The Value of a People Centric Approach to Mergers & Acquisitions

Why do some M&As succeed, while most fail? The Answer isn’t as difficult or elaborate as you may think. It all comes down to one simple word... people.

This white paper takes a deeper look into what goes wrong in so many M&A deals and how to avoid being part of an alarming number of failed transactions. We take you step-by-step through an approach that will not only be beneficial for your employees, but for your business overall.
What happens when there is a lack of people-centric focus during M&As?

THE POOR SUCCESS RATE OF M&AS

Depending upon your source, 70-90 percent of M&A transactions fail to achieve their stated objectives. Reasons for these poor outcomes often include: unaddressed cultural challenges, inadequately defining and meeting synergy targets, unmet customer expectations, failure to account for or allocate necessary executive and organizational resources, and ineffective integration of enterprise technologies. Add to this the challenges of a digitized global environment and an increasingly competitive landscape for talent, and the stakes for M&A transactions are very high.

A 2017 National Center for the Middle Market (NCMM) report shows that PE firms consistently cite capable management teams as critically important to their investment decisions. The NCMM and The Conference Board both report that CEOs continue to identify talent, employee development, and succession planning as areas of strategic and tactical concern, weighing heavily on the ability of organizations to meet and exceed their business objectives. Coupled with a highly competitive talent marketplace, where the U.S. unemployment rate hovers around 3.9 percent, and in some local markets is well below this rate, the argument for a positive, proactive focus on people is very strong.

The economic impact of an organization’s people

Beyond M&As, there is compelling data about the economic impact of people, specifically employees, on organizations.
In 2012, Alex Edmans, Professor of Finance, London School of Business, published an article linking job satisfaction to firm value. He looked at companies listed in the “100 Best Companies to Work for in America” as identified by the Great Place to Work® Institute and published in Fortune Magazine for the period from 1984 through 2011.

The Great Place to Work® Institute measures five dimensions of workplace culture (see **Figure 1**) in their Trust Index, one of the two primary components for determining whether, or if, an organization is indeed a Great Place to Work (GPTW).

Edmans’ research concluded that companies identified as great places to work generated 2.3 percent to 3.8 percent higher stock returns per year than their peers for this period of time. Edmans published a follow-on study in 2016 looking at the “Best Companies to Work for” in fourteen countries. His findings were much the same for countries with “flexible labor markets, where firms face fewer constraints on hiring and firing.”

Edmans offers these conclusions from his studies: a) job satisfaction, as measured by high levels of employee engagement, is beneficial to firm value; b) corporate social responsibility can improve stock returns; c) the stock market does not fully value intangible assets; d) investment strategies should factor in the long-run growth of employees with higher levels of employee engagement, particularly in geographies with more flexible labor markets, such as the United States.

<table>
<thead>
<tr>
<th>DIMENSIONS OF A GREAT PLACE TO WORK®</th>
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<tbody>
<tr>
<td><strong>CREDIBILITY</strong></td>
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<tr>
<td>Communication: Communications are open and accessible.</td>
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<td>Competence: Competence in coordinating human and material resources.</td>
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<td>Integrity: Integrity in carrying out vision with consistency.</td>
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<td><strong>RESPECT</strong></td>
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<tr>
<td>Support: Supporting professional development and showcasing appreciation.</td>
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<td>Collaborating: Collaboration with employees in relevant decisions.</td>
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<td>Caring: Caring for employees as individuals with personal lives.</td>
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<td><strong>FAIRNESS</strong></td>
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<tr>
<td>Equity: Balanced treatment for all in terms of rewards.</td>
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<tr>
<td>Impartiality: Absence of favoritism in hiring and promotions.</td>
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<td>Justice: Lack of discrimination and process for appeals.</td>
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<td><strong>PRIDE</strong></td>
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<tr>
<td>Personal Job: In personal job, individual contributions</td>
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<tr>
<td>Team: In work produced by one’s team or work group.</td>
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<td>Company: In the organization’s products and standing in the community.</td>
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<td><strong>CAMARADERIE</strong></td>
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<tr>
<td>Intimacy: Ability to be oneself.</td>
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<td>Hospitality: Socially friendly and welcoming atmosphere.</td>
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<td>Community: Sense of “family” or “team”</td>
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* Figure 1
Similar analyses conducted by Sisodia, Sheth and Wolfe in their book, *Firms of Endearment* (2014) suggest that firms of endearment (FoEs), which they define as “companies that endear themselves to stakeholders by bringing the interests of all stakeholder groups into strategic alignment; where no stakeholder group benefits at the expense of any other stakeholder group, and each prospers as the others do,” achieve much higher levels of return for their investors.

In fact, the public FoEs returned 1,026 percent for investors over the ten years ending June 30, 2006, compared to 122 percent for the S&P 500; that’s more than an 8-to-1 ratio! These authors adopt the position that, “a great company is one that spreads joy and fulfillment and makes the world a better place because it exists, not simply a company that outperforms the market by a certain percentage over a certain period of time.”

**The hidden dangers of layoffs**

Taking a different approach to the value of employees in sustainable organizations is Jeffrey Pfeffer, Thomas D. Dee II Professor of Organizational Behavior at the Graduate School of Business, Stanford University. He looked specifically at the direct and indirect effects of organizations and their decisions about people on human health and mortality.

In his Spring 2015 article, “Building Sustainable Organizations: The Human Factor,” Pfeffer cites research which concludes that layoffs are extremely harmful to the physical and mental health of those laid off, including evidence that being “laid off increases the likelihood that an individual will engage in some violent behavior by some 600 percent.” He shares one study which reported that, “job displacement increased the death rate of those laid off by about 17 percent during the following 20 years” and a Swedish study which found that mortality risk increased 44 percent in the four years following job loss.

Pfeffer suggests that, “just as green companies enjoy reputational benefits that help in brand building and product differentiation, so, too, we might expect that companies with better records of human sustainability could enjoy benefits in attracting and retaining employees and also in building a reputation that could attract additional consumer demand,” exactly as Edmans research and Sisodia, et al’s analyses have concluded.

These findings point to the enterprise value which, as Alex Edmans’ research argues, may accrue as long-term gains for organizations with high levels of employee engagement. This value is so often sacrificed in traditional due diligence and post-merger integration efforts.

The question for this discussion, however, is how to maximize value and opportunity for all stakeholders in M&A transactions, although arguably this question applies to every aspect of organizational activity.

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**The best-kept secret to a successful M&A**

**YOUR PEOPLE AS YOUR BIGGEST ASSET**

What is the magic answer for those 10-30 percent of M&A transactions which capture the greatest value and maximize their opportunities for success? People!

It would be great if there was a simple formula or silver bullet. Likely, successful organizations will tell you it is one-part luck and opportunism, and three-parts hard work and applying a broader, system-wide perspective to pre- and post-merger integration activities.
Such success relies heavily on the involvement of all the players. By that we mean the people, those touching every aspect of the transaction and laying the groundwork for the future of the newly combined organizations.

You achieve a number of important advantages by adopting an approach that places people front-and-center. Giving voice to crucial stakeholder groups, such as customers, consumers, and most importantly employees, you gain:

- **Insight into your operation** — no one knows how your organization operates better than your employees. They are front-line in every aspect of your day-to-day activities.

- **Insight into your reputation and service levels** — your customers and consumers know you better than you know yourself and they are ultimately your “bread-and-butter.”

**Being one of the success stories**
Most organizations start out with the best intentions, but they quickly become overwhelmed, overworked, and unsure of how to successfully conquer the M&A process.

While each merger or acquisition is different and should be approached through its own unique lens, there are some simple guidelines for getting started using a people-centric approach. We have worked with dozens of organizations throughout their own individual sets of M&A challenges, but the fundamental steps to getting started are always the same.

Assuming that you sign a deal tomorrow, what do you do next? Here are three steps to get you started using a strategic people-centric approach.

**STEP 1 | LINK YOUR ASSETS TO YOUR STRATEGY.**

Achieving post-transaction synergies is critical for success, and there should be a nuanced approach to reaching these targets. Too often, an organization’s first thoughts after signing an M&A deal are “where should we make cuts?” These thoughts are almost automatic, usually even before the ink dries, and it’s not long before employees start to panic.

Assess the short-, medium-, and long-term strategic outcomes of the deal and carefully assess all of your talent against your objectives. Looking at your organization through a positive lens, one that evaluates which roles are the most critical and which employees are best suited for those positions, is rarely the approach taken.

There is a very real possibility that a cursory evaluation of talent, perhaps through the lens of redundancy, will result in immediate savings... but also a significant long-term loss of value.

It’s very easy to make mistakes, cutting staff who know the ins and outs of your business. These individuals know what your customers want, have in-depth knowledge of your most critical processes and procedures, and many times know more about the day-to-day operations than management.

It is critical that at the close of any M&A deal, a careful assessment of employee strengths and capabilities, aligned to the overall business strategy, is conducted to reduce these common, yet avoidable mistakes.
Close your eyes for a minute and pretend that you are in an organization that just announced an acquisition. What do you feel? Are you scared? Do you feel worried? Are your immediate thoughts centered around how you will support yourself or your family if you lose your job? What will you do about medical insurance, your retirement, or your children’s college tuition? How long will it take to find another job?

These transitions happen all the time, but an overwhelming majority of companies don’t stop to offer employees support and an opportunity to voice their opinions. As we saw earlier, layoffs increase the incidence of violence by up to 600 percent. These statistics can be avoided.

Offering structured opportunities for sharing, centered around a common business goal, where employees can find comfort in feeling heard, improves employee engagement and feelings of control. Not only are these opportunities good for employee morale, but they offer invaluable insight into the dynamic operations of your business. These insights can be helpful when determining how to properly allocate resources and align talent.

Unfortunately, in many cases not every single person can be retained during an integration. We are not so naïve as to think that every employee will be a candidate for continued employment after the transition. We do, however, feel confident that a vast majority of employees have untapped potential to be incredible assets to you and your business. Realizing this potential can take some reframing though, as we commonly take a reactionary approach to addressing the bottom-line.

By learning to respond to such transitions with a more people-centric, strategic approach, you can retain key employees, improve morale, and accelerate organizational performance. As for the one or two employees that you had to let go in the process? They, too, will have greater levels of satisfaction because you made them feel valued.

Case Study: The reward for instituting a people-centric approach

The steps above are just one part of a comprehensive framework for the in-depth work that we do with each of our clients. At a minimum, learning from and engaging multiple constituents in your discovery, diagnostics, change management, and strategy execution plans make all the difference in your eventual success or failure. To illustrate the value of this approach, let’s use a specific, real-life example.
29Bison was deployed to work with an organization who was undertaking the acquisition of a manufacturing plant comprised of approximately 300 employees. This operating facility was being carved-off from its corporate parent. One of the acquiring company’s most pressing concerns was assessing talent and employee capability for the purposes of creating an effective retention plan.

Conventional approaches to talent retention during major organizational transitions often leave much to be desired. They sometimes lack a whole-systems understanding of which roles are most critical to the unique function of a team, department, business unit, or company. Typical talent assessment and retention strategies rarely consider the less obvious aspects of individual employee values, personality, and motivation. These often inspire great collaboration and culture building, and are ultimately the keys to a successful transformation.

During the period between deal-signing and close, we spent one week on-site at the target facility to meet with all of the managers, supervisors, and team-leads, conducting focus groups of 3-10 employees at a time. Our purpose was to learn as much as we could about this organization prior to closing, in order to facilitate a smooth and successful transition; moving away from a black-box approach to talent assessment and retention planning.

Participants in each focus group were asked to describe the strongest aspects of their work as an organization; where they had achieved their greatest successes; what elements of their environment contributed most significantly to their long history of accomplishment; and who their most valuable team members were. Not one interview participant identified themselves, individually, as critical to the success of the organization. They did, however, identify a team of mechanics and maintenance technicians as the most important employees to ensuring business continuity and successful manufacturing operation – incidentally, such employees are rarely selected for retention bonuses.

We heard compelling stories of collaboration, survival, and flourishing against all odds. A 30-year history of coming together to prove their worth as troubleshooters and creative problem-solvers for a global operating network. It was a story of unity and esprit de corps.

In the end, our recommendation to the acquiring organization was to adopt a unique retention mechanism. In alignment with a strong business strategy and a very aggressive set of operational objectives, a site-wide performance bonus program was instituted. This bonus structure supported the collaborative and cohesive culture of this team, and provided clear line-of-sight to the short-, medium-, and long-term outcomes expected of the newly acquired site employees.

At three months post-closing, the site had reduced its historic backorder levels from 40 percent to 0 percent, had retained all but one employee (this one employee was a planned retirement), and had increased its production yield to 120 percent of target. At seven months post-closing, the site was holding steady at 99 percent employee retention, had maintained its new zero backorder level and was ending the year 7 percent positive to their year-end financial targets. At one year post-close, the site was $2 million positive over their first 12-month financial projections and was outperforming their production capacity estimates by an average of 12 percent per month.

An equally impressive outcome was the level of
confidence this newly acquired team expressed in the ability of their new leaders to guide them to a positive future.

These employees frequently expressed their appreciation for having their voices heard in the early stages of the acquisition process, and were grateful to the acquirer for the respect and dignity demonstrated in the integration and retention process.

Conclusion

Adopting a people-centric approach to transition during and following a merger or acquisition, or any major shift in an organization, affords the opportunity to build and reinforce aspects of an organization’s culture in ways that promote employee engagement, and therefore, long-term value.

Using our earlier acquisition example, the practice of meeting with members of the employee population helped us to learn about and understand what made them successful. We were able to identify where they had contributed significant value, what mattered most to them, and where there were opportunities for increased performance. Each of these components 1) allowed the employees to demonstrate their pride, and 2) opened the door to deeper levels of communication between members of both organizations, an essential element in building trust.

We were able to uncover the familial nature of this work group, demonstrating extraordinary levels of camaraderie among the employees and pride in both individual and group accomplishments. This discovery ultimately allowed the acquiring organization to adopt a retention strategy which reinforced the values of this group and provided rewards which were balanced, impartial, and aligned with the operational and synergistic outcomes of the deal. This experience served to reinforce the GPTW dimension of fairness, as well as providing financial incentives to every member of the staff for targeted performance-based behaviors.

If these early gains can be capitalized upon and the positive aspects of culture creation in the early stages of this transaction can be maintained, the shareholders of this organization should realize significantly better outcomes both in the short-term, as demonstrated by our earlier example, and in the long-run as suggested by researchers and analysts such as Edmans and Sisodia, et al.

Each of us is being called upon – as leaders, investors, customers, and consumers to adopt a new approach to valuing people in organizations. There is a growing movement to account for the tangible economic and human impacts resulting from and accruing to organizations on the basis of their approach to the treatment of people.

The bottom line is, each of us should be concerned with the impacts we have on the world, and how we can create greater value for everyone.

About Us

29BISON are human capital advisors for the investment community, performing due diligence, value optimization and pre- and post-transactional services. We combine data-driven inquiry with a strengths-based, people-centric approach resulting in appreciating [human] capital.
REFERENCES


