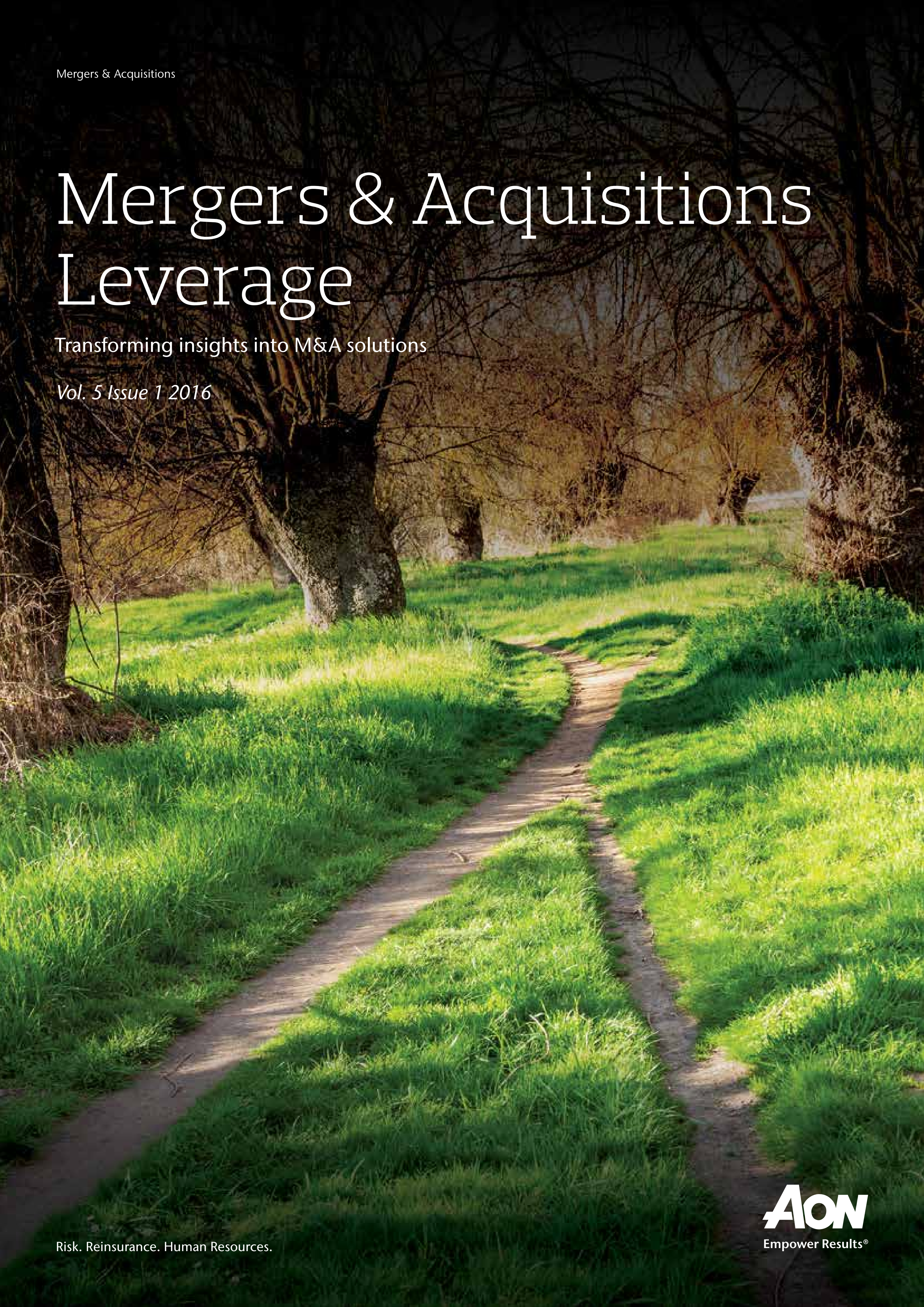

Mergers & Acquisitions Leverage

Transforming insights into M&A solutions

Vol. 5 Issue 1 2016

Risk. Reinsurance. Human Resources.

Empower Results®

Editorial

It has been an interesting first half of 2016. The global economy continues to struggle and the IMF predicts 2016 global GDP growth at 3.16%[i]. Major economies in Europe, Asia Pacific, Japan & the Middle East continue to be sluggish, while there are some bright spots in the US, Germany and India. The impact of Brexit is yet to be fully predicted or assimilated into the European and indeed the global economy. Headwinds on the global economy will continue to impact the overall investment climate, trade and cross-border deals. But for individual countries, the inner market dynamics will continue to drive industry consolidations and some organic growth outside of home country, etc.

The undertones of protectionism and trade barriers in most US, European and even some Asian economies are alarming if they were to become policy. The G20 in Hangzhou, China, reaffirmed the need for protocols to enable global trade, cross-border investment and not allowing protectionism and erection of trade barriers.

The consolidation pressure has also led to global mega mergers in the past 8-12 months and an increasing pushback by anti-trust authorities to protect monopolization in certain global sectors, such as oil & gas, industrials/chemicals, etc. The Halliburton-BHI merger being blocked or other mergers like Dow-DuPont having to do multiple spin-offs and divestitures is therefore also a trend we see taking hold. Spins and divestitures to unlock value or just to provide better shareholder return are also trends that are likely to increase in certain sectors, for instance with the HPI and HPE spins being notable examples.

While M&A activity in H1 of 2016 has hit an impressive USD1.71 trillion, this is actually an 18% drop from the same time frame last year. EMEA specifically showed a 5 year low at USD 428.4 billion – 14% lower than H1 2015[ii]. Whether we consider H1 deal values, quarter-by-quarter performance or cross-border activity, 2016 is showing a drop from 2015. However, not all regions have shown a decline. China in particular continues to spend on transactions, and this trend appears set to continue throughout the near future. Germany also appears to have made a comeback from the 2015 dip, with increased figures both as a buyer and a seller.

With this backdrop of global uncertainty with pockets of opportunity for cross-border and in-country deals, this issue brings to you articles that will help throw light on various elements. 'Driving Change in Times of Organizational Transformation', written by me, explores how we can use lessons from product adoption to adopting organizational change. Javad Ahmad then touches on a critical topic in transactions retention planning, in his article 'Skills-Based Workforce Segmentation for Retention Planning in M&A'.

The next article is an interview with Sunil Goyal, COO of Sopra Steria, in which he shares his insights on managing multiple integrations. You will then be taken through a real case study from one of our projects, when Faiza Khan writes about spin-offs and how they can be the game of gain. Finally, this issue concludes with an article by Nisheeth Jankar, on how to ensure your HR team is ready for 'The Next M&A Deal'.

I hope you enjoy the issue, and as always, we welcome your input and feedback!

Sharad Vishvanath

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[i] *International Monetary Fund, World Economic Outlook Database, April 2016*
[ii] *Financier Worldwide, Global M&A Value in 1H 2016 hits USD 1.71 trillion*
All other data: Merger Market, Global & Regional M&A: 1H 2016

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Driving Change in Times of Organizational Transformation
The Mantra Unlocked

We often hear that 'change is the only constant' or, during a business transformation, that 'the key to success of this transformation will be effective change management.'

Given the degree of leadership focus we see on this topic, it's unfortunate that most of the time this is just lip service, with neither thought nor investment of people and resources being put behind these sometimes lofty statements.

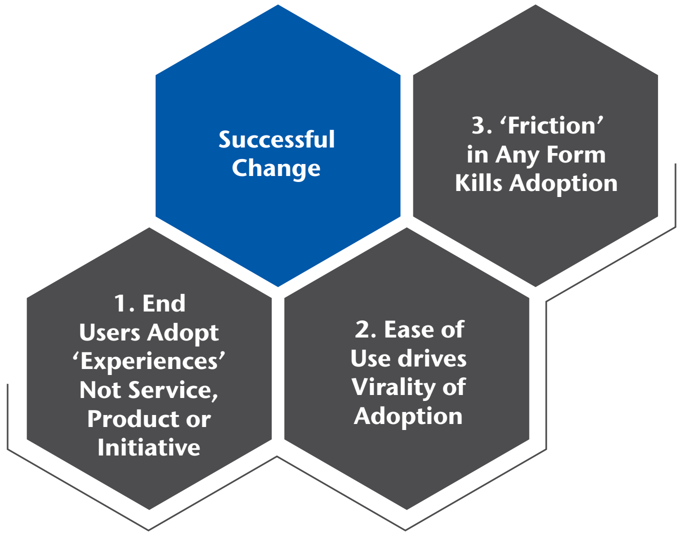
Let's examine how we can view this issue from a different perspective altogether. In this article, we will try to apply some of the key product adoption principles to adopting change during transformation. We read about researched key drivers of product adoption, and if you look at the most successful new product or process adoptions, some key aspects emerge that are very insightful.

End users adopt 'experiences' not service, product or initiative

If you look at successful services or products that have been rapidly adopted, the core truth that runs through them all is that end users are attracted to the experience of using a product or service, not to the product itself. For example, Apple products provide a unique and seamless 'experience' through the user interface, 'App' ecosystem and also make the user experience 'cool'. This was the key reason for the rapid adoption of iPods, iPhones, iPads, etc. It is instructional to note that PDAs and tablets that were released earlier than the Apple products have not got the same adoption rates.

Similarly, travel is about the experience, not the destination. Different hotels, airlines or travel providers can therefore provide very different value at the same or different price point, depending on the experience they provide. In the context of adopting change, the same logic of focusing on the 'experience' is key.

Change is tough; everyone knows this. But if the leadership focuses on breaking down the problem and asks the right questions in terms of what an employee or stakeholder will undergo as an 'experience' due to the change/transformation event, half the battle has been won. If the change is thought through, driven and positioned in a positive, motivating and exciting manner, it will find many 'fathers' and champions. On the other hand, a staid,


Successful Change
3. 'Friction' in Any Form Kills Adoption
1. End Users Adopt 'Experiences' Not Service, Product or Initiative
2. Ease of Use drives Virality of Adoption

mundane or worse still anxiety causing change experience is destined to fail even if it has the most robust change management resources behind it.

Of course this is easier said than done. But like in all things, keeping it simple works well as an approach:

1. First, deconstruct what the change means from **EACH** stakeholder's perspective.

2. Second, understand in detail and focus on **HOW** the stakeholder will typically 'experience' the change. What could be the positives and negatives? This can be done through dipstick surveys, focus groups and open ended feedback questions as well.

3. Third, once you have a clear tested hypothesis on what to focus on as 'positives' and what 'negatives' to mitigate to drive a 'great experience', build your change management plan around that.

Ease of use drives virality of adoption
The second principle is about 'ease of use' driving the viral adoption of any product or service. Therefore, the principle of building something for ease of use is another analogous principle from product design that we can adopt in change management. Any product that is easy and intuitive to use will get adopted very quickly and have a viral propagation. Think about it – the 'App' ecosystem of Apple was so easy to use, build on and consume for all stakeholders, be it phone users, the actual app builders, etc. That led to a viral growth of apps being developed for solving multiple consumer problems and then consumers downloading and paying for them.

The Uber example of a service that went viral is another key one. The Uber service concept and thus the app was very simple and easy to use; essentially you could order taxis on your phone with one tap, have a choice of class of taxi to order, know exactly when you would get the taxi and get out without time wasted for paying or waiting for change, etc. Just look at the ease of use! This translated into viral expansion and customers even being willing to pay extra for the ease and convenience.

End users are attracted to the experience of using a product or service, not to the product itself

Now if we apply this to managing change, the key is **how easy** are you making the change to adopt for stakeholders through process, prioritization, phasing, incentives (both carrot and stick) and the right tools. We all know change is hard, so we have to work extra hard to simplify the process, phasing and prioritizing aspects rather than undertaking a complicated large change in one shot.

The simplistic approach to do this in the change context is:

1. Once you have the end change goals and overall broad plan identified, prioritize and phase the change plan **BUT** from a viewpoint of how **EASY** can you make it for stakeholders to adopt the change.

   For example, in an M&A-led reorganization, where people are moving roles and new hires are being made, focus on making sure the transition is short, the switch to new roles is clean, the interim/final KPIs are clearly laid out and the right tools, communication and oversight are provided.

2. Test that plan with individuals and a 'test focus group' of different stakeholders on what would make it easy for them to adopt the contemplated change and to get their input on the change plan itself.

3. Refine the plan and execution on scope, prioritization and phasing. Most importantly, focus on the actual execution i.e. the tools, organizational support and communication focus you will provide to drive the change.

'Friction' in any form kills adoption
The third principle is the unwavering focus on reducing '**friction**' in any form towards adoption. This could come from the organization, customer, technology or human interface, sales & distribution, or organizational processes.

To carry forward the analogy from the product & service adoption world, imagine a product/service that is great, fulfills a critical unmet need, is easy to use but that has other 'friction' issues. For example, an 'App' crashing frequently or being too slow, or a new phone being too heavy/unwieldy, low battery life or heating up, a product/service not being easily available or any post purchase services being too difficult to get, etc.; all of these are reasons that the product/service adoption will massively suffer even if the first two conditions are met fully in a product and service. In a nutshell, friction in any form kills adoption.

When it comes to change adoption, the same principle fully applies. So to solve it, here is the suggested approach to follow:

1. We need to focus on identifying **ALL relevant friction** issues preventing adoption be it organizational, people or process-led.

2. Next, we classify these friction issues into 'critical non-starters', 'key to sustainability' and 'irritants that can be overcome'.

3. Then refine or, if needed, redo the change management plan first to eliminate 'critical non-starter' friction points and then to reduce (or maybe eliminate) the 'key to sustainability' friction elements.

If the change is thought through, driven and positioned in a positive, motivating and exciting manner, it will find many 'fathers' and champions

As a post event test, we looked back on our breadth of experience of driving change in large transactions and transformation projects. Interestingly, this theoretical construct fits perfectly both in successful change management initiatives and also where we find that clients faced challenges or, worse still, failure. The only issue is that in successful change initiatives, this is often followed intuitively rather than through a structured process or framework as discussed above. That could cause the difference between the success and the failure of a change event if for example a 'critical non-starter' friction point was overlooked.

In conclusion, we realize that every change event is unique and complex, but a structured and powerful framework such as this one, in conjunction with a robust change management process and resources, will definitely ensure a higher change implementation success rate.

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Skills-Based Workforce Segmentation for Retention Planning in M&A

During transactions, organizations – even those who know from experience that the human capital aspects of a deal very often determine success or failure to achieve deal goals - struggle to come up with effective retention strategies. It is all too tempting for companies to overlook the matter of employee retention and trust that their top talent will stay onboard. Many organizations factor retention costs into their deal models, but this is mostly focused on senior executives and takes the form of a financial incentive paid at a specified time following the completion of a transaction.

Whether a merger, an acquisition, a spin-off, a divestiture or in fact any disruptive period for an organization, its employees have a variety of different concerns that will influence their desire to remain at the organization. It may be that those 'key' employees identified as eligible for retention incentives would stay anyway; there could be others who would have a critical role due to a specific set of skills but for whom no retention strategy is put in place.

A talented, cohesive and engaged workforce influences every aspect of a company's performance, including revenue growth and productivity, so companies who neglect to understand who their most critical employees are risk putting their financial success in jeopardy. Aon studies have found that more than 60% of organizations said an inability to retain key employees contributed to deals not meeting their goals. Particularly during times of slower market conditions, organizations can have a false sense of security that employees are less likely to leave due to lack of other opportunities. Our experience shows this is not the case, as it is usually those most critical to the organization that will be able to find other opportunities most easily, all too often taking part of the deal value with them.

Often, particularly under the time pressure that is part and parcel of the transaction process, organizations focus their retention efforts on high potential employees and senior executives in business-critical roles, but it is also important to consider the broader population, where there are often individuals with specific technical or leadership skills that can have just as much impact on future success. A broader approach allows identification of areas of institutional knowledge, technical skills and internal and external relationships.

In many different areas of business, particularly in the recent years, segmentation has become a critical and effective tool used by business strategists to study various metrics and enable better alignment to strategy. Applying the same approach to the human capital of an organization in the form of workforce segmentation can be used to identify the business-critical workforce. It is common to determine how critical employees are based on the size of an employee's pay check, and in fairness it is a good starting point, given that many senior roles with higher salaries are strategically important. That said, higher pay should not be the only determinant of whether a role is critical or not.

Even without the context of a deal, workforce segmentation allows an organization to understand its employees and how to ensure that they are remunerated and managed effectively. As the level of complexity in an organization increases, particularly as employees from different organizations come together in a transaction, the need for segmenting the workforce becomes more pronounced.

All employees are important and serve a purpose towards achieving organizational and deal objectives, but some are more critical, and workforce segmentation is helpful to:

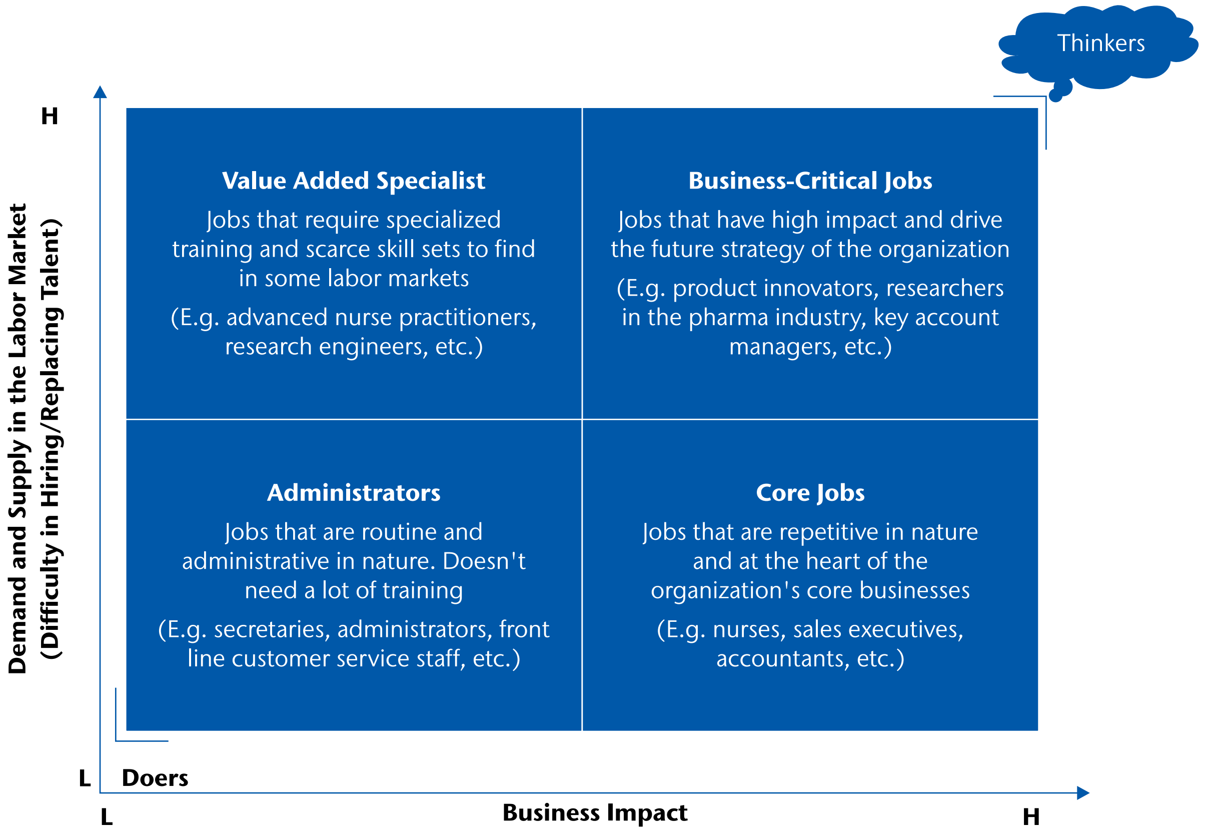
- Recognize the business contribution these jobs make to the future of the organization
- Differentiate compensation levels to attract and retain talent in these jobs

- Proactively plan succession for these roles to minimize business disruption
- Determine appropriate retention strategies for different segments of the workforce

Broadly speaking, the workforce for most organizations can be segmented into four categories, by considering the scarcity of the skills they have and the business impact they have, as illustrated below.

Business-critical jobs are those that are critical to the next 5-10 years of the organization. In a technology company, design engineers or product engineers working on the “next big thing” would be considered business-critical. In the pharmaceutical industry, researchers working on the next big patent are critical to the survival and future growth of the organization. In a professional services organization, a key client manager entrusted with managing a strategically important account may be business-critical.

Leading organizations that achieve high rates of employee retention in the medium to long-term after a deal ensure that HR and business leaders work in collaboration right from the due diligence stage of a transaction to segment the workforce and determine the business-critical employees.


Thinkers
H
Demand and Supply in the Labor Market
(Difficulty in Hiring/Replacing Talent)
L
Doers
L
Business Impact
H

Value Added Specialist
Jobs that require specialized training and scarce skill sets to find in some labor markets
(E.g. advanced nurse practitioners, research engineers, etc.)

Business-Critical Jobs
Jobs that have high impact and drive the future strategy of the organization
(E.g. product innovators, researchers in the pharma industry, key account managers, etc.)

Administrators
Jobs that are routine and administrative in nature. Doesn't need a lot of training
(E.g. secretaries, administrators, front line customer service staff, etc.)

Core Jobs
Jobs that are repetitive in nature and at the heart of the organization's core businesses
(E.g. nurses, sales executives, accountants, etc.)

Questions HR can ask business leaders to help facilitate that decision making would include:

- Are these jobs working on projects/products that will drive the future growth of the business?
- Are these jobs performing activities others cannot do or are not equipped to do?
- If we lost someone in this job, will it result in business disruption or potential loss of revenue?
- Are these jobs doing something that has a direct impact on the reputation of the firm?
- Are these jobs contributing to building capability without which deal goals are threatened?

An organization’s approach to workforce segmentation should be aligned to its business and deal strategy; a flexible approach will ensure that any changes in the deal or post-closing strategy are reflected in a revision of the segmentation matrix.

Leading organizations that have a high success rate in M&A deals work with target leadership to identify critical employees. Asking some key questions allows those segmenting the workforce to determine what truly constitutes a critical employee.

Once workforce segmentation is completed, retention strategies can be determined, which will include but not be limited to financial incentives. Equally important are areas such as benefits, alternative work schedules, career development opportunities, employee communication and organizational design. Taking a more holistic approach enables organizations to develop a strategy that retains employees beyond the period when they receive the final payout of a retention bonus.

All employees are different, and each has a different contribution to the business and different factors that motivate and drive them. The more an organization is able to understand these differences and nuances, the better will be the quality of its talent management framework and its retention planning. Workforce segmentation gives an organization the ability to fine-tune its talent, identify inefficiencies, develop talent in the right direction, and equip employees to contribute positively to the growth and success of the organization and achievement of deal goals.

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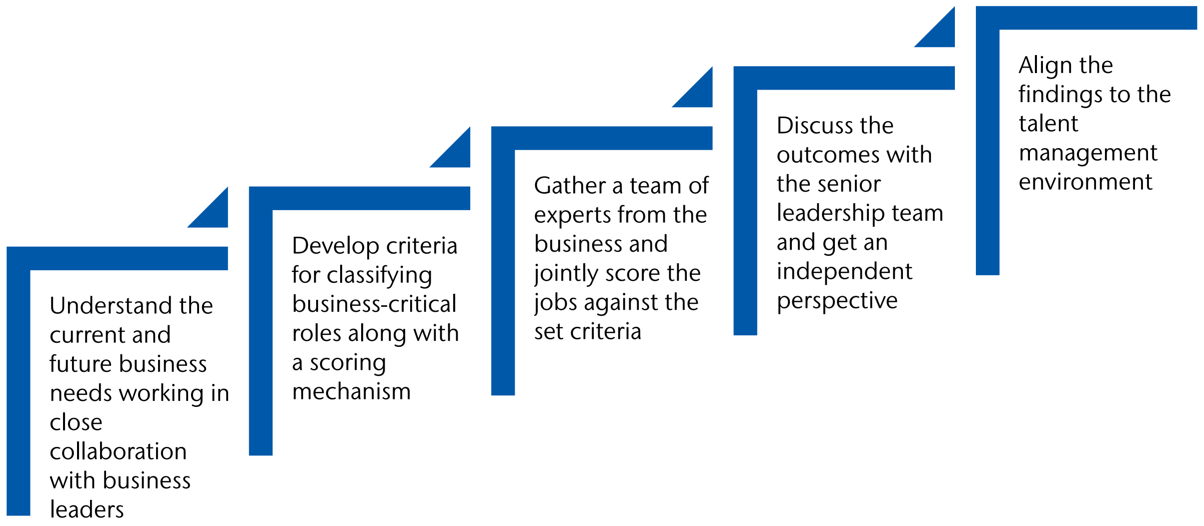


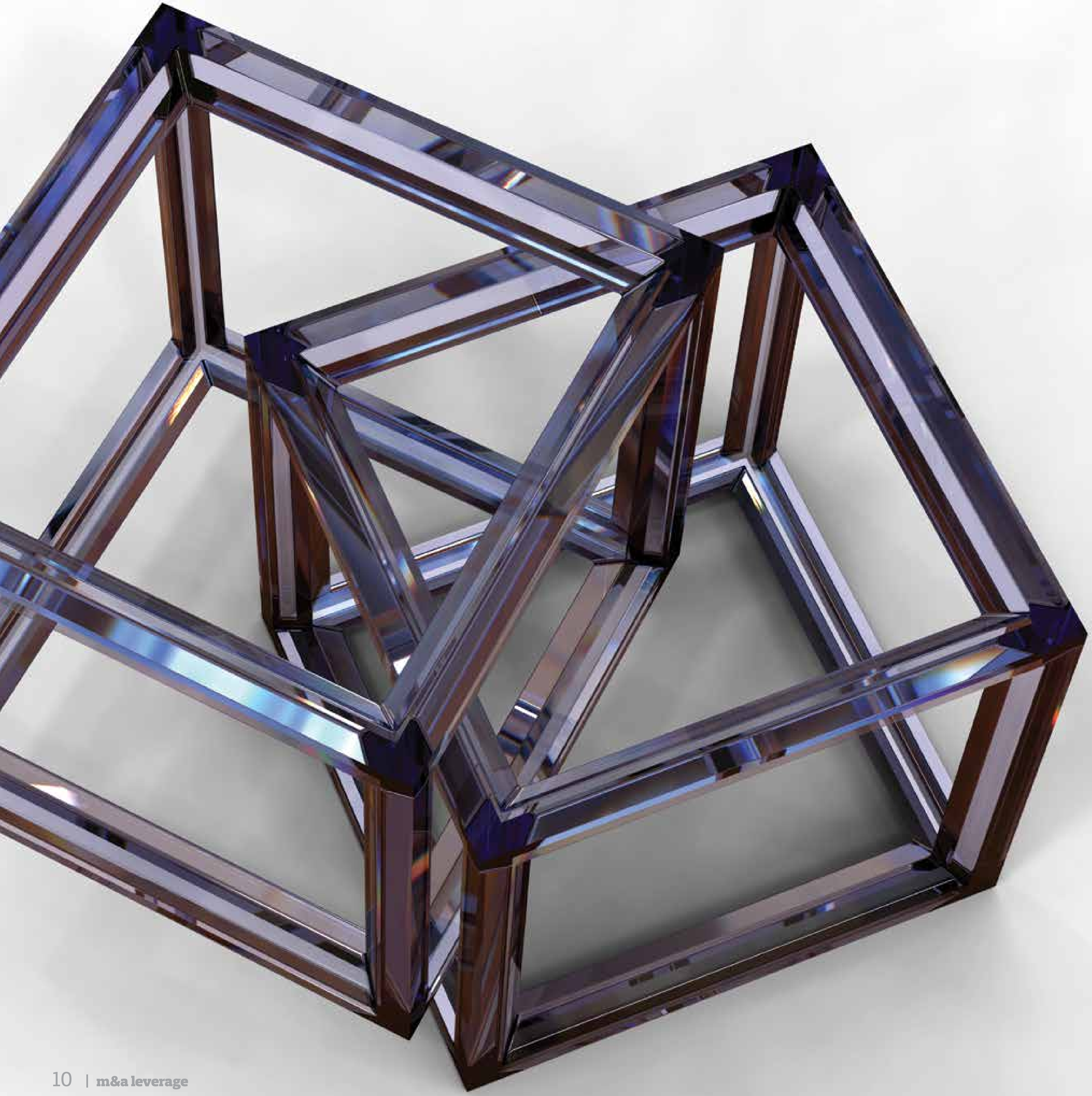
Understand the current and future business needs working in close collaboration with business leaders

Develop criteria for classifying business-critical roles along with a scoring mechanism

Gather a team of experts from the business and jointly score the jobs against the set criteria

Discuss the outcomes with the senior leadership team and get an independent perspective

Align the findings to the talent management environment



Managing Multiple Integrations: In Conversation with Sunil Goyal, COO of Sopra Steria

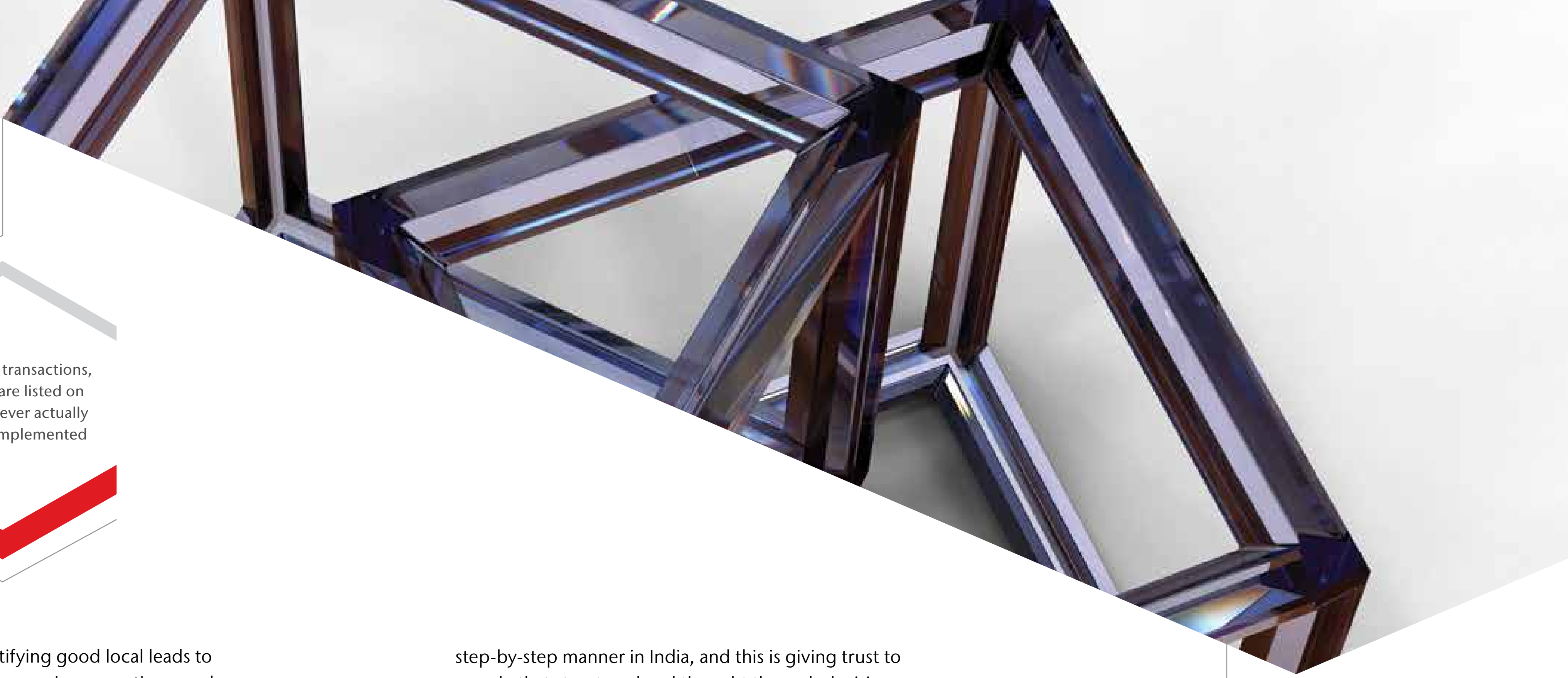
Sunil Goyal,
COO, Sopra Steria

How was your experience of having been an entrepreneur whose company got acquired by an MNC?

Newell and Budge's (N&B) acquisition of Momentum was a strategic acquisition. N&B's customers were asking for offshore services at that time, which N&B was fulfilling through partners. However, later they wanted to set up a center of their own and started looking for mid-sized companies. For Momentum, this deal would help them expand to the UK market and become part of a bigger organization. There were clauses in the deal to retain the founders, though the employees had not vested their ESOPs until they got paid for their options. We as founders actually went on to become part of the N&B Board. Momentum, on its end, realized the importance of engaging directly with the N&B deal team and made itself fully available for deal execution and did not leave everything for the lawyers.

What worked well for the merger?

Some aspects clearly stood out. First, before deal closure, we as Momentum gave opportunities to people at N&B projects (for example traveling to the UK), organized cross-team get togethers and interactions for people to get familiar with each other, etc. Secondly, we ensured that there were no anxieties during the merger, and employees treated it as a positive event resulting in greater career growth potential, and we walked the talk with new projects and staffing opportunities with N&B that drove new clients and capability opportunities. Third, N&B also gave Momentum the flexibility to do things that are right in the Indian operating environment & culture. For instance, they allowed for relatively large salary increases at junior levels; this type of independence is rarely extended to local management in cross-border transactions. Fourth, there was on-the-ground transparency, openness and active communication by the N&B Management with Momentum India Management, with a one firm approach rather than an 'us vs. them' view. Usually such success factors are listed on paper but are never actually practiced and implemented.



Soon after this, Sopra acquired N&B. How different was the experience?

We were the first such offshore center for Sopra, and the push from the large tier 1 customers enabled Sopra to focus on the offshore unit. Employee expectations went up further in the anticipation of better career opportunities and work capability development opportunities.
Sopra heavily invested in infrastructure to scale up the organization in India, and this served to strengthen and build on the positive 'growth' message to the employees in India. Sopra chose not to place an expat CEO and instead fully to empower the local leaders, beginning with including Indian leaders in monthly operational reviews. A very senior person from France was deputed to India; however, his role was actually to support the India operations, bridge the gap and guide India in bringin the mother ship and the India organization closer together. He played an important role in process and cultural integration.

What are some of the aspects in post-merger integration that do not usually happen but are very critical to ensure deal success?

First and foremost, the budget allocated to people integration is typically either not utilized or cost save attempts are made. Secondly, culture alignment is neither given sufficient attention nor planned for. Culture is not something that you can write on a piece of paper; it is what is reflected through decisions and operating mechanisms of the company. Sopra allowed for us to run the business the way IT organizations in India are run and on the culture tenets of how Momentum had built a strong franchise in India while at the same time, France remained as a sounding board. There was no unnecessary movement or shift in the culture that was driven purely by global alignment considerations. Lastly, I would say that the cost alignments/ synergies that are expected with a merger are not driven or tracked hard and hence, not realized. Sometimes they actually take a back seat during integration.

What were the key success factors from the recent merger between Sopra and Steria?

There were some specific factors.

First, the integration committees do not usually have any decision-making power. However, in this case, the executive committee along with the chairman were helping with making quick decisions.

Usually in M&A transactions, success factors are listed on paper but are never actually practiced and implemented

Second, the focus was on identifying good local leads to make local decisions and start managing operations, and retaining good people from both organizations instead of over rotating on cost optimization.

Third, adequate systems for 'feedforward' and 'feedback' facilitated better decision-making.

Fourth, culture and people were in the forefront of the integration efforts and were placed on an equal footing with business & financial objectives.

Fifth, genuine friction did arise during integration, but it was overcome based on trust and with the help of the leadership and not through top-down unilateral decisions.

Sixth, throughout the process, we were trying to be fair, and we encouraged questions. For example, after making the first set of changes in the HR policies, the business heads decided to own the changes instead of the HR heads. The business heads took the town hall, described HR policy changes in detail and took all questions from the employees. This helped build trust with the employees and reinforced the point that changes are not an HR decision but indeed a business decision. All communications need to be led by the top – why is this the right change? Why is this necessary? What was the rationale? How is this fair treatment? For example, while changing certain policies, we collated data from similar sized companies to present to managers.

Lastly, in India, the local team was highly empowered to suggest their own set of changes based on their understanding of local context. Out of all the changes the Integration Management office (IMO) in India suggested to the global team, 95% of the changes have been agreed to and are being implemented. We are progressing in a step-by-step manner in India, and this is giving trust to people that structured and thought through decisions are being taken.

What will be the key challenges going forward for Sopra Steria?

We need to define clearly the culture of the combined entity, 'Sopra Steria' globally, and rebuild the same.
This would include identifying the top 5 things that will become part of the DNA, identifying common principles around people and systems and anchoring that to the organization vision. It is also important to set a budget for integration efforts and actually to ensure that the money is spent for the right purpose and is tracked properly.
In order to remove emotionality and irrationality from decision-making, it is a good idea to utilize external expert advisors to help the management to make the right decisions for the combined business wherever necessary.
Ensuring no productivity disruption is also a target for the future. We would need a laser sharp focus on the right structure and talent retention and engagement practices to ensure productivity and retaining key talent.

Culture is not something that you can write on a piece of paper; it is what is reflected through decisions and operating mechanisms of the company

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Spin-Offs – A Game of Gain: Successful Integration of a Global Battery Giant

A first-hand account of how Aon's recommendations helped a spin-off entity to set up a standalone company without business disruption in 35 countries.

Context

2015 saw the global business landscape being reshaped through a high volume of M&A activity. The combined values of the deals reached the highest amount ever, surpassing the previous record set in 2007. Some of the largest deals that were announced were AB InBev and SABMiller, Shell and BG Group, Charter and Time Warner Cable. So far, 2016 appears to be promising.

With companies adopting different strategies and rationales for M&A activity, we see that the sale of non-core assets seems to be the trend globally. Companies are working towards growing their core assets. According to a Deloitte survey on the mergers and acquisitions trends in 2016, 52% of corporate respondents said that their company plans to pursue divestitures to shed non-core assets in the year ahead in order to help focus on their core business. And we believe that these spin-offs will change the game for the coming years as they move from being a tail brand to a core business product.

Aon Strategic Advisory has supported many such spin-off integrations in the past through various transaction stages, both in the area of risk advisory and human capital management. We also recently had the privilege of working on one of the key transactions in the FMCG spin-off space.

Client situation/background

The client in question is a large FMCG business, and throughout 2015 and part of 2016, Aon supported them while they spun-off one of their non-core lines of business. The spin-off entity had large operations, with about 2,700 employees in scope in 35 countries covering North America, Latin America, Europe and Asia. The acquiring

entity's strategy was to set up the spin-off entity as a standalone company, to focus only on the brand acquired and not merge it internally with their own product basket.

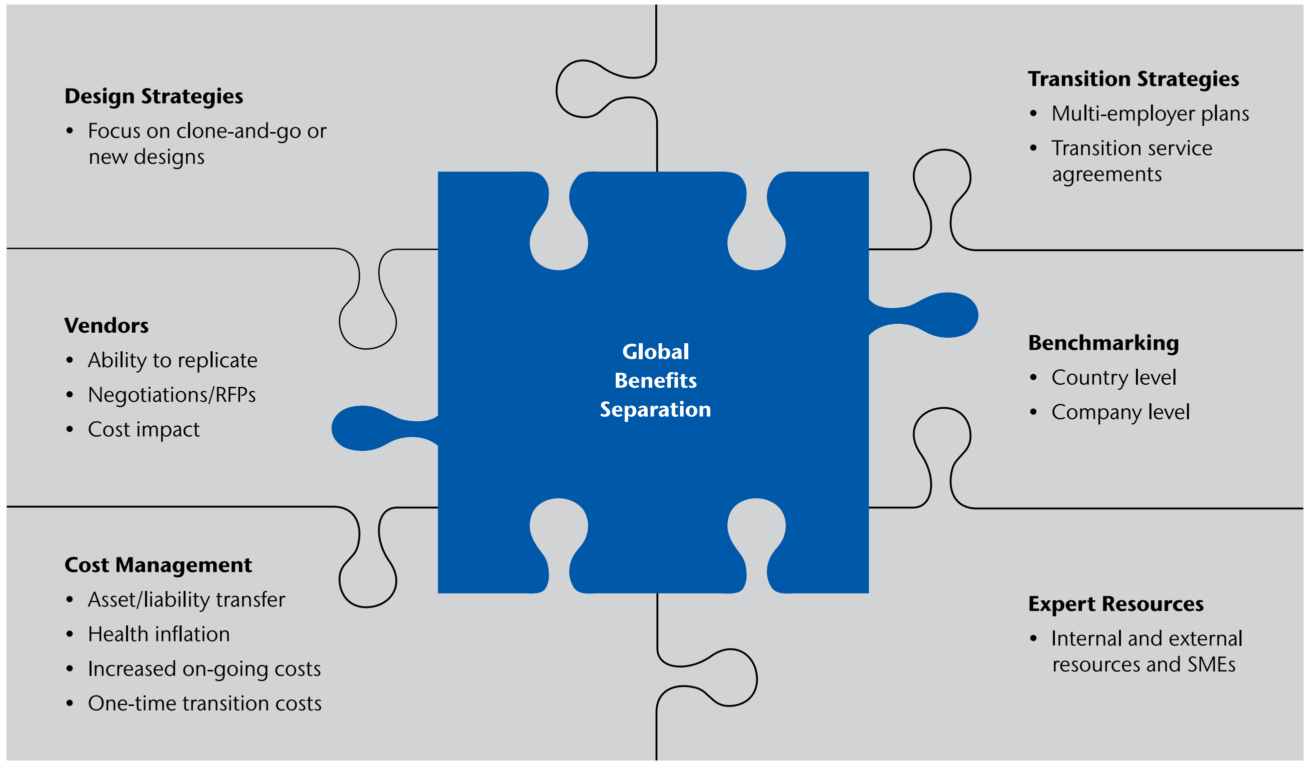
Client challenges/issues

The spin-off entity in the past followed the FMCG conglomerates' HR system, processes and policies. We believed this would be the biggest challenge to address, as going forward it would be a standalone entity that might not enjoy the bargaining power that the conglomerate had. Another main challenge would be the spread of the countries, with many thinly populated geographies. As many of the countries had manpower ranging from 1–10, setting up individual HR benefits programs needed to be considered from a cost management lens.

With the spin-off being announced and Day 1 being a year later, the employees who were to transition to the new entity had the choice either to accept or to reject the offer made by the acquirer, which added ambiguity to the HR benefits policy set up.

The client's needs and expectations from the project was to maintain a comparable compensation and benefit offering to the employees who would transition to the new entity, to ensure local implementation as per legal/taxes framework in line with the country and to validate the recommendation from a market prevalence perspective, so as to remain competitive in its offering.

With all the guidelines given to Aon by the client, the key considerations taken into account while decision-making are shared below.



Global Benefits Separation

Design Strategies

- Focus on clone-and-go or new designs

Vendors

- Ability to replicate
- Negotiations/RFPs
- Cost impact

Cost Management

- Asset/liability transfer
- Health inflation
- Increased on-going costs
- One-time transition costs

Transition Strategies

- Multi-employer plans
- Transition service agreements

Benchmarking

- Country level
- Company level

Expert Resources

- Internal and external resources and SMEs

The sale of non-core assets seems to be the trend globally. These spin-offs will change the game for the coming years as they move from being a tail brand to a core business product

There were also various sources of complexity impacting the timing, including the set-up of the legal entity, tax ID, bank outs, etc., vendor negotiations and replication capabilities, administration lead time, feasibility for smaller groups, works councils negotiations, trustee negotiations, government filings/approvals and communication of the change.

Legal Entity Considerations

- Do legal entities exist in each country to 'host' replicated rewards programs?
- If not, how long until one can be established?

Transition Management Considerations

- How will local country C&B activities be executed?
- How will local country C&B activities be monitored on a real-time basis?

Program Replicability Considerations

- Does SpinCo's country population support a replicated program (e.g., defined benefit)?
- Are vendors able/willing to replicate existing program? At what cost?
- What is the process for working with the existing vendors? Negotiating terms?
- Are there selcted rewards programs that are not able to be cloned (e.g., equity)? If so, what are the replacement requirements and strategies?

Aon's approach

To achieve the aforementioned deal goals, Aon employed its well-researched model on HR integration in spin-off transactions. We considered various aspects before suggesting a way forward strategy, such as:

- Articulating a Total Rewards approach addressing market positioning and internal equity, cost neutrality, preferred platform and grandfathering aligned with the above commitment
- Giving guidance on C&B platforms by country approach
- Articulating cost objectives (cost neutrality, cost reduction, etc.)
- Conducting multi-day project plan workshops with the C&B leads
- Creating a C&B work charter and outlining time frame for separation as feasible
- Discussing an overall talent retention engagement approach
- Outlining the Day 1 approach for Total Rewards
- Outlining the approach for the transition period
- Assessing the employment transfer implications and consultation requirements by country
- Confirming the list of standalone global

compensation and benefits programs and those sponsored by parent company

We also ensured that a strong governance system was set up. As the separation process involves a range of considerations and perspectives and requires clear, effective decision-making, governance around a spin separation is particularly important. While the parent's shareholders have a vested interest in the success of both the parent and spin-off company, the management of the two companies will have their own perspectives on the go forward plan in the spin separation. Though important to consider the balance of perspectives in reaching decisions, ultimate decision-making authority resides with the acquiring organization, guided by the spin-off agreement.

> As the separation process involves a range of considerations and perspectives and requires clear, effective decision-making, governance around a spin separation is particularly important

We began by conducting detailed interviews with the leadership teams of both organizations in a bid to understand the organizational background and context, strategies, current compensation and benefits structure, and workforce demographics. A key focus area during these interviews was to understand the differences from an 'as is' stake that would be necessary to set up a standalone benefits program for various countries. Aon also conducted a thorough review of data and documents that were received from the client highlighting the current benefits offerings.

After the analysis, various regional teams conducted meetings with the in-country HR teams to further understand the benefits offering and the criticality of resources and any deviations that were present. Based on the analysis of the inputs, we created a go forward plan for each of the 35 geographies.

Phase 1

- Current state assessment
- Business view (e.g., cost and time parameters)
  - Executive view
  - Program view
  - Employee view
  - Demographics
- Market considerations/requirements
- Global Total Rewards vision, goals and guidelines
- Global Total Rewards strategic direction
- Preliminary impact analysis
- Preliminary implementation plan

Phase 2

- Detailed Total Rewards transition approach
- Detailed impact analysis
  - Financial impact
  - Competitive impact
  - Employee impact
- Implementation action plan
  - Administration
  - Financing
  - Communication
  - Legal
  - Governance
- Measurement and monitoring
- Communication/change management strategy

Implementation

- Vendor selection
- Administration, enrollment
- Financing, pricing
- Legal documents, filings
- Communication, change management
- Ongoing measurement and management

The table below highlights the value and impact created for the client with Aon's approach mentioned above:

Key Objectives	Value
1. Ensure business continuity	1. Significant bottom line impact with optimized compensation and benefits structure 2. About 80-90 % offer acceptance of spin-off employees 3. Ensure no significant cost rise due to setting up of new compensation and benefits structure 4. Vendor negotiations to ensure vendor continuity in significant number of countries 5. Competitive market alignment in various countries 6. Smooth transition on Day 1 7. Clear transition guidelines
2. Recommend comparable offering to ensure employees' acceptance of the new offer	
3. Ensure Day 1 readiness	
4. Set up benefits implementation process	
5. Weekly connect with the spin-off company to ensure clear communication	
6. Communicate the change to ensure no misses by lack of communication or over-communication	

Client Impact

The transition of 2,700 employees in 35 countries was completed on Day 1 with no disruptions. Comparable benefits were set up for countries with less than 10 employees by leveraging global policies of the acquiring group, and for countries with smaller populations, we leveraged our insurance broking arm to provide market competitive benefit plans and ensured employee communications by conducting various workshops to explain the new plans.

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The Next M&A Deal: How Ready is Your HR?

‘All things are ready, if our mind be so’.
William Shakespeare, Henry the Vth

I must confess I was a tad confused when I began writing this article; should the title be ‘How prepared is your HR’ or should it be ‘How ready is your HR’? A quick check in the Merriam-Webster told me that while ‘preparedness’ is geared more towards future action, ‘readiness’ pertains to the here and now. Given how active the deal environment is, in our globally linked world, it is only apt that we be fully ready for the next M&A deal. So, while being ‘ready’ for the upcoming M&A deal is clearly a key performance indicator for HR functions, a state of ‘preparedness’ is clearly warranted as well. I am of the firm view that while ‘M&A readiness’ will help ensure business continuity and seamless transition (with little or no dip in employee engagement figures), it is M&A preparedness that will help realize deal goals.

Remember the analogy – We must be ready for the battle, but we must prepare for the war.

Through this article, not only do we define M&A readiness and its various facets, but we also focus on M&A preparedness and how it is differentiated from its short-term counterpart. However, given the pressure that organizations and HR leaders face to deliver on short-term (the next M&A deal), expectations from their business colleagues, readiness seemed more apt as a focus area for this article.

A CFO of a large wholesale/retail trade firm told us in an interview that “HR should get involved in the process from Day 1 and push for continued involvement throughout the process”.

Any M&A deal cycle has various stages:

1. Target identification
2. Due diligence
3. Deal go/no-go decision
4. Integration planning
5. Integration & change management

Some research conducted recently by Aon in India with the top 40 most acquisitive organizations suggests that HR’s contribution is the heaviest during due diligence and integration stages and that it plays little or no role in the other stages.

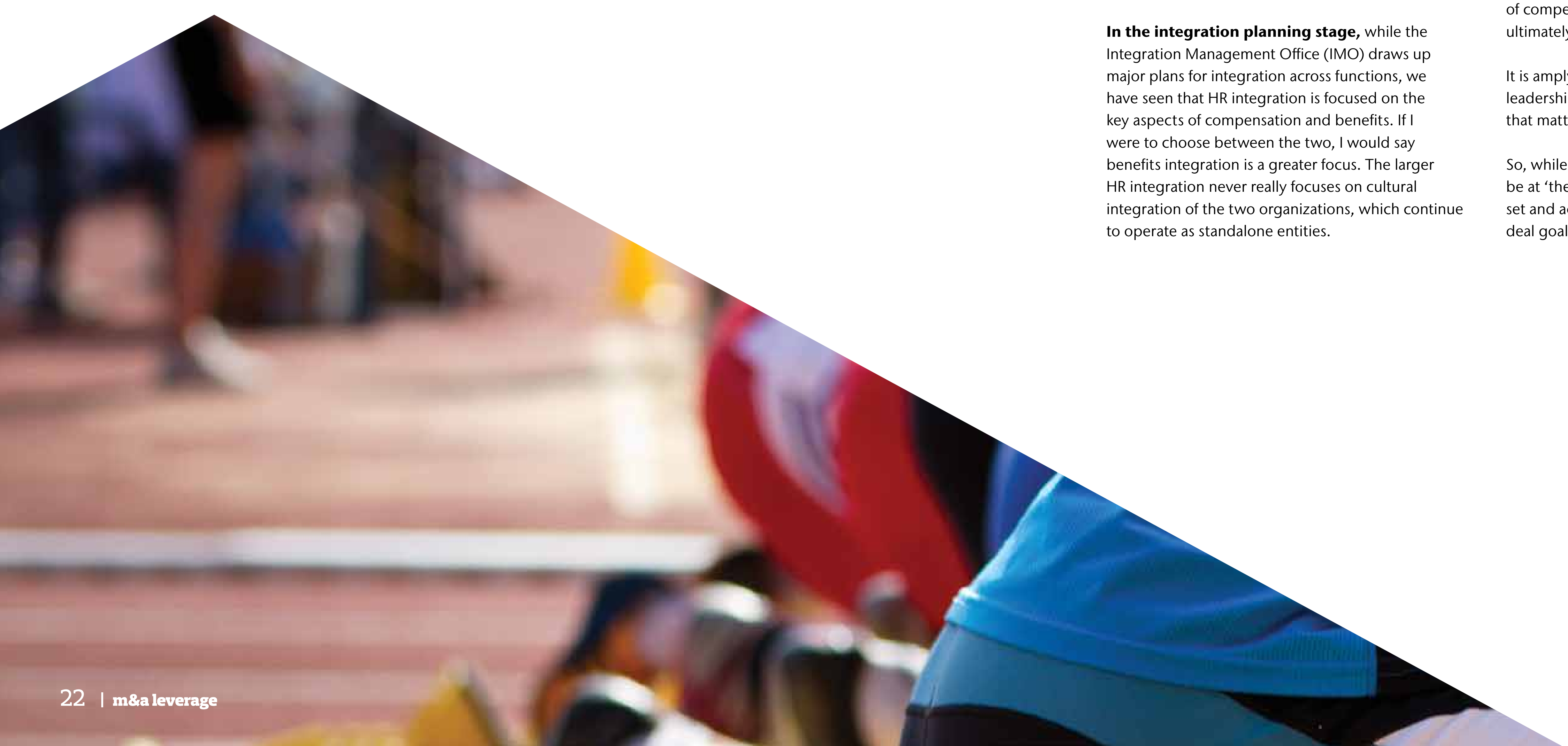
What this means is that people issues, aspects of culture, employee attrition and engagement levels often get overlooked when a decision regarding ‘deal go/no-go’ is being taken. We have seen only a handful of clients that will decide not to go ahead with a deal if significant people issues are witnessed during the due diligence stage.

HR should get involved in the process from Day 1 and push for continued involvement throughout the process

Aon's research findings also indicate that overachievers, i.e. organizations that achieve their defined business goals that they set at the start of a deal, leverage the HR team during other critical stages of a transaction – deal go/no-go stage and integration planning – **far more** than underachievers, i.e. organizations that do not meet their goals.

Let's dissect HR's involvement and readiness at various stages of the M&A deal cycle:

Due diligence: While an HR due diligence is very often conducted in Asia, it tends to limit itself to actuarial valuation of unfunded liabilities, a summary of compensation and benefits programs, and a cost-impact assessment from a compensation and benefits standpoint, so that these elements can form inputs to the financial model. A due diligence never really focuses on the soft aspects that matter, such as culture, climate and engagement.



Any research that you come across on M&A will mention that culture is the most important aspect for achieving deal success. So, then we need to ask ourselves – why do we not assess it during the due diligence phase? Why do we choose to live with this contraction?

Overachievers leverage the HR team through all stages of a transaction far more than underachievers

This is not going to happen until HR manages to push its agenda through in board meetings and management committees. The HR function needs to be proactive, capable and have a presence to ensure that it is heard in these forums.

The next step is the **deal go/no-go decision**. As already mentioned, HR has little or no involvement at all. People issues may be overlooked in the hope that we will manage them later.

When it comes to **closure**, ensuring replication of compensation and benefits programs for transferring employees is a key priority, and that is a clear to-do for HR, which gets done by Day 1.

In the integration planning stage, while the Integration Management Office (IMO) draws up major plans for integration across functions, we have seen that HR integration is focused on the key aspects of compensation and benefits. If I were to choose between the two, I would say benefits integration is a greater focus. The larger HR integration never really focuses on cultural integration of the two organizations, which continue to operate as standalone entities.

A question for all of us today is this – when there has been so much talk about 'culture', not just now but also 20-30 years ago, why do we actually do so little? Does it have anything to do with HR readiness and sponsorship? Or is it business leadership that wants to focus on the hard aspects of compensation, benefits, productivity and ultimately, achieving results?

It is amply clear again that HR needs to push the leadership team to delve into the softer aspects that matter and show the impact it can create.

So, while one aspect of readiness is that HR should be at 'the table', the other is that of the HR skill set and actual capability to deliver upon M&A deal goals.

What skills would make HR ready to deliver successfully on an M&A transaction? I believe one should focus on three aspects:

- Developing HR's planning, leadership and technical capabilities
- Elevating HR's ability to collaborate with business leadership on organizational design, business/deal acumen, and its knowledge of day-to-day operations
- Developing general business skills that would improve HR's contribution to M&A

It is very important for HR to be held accountable for its M&A-specific contributions. Hence, deal KPIs should be part of HR scorecards. Identifying and retaining key talent, factoring human capital integration costs into the deal model, and successful delivery of integration and change management plans are some illustrations.

> It is very important for HR to be held accountable for its M&A-specific contributions

I believe this is HR's time to shine, through value creation and financial results in a long-anticipated, fast-paced deal environment.

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