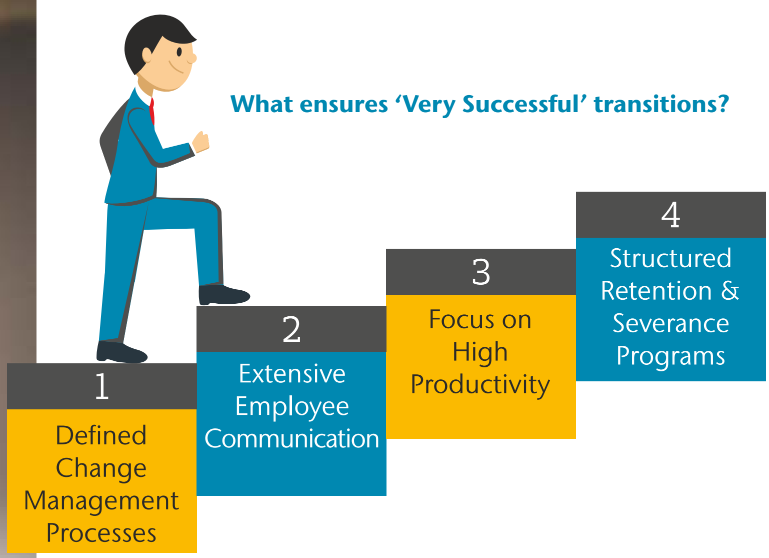
On reflecting on the challenge of productivity, we recognized that there were steps participants could take to drive productivity through a transaction. Rather than splitting everyone's time between business and integration activities, organizations could reallocate resources to focus their full time on one or the other – and improving the focus on each. Given that integration activities tend to be short-term needs, it may also be the time to engage short-term consulting resources

to support integration activities, thereby enabling employees to continue to focus on their core roles. Productivity may also be supported through the use of special incentives focused on key productivity metrics.

What is Driving Success?

In looking to understand not only what reward practices were being used but which ones were proving effective, we also asked participants to rate their success in their transactions (based on whether they achieved their transaction objectives). 31% of participants responded that they were very successful and we then looked carefully at the responses of the 'very successful' participants relative to the rest of the participants. What we learned was that the success was being driven by more than simple reward practices.

The 'very successful' participants in the study reported being significantly more successful with their change management and communication practices. What had been intuitive was reflected in the responses – companies that focused not only on costs or alignment but rather on helping employees understand potential change were more successful.



The 'very successful' participants in the study also had another shared characteristic – they identified enhancing employee engagement and maintaining productivity as top priorities. It was clear that companies that were focused on enhancing employee engagement through a transaction achieved more success. Perhaps in their next transaction, companies should focus on opportunities to use the transaction to help improve employee engagement.

'Very successful' participants also demonstrated a greater use of both retention and severance programs in supporting the success of their transactions. This focus, both on supporting their key talent and also in providing support for redundant employees, was helping drive these organizations' broader success.

Ensuring that People Managers have answers to questions of employees during transactions is critical to success

Preparation of Managers

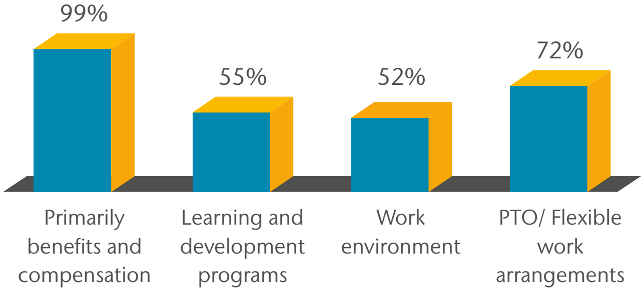
Managers provide perhaps the most direct and most important linkage between an organization and its employees. Given this relationship, our study also revealed a potentially troubling element. In the course of our study, we asked participants to help us understand how well prepared different members of the organization were to respond to employee questions. We learned that in almost 40% of the participants responding, people managers were only somewhat or not well prepared to respond to employee questions.

Given that employees typically look first to their people managers for questions, the fact that people managers are less prepared to answer their questions is concerning. It also suggests that organizations may want to do more to ensure that their managers are equipped to support their employees through a transition (e.g., manager information sessions, Q&A toolkits).

Leveraging your Rewards Strategy

As a threshold element in understanding participants' reward practices in M&A, we wanted to understand more about their reward strategies. We started with a question about what elements comprised their reward strategies. Not surprisingly, most reward strategies are premised on primarily benefits and compensation. The concerning aspect of the responses is that many strategies did not include elements such as learning and development programs, work environment or flexible work arrangements.

Percentage of respondents including element in total rewards strategy



In a separate survey that Aon recently completed[1], we looked at how different members of the workforce viewed rewards. Millennials[2] identified base pay, flexible work, career development and paid time-off as the top four levers of their total rewards package. For organizations that do not include some of these elements in their reward strategies, there is a risk that they are neglecting a thoughtful approach to key members of their workforce. We encourage organizations to consider how elements such as learning and development or work environment are supporting their business strategies.

[1] Source: Aon 2016 Total Rewards Survey
[2] Defined as employees between 20 and 35 years of age.

Majority of organizations look to align rewards holistically across all elements in the context of transactions

We also asked participants about how they approached the alignment of their reward elements in the context of transactions. The majority of respondents were looking to manage alignment holistically across all reward elements – perhaps most interesting was a significant percentage of participants (32%) that indicated that they preferred to manage total reward elements holistically but were only able to manage them in a segmented manner.

Approach to Managing Total Reward Elements

We manage total rewards holistically	41%
Prefer to manage holistically but can only manage in a segmented manner	32%
Manage selected reward elements within the context of reward segments	23%
Manage each reward element separately with minimal consideration for the total package	3%

This is perhaps reflective of HR organizational structures that still segregate reward responsibilities across different individuals.

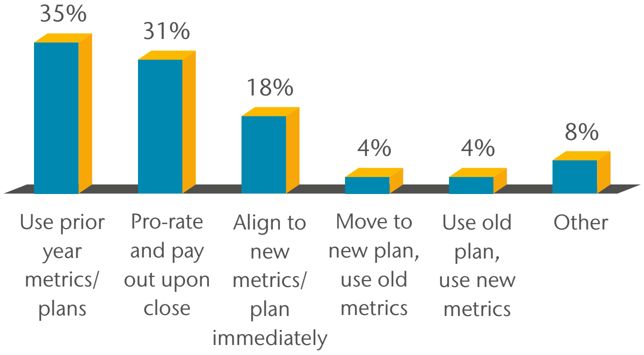
Treatment of Key Reward Elements

The participants' responses answered many of our questions regarding the specific treatment of various reward elements. Their responses also revealed what we anticipated – that there is no singular approach for any particular element.

Short Term Incentives (STIs)

STIs are a key driver of performance and STI plans often don't specify the treatment of STI opportunities in the event of a transaction. The participant responses indicated a range of different approaches from continuation of existing plans to the replacement of plans with new ones.
The range of approaches is likely to be reflective of a number of factors, including the feasibility of continuing existing performance metrics and the extent to which those metrics align with post-transaction business objectives.

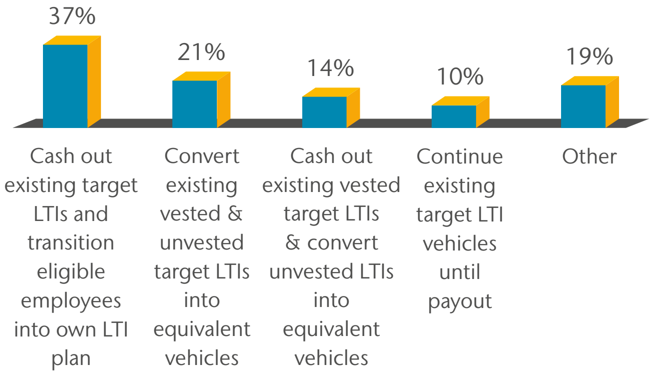
How do you address outstanding target Short-term Incentives from the target in the first year post-close?



Long Term Incentives (LTIs)

Again, we see a range of different responses from participants. The most common treatment of LTIs was to vest and pay out these incentives at the close of the transaction. There were, however, a number of participants indicating that they were converting the LTIs of the target companies into those of the acquiring organization. The conversion of the LTIs has the advantage of avoiding the need of an immediate payment and potentially preserving the retention and vesting conditions of the LTIs.

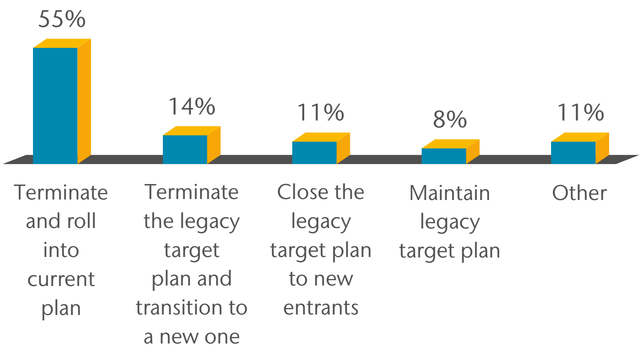
How do you address outstanding target Long-term Incentives from the target in the first year, post close?



Company Sponsored Retirement Plans

While there was a clear majority approach to terminate legacy plans, we also saw participants retaining legacy retirement plans in some instances. Terminating legacy company sponsored retirement plans help to minimize both administrative and compliance related expense.

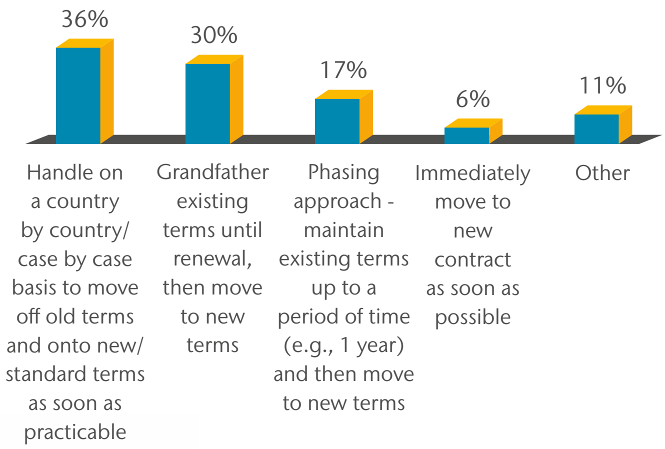
When integrating Company-sponsored retirement plans, what strategy do you use?



Expatriate Packages

Expatriates are often a critical component of the workforce that have their own unique reward elements and packages. The participants in our study shared a range of approaches in addressing the reward packages of these valuable employees. The range of approaches reflect a balancing of the practical simplicity of continuing existing arrangements until expiration, with the desire to align arrangements in a more expeditious manner. These approaches also often take place in the context of a re-evaluation of the continued need for expatriates in many transactions.

How do you address International Assignment/ Global Mobility employees & differences that may exist in benefits and allowances offered?



Retaining Key Employees

A leading priority of study participants was in retaining key talent through the course of a transaction. In the context of the study, participants provided a wealth of information about their approaches to retaining employees. One of the most valuable aspects of the information shared was participants' perspectives on which approaches to retention were proving most effective.

Most Effective Retention Mechanisms

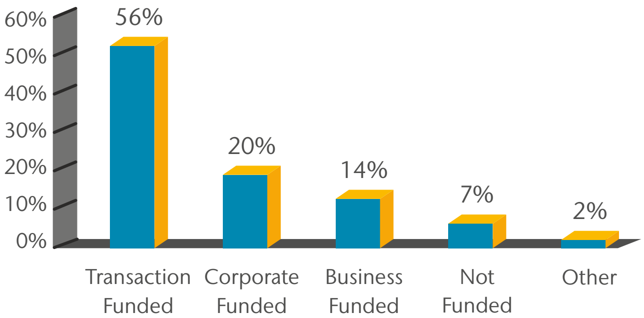
Retention Packages	87%
Personal Communications	66%
Selection for Comparable or Higher Role	37%
Identification as a High Potential Performer	37%
Employment Contracts	31%
Enhanced Comp Package at or following close	31%

The participant responses confirmed our understanding that financial retention packages are highly effective. It was interesting that there were a number of other approaches identified as effective and that once again, the participant responses underscored the importance of effective communications.

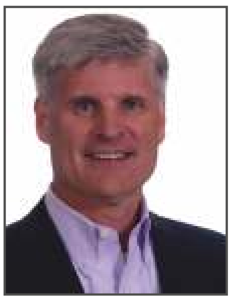
Funding of Financial Retention Packages

One final question of interest was how financial retention packages were actually being funded. The most common funding approach was funding out of the transaction budget as opposed to corporate or business unit budgets. This response underscores the importance of doing effective transaction budgeting at the time that acquisition budgets are being set – typically during the due diligence phase. One mistake we often see companies make is neglecting to account for HR transaction expenses appropriately in the financial model. This requires proactive thinking along with a measure of HR expertise.

Most Prevalent Funding Mechanisms



The objective of our study was to provide participants and the broader HR community with some perspectives for considering their own approaches to rewards and M&A. If you would like additional information or a copy of the full study for your company's use, please contact abhay.singh.5@aonhewitt.com



David O. Kompare
Strategic Partner
Aon Strategic Advisory - M&A Solutions
USA

dave.kompare@aon.com

Applying the 5 Whys Technique to Business Issues:

The Key to Finding the Human Capital Issue Behind EVERY Business Problem

On a flight back from the USA, we recently came across a very interesting 2 minute info-video from HBR* on the Five Whys framework which has its roots in the Toyota Production System, applied to technology issues in Start Ups. It's fascinating how it can help us get to the human root cause of 'each & every' technology issue and drive preventive maintenance. The principles of applying a 'Five Whys' technique to encounter any kind of failure is quite simple, as follows:

1. Find the human problem
2. Make a proportional investment
3. Prevent operational problems
4. Find your optimal pace of work

> The '5 Whys' technique espouses that behind every supposedly technical problem is actually a human problem

It got us wondering if this technique could potentially be applied to any scenario and typical business challenges that companies encounter. Could it be a valid and potentially powerful tool in surfacing the human capital root cause of EVERY issue that firms grapple with? While the 'Five Whys' technique entails that behind every supposedly technical problem is actually a human problem; it would not be unwise to assume that there are always implications of ineffective or inefficient HR programs and processes that can give birth to or aggravate business issues at the operational level.

We decided to improvise and apply the Five Whys technique to a key issue and differentiator in two of the hottest industries in the Indian & global start-up space, i.e., e-commerce and FinTech.

The Challenge

One key differentiator of value and customer stickiness in e-commerce and FinTech space is the **'quality AND consistency of service'** that the customers enjoy and/ or associate with the brand. While this may seem a catch-all, in the end one of the key reasons customers are loyal to an e-commerce site or a FinTech platform and make repeat purchases is because they see value in the quality and consistency of the service and platform that is on offer. Do note that this **value** is inherently different from **price** and refers to the **perceived value** of a brand or platform that the customer associates with. This value can take on multiple manifestations such as responsiveness of platform i.e., functionality and speed of performance, simplicity of user interface, speed and consistency in delivery of goods or services, issue resolution mechanism, ease of usage, etc. If a firm gets the value paradigm right, it gains the ability to command a price premium, ensure customer stickiness & mass adoption though word-of-mouth publicity of its product/ service and thus drive better operational and business results. We are witnessing it currently playing out in India where e-commerce firms have quickly realized that discounts won't necessarily lead to customer stickiness or medium term business viability. The issue at hand now is that how do firms go about cracking this code and ensure that the organizational practices speak to the desired business outcomes and are not a hindrance to growth.

Business problems need to be analyzed in terms of core human capital issues which are impacting business outcome

The Analysis

To understand the solution, let's try to apply the Five Whys technique to the business problem of "**inconsistency of customer experience**" through a hypothetical yet a very realistic scenario.

1. Why did the inconsistent customer experience happen? – Because the platform was not built with exact or evolving customer needs in mind or to check for process flaws across the value chain that hamper consistency.
2. Why was that the case? – Because we did not anticipate the need and didn't have a way to capture customer needs on a regular basis to run analysis on the customer usage data.
3. Why did that happen? – Because we were narrowly focused on building the platform and product, marketing and branding efforts and creating a robust supply chain and delivery eco-system, and not on analyzing customer needs at the outset and on an ongoing basis.
4. Why did we not focus on those things? – Because we did not have a team, leaders or individuals who understood the importance of these aspects or a way to execute this in a lean way.
5. Why did we not have this team or individuals? – Because the initial team never realized the criticality of this need, we never had the right skills to constantly drive customer experience and we never hired for these skills at the outset.

So as you can see an ostensibly purely business problem has now been broken down to identify the core human capital problems behind the core business issue – leadership capability, competence & skill gap, organization design and prioritization of KPIs.

Solutions to business problems require proportional investment on each identified core human capital issue

The Solution

Coming to how we solve it; we simply follow the principles of the 5 Whys technique and make a proportional investment in each of the Why's:

1. We analyze the issues with the platform based on current customer feedback and identify possible rectification steps for those issues.
2. We introduce a simple customer feedback and analytics platform in addition to placing a dedicated team focused on capturing 'Customer Experience' as well as introduce KPIs to track firm success on customer feedback.
3. We build protocols to ensure customer need analysis at the outset and on a regular basis, for existing and any new features or services being added.
4. We build a process to educate the leadership team on the criticality of customer experience issues and how to flag or highlight them as they focus on their daily roles.
5. We ensure that we identify the right place for a customer experience leader in the organization structure and hire for the right capability set and involve them in all decisions to advocate from a customer experience standpoint.

The Learning

So a proportional and incremental investment in each step will start to ensure that at the very least the severity and frequency of this issue goes down drastically. As we follow this virtuous cycle again and again, we will make the right amount of proportional investments to overcome the issue for good rather than big bang investment plans which are more often than not unrealistic. This principle applies equally well to mature or high growth businesses and is not just limited to startup organizations.

Business leaders unfortunately don't always focus on getting to the human capital issues behind a business problem and solving for them jointly with the HR team. It is imperative for HR leaders to actively engage business leaders on issues they are facing and help them identify the human capital root cause and jointly build proportional investment based preventive plans to solve for these issues. Not only would it allow for greater investment in human capital issues by the leaders but also allow for collaboration between business and HR.

* Source: https://hbr.org/2010/04/the-five-whys-for-startups
* Source: https://hbr.org/2012/02/the-5-whys?referral=03758&cm_vc=rr_item_page.top_right

Sharad Vishvanath
Group Head Digital Banking, Analytics & HR
AU Small Finance Bank

sharad.vishvanath@aubank.in

Contact

David O. Kompare
Strategic Partner, Aon Strategic Advisory - M&A Solutions
USA
dave.kompare@aon.com

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