

# Human Resource Executive®

During a merger or acquisition, the HR departments of both companies have critical roles to play, both within their departments and for both corporate entities.

## The Perfect Blend

BY CHRISTOPHER CORNELL

A merger or acquisition is undertaken in order to improve performance. There may be other reasons as well, but bottom line, it's about performance. That seems a blindingly obvious notion, and yet companies still emerge worse off after mergers and acquisitions with disheartening frequency.

Of course, HR can't save a troubled integration single-handedly, experts say, but it can—indeed it must—play a critical role in the process, and not be relegated to only handling problems that are often misidentified as the "soft issues."

"There really are no soft issues," says Steve Wall, merger and acquisition practice leader at Philadelphia-based Right Management Consultants and author of *The Morning After*, a book about why corporate mergers fail. Right has just completed an update to its landmark 1999 study of best practices in mergers and acquisitions (see sidebar).

One conclusion of the study, says Wall, is that "too much time is spent on trying to be nice. Pick one way of doing things and move on," he says. "People will live with the decisions as long as you make one and explain the rationale." That advice seems to have been heeded in one of the most prominent mergers in recent memory, between Palo Alto, Calif.-based Hewlett-Packard Co. and rival Compaq Computer Corp.

As is so often the case, the two entities had very different operating models. "Compaq had a very light corporate structure, a thin layer of corporate governance. The organization was a geographically dispersed model. Essentially, it was a thousand different tribes, and nobody knew who was doing what," says Susan Bowick, who recently retired as executive vice president of human resources and workforce development at H-P.

When Omaha, Neb.-based investor services firm Ameritrade Holding Corp. acquired rival Datek Online Brokerage Services, it was another case of opposites attracting.

"Ameritrade had gone through the development phase," says Kurt Halvorson, chief administrative officer at Ameritrade. "Datek looked like Ameritrade a few years earlier."

The HR departments were equally different: "Ameritrade's HR department was focused into business units dealing with specific issues," says Karen Lombardo, managing director of human resources. "Datek's operated more as a concentrated nucleus of generalists."

In both mergers, the HR departments were brought into reorganizing discussions very early. H-P's Bowick began meeting with her Compaq counterpart even as some of the final details of the merger were being worked out. "We put together a working session with a specific agenda," she says. "The goal was for the two teams to get together and each give an overview, then we'd split up by functional expertise—benefits, compensation, etc.—and inventory, at a high level, what each company was doing. Eventually we'd come back, in each of those functional areas, with a plan for how we would organize the



transition." They set a date for their first meeting: Sept. 11, 2001.

The two teams met at Compaq headquarters in Houston, and were just settling down to business when the first news flashes of that terrible disaster began to arrive.

"Of course, we kept getting interrupted with worse and worse news," Bowick recalls. Eventually, both teams went to Compaq's cafeteria to join the rest of the company watching the news coverage. "We really bonded that day. We had just met these folks, and they were offering us all sorts of personal support."

Such bonding would prove valuable throughout the merging process.

### The Clean Room

Eventually the two teams did get down to work, and developed a routine in which they met for a full day every Wednesday to identify issues, make decisions and define work streams. Bowick set up what was known as "the clean room," where selected members of her HR team who had been pulled from their regular duties worked full time on integration planning.

One by one, Bowick and her team assessed every department, and every position in that department, a process



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that took five months. "Starting at the top with Carly [Fiorina, H-P chairman and CEO], every employee was selected or deselected after [we discussed] their strengths and skills with the line manager of that department. There were lots of redundancies and there were some very tough decisions."

Bowick adds that the same process was used, early on, for the HR department itself. "We felt it was important to practice what we preach, and I think it worked really well. We could see the process cascading through the organization very quickly."

Still, the exercise was not without problems. "You sometimes meet with a lot of resistance," Bowick says. "Some managers want to hold onto their people, and keep their whole teams intact. That was especially true among Compaq line managers. HP had been used to virtual teams, but at Compaq, the feeling was: If you work for me, you sit in the same physical location."

Eventually, Bowick adds, employees from both companies learned to embrace the idea of virtual teams. "They came to understand that this was a much bigger company, more spread out globally," she says. "This is a technology company and, considering the travel limitations and cost savings, everyone quickly adapted to using technology even more to transcend physical locations.

Mid-size companies, too, tackle acquisitions with increasing frequency, and the HR directors at some of these enterprises have gotten as adept at integration as international conglomerates.

When Alpharetta Ga.-based manufacturing software-solutions provider MAPICS acquired Columbus, Ohio-based Frontstep Inc., another player in the manufacturing-software market, the MAPICS HR team went to work. Both departments drew up a "policy, practices and programs matrix" for both companies, which included topics such as vacation policies, separation practices, employee development programs, 401(k) plans, benefit plans and more.

"We looked for areas of similarity and difference, in order to determine the best practice," says Sandra Hofmann, chief people officer for MAPICS. "Assuming that the best practice supported the strategic direction of the new MAPICS, this best practice became the policy/practice/program for the new company. If transitions were needed, then they were defined."

For example, says Keith Soles, human resources director at MAPICS, "Frontstep's involuntary separation practices provided minimal separation pay and MAPICS existing separation pay was very rich by today's standards." The team decided to maintain each practice through the end of the fiscal year and then move to a new practice that struck a midpoint between both companies' former plans.

That was also the standard used by Best Software, an Irving, Calif.-based provider of business management solutions that has acquired 15 companies in the last few years, most recently Timberline, a Beaverton, Ore.-based software supplier.

"It is key to balance the HR functions," says Nicola Tidwell, executive vice president of human resources for Best. "If there is a process in place in the company being acquired, but it works better than what is in place at the company acquiring—then keep it in place." After reviewing the offerings at Timberline, for example, she says, Best decided to keep the acquired company's leadership development programs. "They have been very effective at relating leadership principles to business strategies and defined business values as a core foundation of their programs," she says.

### An Open Forum

The open-door approach was crucial at San Francisco-based Recruitsoft Inc. during its acquisition of rival White Amber, based in Lake Success, N.Y. Babak Dehnad, director of Recruitsoft's Worldwide HR, says the biggest challenge during that period was "giving our new employees constant communication on what they should expect."

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In order to ensure this, says Dehnad, "we also provided an open-forum conference call through which executives from Recruitsoft and White Amber were available for questions from the employees about what the acquisition meant for their positions within the company."

In addition to communication, Dehnad adds, "one thing that companies are not always on the lookout for when combining is ensuring that they train and transfer knowledge about the services and products of both companies. In my experience, transferring this knowledge immediately is very important to how employees will contribute in their job on a day-to-day basis as well as their satisfaction with communication in general."

The merger experience can sometimes be like turning over rocks in your garden—you may find hidden things you wish you hadn't seen. MAPICS' Hofmann says that, during the Frontstep acquisition, she discovered "sidebar employment agreements and management commitments to employees that had not come through HR and were not documented officially ... . Many processes had been neglected or even ignored—such as salary management, employee development, performance planning and appraisals.

In many respects, the MAPICS HR team had to rebuild credibility with the managers acquired from the new company and quickly establish processes. MAPICS conducted numerous roundtables with employees and managers to provide an open forum for discussions. Executive management led these informal discussions—along with HR staff—and responded directly to questions raised." Soles adds that, when reduction-in-force decisions were made, "we were up-front with them regarding their transition date for leaving the organization. It was a little awkward initially, but they maintained a high level of professionalism and set aside their personal feelings to help

integrate the two organizations as quickly as possible."

"The biggest challenge is releasing employees," Hofmann agrees. "Doing it with respect and consideration was a given, but even so, good people who were doing good work had to be released if we were to achieve our financial targets. We announced all separations at one time, identified the transition periods where we would need to retain some employees for a period of time, and included retention bonuses for a significant number of employees. We established outplacement services too, and made them available 30 days prior to the scheduled departure." MAPICS established an agreement with Spherion to provide assistance to all released employees. Hoffman says they selected Spherion because, "we needed a vendor that could meet our need to deliver services over a broad geographic area and, most importantly, to employees who were 'virtual' teleworkers. Services needed to be Internet-based so that our employees could access the system from their home offices. We also needed a vendor that understood how to assist employees with the emotional impact of being separated. Employees were released due to financial and business factors, not performance, and it was important to MAPICS management that these valued contributors were released with dignity."

After the Ameritrade-Datek merger was announced, there were initial meetings in which all the employees were addressed as a group, via a teleconference. This was followed up by in-person visits to each office. The key, Lombardo says, was to engender a sense of trust and commitment. "We gave people the ability to ask a lot of questions, and that created a tremendous time requirement for us to be responsive to questions.

"Datek employees were told that there were a number of opportunities with Ameritrade, but that nearly all would require them to relocate to either

Baltimore or Omaha," Halvorson says. "We didn't get any takers. Then we clearly communicated to them that we wanted to work with them as partners and that they would be with us as long as possible."

Every employee learned of his or her future in private meetings. "For each department, first we would work with the managers, and then we'd have the managers sit with the employees—always with an HR person present.

"We really focused our efforts on 'over-communicating' with the associates," he adds. "We tried to be fair and upfront. We explained the severance policy, and gave them as much as 30 or more days notice. A lot of firms will not do that; they feel it's too great a risk. We felt it's much worse to say, 'Here's a box, go clean out your stuff.'"

At MAPICS, "an online survey conducted in April indicated a respectable 85 percent satisfaction level with the company—a remarkable achievement given that the company was only several months into the integration," says Hoffman.

H-P's Bowick has similar metrics: "Eleven months after the merger, we did an all-employee survey ... . Over half rated the company way above the norm on productivity; job satisfaction was phenomenal; they said they understood their role in the company," she says. "The employees spoke and I was really proud of what they told us.

"Other companies that undertake an integration take years to get to the point we got to in 11 months," she says.

"The lesson that was reinforced for us," says Ameritrade's Lombardo, is, 'If we take care of the employees, the employees will take care of our clients and shareholders.' "

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