

HR'S ROLE IN MERGERS AND ACQUISITIONS

*Tools and Mandates for the Chief
Human Resources Officer*

- ∞ Business Case for HR Involvement Across the M&A Process
- ∞ End-to-End M&A Guide for the Chief Human Resources Officer
- ∞ Tools to Overcome Human Capital Risks Throughout the M&A Process



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Note to Members

This project was researched and written to fulfill the research requests of several members of the Corporate Executive Board and as a result may not satisfy the information needs of all member companies. The Corporate Executive Board encourages members who have additional questions about this topic to contact the Board staff for further discussion. Descriptions or viewpoints contained herein regarding organizations profiled in this report do not necessarily reflect the policies or viewpoints of those organizations.

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THE ROLE OF HR IN MERGERS AND ACQUISITIONS

Key Conclusions

- ∞ **HR performance in integration is a key driver of M&A success**—Council research shows that 44% of senior executives report that integration is the greatest source of error in M&A and that overcoming human capital challenges is more important to integration success than any other aspect of integration.
- ∞ **HR is underperforming in integration**—Only 15% of chief human resources officers rate their organizations as effective in managing human capital risks throughout integration.
- ∞ **Early identification of and response to human capital integration risks is critical to deal success**—Only 34% of HR organizations are involved early in the deal process, inhibiting their ability to identify and overcome human capital integration risks.
- ∞ **Organizations that effectively identify and respond to human capital integration risks are more successful at M&A**—Council research finds that organizations that effectively manage human capital risks throughout the M&A process experience 60% better talent outcomes (defined by higher workforce engagement, increased talent retention, and more effective deployment of talent) and better deal outcomes.
- ∞ Chief human resources officers need to adhere to five imperatives throughout the M&A process to ensure successful integration:
 1. **Gain early insights into the strategic objectives of the deal, ensuring that HR has the skills and processes in place to support those objectives.**
 2. **Assess and identify human capital risks that impact valuation of the target and integration planning.**
 3. **Prepare proactive responses to identified human capital integration risks.**
 4. **Continually monitor key talent metrics related to performance, retention, and engagement to respond to emerging human capital risks that have an impact on value capture.**
 5. **Assess HR's performance post-integration and capture lessons learned to ensure improved future performance.**

The Council's research on mergers and acquisitions provides resources to overcome three key challenges that chief human resources officers must address to improve HR's impact on M&A value creation:

- A lack of role clarity for the HR function
- A lack of alignment between corporate and HR functional objectives
- A lack of HR capabilities to execute against critical mandates throughout the transaction process

M&A TOOLS AND MANDATES FOR THE CHIEF HUMAN RESOURCES OFFICER

This study provides chief human resources officers with the business case, mandates, and staff tools to improve HR's impact on M&A value creation

CHRO Questions and Council Responses

How Can HR Most Improve on M&A Value Creation?

What role should HR play in M&A?

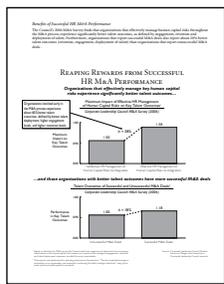
What are the key HR pitfalls and mandates throughout the process?

How can HR improve execution at overcoming human capital risks throughout M&A?

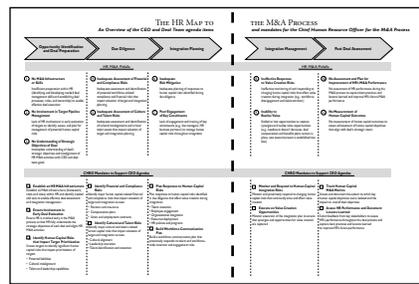
Business Case for HR Involvement Across the M&A Process

End-to-End Guide for the Chief Human Resources Officer

Tools to Overcome Human Capital Risks Throughout the M&A Process



(pages 1-8)



(pages 9-18)

Area of Focus	Specific Information Requested by Seagate	Received	Low Risk/High Risk	Issues/Requirements/Areas of Risk (Illustrative)
Base Salary Program	Base Pay Plans	Yellow	Red	Base pay is market competitive. AEC, not reviewed prepared by target. Use of \$XXX,000/year. Target requirements not in alignment.
	Variable Pay Plans	Red	Red	No visibility into target's incentive plan program.
	Executive Pay Plans/Deferred Compensation	Red	Red	Plans not reviewed. Deferred compensation plans, as far as know, foreign, is in compliance with new legislation.
Equity Plans and Obligations	Stock plans, restricted plan documents, equity, EOP	Green	Green	No issues, continue implementation of equity plan.
	Survivor by major site	Green	Red	Target's overall turnover is much higher than Seagate.
Benefits Plans and Costs	Listing of any key executive agreements, group-term life insurance with major site owner	Yellow	Red	No new executives (EP) and already broad with plan in review.
	Employee Retirement, Management Expense, and Other	Yellow	Green	No information provided on group-term life insurance with major owner.

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<i>The HR map to the M&A process provides an overview of the key chief human resources officer mandates throughout M&A in support of the CEO's priorities.</i>	
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<i>Intel creates a flexible HR M&A staffing plan consisting of a core team of seven HR staff as well as 15 to 20 HR functional employees trained in M&A skills to ensure that HR always has the necessary resources to provide support for any deal volume, size, or complexity.</i>	
 Early Human Capital Risk Analysis	29
<i>Cadbury Schweppes uses an assessment tool to identify and assess the organizational and cultural dimensions that matter most for target integration, valuation, and risk assessment.</i>	

PHILIPS

Risk-Driven HR M&A Team

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Philips builds an HR M&A team with the key skills to manage critical human capital risks specific to each transaction and fast tracks the team's development on how to support the critical elements of a transaction.

Stage II: Due Diligence

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HR Due Diligence Risk Assessment

39



Seagate requests financial, compliance, and talent information from the target during due diligence, and creates a due diligence dashboard to provide an overview of major human capital risk areas, which informs deal valuation as well as integration planning.

Cultural Assessment

47



Sterling Financial evaluates culture indicators during due diligence by reviewing standard due diligence documents and searching for cultural insights to assess the level of fit between the target and acquirer for each attribute, determining whether to walk away from the deal or begin planning culture conflict mitigation efforts.

Talent Identification and Retention Audit

51



Nortel identifies critical talent early in the deal process so that targeted retention and transition support can be put in place.

Stage III: Integration Planning

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M&A Integration Playbook

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Brambles uses a comprehensive integration playbook on all aspects of integration, including HR key responsibilities such as cultural alignment, organization design, staffing, talent retention, rewards and redundancy, and communication planning.

Workforce Communication Plan

65



Kraft recognizes that employee uncertainty and anxiety is a significant driver of attrition and employee underperformance through an M&A transaction and builds a communication plan around the key communication risk moments.

Stage IV: Integration Management

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Employee Pulse Dashboard

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FPL Group tracks human capital metrics throughout integration to develop an ongoing understanding of employee morale and turnover that enables the creation of targeted responses which overcome root causes.

Integration Risk Survey

77



Danske Bank uses an integration risk survey to increase visibility into changes in employee commitment during integration, respond to escalations in employee commitment risks, and continually monitor progress.

HR Integration Execution Dashboard

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ABN AMRO uses a dashboard to monitor execution of integration activities and tracks progress against task milestones, highlighting tasks that are likely to be completed late.

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Deutsche Bank 	<i>Deutsche Bank’s HR integration leader conducts in-the-moment performance analysis based on feedback from team members and third-party M&A stakeholders to measure HR M&A team performance and target skill building on 10 imperatives previously identified as critical to the M&A process.</i>	
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LETTER TO THE MEMBERSHIP

As indicated by sharp increases in both deal volume and value, companies are once again pursuing mergers and acquisitions as a means to strengthen their competitive position. Yet recent surveys show that a majority of companies fail to capture the full value from mergers and acquisitions, mainly due to poor integration management. Human capital related factors (e.g., cultural integration, workforce engagement, talent retention) are frequently at the root of failed mergers and acquisitions (M&A).

All too often, HR is not involved throughout the key deal phases to ensure effective identification and management of human capital risks. HR often lacks specific deal skills, knowledge, and tools to be an effective partner to the CEO and deal team. Given the importance of effective integration of human capital-related aspects to overall deal success, chief human resources officers must be hardwired with the knowledge and tools to overcome the key challenges they face throughout the M&A process.

In response to these imperatives, the Corporate Leadership Council is pleased to offer *HR's Role in Mergers and Acquisitions—Tools and Mandates for the Chief Human Resources Officer*, which provides chief human resources officers with three critical tools to improve their overall impact on deal outcomes:

- **Business Case for HR Involvement Across the M&A Process**
- **End-to-End M&A Guide for the Chief Human Resources Officer**
- **Tools to Overcome Human Capital Risks Throughout the M&A Process**

It is our hope that this initiative will support member organizations in improving their impact throughout the M&A process and help them to realize the strategic objectives of the organization. Since the findings presented here do not address every challenge faced by organizations during the M&A process, members are encouraged to contact the Council's research team for further assistance. As always, we encourage and look forward to your feedback.

With our continued appreciation,
Corporate Leadership Council
Washington, D.C., London, and New Delhi
December 2006

WITH SINCERE APPRECIATION

The Corporate Leadership Council would like to express its gratitude to the following individuals who contributed time and insight to the development of this study.

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EMC Corporation	Linde Aktiengesellschaft (formerly The BOC Group Plc)	The Thomson Corporation
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Exelon Corporation	L'Oréal SA	Veritas DGC, Inc.
	Mercury Interactive Corporation	Vodafone Group Plc
	Mervyns, LLC	



SECTION I

*Business Case for HR Involvement
Across the M&A Process*

Occasion for the Research

M&A transaction volumes remain at high levels with an increasing number of large deals in recent years, which combined with growth in M&A prices is increasing M&A value at risk.

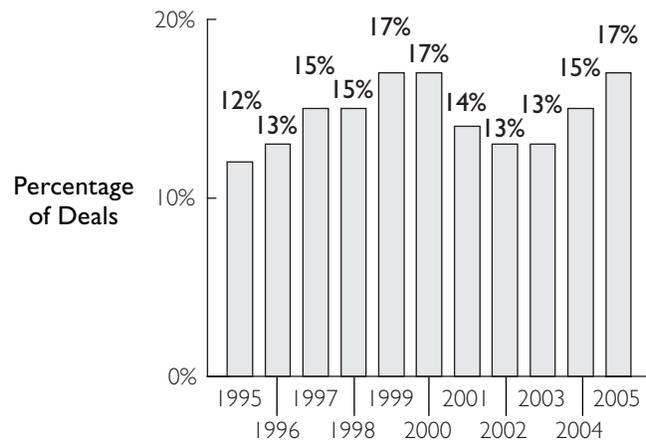
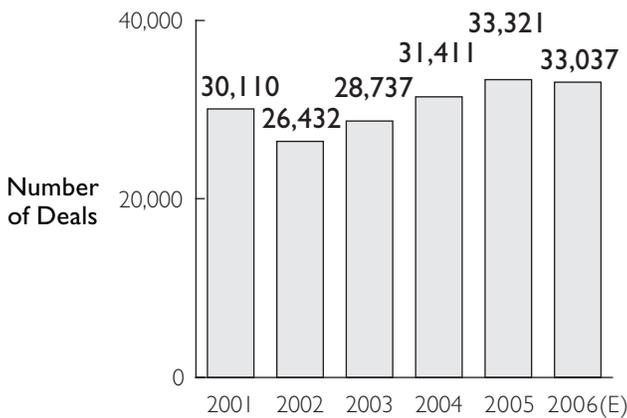
INCREASING M&A VALUE AT RISK

Continued high-deal volumes...

...combined with more large deals...

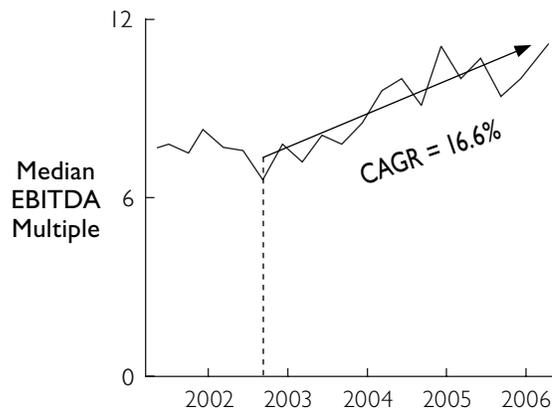
Number of M&A Transactions
2001–2006(E)

Percentage of Deals More Than US\$100 M (€78 M)
Deal Values Adjusted for Inflation, 1995–2005



...and growth in M&A prices contribute to increasing value at risk

Growth in M&A Prices
EBITDA Multiples, All Industries,
Q2 2001–Q2 2006



n = 5,561 transactions.

Source: Thomson ONE Banker; Corporate Strategy Board research; Corporate Leadership Council research.

Low M&A Returns

Multiple studies highlight that, for a majority of organizations, M&A transactions do not deliver anticipated benefits. Meanwhile, across the Council membership, just 12% of organizations report significant success in M&A, while 34% report no success in M&A transactions.

THE SOBERING REALITY

Though intended to accelerate growth, deals often fail to achieve objectives...

Summary of Merger and Acquisition Failure Rates

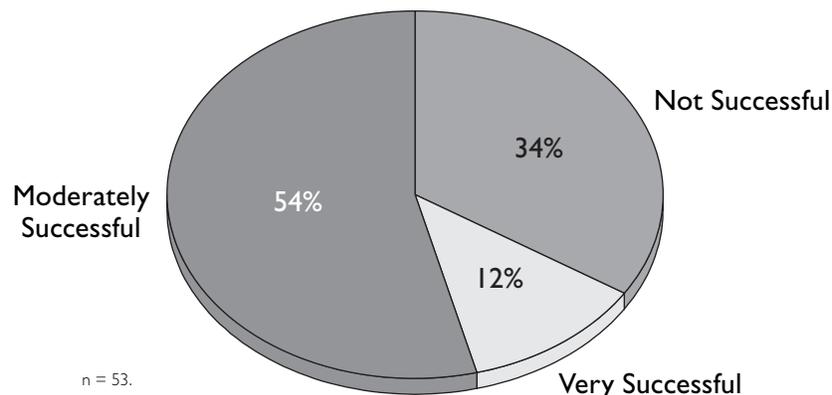
Estimates

Source	Observed Merger or Acquisition Failure Rate
Right Management Consultants	<ul style="list-style-type: none"> • 77% of mergers and acquisitions do not achieve their original purpose.
Mercer Human Resource Consulting	<ul style="list-style-type: none"> • 50–80% of mergers and acquisitions never produce anticipated benefits.
McKinsey & Company	<ul style="list-style-type: none"> • Almost 70% of mergers fail to achieve revenue synergies. • Nearly one-quarter of anticipated cost synergies are overestimated by at least 25%.
Accenture	<ul style="list-style-type: none"> • Only 13% of executives strongly agreed that their companies' most recent acquisitions were completed "as quickly as possible with minimal distress." • Fewer than half of responding executives reported that their companies captured either anticipated cost or revenue synergies.
The Boston Consulting Group	<ul style="list-style-type: none"> • As many as two-thirds of mergers fail to create shareholder value.

...and only 12% of organizations report highly successful recent M&A transactions

M&A Deal Success

Corporate Leadership Council
M&A Survey, 2006



Source: "2002 McKinsey Postmerger-Management Survey," McKinsey & Company, 2002; "Accenture/Economist Intelligence Unit 2006 Global M&A Survey," Accenture, 2006; "Creating Value Through Mergers and Acquisitions," Right Management Consultants, 2003; "Growing Through Acquisitions," The Boston Consulting Group, 2004; "Making Acquisitions Work: Human Capital Aspects of Due Diligence and Integration," Mercer Human Resource Consulting, 2005; Corporate Leadership Council research.

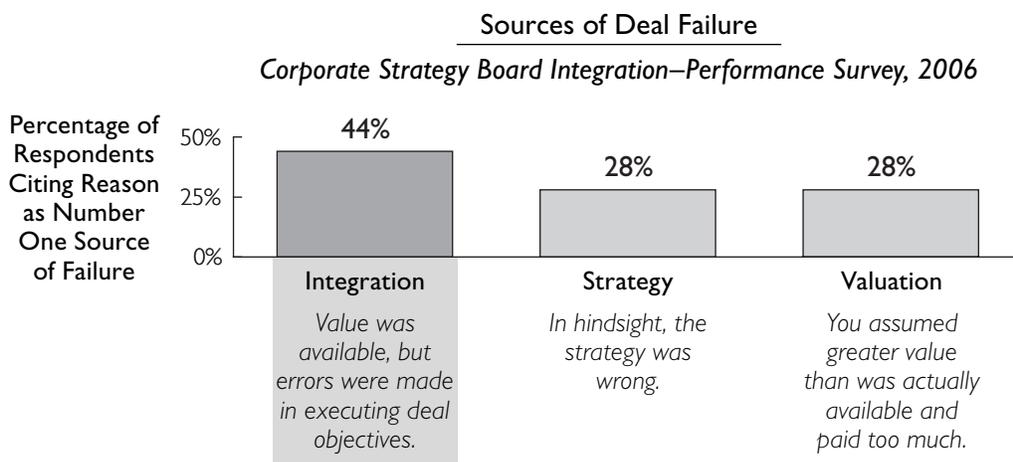
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Root Cause of M&A Underperformance: Poor Integration Management of Human Capital Elements

A recent study by the Corporate Leadership Council's sister program, the Corporate Strategy Board, indicates that poor integration represents the most common challenge to capturing the full value from an M&A transaction. Furthermore, overcoming human capital-related challenges during integration proves critical to successful integration.

INTEGRATION: KEY DRIVER OF M&A FAILURE

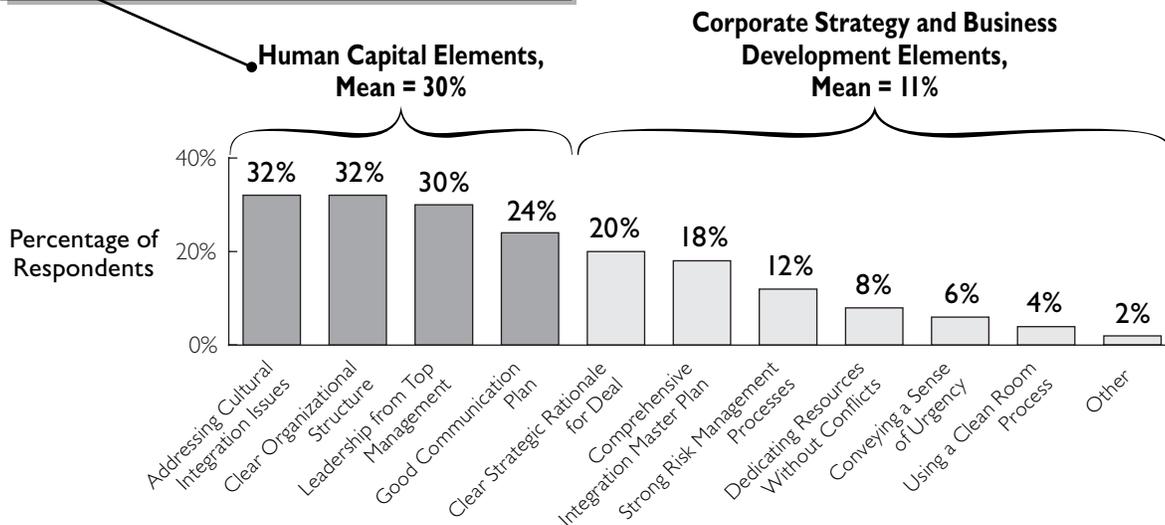
Senior executives report that integration is the greatest source of failure in M&A...



...and rate human capital aspects most critical to successful integration

Percentage of Senior Executives Rating Element Most Critical to Successful Integration

Senior executives report that overcoming human capital-related challenges is more important to M&A integration success than any other aspect of integration.



HR Underperformance in Integration

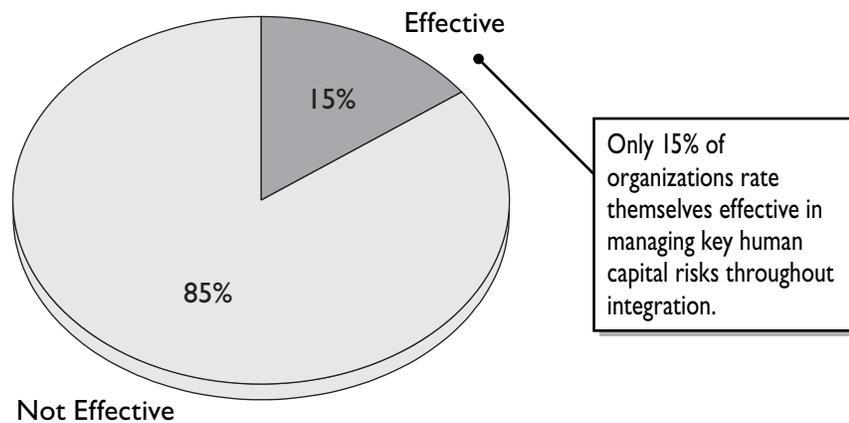
Chief human resources officers indicate that only 15% of organizations are effective at managing human capital risks. Failure to overcome critical human capital risks during integration leads to significant M&A underperformance.

HR UNDERPERFORMANCE IN INTEGRATION

Fewer than one in seven chief human resources officers report effective management of human capital risks during integration

Organizations Reporting Effectiveness in Managing Human Capital Risks During M&As

Corporate Leadership Council M&A Survey, 2006



n = 53.

HR M&A UNDERPERFORMANCE

“HR’s failure to overcome critical human capital risks during integration leads to M&A underperformance and costs organizations millions of dollars in M&A consulting fees.”

Tom Brown
Senior Vice President, HR
Brambles Industries Ltd.

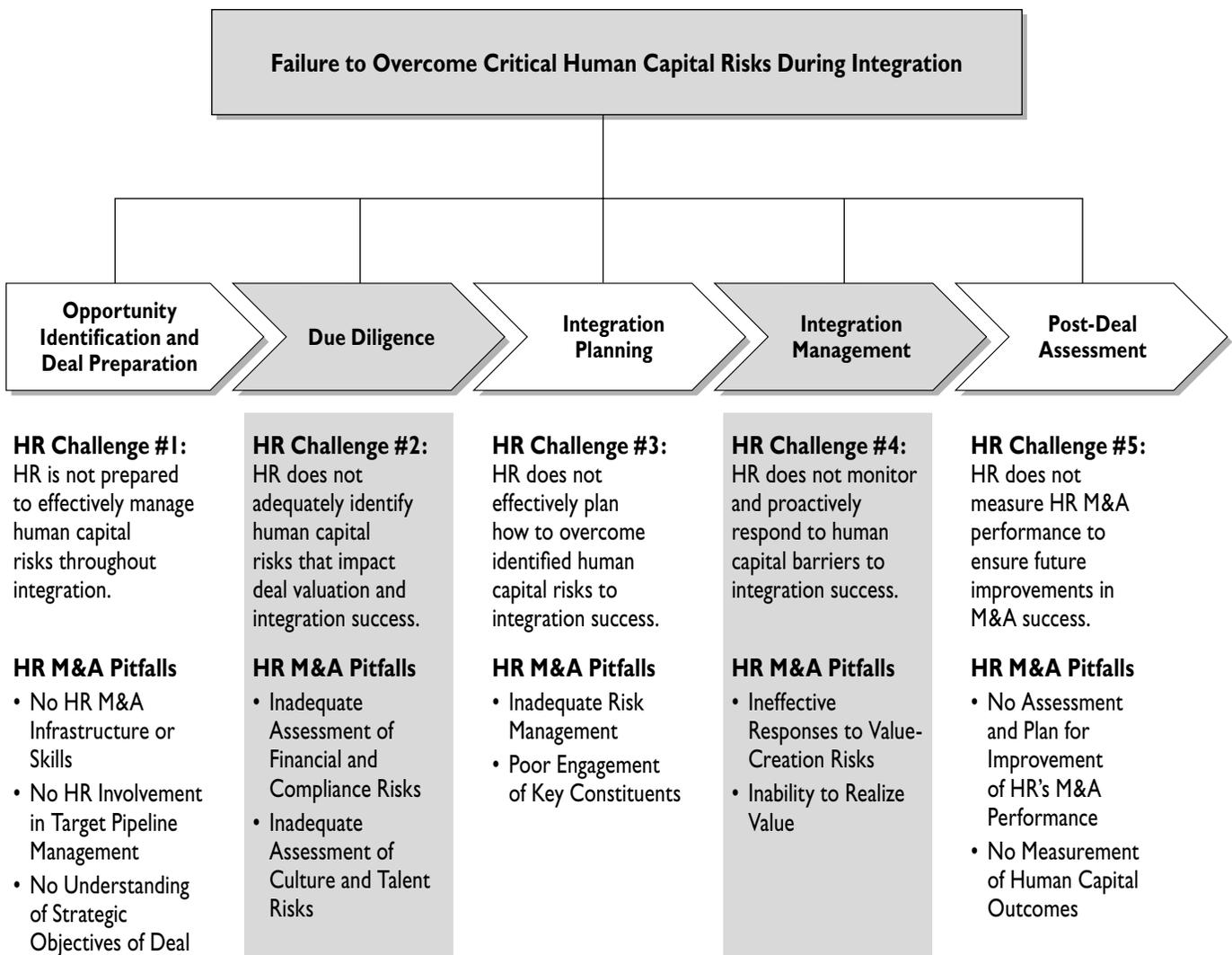
HR M&A Integration Challenges

HR's failure to overcome critical human capital risks during integration stems from five key HR challenges. To effectively address these challenges, HR must tackle 11 common HR M&A pitfalls.

HR CHALLENGES INHIBITING M&A INTEGRATION SUCCESS

HR's failure to overcome critical human capital risks during integration is driven by key challenges that HR must overcome throughout the M&A process

Key HR M&A Integration Challenges and Pitfalls



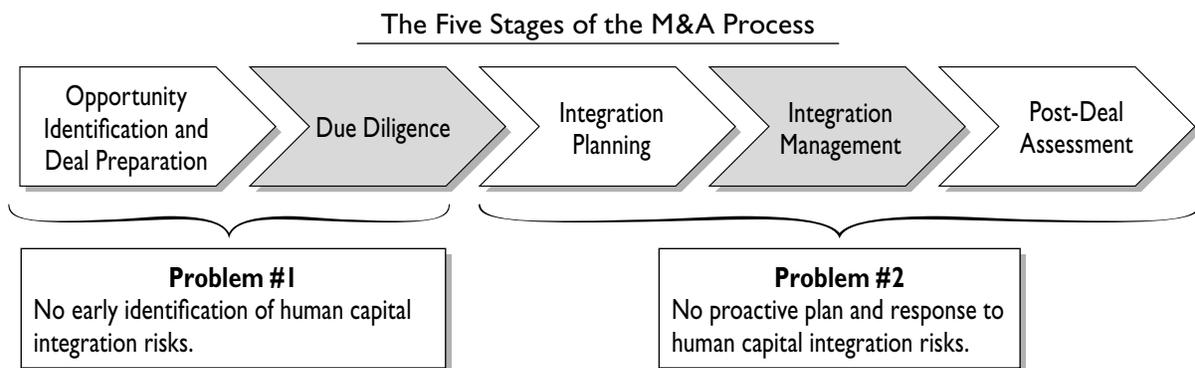
Source: Corporate Leadership Council research.

Root Cause of HR M&A Integration Challenge: Lack of Early Involvement

CLC's M&A survey shows that only 34% of HR functions are involved early in the deal process, inhibiting their ability to overcome HR integration challenges and manage human capital risks. The survey reveals that those HR functions involved in early M&A stages experience significantly enhanced human capital returns.

ENSURE EARLY INVOLVEMENT TO MANAGE HUMAN CAPITAL INTEGRATION RISKS

CHROs must ensure early understanding of and responses to human capital integration risks throughout M&A...



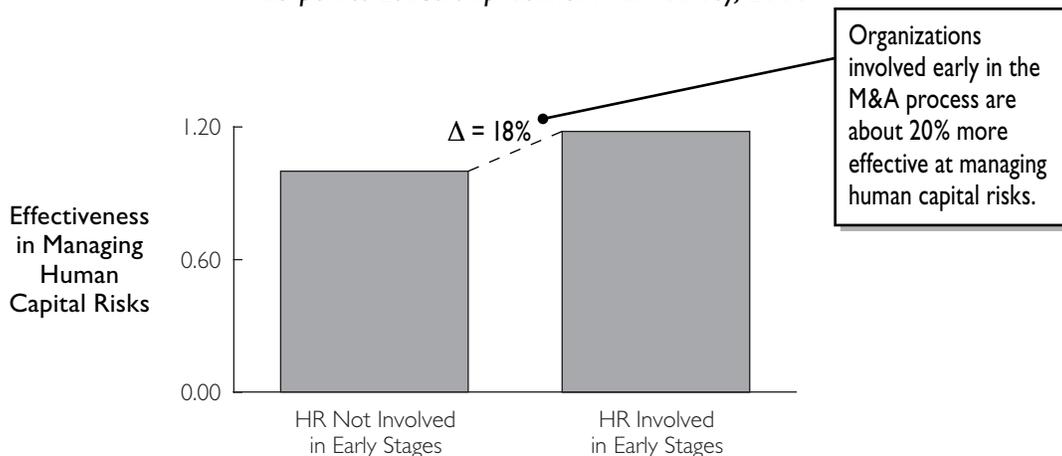
Overcoming HR's Integration Challenges

CLC's M&A survey shows that only 34% of HR functions are involved early in the deal process, inhibiting their ability to identify and plan proactive responses to human capital integration risks.

...because organizations that are involved early in the M&A process are significantly more effective at managing human capital risks during integration

Organizations Reporting Effectiveness in Managing Human Capital Risks During M&As

Corporate Leadership Council M&A Survey, 2006



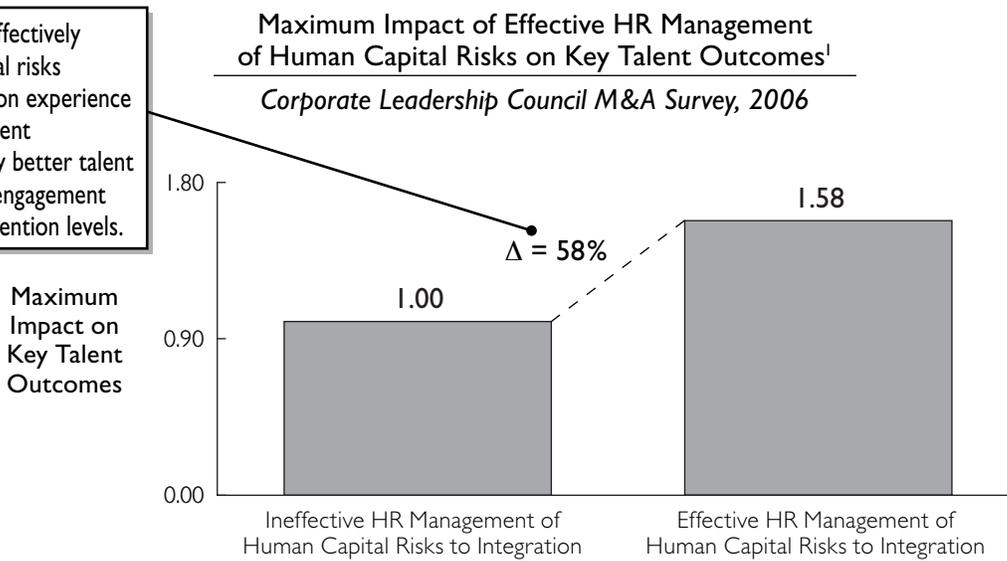
Source: Corporate Leadership Council Member Survey on Mergers and Acquisitions (2006); Corporate Leadership Council research.

Benefits of Successful HR M&A Performance

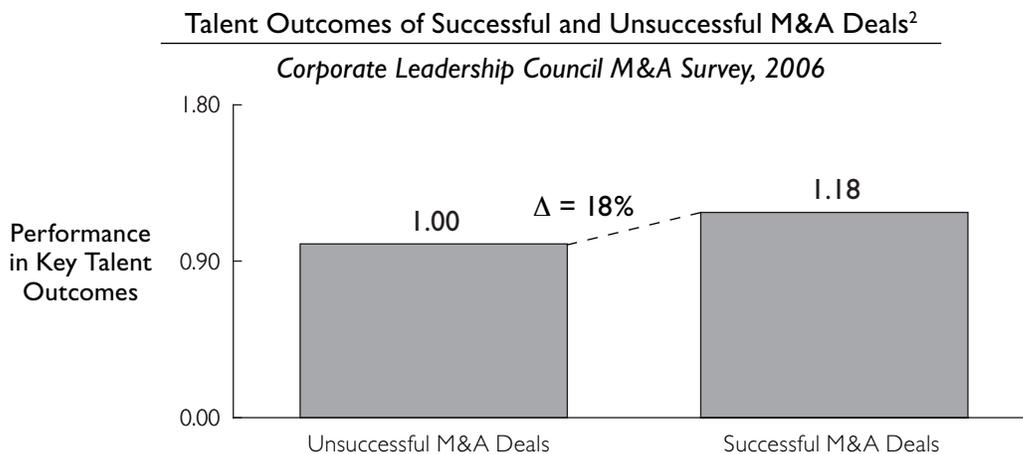
The Council's 2006 M&A survey finds that organizations that effectively manage human capital risks throughout the M&A process experience significantly better talent outcomes, as defined by engagement, retention, and deployment of talent. Furthermore, organizations that report successful M&A deals also report about 20% better talent outcomes than organizations that report unsuccessful M&A deals.

**REAPING REWARDS FROM
SUCCESSFUL HR M&A PERFORMANCE**
Organizations that effectively manage key human capital risks experience significantly better talent outcomes...

Organizations that effectively manage human capital risks throughout integration experience about 60% better talent outcomes, defined by better talent deployment, higher engagement levels, and higher retention levels.



...and those organizations with better talent outcomes have more successful M&A deals



¹ Based on data from its M&A survey, the Council used linear regression to determine how increasing effectiveness in the human capital risks predicts an increase in the average of engagement, retention, and talent deployment responses, as rated by survey respondents.

² Deal success was determined by analyzing organizations assessments of the following statement: "The last completed merger or acquisition in my organization was successful in achieving the deal's strategic objectives," using a five-point scale from unsuccessful to successful.

Source: Corporate Leadership Council Member Survey on Mergers and Acquisitions (2006); Corporate Leadership Council research.



SECTION II

*End-to-End M&A Guide for
the Chief Human Resources Officer*

End-to-End M&A Guide for the Chief Human Resources Officer

To support the early involvement of the CHRO and HR in M&A transactions, the Council has created an end-to-end M&A guide that addresses key barriers to early HR involvement by answering three key member questions:

- What are the key stages and milestones of a deal, and what is the CEO’s agenda?
- What are the key HR M&A pitfalls we need to overcome to support the CEO’s agenda and manage human capital risks?
- What are the critical questions to ask in the initial meeting with the CEO and across the M&A process?

END-TO-END GUIDE TO DRIVE EARLY HR INVOLVEMENT IN M&A

The following M&A guide enables CHROs to overcome key barriers to the early involvement of HR in M&A

M&A Guide

Barriers to Early HR Involvement

Member Question:
What are the key stages and milestones of a deal, and what is the CEO’s agenda?

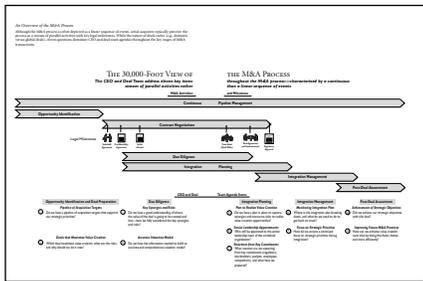
Member Question:
What are the key HR M&A pitfalls we need to overcome to support the CEO’s agenda and manage human capital risks?

Member Question:
What are the critical questions to ask in the initial meeting with the CEO and across the M&A process?

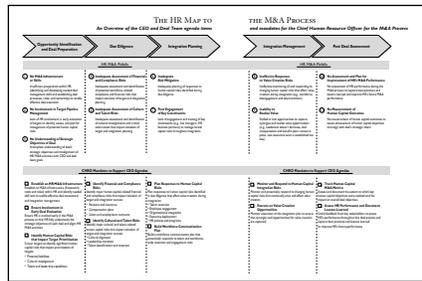
Council Response
An Overview of the M&A Process

Council Response
Map of the CHRO Mandates and HR M&A Pitfalls

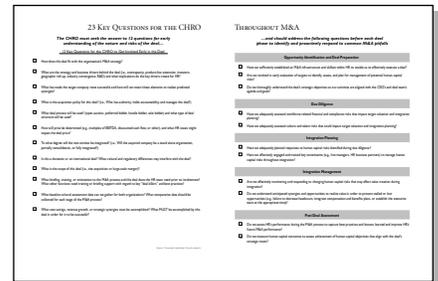
Council Response
Critical Questions for the CHRO to Address by Deal Stage



(pages 12 and 13)



(pages 14 and 15)



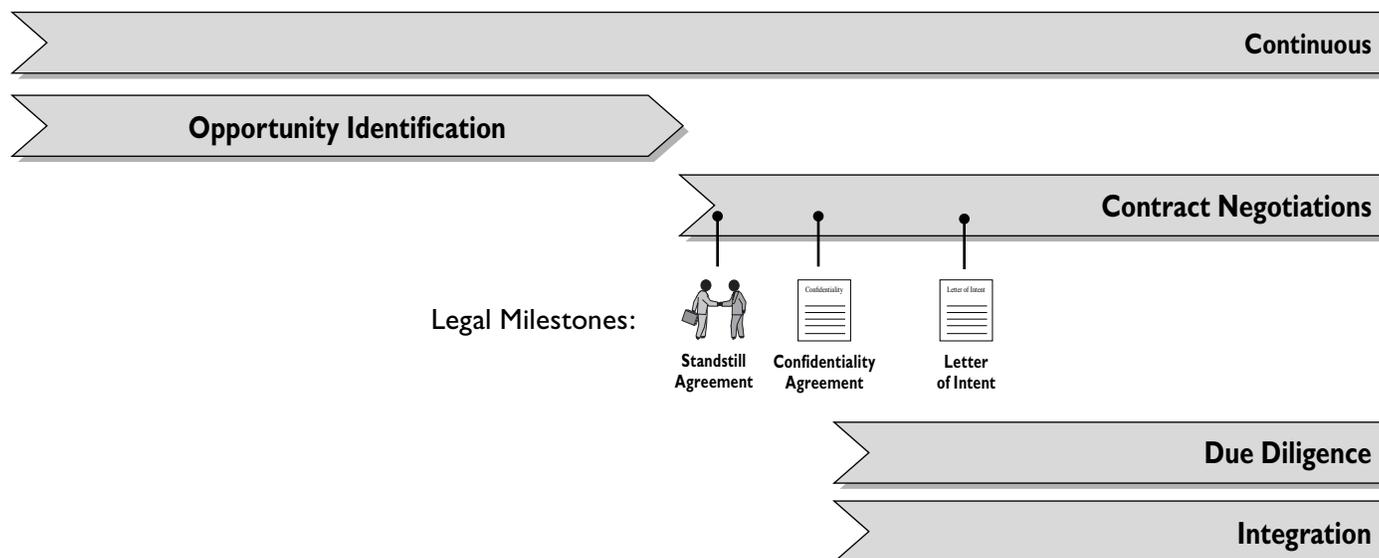
(pages 16 and 17)

An Overview of the M&A Process

Although the M&A process is often depicted as a linear sequence of events, serial acquirers typically perceive the process as a stream of parallel activities with key legal milestones. While the nature of deals varies (e.g., domestic versus global deals), 11 questions dominate CEO and deal team agendas throughout the key stages of M&A transactions.

THE 30,000-FOOT VIEW OF The CEO and deal team address 11 key characterized by a continuous stream of parallel

M&A Activities and Milestones



CEO and Deal Team Agenda Items

Opportunity Identification and Deal Preparation

Pipeline of Acquisition Targets

- ① Do we have a pipeline of acquisition targets that supports our strategic priorities?

Deals That Maximize Value Creation

- ② Which deal maximizes value creation, what are the risks, and why should we do it now?

Due Diligence

Key Synergies and Risks

- ③ Do we have a good understanding of where the value of the deal is going to be created and lost—have we fully considered the key synergies and risks?

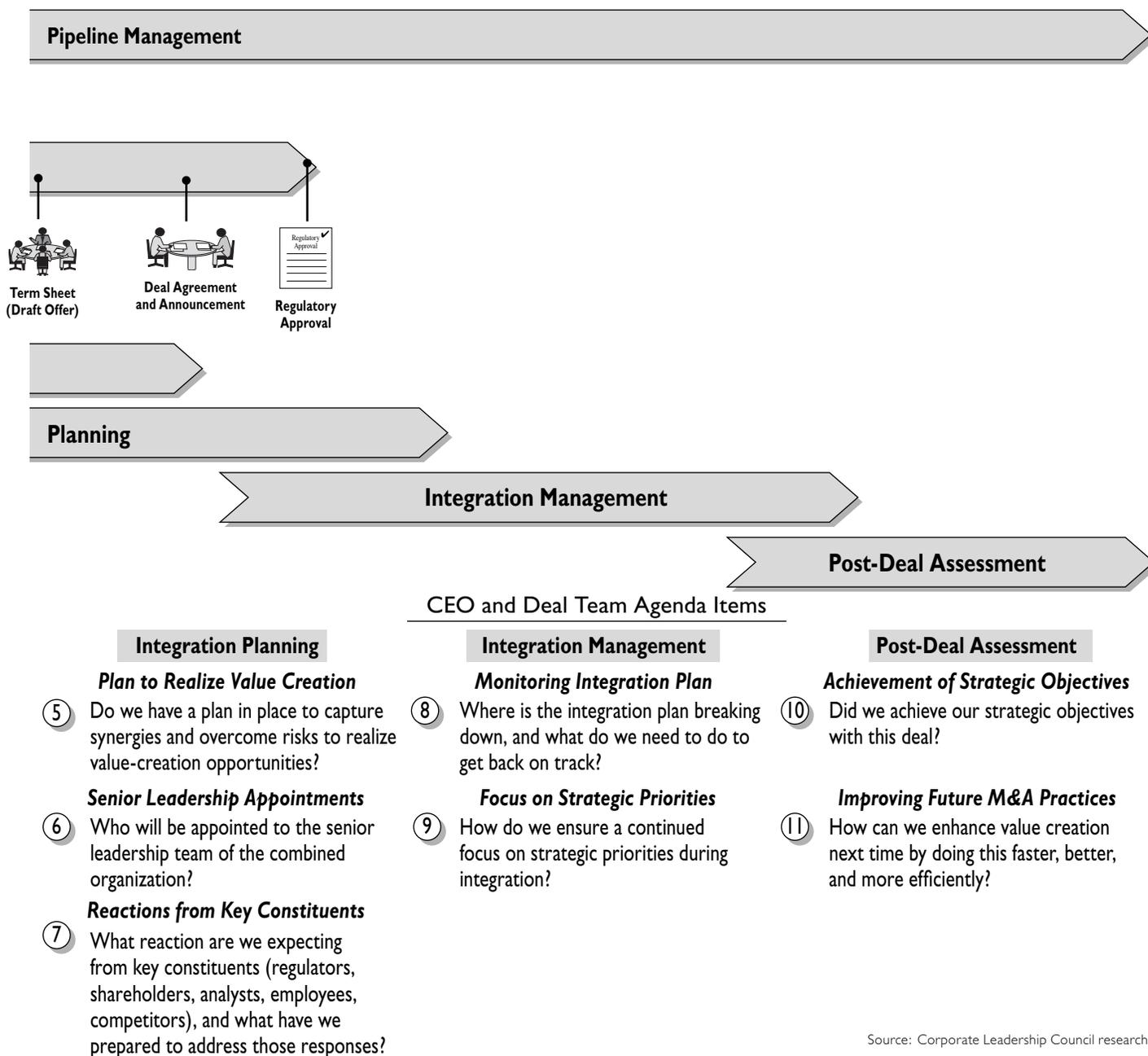
Accurate Valuation Model

- ④ Do we have the information needed to build an accurate and comprehensive valuation model?

THE M&A PROCESS

**items throughout the M&A process—
activities rather than a linear sequence of events**

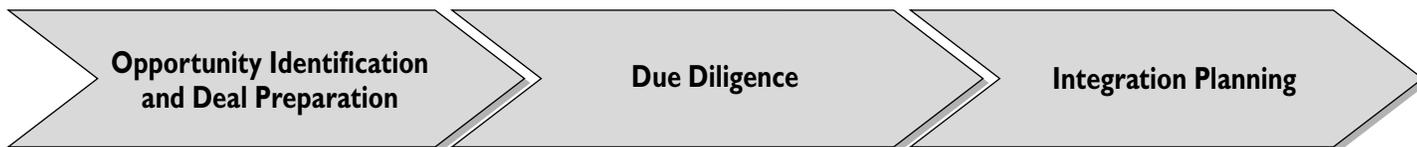
M&A Activities and Milestones



Map of the CHRO Mandates and HR M&A Pitfalls

THE HR MAP TO

An overview of the HR M&A pitfalls



HR M&A Pitfalls

① **No M&A Infrastructure or Skills**

Insufficient preparation within HR (identifying and developing needed deal management skills and establishing deal processes, roles, and ownership) to enable effective deal execution

② **No Involvement in Target Pipeline Management**

Lack of HR involvement in early evaluation of targets to identify, assess, and plan for management of potential human capital risks

③ **No Understanding of Strategic Objectives of Deal**

Incomplete understanding of deal's strategic objectives and misalignment of HR M&A activities with the CEO's and deal team's goals

④ **Inadequate Assessment of Financial and Compliance Risks**

Inadequate assessment and identification of potential workforce-related compliance and financial risks that impact valuation of target and integration planning

⑤ **Inadequate Assessment of Culture and Talent Risks**

Inadequate assessment and identification of cultural misalignments and critical talent assets that impact valuation of target and integration planning

⑥ **Inadequate Risk Mitigation**

Inadequate planning of responses to human capital risks identified during due diligence

⑦ **Poor Engagement of Key Constituents**

Lack of engagement and training of key constituents (e.g., line managers, HR business partners) to manage human capital risks throughout integration

CHRO Mandates to Support the CEO Agenda

Establish an HR M&A Infrastructure

Establish an M&A infrastructure (framework, tools, and roles) within HR and identify needed skill sets to enable effective deal assessment and integration management.

Gain Early Insights into Deal Objectives

Ensure HR is involved early in the M&A process so that HR fully understands the strategic objectives of each deal and aligns HR M&A activities accordingly.

Identify Human Capital Risks That Impact Target Prioritization

Screen targets to identify significant human capital risks that impact prioritization of targets:

- Potential liabilities
- Cultural misalignment
- Talent and leadership capabilities

Identify Financial and Compliance Risks

Identify major human capital-related financial and compliance risks that impact valuation of target and integration success:

- Pensions and insurance
- Compensation plans
- Union and employment contracts

Identify Cultural and Talent Risks

Identify major cultural- and talent-related human capital risks that impact valuation of target and integration success:

- Cultural alignment
- Leadership transition
- Talent identification and retention

Plan Responses to Human Capital Risks

Plan responses to human capital risks identified in due diligence that affect value creation during integration:

- Talent retention
- Employee engagement
- Organizational integration
- Executive deployment
- HR policies and programs

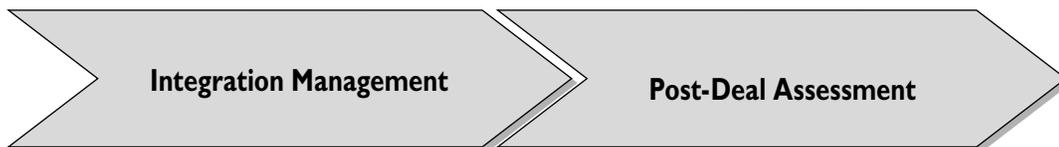
Build Workforce Communication Plan

Build a workforce communication plan that proactively responds to talent- and workforce-wide retention and engagement risks.

Source: Corporate Leadership Council research.

THE M&A PROCESS

and mandates for the chief human resource officer across the M&A process



HR M&A Pitfalls

⑧ Ineffective Responses to Value Creation Risks

Ineffective monitoring of and responses to changing human capital risks that affect value creation during integration (e.g., workforce disengagement and talent attrition)

⑨ Inability to Realize Value

Stalled or lost opportunities to capture synergies and realize value opportunities (e.g., headcount does not decrease, dual compensation and benefits plans remain in place, new executive team is established too late)

⑩ No Assessment and Plan for Improvement of HR's M&A Performance

No assessment of HR performance during the M&A process to capture best practices and lessons learned and improve HR's future M&A performance

⑪ No Measurement of Human Capital Outcomes

No measurement of human capital outcomes to assess achievement of human capital objectives that align with deal's strategic intent

CHRO Mandates to Support the CEO Agenda

Monitor and Respond to Human Capital Integration Risks

Monitor and proactively respond to changing human capital risks that continually arise and affect value creation.

Execute on Value Creation Opportunities

Monitor execution of the integration plan to ensure that synergies and opportunities for value creation are captured.

Track Human Capital M&A Metrics

Assess and document the extent to which key human capital objectives were realized and the impact on overall deal objectives.

Assess HR Performance and Document Lessons Learned

Solicit feedback from key stakeholders to assess HR's performance throughout the deal process and capture best practices and lessons learned to improve HR's future performance.

Critical Questions for the CHRO to Address by Deal Stage

TWENTY-THREE KEY QUESTIONS FOR

The CHRO must seek the answer to 12 questions for early understanding of the nature and risks of the deal...

Twelve Key Questions for the CHRO to Get Involved Early in the Deal

- How does this deal fit with the organization's M&A strategy?
- What are the strategy and business drivers behind the deal (i.e., overcapacity, product-line extension, investors, geographic roll-up, industry convergence, R&D), and what implications do the key drivers create for HR?
- What has made the target company most successful, and how will we retain these elements to realize predicted synergies?
- What is the acquisition policy for this deal? (i.e., Who has authority, holds accountability, and manages the deal?)
- What deal process will be used (e.g., open auction, preferred bidder, hostile bidder, sole bidder), and what type of deal structure will be used?
- How will price be determined (e.g., multiples of EBITDA, discounted cash flow, or other), and what HR issues might impact the deal price?
- To what degree will the two entities be integrated? (i.e., Will the acquired company be a stand-alone organization, partial consolidation, or fully integrated?)
- Is this a domestic or an international deal? What cultural and regulatory differences may interfere with the deal?
- What is the scope of this deal (i.e., site acquisition or large-scale merger)?
- What briefing, training, or orientation to the M&A process and this deal does the HR team need prior to involvement? What other functions need training or briefing support with regard to key "deal killers" and best practices?
- What baseline cultural assessment data can we gather for both organizations? What comparative data should be collected for each stage of the M&A process?
- What cost-savings, revenue growth, or strategic synergies must be accomplished? What must be accomplished by this deal for it to be successful?

THE CHRO THROUGHOUT M&A

...and should address the following 11 questions before each deal phase to identify and proactively respond to common M&A pitfalls

Opportunity Identification and Deal Preparation

- Have we sufficiently established an M&A infrastructure and skill set within HR to enable us to effectively execute a deal?
- Are we involved in early evaluation of targets to identify, assess, and plan for management of potential human capital risks?
- Do we thoroughly understand the deal's strategic objectives so our activities are aligned with the CEO's and deal team's agenda and goals?

Due Diligence

- Have we adequately assessed workforce-related financial and compliance risks that impact target valuation and integration planning?
- Have we adequately assessed culture and talent risks that could impact target valuation and integration planning?

Integration Planning

- Have we adequately planned responses to human capital risks identified during due diligence?
- Have we effectively engaged and trained key constituents (e.g., line managers, HR business partners) to manage human capital risks throughout integration?

Integration Management

- Are we effectively monitoring and responding to changing human capital risks that may affect value creation during integration?
- Do we understand anticipated synergies and opportunities to realize value to prevent stalled or lost opportunities (e.g., failure to decrease headcount, integrate compensation and benefits plans, or establish the executive team at the appropriate time)?

Post-Deal Assessment

- Do we assess HR's performance during the M&A process to capture best practices and lessons learned and improve HR's future M&A performance?
- Do we measure human capital outcomes to assess achievement of human capital objectives that align with the deal's strategic intent?

The CLC M&A Resource Center



HUMAN RESOURCES
Corporate Leadership Council

SUPPORTING M&A VALUE CREATION

CLC offers tools, templates, and strategies to support members' M&A activities

① Determine Your Effectiveness in Supporting M&A

② Identify Research, Tools, and Templates in Areas of Perceived Weakness

—ADDITIONAL M&A SUPPORT—

- **CLC's M&A Diagnostic Tool**—Assess the HR function's effectiveness in supporting M&A activities and identify the content, tools, and templates in areas of perceived weakness.
- **Best Practice M&A Templates and Tools**—Gain access to a repository of best practice M&A templates and tools.
- **M&A Upskilling**—Have a research director from the Council visit your organization to lead a targeted session with your HR professionals supporting M&A to discuss the implications of this research.

For more information about the CLC M&A Resource Center, please contact your dedicated CLC relationship manager or send an e-mail to clcweb@executiveboard.com.



SECTION III

*Tools to Overcome Human Capital
Risks Throughout the M&A Process*

Executing on Mandates

HR'S ROLE IN Tools and Mandates for the

STAGE I. OPPORTUNITY IDENTIFICATION AND DEAL PREPARATION	STAGE II. DUE DILIGENCE	STAGE III. INTEGRATION PLANNING
HR M&A Pitfalls		
<p>① No M&A Infrastructure or Skills</p> <p>Insufficient preparation within HR (identifying and developing needed deal management skills and establishing deal processes, roles, and ownership) to enable effective deal execution</p> <p>② No Involvement in Target Pipeline Management</p> <p>Lack of HR involvement in early evaluation of targets to identify, assess, and plan for management of potential human capital risks</p> <p>③ No Understanding of Strategic Objectives of Deal</p> <p>Incomplete understanding of deal's strategic objectives and misalignment of HR M&A activities with the CEO's and deal team's goals</p>	<p>④ Inadequate Assessment of Financial and Compliance Risks</p> <p>Inadequate assessment and identification of potential workforce-related compliance and financial risks that impact valuation of target and integration planning</p> <p>⑤ Inadequate Assessment of Culture and Talent Risks</p> <p>Inadequate assessment and identification of cultural misalignments and critical talent assets that impact valuation of target and integration planning</p>	<p>⑥ Inadequate Risk Mitigation</p> <p>Inadequate planning of responses to human capital risks identified during due diligence</p> <p>⑦ Poor Engagement of Key Constituents</p> <p>Lack of engagement and training of key constituents (e.g., line managers, HR business partners) to manage human capital risks throughout integration</p>
CHRO Mandates to Support the CEO Agenda		
<p><input type="checkbox"/> Establish an HR M&A Infrastructure</p> <p>Establish an M&A infrastructure (framework, tools, and roles) within HR and identify needed skill sets to enable effective deal assessment and integration management.</p> <p><input type="checkbox"/> Gain Early Insights into Deal Objectives</p> <p>Ensure HR is involved early in the M&A deal evaluation so that HR fully understands the strategic objectives of each deal and aligns HR M&A activities accordingly.</p> <p><input type="checkbox"/> Identify Human Capital Risks that Impact Target Prioritization</p> <p>Screen targets to identify significant human capital risks:</p> <ul style="list-style-type: none"> • Potential liabilities • Cultural misalignment • Talent and leadership capabilities 	<p><input type="checkbox"/> Identify Financial and Compliance Risks</p> <p>Identify major human capital-related financial and compliance risks that impact valuation of target and integration success:</p> <ul style="list-style-type: none"> • Pensions and insurance • Compensation plans • Union and employment contracts <p><input type="checkbox"/> Identify Cultural and Talent Risks</p> <p>Identify major cultural- and talent-related human capital risks that impact valuation of target and integration success:</p> <ul style="list-style-type: none"> • Cultural alignment • Leadership transition • Talent identification and retention 	<p><input type="checkbox"/> Plan Responses to Human Capital Risks</p> <p>Plan responses to human capital risks identified in due diligence that affect value creation during integration:</p> <ul style="list-style-type: none"> • Talent retention • Employee engagement • Organizational integration • Executive deployment • HR policies and programs <p><input type="checkbox"/> Build Workforce Communication Plan</p> <p>Build a workforce communication plan that proactively responds to talent- and workforce-wide retention and engagement risks.</p>
Tools and Tactics Profiles		
<p> HR M&A Rapid Response Team</p> <p> Early Human Capital Risk Analysis</p> <p> Risk-Driven M&A Team</p>	<p> HR Due Diligence Risk Assessment</p> <p> Cultural Assessment</p> <p> Talent Identification and Retention Audit</p>	<p> M&A Integration Playbook</p> <p> Workforce Communication Plan</p>

MERGERS AND ACQUISITIONS

Chief Human Resources Officer

STAGE IV.
INTEGRATION MANAGEMENT

STAGE V.
POST DEAL ASSESSMENT

HR M&A Pitfalls

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Ineffective monitoring of and responses to changing human capital risks that affect value creation during integration (e.g., workforce disengagement and talent attrition)

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CHRO Mandates to Support the CEO Agenda

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Assess and document the extent to which key human capital objectives were realized and the impact on overall deal objectives.

Assess HR Performance and Document Lessons Learned
Solicit feedback from key stakeholders to assess HR's performance throughout the deal process and capture best practices and lessons learned to improve HR's future performance.

Tools and Tactics Profiles



Employee Pulse Dashboard



Integration Risk Survey



HR Integration Execution Dashboard



HR M&A Performance Assessment



HR M&A 360-Degree Performance Assessment



STAGE I

Opportunity Identification and Deal Preparation

KEY QUESTIONS

- Has HR sufficiently established an M&A infrastructure and skill set within HR to enable it to effectively execute a deal?
- Is HR involved in early evaluation of targets to identify, assess, and plan for management of potential human capital risks?
- Does HR thoroughly understand the deal's strategic objectives so its activities are aligned with the CEO's and deal team's agenda and goals?

PROFILED TOOLS AND PRACTICES

HR M&A Rapid Response Team



Early Human Capital Risk Analysis

Cadbury Schweppes

Risk-Driven HR M&A Team

PHILIPS

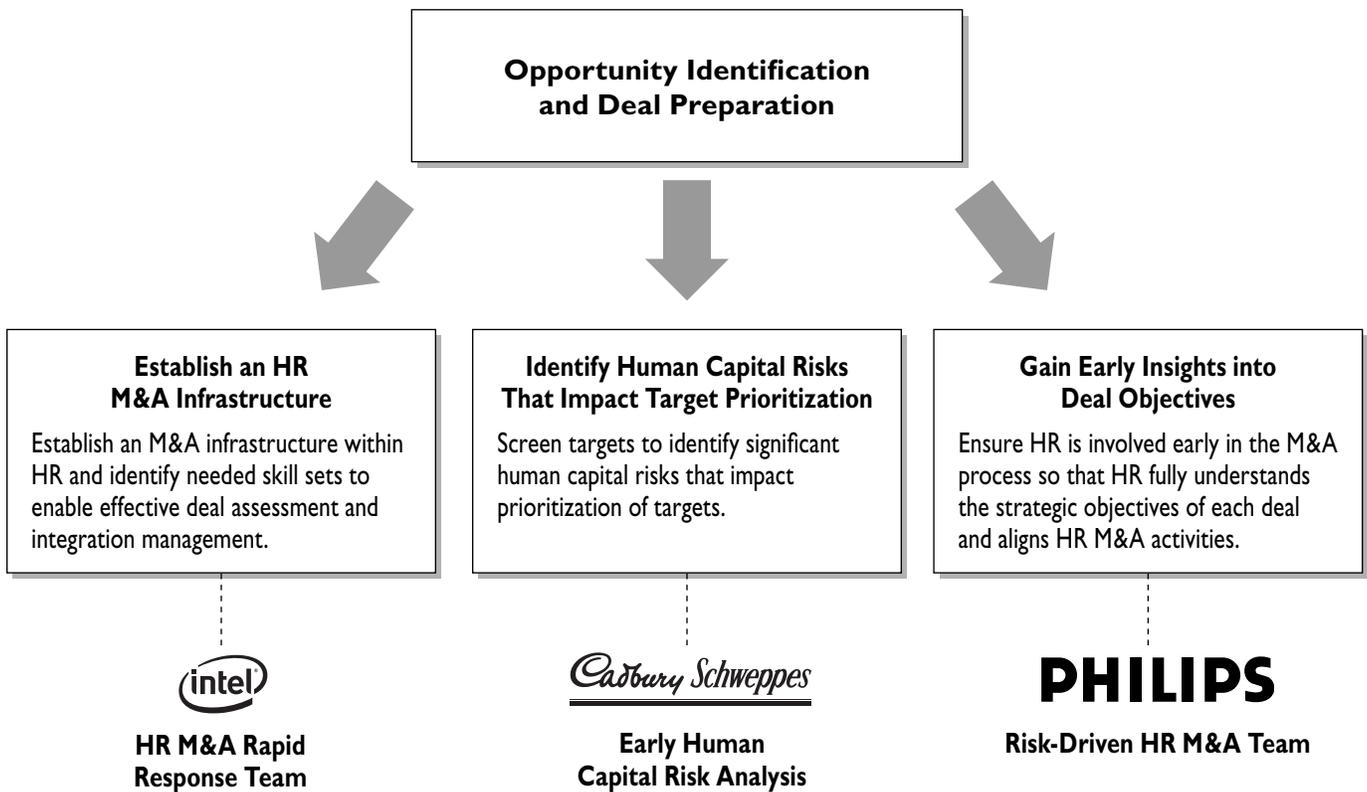
Stage I: Opportunity Identification and Deal Preparation

To capture the full value from mergers and acquisitions, CHROs must address three key mandates during the first stage of the M&A process: establish an HR M&A infrastructure, identify human capital risks that impact target prioritization, and gain early insights into deal objectives. The following profiled tools and practices from Intel, Cadbury Schweppes, and Philips address these three mandates.

CHRO MANDATES FOR OPPORTUNITY IDENTIFICATION AND DEAL PREPARATION

The following three profiled company practices address three key mandates during the first stage of the M&A process

CHRO Mandates and Profiled Tools for Opportunity Identification and Deal Preparation



HR M&A Rapid Response Team



Organization: Intel Corporation

Industry: Technology

Revenue: US\$38.826 Billion

Employees: 99,900

Headquarters: Santa Clara, California, United States

Objective

To ensure that HR has a pipeline of skilled HR staff ready to provide adequate support for upcoming M&A deals

Description

Intel designs a flexible HR M&A staffing plan to ensure that HR always has the necessary resources to provide support for any deal volume, size, or complexity beyond a core team of seven HR M&A staff. Intel trains 15 to 20 staff members throughout the HR function in core M&A skill sets and tracks deal readiness and drivers of requirements for additional support for each HR function.

Application

- Intel's HR M&A team manager negotiates workload prioritizations with the full-time managers of all M&A-trained staff to ensure that staff in key areas will be able to drop their regular responsibilities to work on the deal when necessary.
- Intel documents the drivers that determine whether additional support will be needed from each area so that staff requests can be submitted to managers early.

Component #1: Create Flexible HR M&A Resources

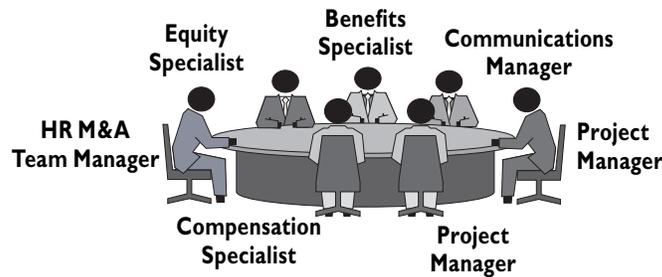
Intel has identified the key HR functional areas that require additional support during most deals (compensation and benefits, communications, project management, payroll, immigration, staffing, training, and relocation). HR staff with expertise in those areas are trained in mergers and acquisitions to support the seven full-time staff on the HR M&A team. The core HR M&A team negotiates staffing agreements with the managers of the additional HR M&A staff resources on whether the current deal or their regular work should be prioritized.

A FLEXIBLE HR M&A STAFFING PLAN

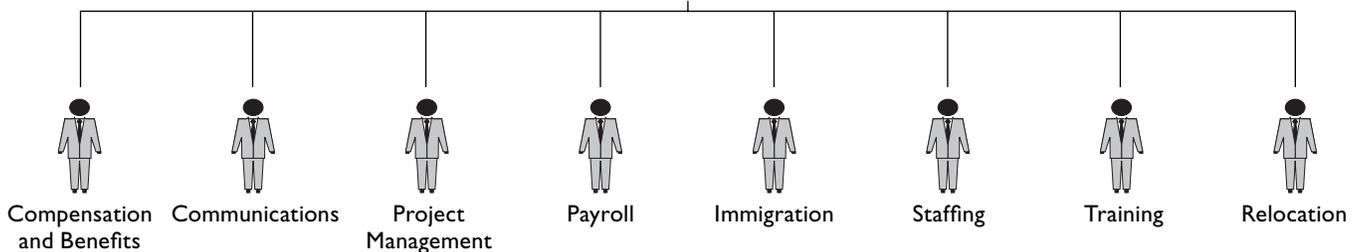
Intel ensures that HR is prepared to provide deal support beyond the core HR M&A team by training an extended team of HR staff in mergers and acquisitions

Intel's Extended HR M&A Team

① **Core HR M&A Team**
 Intel's core full-time HR M&A team is comprised of seven people with expertise in compensation, benefits, project management, equity, and communications.



② Intel's Flexible HR M&A Staff



Flexible Staffing Plan: Intel trains 15 to 20 HR staff in M&A in the HR areas where additional support beyond the core team is frequently required during most M&A deals, to prepare them to assist on deals when requested.

INTEL'S HR M&A TRAINING COURSE

- The M&A training course consists of a 16- to 18-hour course delivered across several days.
- The course is delivered in a classroom setting or through "net meetings," depending on location of participants.
- Content consists of Intel's general organizational M&A process and the specific M&A responsibilities of each HR functional area.

Track HR M&A Resources

Intel's HR M&A manager tracks M&A readiness for each additional staff resource, as well as the necessary M&A commitment and drivers of whether additional resources are needed in each HR function.

HR M&A STAFF SCALABILITY DASHBOARD

Intel's HR M&A manager tracks deal readiness and deal drivers for additional support for each HR function through a scalability dashboard

Intel's HR M&A Scalability Matrix

Illustrative

Managers of all extended staff have agreements with the M&A team on whether the deal or their regular work should be prioritized.

Intel has identified the HR areas that require additional support during most M&A deals.

HR Functions								
	Compensation and Benefits	Communications	Project Management	Payroll	Immigration	Staffing	Training	Relocation
Names of Current M&A Resources	J. Smith A. Becker	C. Aaron L. Michaels	M. Goldstein F. Roberts S. Parsons	G. Richard	M. Lee V. Gupta T. Ford	E. David M. Diaz	K. Patterson	J. Rodriguez W. West
M&A Work First or Second Priority	First	First	First	Second	Second	Second	Second	Second
End-to-End Time Commitment per Deal	As long as it takes	3-4 months	As long as it takes	2-3 months; Data entry volume driven at 1 hour per employee	2 months; Most work leading up to day 1	Volume driven	6 months	30 day window
Deal Capacity of Current Resources	2 small deals/2 months or 1 large deal/ quarter	3-4 deals	2 small deals/2 months or 1 large deal/ quarter	2 small deals/2 months or 2 large deal/ quarter	Any deal size	2 small deals/2 months or 2 large deal/ quarter	2 small deals/2 months or 1 large deal/ quarter	0-250 Employees; > 250 requires additional help
Stage of M&A When Function Work Is Heaviest	Due diligence	End-to-End	Pre-close	Post-close	Pre-close	Pre-close, post-close	Pre-close, post-close	Post-close
Drivers of Need for Additional Functional Resources	Number of sites and geographies, degree of centralization, language translation	Number of deals, meeting conflicts	Deal type, time frame, number of sites and geographies, degree of centralization	Geographies, number of employees, time frame, deal type	Type of deal, number of foreign nationals, number of sites	Number of deals, number of employees, time frame, geographies	Functional support; number of sites	Complexity of routes and packages approved; constraints on existing relocation packages

The HR M&A team creates an inventory of all HR staff trained in M&As.

Intel tracks aspects of the deal that drive the need for additional functional resources.

MEMBER IMPLEMENTATION TIPS

- Ensure that all HR staff involved in transactions understand the strategic goals of each deal so that HR customizes and aligns functional processes with the organizational objectives.
- Provide M&A training to functional HR staff with expertise in HR practices and employment policies of each country where the organization may become involved in M&A deals.

Early Human Capital Risk Analysis



Organization: Cadbury Schweppes plc

Industry: Manufacturing

Revenue: US\$13.5 Billion

Employees: 70,000

Headquarters: London, United Kingdom

Objective

To inform early deal evaluation and pipeline prioritization with analysis of key human capital risks

Description

HR at Cadbury Schweppes plays an important role in early deal evaluation and target prioritization, identifying and assessing three key human capital risks: potential liabilities; leadership engagement; and cultural and organizational alignment. Cadbury uses a culture and organization assessment tool to identify and assess the cultural and organizational dimensions that matter most for target integration, valuation, and risk assessment.

Application

- The culture and organization assessment tool is used to identify the implications of significant cultural differences for the deal team's integration, valuation, and risk assumptions. Risk assessment is focused on the talent groups most important for successful value creation from the transaction.
- The culture and organization assessment tool is maintained by the HR M&A team and is used in early deal evaluation by the chief human resources officer (CHRO).

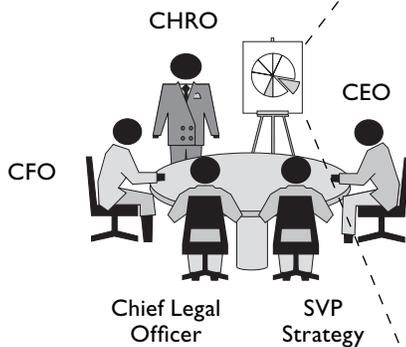
Component #1: Identify and Assess Key Risks

The CHRO at Cadbury Schweppes is a member of the M&A transaction pipeline management team. The CHRO presents the implications for each target of the three human capital risks that matter most in early target analysis and pipeline management: potential liabilities, leadership engagement, and cultural and organizational alignment.

THREE THINGS MATTER

Cadbury Schweppes identifies and assesses the three human capital risks that matter most in early target evaluation and pipeline prioritization

M&A Pipeline Management Team



Background

- Cross functional pipeline management team
- Convenes regularly to examine targets and manage a deal pipeline for the next five years
- Recommendations for acquisitions are escalated to the executive team

1

Potential Liabilities

Identification of significant liabilities related to an acquisition

Liabilities Analysis

Liability	Cost Estimate \$M	Comments
Pensions	30-45	Revise Assumptions
Insurance	5-10	No Major Issues
Litigation	0-10	No Major Issues

Objectives

- Estimate value of significant liabilities
- Identify implications of liabilities
- Identify deal breakers

Sources

- Reports and accounts
- Press releases, news
- Public legal information

2

Leadership Engagement

Identification of likely post-acquisition intentions of a target's leadership team

Leadership Analysis

Position	Intent	Implications	Retention Cost
CEO	Leave	None Beyond Transition	\$1M
CFO	Stay	No Issues	\$500k
Head of Innovation	Leave	Critical Talent Impact	\$750k

Objectives

- Identify intentions of leadership team post M&A
- Identify implications of leadership intentions
- Identify cost of retaining key leaders

Sources

- Track record of leaders in previous M&A transactions
- Reports and accounts
- Former employee interviews

3

Culture and Organization Assessment

Identification and assessment of key cultural and organizational dimensions

Culture and Organization Analysis

Cadbury Schweppes vs Candidate				
Key Issues	Significance of Difference	Integration Impact	Valuation Implications	Risks
*The difference between Cadbury Schweppes and the Target is significant. Considerable operational change is caused by value creation assumptions, which rely on employee performance reorientation and combining research efforts (research rationalization) *Year 1 incentive costs related to reorientating organization need to be accounted for in valuation *High risk of attrition and employee underperformance driven by significant operational changes for critical talent				
Corporate Vision				
Global Player vs regional	Low			
All things to all customers vs focused excellence				

Objectives

- Identify key cultural and organizational differences
- Evaluate impact of significant differences on integration and valuation
- Identify key talent risks

Sources

- Consultant interviews
- Former employee interviews
- Recruiter interviews

Source: Cadbury Schweppes plc; Corporate Leadership Council research.

Component #2: Identify and Assess Key Cultural and Organizational Dimensions

Cadbury Schweppes assesses culture and organization fit for the dimensions that matter most to M&A value creation. HR identifies the implications of significant cultural and organizational differences for the deal team’s integration, valuation, and risk assumptions, focusing attention on the talent groups most important for successful value creation.

KEY DIMENSIONS

HR identifies and assesses the cultural and organizational dimensions that matter most for target integration, valuation, and risk assessment

Culture and Organization Assessment Tool*

Cadbury Versus Candidate				
Key Issues				
<ul style="list-style-type: none"> The difference between Cadbury and the Target is significant. Considerable operational change is caused by value creation assumptions, which rely on employee performance reorientation and combining research efforts (research rationalization) Year 1 incentive costs related to reorientating organization need to be accounted for in valuation High risk of attraction and employee underperformance driven by significant operational changes for critical talent" 				
	Significance of Difference	Integration Impact	Valuation Impact	Key Talents Risks
Corporate Vision				
Global Player versus regional	Low	Low Impact	Low Impact	Low Risk
All things to all customers versus focused excellence				
Quality, at lowest cost versus high cost				
Public				
Shareholder versus stakeholder	High	Need to reorientate executives, managers, and employees to meet performance goals	Additional costs in Year 1: Performance goal incentives. Sales team of 400	Disruption to revenue generation: sales team attrition and underperformance
Individual versus team	Medium	Medium Impact	Medium Impact	Medium Risk
Long term versus short term	High	Transition: strategic long-term decisions to medium term performance focus	Incentive costs (see above) partially offset by product research cost reductions	High research team attrition likely
Risk taking versus consensus		Transition management decision-making process	Costs to retain and incentivise HIPOs	High manager attrition likely
People versus products, plants, customers	Medium	Medium Impact	Medium Impact	Medium Risk
Human resource policies				
Promote from within versus external	Medium	Transition target HR policies, but openly consider HR best practices from target to avoid value creation erosion	Training and readjustment costs slightly higher than our expectations	Employee engagement risk in line with type of transaction
Technical/functional skills versus people skills				
Current job versus advancement				
Assessment objective versus judgement	Low	Low Impact	Low Impact	Low Risk
Talent versus experience				
Up or out versus room for everyone				
Competitive compensation versus premium				
Organization structure and processes				
Functions versus regions	Medium	Some transition of power from centre, expect little resistance from managers or employees	Costs related to reporting system transition already in valuation	Some negative impact in driving manager attrition
Hands on centre versus devolution				
Formal versus ad hoc communication				
Overall Significance of Difference	Medium-High			

The culture and organization assessment is aligned to the strategic and financial goals of the acquisition.

HR identifies the implications of significant cultural differences for the deal team’s integration and valuation assumptions.

HR highlights specific human capital risks and the impact on the talent groups most important for successful value creation.

* All data and names are fictional.

Source: Cadbury Schweppes plc; Corporate Leadership Council research.

MEMBER IMPLEMENTATION TIPS

- Human capital risk analysis is most powerful when presented in the context of the deal team's key value creation assumptions for a transaction.
- Effective early deal evaluation considers talent opportunities as well as risks. A key consideration at Cadbury is whether a target has significant talent assets in areas such as innovation or sales.
- Early identification of human capital risk enables a more focused use of HR resources in due diligence, testing hypothesis on human capital risks.

Risk-Driven HR M&A Team

PHILIPS

Organization: Royal Philips Electronics N.V.
Industry: Health Care, Lifestyle, and Technology Solutions
Revenue: €30.4 Billion
Employees: 160,000
Headquarters: Amsterdam, The Netherlands

Objective

To identify the HR professionals with the skills that best align with transaction specific critical human capital risks

Description

Philips finds that skills and competencies for managing specific human capital risks throughout M&A are as critical as actual M&A experience. It builds an HR M&A team specific to each transaction, comprised of the HR professionals with the key skills to manage critical human capital risks identified in pre-due diligence. Philips fast tracks HR M&A team development using training and online resources that teach the critical elements of supporting an M&A transaction and supplements the team with support from the HR VP for M&A.

Application

- Philips identifies the HR resources best positioned to manage critical human capital risks throughout the deal.
- Training programs and an online knowledge base are used to upskill the HR M&A team in the key elements and applications of M&A transactions.
- The training programs and tools are designed, created, and maintained by the HR VP for M&A and serve to drive consistency in the M&A approach.

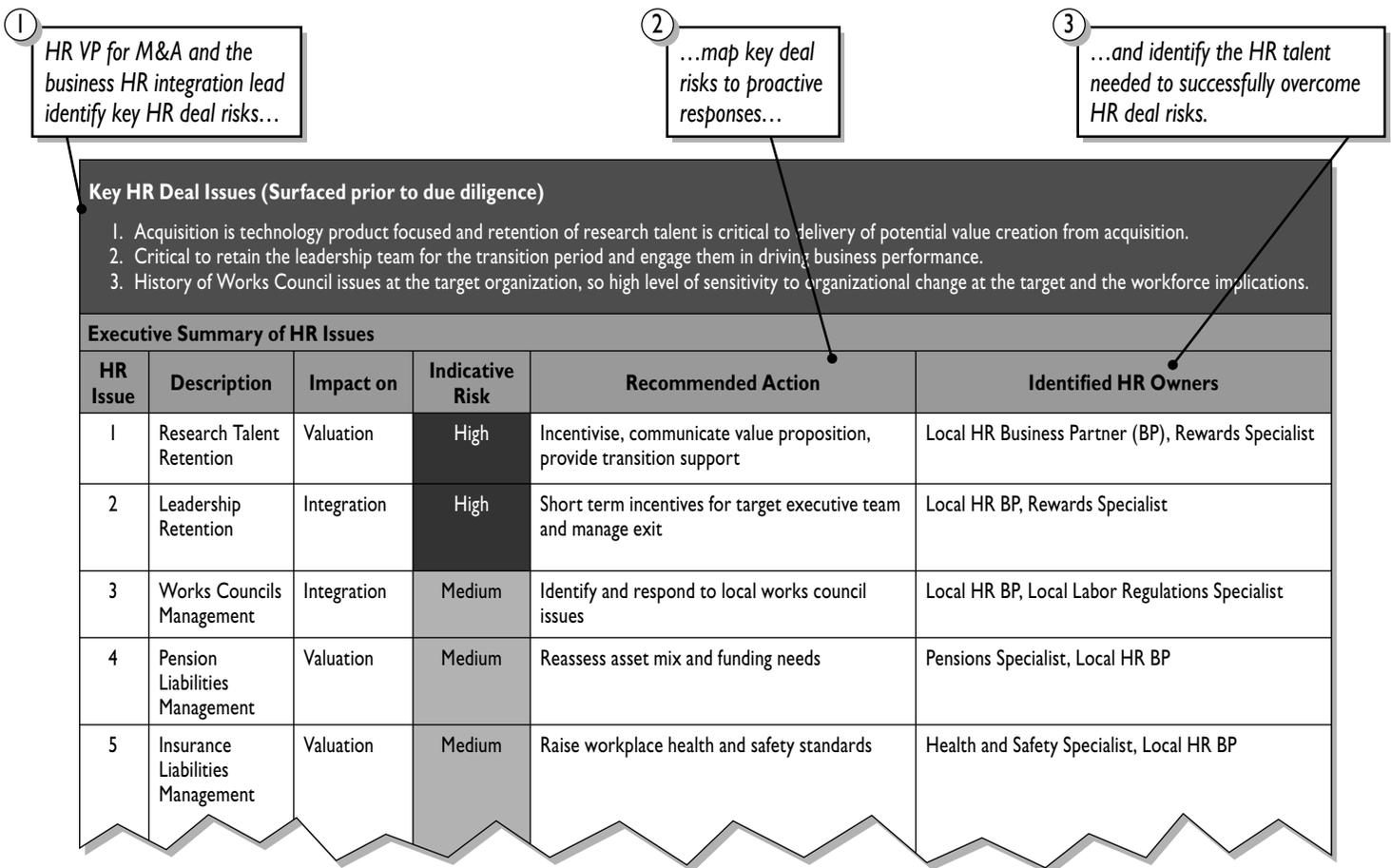
Component #1: Map Critical M&A Risks to Key HR Skills

Philips maps critical human capital risks, identified before due diligence, to the HR talent required to research and manage those risks. The HR VP for M&A and the business HR integration lead identify key HR deal risks, map them to proactive responses, and identify the HR skills and talent needed to research and overcome those risks.

IDENTIFYING CRITICAL HR SKILLS

HR maps critical human capital risks to the talent with the skills key to managing those risks across the M&A process, regardless of their actual M&A experience

Risk to Skills Mapping



—PHILIPS INSIGHTS—

- M&A experience is not necessarily an effective indicator of ability to manage M&A related human capital risks.
- Critical risks and the skills required to manage them are specific to each individual M&A transaction.
- Building an M&A team around skills rather than only M&A experiences enables access to a larger pool of HR talent across the organization.

Component #2: Fast Track HR M&A Team Development

M&A training plays a central role at Philips because members of the HR M&A team frequently could have limited previous M&A experience. The HR VP for M&A delivers three development opportunities for HR professionals to upskill in the key criteria needed to support M&A transactions. Three hours of crash training is given to all HR professionals working on a transaction, a two-day training session is focused on senior or lead HR members of the transaction team, and development is supported by a comprehensive M&A knowledge base of best practices and tools.

ACCELERATED M&A DEVELOPMENT

HR VP for M&A provides the HR M&A team with the development and tools to successfully support the M&A transaction

① **M&A Crash Training for HR Staff**

Three Hours' Training on Supporting M&A

Training for all HR professionals active in M&A to ensure they are able to answer the five key questions essential to support M&A



Training Session for All HR in M&A

Key Questions in M&A

1. How is the Philips deal flow organized?
2. What do we need to do and when?
3. How do we work together in M&A as an HR community?
4. What are the Philips HR M&A principles?
5. How should we use the M&A knowledge base?

② **Extensive M&A Training for HR Staff**

Two-Day Workshop for Key HR M&A

Workshop for senior or lead members of the HR M&A team to convey key elements of an M&A transaction



Workshop for HR M&A Leaders

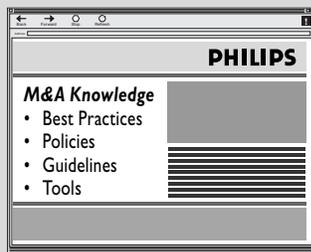
Learning Objectives

- Understand M&A process and drivers
- Determine how HR adds value
- Understand purpose and preparation of due diligence
- Gain insight into purchase agreement components and pitfalls
- Understand and plan for integration
- Understand people impact of deal
- Apply Philips tools and lessons learned

③ **M&A Knowledge Base**

Online M&A Center of Best Practices and Tools

HR M&A knowledge center for sharing best practices, policies, and tools across all HR professionals involved in M&A transactions



Key Knowledge Tools for HR

- M&A process map with HR focus per phase
- M&A governance and guiding principles
- M&A policies and tools to manage HR risks
- Integration planning guide
- Employee communication guide
- Checklists and templates

MEMBER IMPLEMENTATION TIPS

- The HR VP for M&A remains consistent across all transactions, providing customized support from the center to transaction-specific M&A teams.
- The HR VP for M&A has a role in pre–due diligence risk evaluation for each transaction and typically works closely with the deal-specific HR M&A team investigating deal breakers, deal shapers, and deal makers during due diligence. The HR VP for M&A steps back to a coaching role for integration planning, execution, and monitoring.



STAGE II

Due Diligence

KEY QUESTIONS

- Has HR adequately assessed workforce-related financial and compliance risks that impact target valuation and integration planning?
- Has HR adequately assessed culture and talent risks that could impact target valuation and integration planning?

PROFILED TOOLS AND PRACTICES

HR Due Diligence Risk Assessment



Cultural Assessment



Talent Identification and Retention Audit



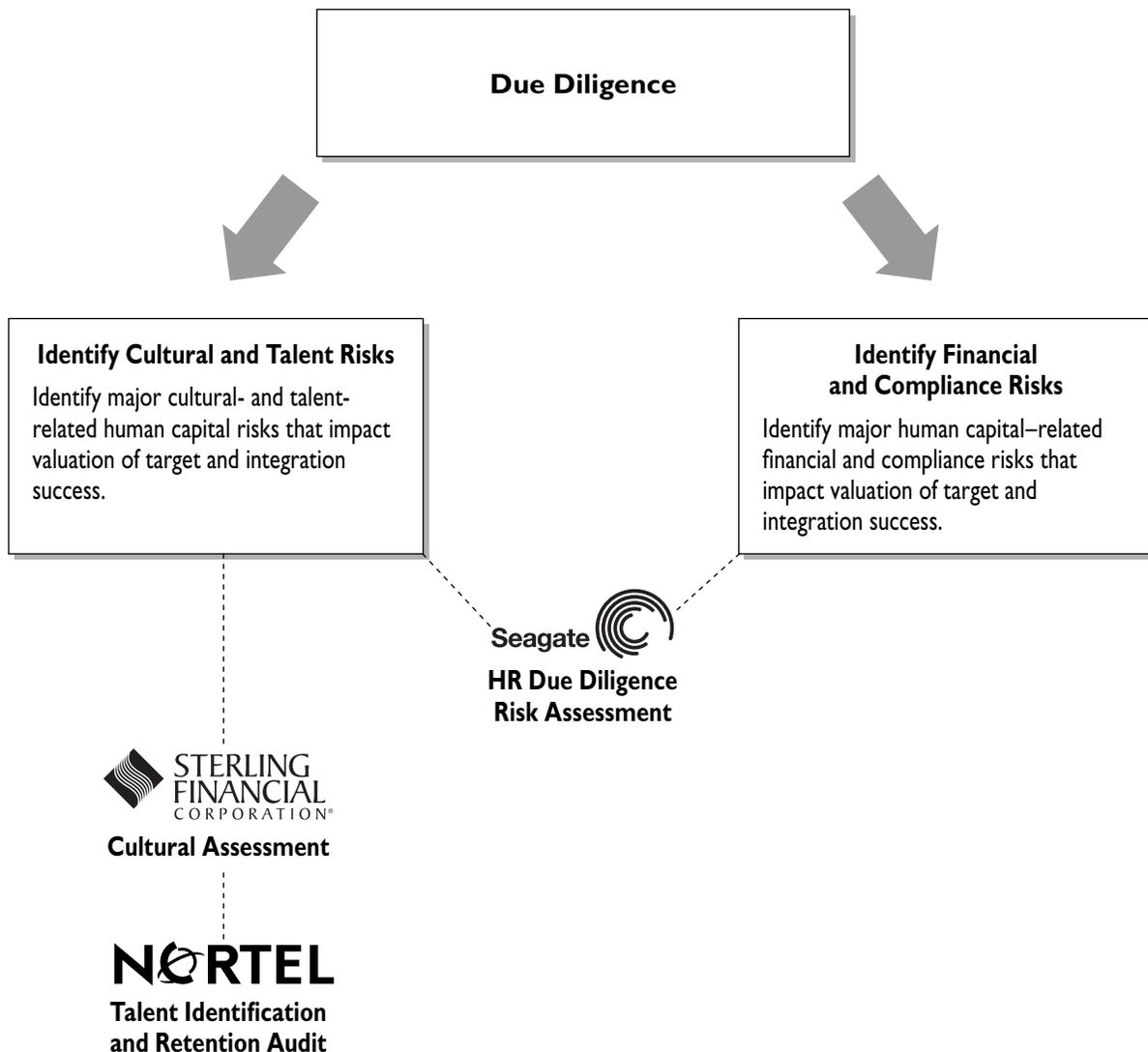
Stage II: Due Diligence

CHROs must address two key mandates during due diligence: identify cultural and talent risks that impact deal valuation and integration planning; identify financial and compliance risks that impact both valuation and integration planning. These two mandates are addressed by the following three profiled tools from Seagate, Sterling Financial, and Nortel.

CHRO MANDATES FOR DUE DILIGENCE

The following three profiled company practices address two key mandates during the due diligence stage of the M&A process

CHRO Mandates and Profiled Tools for Due Diligence



HR Due Diligence Risk Assessment



Organization: Seagate Technology

Industry: Technology

Revenue: US\$9.2 Billion

Employees: 45,170

Headquarters: Scotts Valley, California, United States

Objective

To collect financial and organizational data from the target during due diligence, identify and evaluate risks, and inform deal valuation and integration planning

Description

Seagate facilitates collection of due diligence data by providing the target with detailed due diligence reporting templates requesting financial and organizational information. Seagate creates a due diligence dashboard to provide an overview of major human capital risk areas by analyzing information collected from the target. Seagate uses the risk assessment to inform deal valuation as well as integration planning.

Application

- The HR deal team, made up of the CHRO, the executive director of global compensation, and the executive director of HR call centers and global compliance, draws from external research and prior M&A experience to create detailed reporting templates to collect information from the target's HR deal team during due diligence.
- The team evaluates the target for risks and areas of exposure within each human capital-related area of review according to visibility into target situation, financial impact, and organizational alignment.
- While the CHRO presents the risk assessment to the senior executive team to inform deal valuation, the assessment also feeds into the integration planning process, and the integration management office (IMO) incorporates the identified organizational misalignments into integration planning.

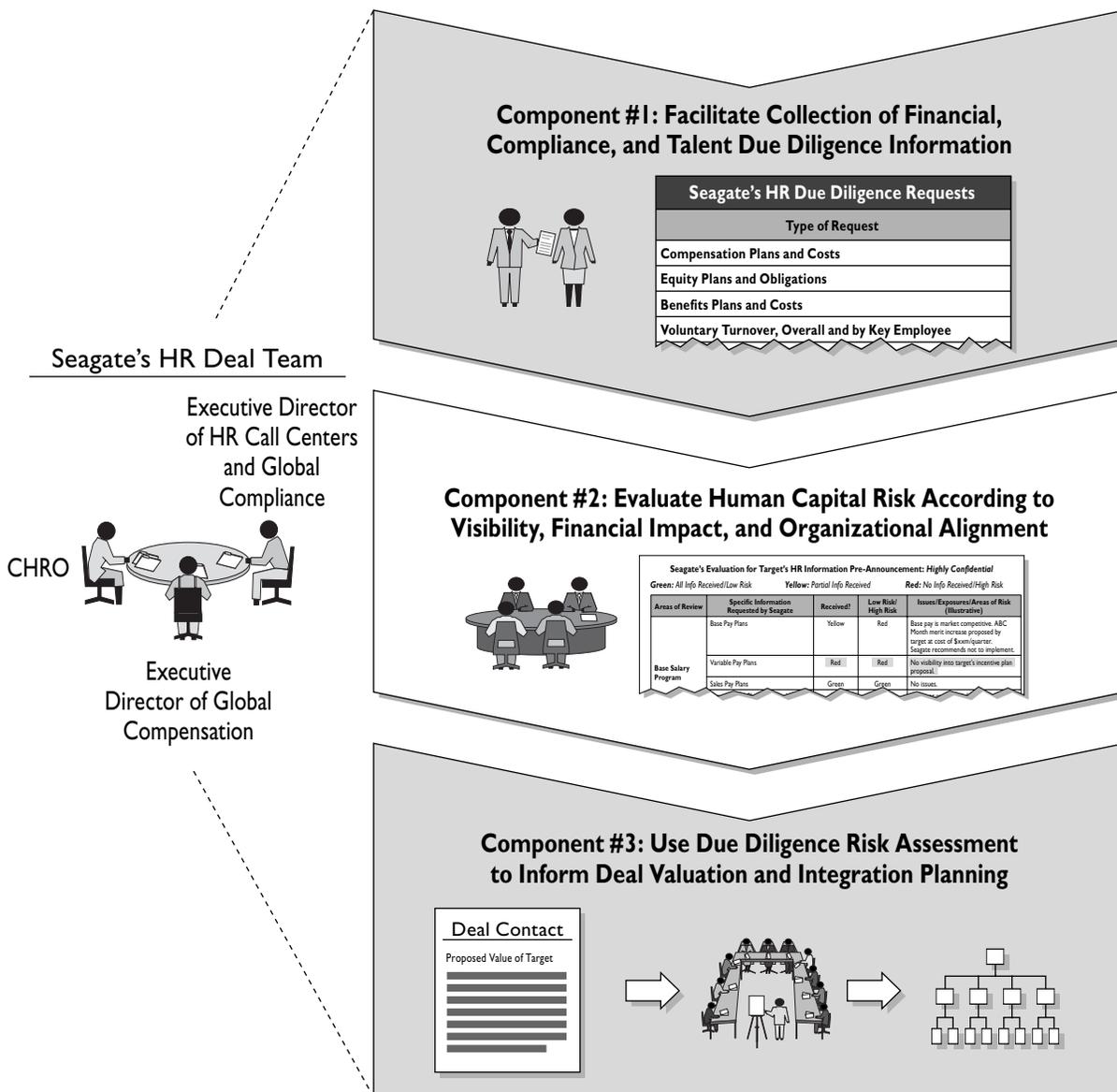
Practice in Context

Seagate's HR deal team creates due diligence data-reporting templates to facilitate the collection of tangible and intangible due diligence information. Once the target's HR deal team submits requested information, Seagate's HR deal team evaluates the data for human capital risks and areas of exposure according to visibility into the target situation, financial impact, and organizational alignment. Seagate uses the risk assessment to inform deal contract valuation as well as plan for integration.

EXPOSING RISKS

Seagate's HR deal team collects due diligence data and assesses human capital risks to inform deal valuation and to prepare for integration planning

Seagate's HR Due Diligence Process



Source: Seagate Technology; Corporate Leadership Council research.

Component #1: Facilitate Collection of Financial, Compliance, and Talent Due Diligence Information

Seagate’s HR deal team made up of the CHRO, the executive director of global compensation, and the executive director of HR call centers and global compliance, draws from external research and prior M&A experience to create detailed reporting templates to collect information from the target’s HR deal team during due diligence. The templates cover 12 different areas that Seagate’s HR deal team needs to review to effectively evaluate human capital risks, including financial (e.g., equity plans, severance policies), compliance (e.g., employment agreements union agreements), and talent (e.g., succession plans, employee survey data) information.

REVEALING CRITICAL HUMAN CAPITAL RISKS

Seagate’s HR deal team provides the target’s HR deal team with due diligence templates to obtain information about key risk areas

Examples of Seagate’s Due Diligence Data-Reporting Templates

Complete List of Seagate’s HR Due Diligence Areas of Review

Seagate’s HR Due Diligence Areas

- Compensation Plans and Costs
- Equity Plans and Obligations
- Benefits Plans and Costs
- Voluntary Turnover Overall and by Key Employee
- Employee Headcount, Management Layers/Spans
- Employment Agreements
- Severance Policies/Costs
- Succession Plans/Executive Risks of Departure
- Compliance Risks
- Open Personnel Requisitions
- Employee Survey Results or 360-Degree Results
- Union Contracts/Labor Risks

Seagate requests typical HR compliance information as well as talent and engagement data.

Equity Plan Overview

Plan Name	Options	Restricted	ESPP
Program Details	Vesting Period Life of Grant	Vesting Period Life of Grant	Offering Period Details Lookback Period

Management Layers, Spans of Control and Organization Charts

Eligibility: _____

Estimate Percentage and Number of Reporting Units: _____

Program Time: _____

Number of Shares Available: _____

Management Layers

Provide the number of management layers from the CEO to the lowest level of employee. Manufacturing: _____

Union Contracts and Labor Risks

	Target Union Status	Division A	Division B	Division C
Man	• Is there currently a union active in this country? Yes/No			
Prov	• Employees: number, percentage, types of employees who are members			
	• Contract: What is covered in the union/collective bargaining contract?			
Org	• Annual union costs in each country			
	• Costs breakdown			
Prov job level	• High/moderate/low risk of union issues or involvement in your business operations compared to other countries in your region			
	• Are there any current labor disputes in this country? Yes/No			
	• Describe labor disputes by issue, type, site, level of employee involved.			
	• Are there any pending labor court cases or formal grievances in this country? Yes/No			

Seagate’s HR deal team ensures complete data is collected across all major operating units of target company.

SEAGATE’S DUE DILIGENCE DATA-COLLECTION PRINCIPLES

- Request financial data that will impact deal valuation and organizational concerns that will inform integration planning.
- Identify specific items within each area of review that will enable more accurate determination of risks and areas of exposure.
- Designate one member from the target’s HR deal team to be responsible for submitting data back to Seagate to ensure accountability.
- Provide illustrative examples to ensure target provides preferred level of detail and correct information.

Component #2: Evaluate Human Capital Risk According to Visibility, Financial Impact, and Organizational Alignment

Once Seagate's HR deal team collects all requested information from the target, the team convenes to evaluate issues, risks, and areas of exposure to populate the HR Due Diligence Dashboard. The Dashboard covers all areas of review requested through the data-reporting templates. The team evaluates target risk according to visibility into the target's situation based on information received, financial impact on Seagate if the target were to be acquired, and organizational alignment with Seagate. The team assigns a code of red for no information received or "High Risk," yellow for partial information received, and green for information received or "Low Risk."

ASSESS DATA TO DETERMINE

Seagate creates a due diligence dashboard to analyze

Seagate's Due Diligence Dashboard (Data Hypothetical)*

Dashboard Coding System

- Red: No visibility into target situation; High financial impact or poor organizational fit
- Yellow: Partial visibility into target situation
- Green: Visibility into target situation; Low financial impact or good organizational fit

Areas of review with minimal visibility and potentially significant financial impact are considered high risk.

Seagate's Evaluation for Target's HR Information Pre-Announcement: *Highly Confidential*

Green: All Info Received/Low Risk
 Yellow: Partial Info Received
 Red: No Info Received/High Risk

Data Hypothetical

Areas of Review	Specific Information Requested by Seagate	Received?	Low Risk/High Risk	Issues/Exposures/Areas of Risk (Illustrative)
Base Salary Program	Base Pay Plans	Yellow	Red	Base pay is market competitive. ABC merit increase proposed by target at cost of \$XXX M/quarter. Seagate recommends not to implement.
	Variable Pay Plans	Red	Red	No visibility into target's incentive plan proposal.
	Sales Pay Plans	Green	Green	No issues.
	Executive Pay Plans/Deferred Compensation	Red	Red	Have not received deferred compensation plans, so do not know if target is in compliance with new legislation.
Equity Plans and Obligations	Stock plans, omnibus plan document details, ESPP	Green	Green	No issues, continue implementation of ongoing plan.
Benefits Plans and Costs	Plan documents/contracts for health and welfare, and any pensions/retirement/defined benefits plans	Yellow	Green	Have not received complete retirement plan documents. However, no issues anticipated.
	Costs of benefits plans	Green	Red	Costs are high for U.S. healthcare plans due to low deductible.
Employee Headcount, Management Layers, and Spans	Headcount by major site, level of employee, function, organization charts	Yellow	Green	No issues with headcount below executive level.

While only partial information was received by Seagate, this area is considered low risk due to minimal issues with financial impact and organizational fit.

* Find Seagate's complete Due Diligence Dashboard in the appendix, p. 102.

Source: Seagate Technology; Corporate Leadership Council research.

HIGH-IMPACT RISKS

data collected and identify high-risk areas

Seagate's Due Diligence Dashboard (Data Hypothetical)*

Seagate 				
Seagate's Evaluation for Target's HR Information Pre-Announcement: Highly Confidential				
Green: All Info Received/Low Risk		Yellow: Partial Info Received		Red: No Info Received/High Risk
Data Hypothetical				
Areas of Review	Specific Information Requested by Seagate	Received?	Low Risk/High Risk	Issues/Exposures/Areas of Risk (Illustrative)
Voluntary Turnover Overall and By Key Employee	Turnover by major site and level of employee for current calendar and prior 1–2 years.	Green	Red	Target's overall turnover is much higher than Seagate's.
	Listing of any key executive (VP and above) departures in previous years as well as any groups/levels of employees who have had major turnover.	Yellow	Red	XX new executives (VP and above) hired within past XX months. No information provided on groups/levels of employees with major turnover.
Succession Plans/ Executive Risks of Departure	Reports of <i>current successor pools</i> for VP and above positions as well as <i>profiles/resumes</i> for all VPs.	Yellow	Green	Partial information received. No issues anticipated.
	Identify which execs are greatest risks of departure.	Red	Red	No information received and no insight into executive departure risks.
Open Personnel Requisitions	Number and level of open personnel requisitions by country and site.	Green	Green	XXX open requisitions. However, no major issues.
Employee Survey and 360-Degree Results	Provide reports on any recent employee surveys/360-feedback results that can provide us with an insight into the culture, morale, and opinions of employees.	Red	Red	No information received.

* Find Seagate's complete Due Diligence Dashboard in the appendix, p. 102.

Source: Seagate Technology; Corporate Leadership Council research.

Component #3: Use Due Diligence Risk Assessment to Inform Deal Valuation and Integration Planning

Upon completion of the risk assessment, Seagate's CHRO presents a summary of the evaluation to the senior executive team, which then incorporates the identified human capital risk areas into the deal valuation model. The risk assessment is also shared with the integration planning team, who reviews Seagate's due diligence evaluation of all of the target's human capital areas and plans the integration process accordingly.

**INFORMING VALUATION
AND INTEGRATION PLANNING**
*HR's due diligence assessment directly informs
the deal valuation and integration planning*

Seagate's HR Risk Assessment Summary

Illustrative

Areas of Review	Risk Assessment
Base Salary Programs	ABC Month merit increase proposed by target at cost of \$XXX/quarter.
Benefits Plans	Costs are very high for U.S. health care plans due to low deductible.
Employee Headcount/ Management/ Span of Control	XX management layers for manufacturing and nonmanufacturing organizations, compared to Seagate's.
Employee Survey and 360 Results	We have no information on employee perceptions or performance.
Executive Pay Plans/ Deferred Compensation	We have not received deferred compensation plans, so do not know if target is in compliance with new legislation.

Seagate's HR deal team creates a summary of valuation and integration risks from the data evaluated in the Due Diligence Dashboard.



Informing Deal Valuation

CHRO Risk Assessment Presentation to Senior Leadership Team



Key Human Capital Risks to Deal Valuation

- Pensions and insurance
- Compensation and benefits plans
- Pending lawsuits
- Union and employment contracts

Informing Integration Planning

Integration Management Office (IMO)



Key Human Capital Issues for Integration Planning

- Talent retention
- Cultural alignment
- Leadership transition
- HR and organization policies

Source: Seagate Technology; Corporate Leadership Council research.

MEMBER IMPLEMENTATION TIPS

- Be specific with data requests from the target. Rather than asking for documents that pertain to a certain area of review, spend time thinking about what type of information will enable accurate risk assessment within that area.
- Request the target's HR deal team to designate one point of contact to enhance accountability and facilitate additional data demands and questions.
- Ensure that all data collected and organization assessments completed during due diligence are captured and immediately transferred to the integration planning team to begin preparing for integration.

Cultural Assessment



**STERLING
FINANCIAL
CORPORATION®**

Organization: Sterling Financial Corporation

Industry: Finance Service

Revenue: US\$240 Million

Employees: 1,000

Headquarters: Lancaster, Pennsylvania, United States

Objective

To identify cultural gaps between target and acquirer in due diligence and mitigate cultural risks to integration success early

Description

Sterling Financial evaluates eight organizational culture indicators in their due diligence assessment by reviewing standard due diligence documents and searching for cultural insights. Findings from the assessment are used to populate a cultural indicators scorecard to assess level of fit between the target and acquirer for each attribute. Sterling analyzes areas of cultural conflict and determines whether to walk away from the deal or begin planning mitigation efforts.

Application

- Sterling's due diligence team searches for cues about the target's organizational culture while evaluating other areas on the due diligence checklist, rather than assessing culture in isolation.
- Sterling creates the cultural indicators scorecard by identifying Sterling's own core values and mapping those to cultural indicators.
- Sterling mitigates cultural friction at the highest levels through deal contract structure with target executives, and then later on through team building and training exercises with midlevel managers and employees.

Component #1: Identify Cultural Cues in Standard Due Diligence Documents

Sterling Financial identifies eight cultural indicators that reflect key hallmarks of Sterling's own core values. The HR M&A team reviews standard due diligence documents for each cultural indicator and searches for insights that will provide Sterling with a view into the target's cultural values.

APPLYING A CULTURAL LENS TO DUE DILIGENCE ASSESSMENT

Sterling Financial includes eight culture indicators in its HR due diligence assessment...

Sterling's Organizational Culture Indicators

STERLING FINANCIAL CORPORATION

ORGANIZATIONAL CULTURE INDICATORS

- Readiness for change
- Resistance to change
- Importance of teamwork
- Importance of learning and development
- Importance of diversity
- Importance of relationship management
- Tolerance of risk
- Quality of internal and external communications

Sterling's Process for Identifying Organizational Culture Indicators

1. The CEO requests that the chief people officer (CPO) lead a process to ensure clarity and agreement on the "people" strategy for the company.
2. The CPO leads an HR team that collects data through employee focus groups and interviews with all top executives to answer why people work at Sterling, why they stay at Sterling, and what it takes to be successful at Sterling.
3. The CPO charts a cross-functional cultural audit team that analyzes data from this internal research and crafts the messaging that expresses Sterling's "People Strategy."
4. Sterling ensures that new cultural indicators are built into all aspects of the business and human capital management (e.g., employee selection process, training, M&A).

...and uses each indicator as a lens to search for cultural insights when reviewing standard due diligence documents

Sterling's Due Diligence Document Checklist

Illustrative

Due Diligence Document Checklist

- Employee compensation and benefits plans
- Executive meeting minutes
- Affirmative action plan
- Code of conduct
- Communications regarding audits/findings
- Employee handbook
- Personnel policy manual
- Open positions now being recruited
- Status of employees on disciplinary action

Employee Compensation and Benefits Plan Areas of Review

- Structure of compensation system
- Type of benefits and perquisites

Executive Meeting Minutes Areas of Review

- Formality of document
- Size and number of documents
- Explicitness of decision and guidance

Traditional Finding

- Size of benefit obligations
- Cost per employee

Cultural Insight

- Paternalistic approach to employees
- Low tolerance for risk

Traditional Finding

- Threats for the business
- Liability exposure

Cultural Insight

- Authoritative versus egalitarian decision-making processes

Source: Sterling Financial Corporation; Corporate Leadership Council research.

Component #2: Measure Cultural Gaps and Mitigate Cultural Risks Early

Sterling’s HR M&A team uses a cultural indicators scorecard to evaluate the relative fit of the target company’s culture with Sterling’s culture for each indicator and highlights areas of risk to integration success should the companies decide to merge. Sterling analyzes areas identified as “low” organizational fit and determines how best to mitigate cultural conflict.

CULTURAL RISK MITIGATION

Sterling assesses the magnitude of cultural gaps using a cultural indicators scorecard...

Cultural Indicators Scorecard

Organizational Culture Indicator	Fit Relative to Sterling Financial		
	Low	Medium	High
Importance of teamwork			X
Importance of relationship management			X
Quality of communications across all levels			X
Readiness for change		X	
Resistance to change	X		
Importance of diversity		X	
Importance of learning and development			X
Tolerance of risk	X		

Sterling places strong emphasis on relationship management and teamwork and will walk away from targets scoring low in these categories.

How to Assess Risk
 The HR due diligence team rates cultural fit for each cultural indicator and then further analyzes areas of “low” and “medium” fit that could add additional time or cost during integration if the deal closes.

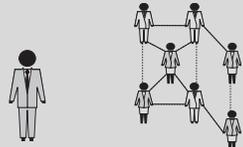
...and surfaces risks to integration success early to facilitate quick responses and mitigate cultural challenges

Signals of Cultural Conflict

Illustrative



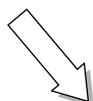
Early in discussions, senior executives show opposition to adopting a new culture.



During integration planning, midlevel executives resist network-building with Sterling counterparts.



Post-announcement, employees resist initial training about Sterling’s product offerings and vision.



Walk away from deal

Mitigate through contract structure

Integration team works with Corporate University (Learning and Development) to craft training and communication materials that address the differences between the two cultures.

The focus is on building on common strengths, open communication, and managing change.

Source: Sterling Financial Corporation; Corporate Leadership Council research.

MEMBER IMPLEMENTATION TIPS

- Identify the organizational indicators that define your culture to assess compatibility with target companies.
- Continue to monitor target-acquirer interaction past due diligence for signs of cultural incongruity and proactively develop action plans at first signs of friction.

Talent Identification and Retention Audit



Organization: Nortel Networks Corporation

Industry: Telecommunications

Revenue: US\$10.5 Billion

Employees: 35,370

Headquarters: Toronto, Canada

Objective

To identify and retain the acquired talent most critical to the performance of the combined organization

Description

Nortel recognizes that to realize the full potential value creation from an acquisition, it needs to identify and retain the acquired critical talent. HR realizes that in many acquisitions, critical talent is identified too late in the transaction to be successfully retained. In response, HR identifies critical talent early in the deal process, so that targeted retention and transition support can be put in place.

Application

- Nortel's talent assessment form is used to assess acquired employees against four key categories based on information collected from multiple sources during due diligence. Its talent retention template distinguishes between four different talent groups for retention and supports decisions on retention incentives, transition support, and the individual value proposition.
- The talent assessment form is created and completed by the HR due diligence team and is aligned with the strategic objectives of the acquisition. The talent retention template is created and maintained by a member of the HR integration planning team.

Practice in Context

Nortel’s early identification of the talent assets of the target organization ensures that it fully understands the talent assets it is buying. Early talent assessment delivers insights into which talent segments are critical for the success of the combined organization and this informs planning for targeted critical talent retention.

IDENTIFYING AND RETAINING CRITICAL TALENT

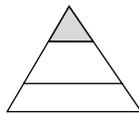
Nortel identifies critical talent assets early, enabling targeted retention

Limits to Standard Practice

- ① **Limited Insight into Talent Assets**
Bidding firm has limited insight into the talent assets of the target firm prior to acquisition.



- ② **Broad Retention Plan for Executives**
Retention efforts are focused on the top layers of executive talent.

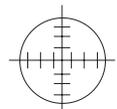


Nortel Practice

- ① **Early Identification of Talent Assets**
Nortel uses early assessment and identification of critical talent segments during due diligence.

Category	Item	Value	Notes
Talent Assets	Executive A	High	Critical
	Executive B	Medium	Key
	Executive C	Low	Support
	Executive D	Low	Support
Talent Segments	Segment 1	High	Critical
	Segment 2	Medium	Key
	Segment 3	Low	Support
	Segment 4	Low	Support

- ② **Targeted Retention of Critical Talent**
Retention incentives, employment value proposition communications, and transition support is focused on talent segments critical for organizational success.



NORTEL INSIGHT

To maximize the effectiveness of critical talent retention throughout M&A, critical talent needs to be identified as early as possible in the deal process so that targeted retention plans and transition support can be put in place.

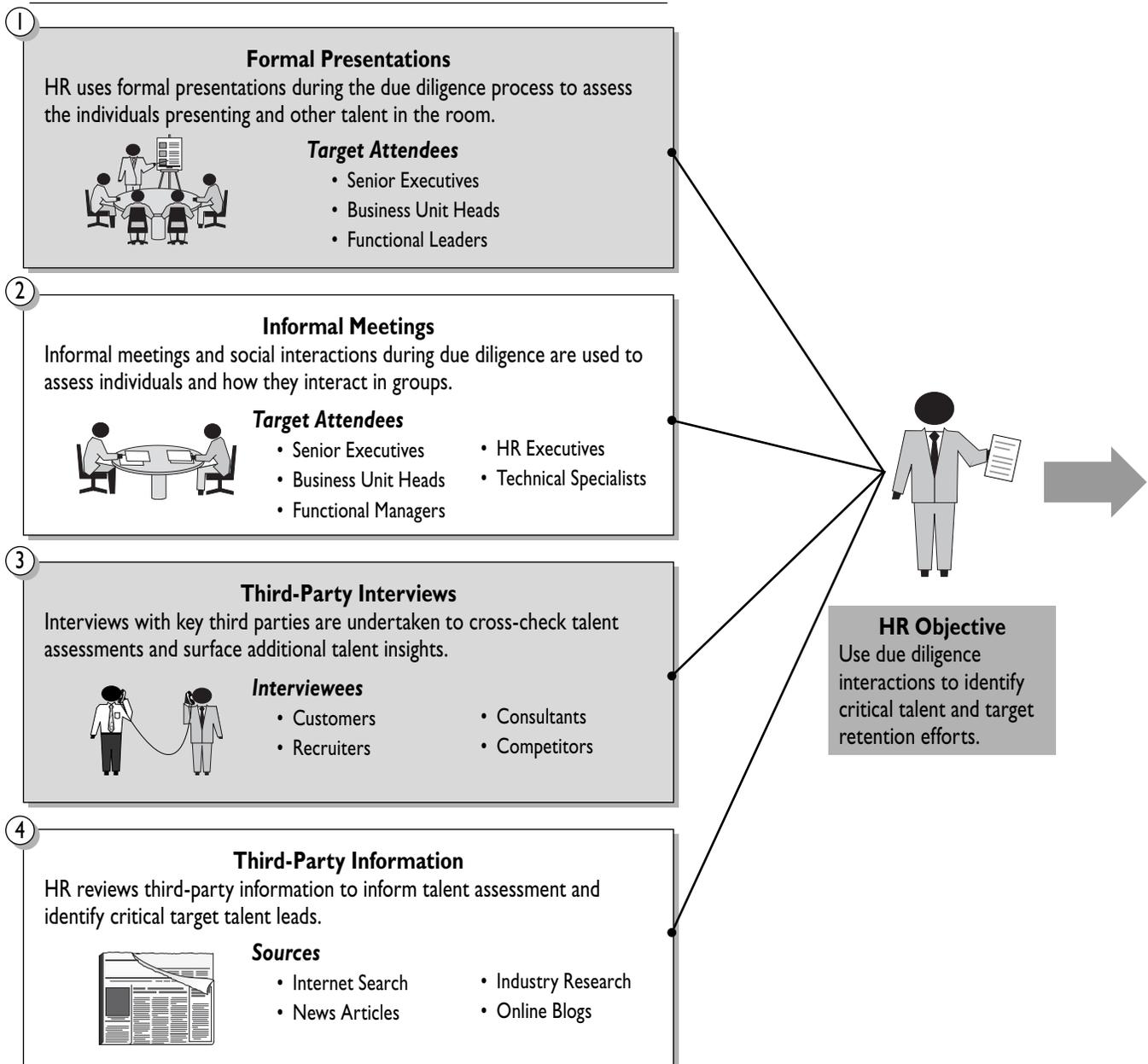
Component #1: Identify Critical Talent

HR exploits all early talent interactions during due diligence in formal and informal meetings, combined with insights from third party interviews and information sources to inform talent assessment. Nortel identifies role focused evaluation criteria for knowledge workers, customer facing employees and managers. Talent assessment is focused on what the individual can contribute to the future performance of the combined organization. Assessment forms are completed by and shared with the due diligence team.

EARLY CRITICAL

Nortel exploits all opportunities to assess talent during due diligence interactions and combines this with insights from third-party sources...

Nortel Talent Intelligence Gathering During Due Diligence



Source: Nortel Networks Corporation; Corporate Leadership Council research.

TALENT IDENTIFICATION

...to identify critical talent

Talent Assessment Form*

Talent assessments are focused on what the individual can contribute to the future success of the combined organization and are completed for employees that score a minimum overall rating of "good" in at least one of the four assessment categories.

Knowledge carries greater weight in evaluations of technicians and specialists.

Customer Relationships carry greater weight in evaluations of customer facing employees.

Organizational Role carries greater weight in evaluations of business leaders.

Completed talent assessment forms are shared with the due diligence team to surface any significant differences of opinion.

Individual Analysis			
Employee Name: <i>Joe Woods</i>		Date: <i>01/10/06</i>	
Provide specific examples or comments relating to each attribute and then evaluate the employee			
Knowledge, Scarce Skills, and Critical Resources			
	Comments or Descriptions	Good	Exceptional
Has valuable technical skills	<i>Software designer</i>	1	2
Has hard-to-find or expensive skills	<i>No big shortage</i>	1	2
Holds in his/her head key intellectual property	<i>Owns latest release</i>	1	2
Has strong experience in a target skill	<i>Good experience</i>	1	2
Leaving would have a significant business impact	<i>Need for transition</i>	1	2
		Subtotal <i>10</i>	
Customer Relationships			
	Comments or Descriptions	Good	Exceptional
Has a strong internal network	<i>Well connected</i>	1	2
Has a strong external network	<i>IT Network member</i>	1	2
Is a critical customer contact	<i>Limited exposure</i>	1	2
Has a strong reputation with customers	<i>2 key accounts</i>	1	2
Has an ability to attract new business	<i>Quoted in press</i>	1	2
		Subtotal <i>9</i>	
List key customer accounts _____			
Revenue generated _____			
Organizational Role			
	Comments or Descriptions	Good	Exceptional
Shows business acumen or strategic thinking	<i>Project design</i>	1	2
An opinion leader/champion within the organization	<i>Project leader</i>	1	2
Is a high visibility person	<i>Team support</i>	1	2
Could or would take others with them if s/he left	<i>Team recruiter</i>	1	2
		Subtotal <i>10</i>	
Performance			
	Comments or Descriptions	Good	Exceptional
Employee's past performance		1	2
Acts as mentor to others	<i>To team</i>	1	2
Has a positive attitude about current changes	<i>Neutral so far</i>	1	2
		Subtotal <i>7</i>	
		TOTAL <i>36</i>	
Other Relevant Factors			

* All names and data are fictional.

Source: Nortel Networks Corporation; Corporate Leadership Council research.

Component #2: Focus Retention Efforts on Critical Talent

Having completed the talent assessment forms, Nortel targets retention efforts at the talent critical for the success of the combined organization. Critical talent is classified by HR into four categories: long-term talent in a key function; short-term talent in a key function; senior long-term talent not in a key function; junior long-term talent not in a key function. Classification may change during and after the M&A process in line with the strategic priorities of the combined organization.

TARGETED CRITICAL

HR identifies the elements of the acquiree's employment proposition that matter most for retention decisions...

Acquiree Employment Proposition*

Acquiree Organization Employment Proposition													
Candidate Name	Position Title	Date of Hire	Base Salary	Bonus Target	Last Bonus Payout	Car Allowance	Shares Options Outstanding	Converted Options	Acceleration Clause	Change of Control Clause	Non-Solicit Clause	Non-Compete Clause	Severance Clause
Long-Term Talent in a Key Function													
David Johnson	Head of R&D Function	4-Sep-99	\$120,000	120%	\$120,000	\$20,000	50,000	15,000	No	Yes	No	No	Yes
Short-Term Talent in a Key Function													
Kirsty Mitchell	Chief Financial Officer	2-Jul-94	\$110,000	100%	\$87,000	\$20,000	200,000	20,000	Yes	Yes	No	Yes	Yes
Senior Long-Term Talent Not in a Key Function													
James Golfin	Head of Meetings Department	17-Aug-00	\$50,000	20%	\$7,500	\$0	500	0	No	No	No	No	No
Junior Long-Term Talent Not in a Key Function													
Tara Smith	Marketing Assistant	27-Apr-01	\$20,000	20%	\$3,500	\$0	0	0	No	No	No	No	No

Employees can move in and out of talent categories depending on changing talent priorities for the combined organization.

HR identifies four talent retention categories: long-term talent in a key function; short-term talent in a key function; senior long-term talent not in a key function; junior long-term talent not in a key function.

* All names and data are fictional.

Source: Nortel Networks Corporation; Corporate Leadership Council research.

TALENT RETENTION

...and builds targeted packages to retain critical talent

Nortel Retention Plan*

Nortel Networks Talent Retention Plan										
Market Benchmark	Executive	Comparator Role	Complexity Level	Base Salary	Incentive Target	Car Allowance	Stock Options	Pay to Stay	Severance Amount	Notes
Long-Term Talent in a Key Function (Continued)										
R&D Head	Yes	Head of Software R&D	6	\$130,000	\$120,000	\$20,000	20,000	\$200,000	N/A	More interested in research projects and remuneration than formal titles
Short-Term Talent in a Key Function (Continued)										
CFO	Yes	Chief Financial Controller	5	\$110,000	100%	\$20,000	20,000	\$100,000	\$700,000	Transition only
Senior Long-Term Talent Not in a Key Function (Continued)										
Senior Event Facilitator	No	Head of Meetings for East Coast	3	\$57,000	20%	\$0	100	\$0	N/A	Has suggestions for enhancing meetings performance
Junior Long-Term Talent Not in a Key Function (Continued)										
Desk Assistant	No	Marketing Assistant	2	\$22,000	20%	\$0	10	\$0	N/A	Well-known and liked by clients and prospects

Early critical talent identification enables targeted retention efforts, built around individual preferences surfaced during HR interactions with target employees.

* All names and data are fictional.

Source: Nortel Networks Corporation; Corporate Leadership Council research.

MEMBER IMPLEMENTATION TIPS

- Small and medium organizations, which are not listed on a public exchange, are the most open organizations to HR contact with talent groups, below the executive level, during due diligence. The talent of large publicly listed organizations is the most difficult to access during due diligence. The level of potential HR access to talent during due diligence varies by country according to local regulations.
- Rapid migration of acquired employees onto Nortel's performance management system is a key priority post acquisition. It enables verification of the conclusions of the target talent assessment form, allows for comparison with existing Nortel talent, and opens up competition for key roles in the joint organization.



STAGE III

Integration Planning

KEY QUESTIONS

- Has HR adequately planned responses to human capital risks identified during due diligence?
- Has HR effectively engaged and trained key constituents (e.g., line managers, HR business partners) to manage human capital risks throughout integration?

PROFILED TOOLS AND PRACTICES

M&A Integration Playbook

Brambles™

Workforce Communication Plan



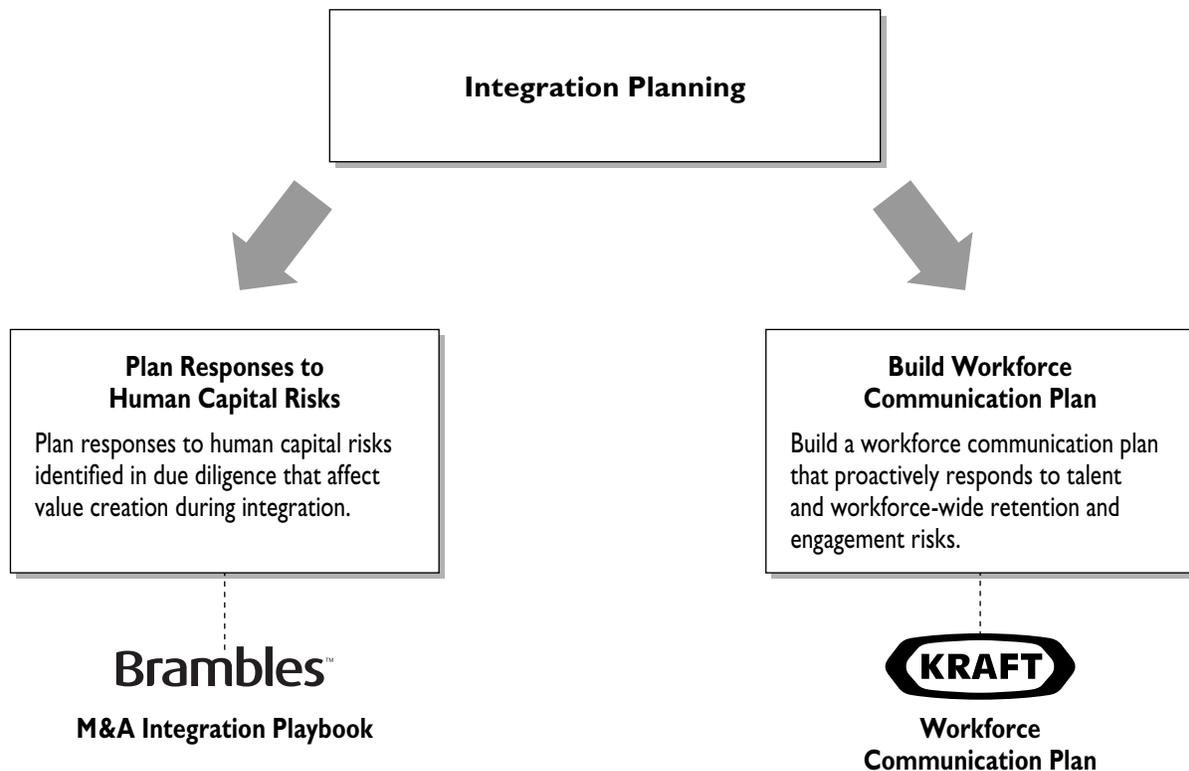
Stage III: Integration Planning

CHROs must address two key mandates during the integration planning stage of the M&A process. First, plan responses to human capital risks and second, build a workforce communication plan that proactively responds to workforce retention and engagement risks. These mandates are addressed in the following profiled practices and tools from Brambles and Kraft.

CHRO MANDATES FOR INTEGRATION PLANNING

The following two profiled company practices address two key mandates during the integration planning stage of the M&A process

CHRO Mandates and Profiled Tools for Integration Planning



M&A Integration Playbook

Brambles™

Organization: Brambles Industries Ltd.

Industry: Support Services

Revenue: US\$5.4 Billion

Employees: 28,000

Headquarters: Sydney, Australia

Objective

To provide a documented step-by-step guide for managing the integration process with key lessons learned, tips, and common pitfalls

Description

Tom Brown, SVP of HR at Brambles, began the creation of an integration playbook while at a previous employer with a core team of senior executives with M&A experience. Drawing from his and other senior leaders' M&A experiences at different organizations, he continually updated the playbook and adapted it to fit Brambles' requirements. The playbook contains detailed information on all aspects of integration, including HR responsibilities such as cultural alignment, organization design, staffing, talent retention, rewards and redundancy, and communication planning.

Application

- The integration playbook was originally developed across four months by a core team of five senior executives with M&A experience, who collected input from external sources and internal contributors through workshops and focus groups.
- The playbook focuses most on people-related aspects of integration and provides tools, hints and tips, common pitfalls, and timelines and frameworks to guide the integration process.

Brambles' Integration Playbook: Overview and Table of Contents

Brambles' Integration Playbook provides a comprehensive guide for the integration process. The playbook was originally developed by a core team of five people from different functions of the organization, with input from additional internal and external sources. The longest section of the playbook is dedicated to key people-related aspects of integration with a subsection on each aspect with information and tools on each area.

ROAD MAP TO THE PLAYBOOK

Brambles designs a comprehensive playbook to guide the integration process and places the most emphasis on people-related aspects

Objective

- To provide documentation of the standard framework and process by which the organization will integrate mergers and acquisitions
- To capture best practices and lessons learned to ensure continuous improvement and efficiency in managing future deals
- To align functional M&A strategy and processes with the organizational strategy and processes

Audience

- Senior managers with overall responsibility for delivering successful integration
- Integration team managers responsible for defining the integration process and then coordinating activities, tracking progress, and ensuring adherence
- Heads of integration task forces responsible for delivering successful integration of discrete parts of the business

Playbook Table of Contents

Guidelines for Creating an Integration Playbook	Table of Contents	Brambles
1. Convene a team of senior managers or executives from Strategy, Finance, HR, and Communications with M&A experiences.	1. Executive summary of "Brambles' Way of Integration"	
2. Collect input from external M&A resources and internal contributors through focus groups and workshops.	2. Setting objectives, principles, and tailoring the approach	
3. Provide training for staff on how to use the playbook and to supplement knowledge of M&As.	3. Integration process	
4. Continue to revisit and update the playbook based on new M&A experiences and lessons learned.	3.1 Setting the overall timetable, milestones, and deliverables	
	3.2 Determining and populating the integration team structure	
	3.3 Integration decision making, issue resolution, and reporting processes	
	4. Delivering the expected benefits from integration	
	4.1 Baselining and target setting	
	4.2 Iterative process of arriving at bottom-up commitments	
	4.3 Tracking progress against commitments	
	5. People-related aspects of integration	
	5.0 Introduction to people-related aspects	
	5.1 Cultural audit and alignment	
	5.2 Organizational design	
	5.3 Appointments/designation/staffing process	
	5.4 Retention of key talent	
	5.5 Reward/redundancy	
	6. Communications plan/program	
	Appendix I: Example documents and templates used during the process	
	Appendix II: Key functional checklists (HR, IT, Finance, Legal, Property, Insurance, Commercial, Operation)	

People-related aspects compose the longest section of the playbook, as the authors believe they are most critical for integration success.

Brambles' Integration Playbook: Contents and Tools

The section of the playbook on people-related aspects covers six key elements, including cultural alignment, organizational design, staffing appointments, talent retention, rewards and redundancy, and communications. Each subsection contains best practices, lessons learned, tips and hints, and frameworks and timelines in each of the six areas.

PLAYBOOK CONTENT AND TOOLS

The playbook contains the following tools and materials on people-related aspects of integration

Playbook Table of Contents

Table of Contents	Brambles
1. Executive summary of 'Brambles Way of Integration'	
2. Setting objectives, principles and tailoring the approach	
3. Integration process	
3.1 Setting the overall timetable, milestones and deliverables	
3.2 Determining and populating the integration team structure	
3.3 Integration decision making, issue resolution and reporting processes	
4. Delivering the expected benefits from integration	
4.1 Base-lining and target setting	
4.2 Iterative process of arriving at bottom up commitments	
4.3 Tracking progress against commitments	
5. People-related aspects of integration	
5.0 Introduction to people-related aspects	
5.1 Cultural audit and alignment	
5.2 Organizational design	
5.3 Appointments/designation/staffing process	
5.4 Retention of key talent	
5.5 Reward/redundancy	
6. Communications plan/program	
Appendix I: Example documents and templates used during the process	
Appendix II: Key functional checklists (HR, IT, Finance, Legal, Property, Insurance, Commercial, Operations)	

Tools and Materials Included in the Playbook*

Section 5.0 Introduction to People-Related Aspects

Content: Five key people related aspects of integration with “Must Do’s” and “Hints and Tips”

Section 5.1 Cultural Audit and Alignment

Content: Cultural audit tool and timeline for different stages of organizational culture alignment with different activities within each stage

Section 5.2 Organizational Design

Content: Key questions to begin planning new organizational design structure with principles to follow and common pitfalls

Section 5.3 Appointments/Designation/Staffing Process

Content: Timeline for new staffing appointments, key staffing principles; list general lessons learned on communications and on timing

Section 5.4 Retention of Key Talent

Content: Process for identifying key talent; framework for managing top-talent risks

Section 5.5 Reward/Redundancy

Content: List of severance policy issues with potential resolutions; key considerations for assigning rewards

Section 6 Communications Plan/Program

Content: Communication requirements in each phase of integration with common pitfalls, principles of good communication, components, and examples of a communication plan

* Find Brambles' complete M&A Integration Playbook in the appendix, p. 104.

Source: Brambles Industries Ltd.; Corporate Leadership Council research.

MEMBER IMPLEMENTATION TIPS

- Ensure that HR understands the strategic objectives and intent of the deal, and customize activities to align with the organizational strategy. Not all components of the playbook will be relevant for every deal.
- Provide training for how to use the playbook, areas of emphasis, and details on how to implement suggested M&A processes and practices.
- Make the playbook a living document. Revisit it after every activity and update the document with new learning.

Workforce Communication Plan



Organization: Kraft Foods, Inc.
Industry: Consumer Products
Revenue: US\$32 Billion
Employees: 98,000
Headquarters: Northfield, Illinois, United States

Objective

To overcome the uncertainty and anxiety of employees through the M&A transaction with a workforce communications plan

Description

Kraft recognizes that employee uncertainty and anxiety is a significant driver of attrition and employee underperformance through an M&A transaction. To positively build engagement and commitment, Kraft creates a communication plan designed to build credibility, provide fact-based information, and lessen the uncertainty employees may experience.

Application

- The communication planning tool is used to identify key M&A workforce communications activities across the M&A transaction, assign task ownership, and monitor progress against deadlines.
- The planning tool is designed, created, and maintained collaboratively by the HR head of M&A and the corporate communications area.

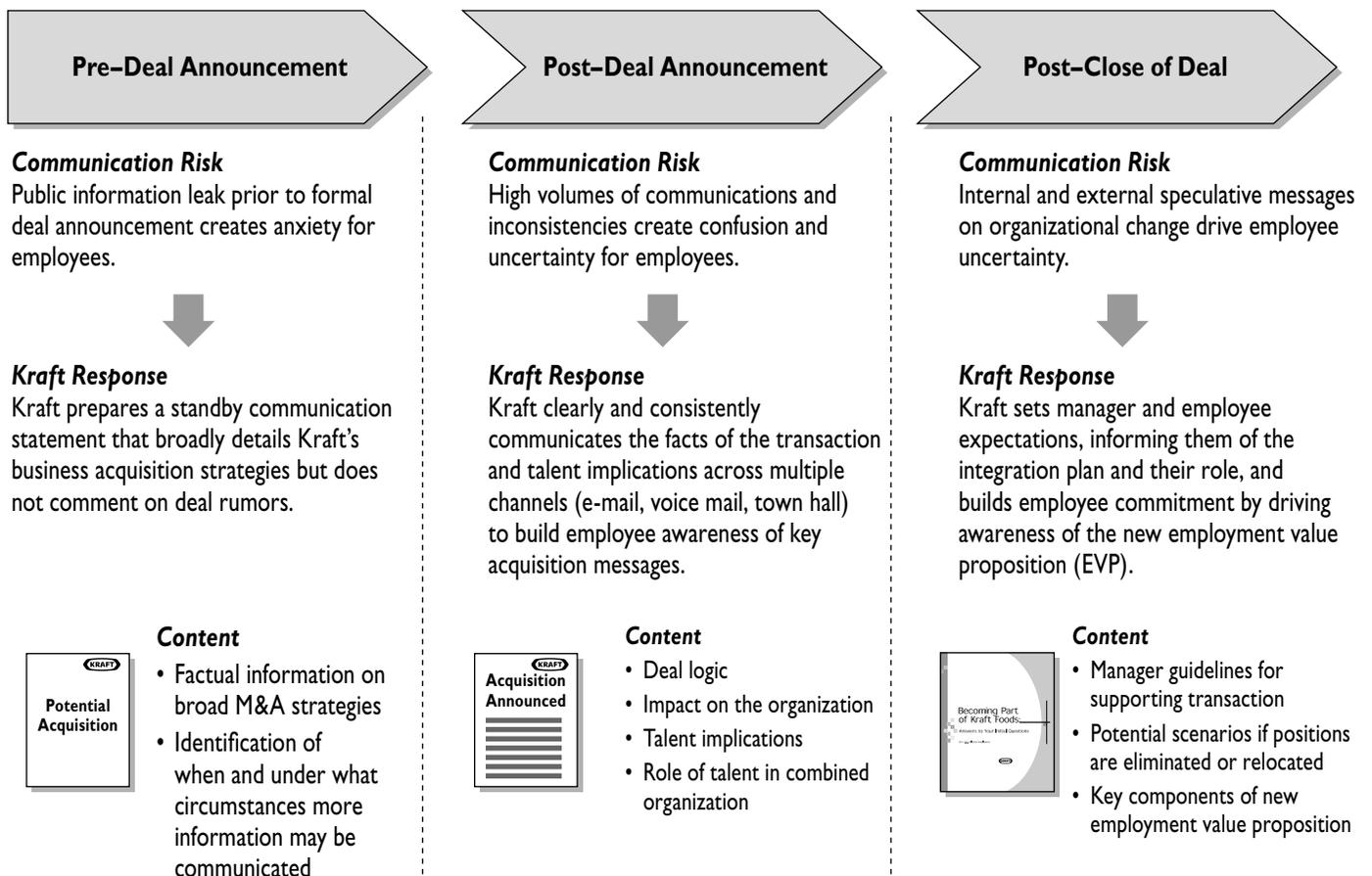
Component #1: Identify Key Communication Stages

Corporate communications and the head of HR M&A prepare employee communications at the stages in the M&A process that matter most for managing the concerns and anxieties of employees. The three critical stages are pre-deal announcement, post-deal announcement, and post-close of deal.

KEY STAGES OF M&A COMMUNICATIONS

Kraft identifies the key communications moments in the M&A process

Key Communications Risk Moments in M&A



KRAFT INSIGHTS

- Build employee trust in workforce communications by consistently providing factual updates, setting future expectations, and delivering on promises.
- The quality of the experience of transitioning and exiting employees has a significant impact on the retention and engagement of employees who remain.
- Communicating the employment value proposition over a period of time with reiteration of key messages maximizes employee awareness of the employment value proposition.

Source: Kraft Foods, Inc.; Corporate Leadership Council research.

Component #2: Engage M&A Communications Stakeholders

Having identified the key communications moments in the M&A transaction, HR involves the key stakeholders in employee communication to manage employee anxiety and concerns through the transaction. It ensures that communications from Marketing, HR, Investor Relations (IR), and Corporate are clear and consistent. It secures the buy-in of senior executives of the acquired company into the employee communications plan. It enables functional managers and line managers to support M&A communications and drives workforce awareness of the employment value proposition for the combined organization.

ENGAGING COMMUNICATIONS STAKEHOLDERS

HR engages key stakeholders in managing the uncertainty and anxiety of employees

Communications Plan

	M&A Communications Task	HR Objectives	Stakeholders	Deadline	HR Owner
Pre-Deal Announcement	Prepare emergency workforce statement	<ul style="list-style-type: none"> Statement in event of public information leak ahead of deal announcement 	HR M&A lead, head of communications. VP HR	Pre-Announcement	VP HR
	Cross-functional communications plan	<ul style="list-style-type: none"> Define workforce communications stakeholders, roles, and responsibilities Define key M&A messages Agree timing 	Communications (Potential Acquisition and Kraft), Investor Relations, Sales and Marketing, EVP specialist, HR M&A lead	Pre-Announcement	HR M&A Lead
	Senior executive workforce communication workshop	<ul style="list-style-type: none"> Support for Kraft and acquired company senior executives in managing employee communications post announcement 	Senior executives, HR M&A lead, head of communications, VP HR	Pre-Announcement	HR M&A Lead
	Prepare transaction communication guidelines and scripting for managers	<ul style="list-style-type: none"> Ensure managers are prepared to communicate key aspects of deal to employees 	Business unit head, functional managers, line managers' Bidder and acquired company	Pre-Announcement	HR M&A Lead
Post-Deal Announcement	Senior executive announcement letter to employees	<ul style="list-style-type: none"> Statement to workforce released on day of public deal announcement Inform employees of deal logic, impact on organization, role of talent 	Senior executives	Announcement	VP HR
	Dedicated deal portal with question and answer	<ul style="list-style-type: none"> Central point for all employees on deal information 	Head of communications, HR M&A lead	Pre-Deal Close	VP HR
	Prepare EVP communications modules	<ul style="list-style-type: none"> Raise employee awareness of key elements of the EVP for the combined organization 	HR M&A lead, VP HR, EVP specialist	Pre-Deal Close	Head of Communications/VP HR
Post-Close of Deal	Deal close (Day One) announcement for managers	<ul style="list-style-type: none"> Inform managers of role in coming 90 days 	HR M&A lead, head of communications. VP HR	Deal Close	VP HR
	Deal close (Day One) announcement for employees	<ul style="list-style-type: none"> Inform employees of coming events in 90 days and integration plan 	HR M&A lead, head of communications. VP HR	Deal Close	VP HR
	Launch deal communications portal and supporting deal communications (deal magazine)	<ul style="list-style-type: none"> Raise awareness of the transaction, answer key employee concerns 	Head of communications, HR integration lead	Deal Close	SVP HR
	Announce leadership team and key management changes	<ul style="list-style-type: none"> Inform employees of key leadership changes 	HR M&A lead, head of communications, VP HR, senior line executives	Deal Close	HR Integration Lead
	Prepare HR leadership and managers to support transaction with employee communications	<ul style="list-style-type: none"> Support for Kraft and acquired company HR and managers in managing employee communications post-announcement 	HR leaders, managers, VP HR	Day One + 10 days	HR Business Partner
	EVP communication and onboarding workshops	<ul style="list-style-type: none"> Raise awareness of EVP and communicate local integration plan 	HR business partner managers, employees	Day One + 20 days	HR Business Partner
	All employees informed on new role	<ul style="list-style-type: none"> Inform employees of new roles, exits, and relocations 	HR business partner, local management	Day One + 30 days	Local HR / local management

HR and corporate communications coordinates with Corporate, IR, and other process owners to ensure clear, consistent, and timely messages.

HR and corporate communications secures the buy-in of senior executives to support deal communications to business unit heads and functional managers.

HR ensures that local managers are well informed to support execution of the communications plan.

Source: Kraft Foods, Inc.; Corporate Leadership Council research.

MEMBER IMPLEMENTATION TIPS

- Avoid employment value proposition communication overload by building individual modules for key elements of the EVP and communicating them separately at disciplined time intervals post-acquisition close.
- Be as open and honest as possible in employee communications and workforce interactions.
- Respond to employee questions on the M&A transaction within 24 hours and if an answer cannot be provided, let the employee know when you will deliver an answer.



STAGE IV

Integration Management

KEY QUESTIONS

- Is HR effectively monitoring and responding to changing human capital risks that may affect value creation during integration?
- Does HR understand anticipated synergies and opportunities to realize value to prevent stalled or lost opportunities (e.g., failure to decrease headcount, integrate compensation and benefits plans, or establish the executive team at the appropriate time)?

PROFILED TOOLS AND PRACTICES

Employee Pulse Dashboard



Integration Risk Survey



HR Integration Execution Dashboard



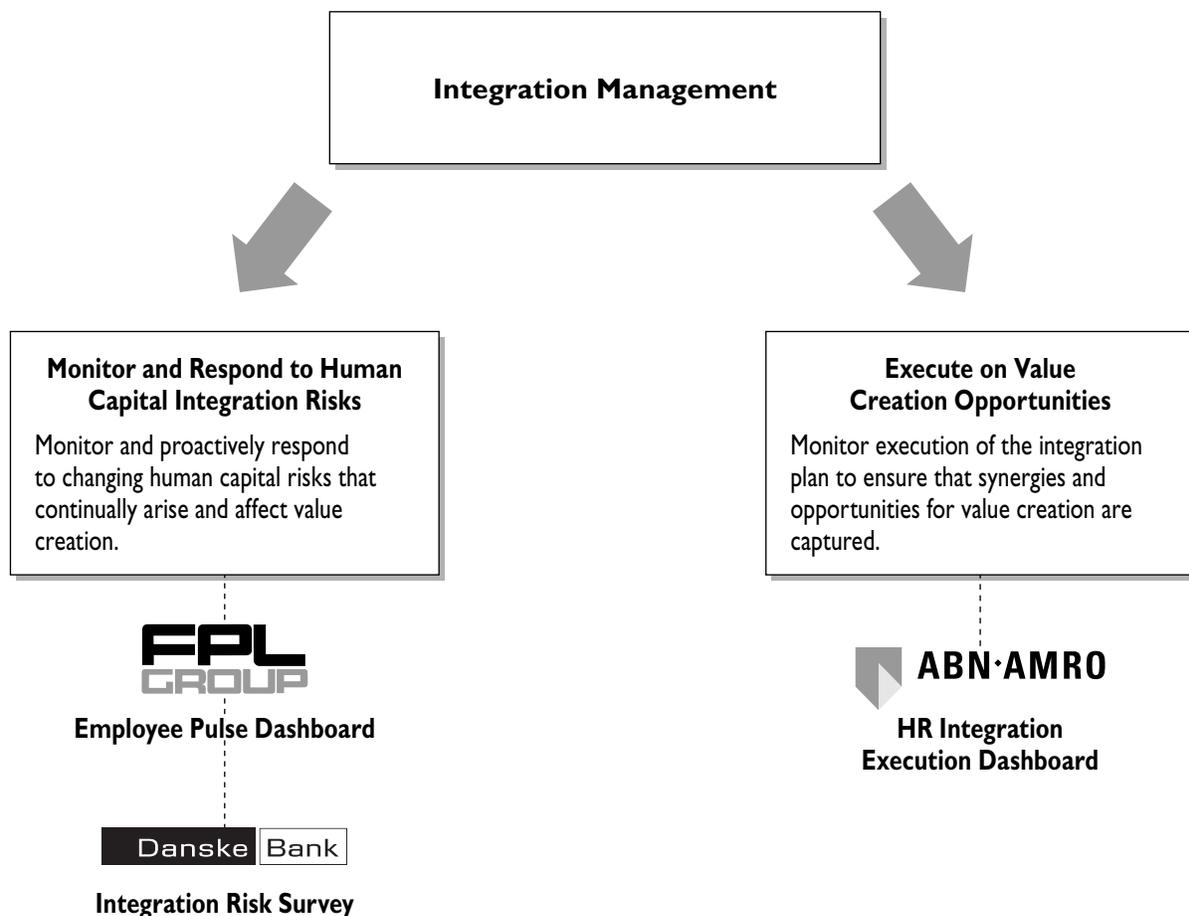
Stage IV: Integration Management

CHROs must address two key mandates to capture the full value of M&As during integration management: monitor and respond to human capital integration risks and ensure opportunities for value creation are captured. These mandates are addressed by the following three profiled company practices from FPL Group, Danske Bank, and ABN AMRO.

CHRO MANDATES FOR INTEGRATION MANAGEMENT

The following three profiled company practices address two key mandates during the integration management stage of the M&A process

CHRO Mandates and Profiled Tools for Integration Management



Employee Pulse Dashboard



Organization: FPL Group, Inc.
Industry: Energy
Revenue: US\$11 Billion
Employees: 13,000
Headquarters: Juno Beach, Florida, United States

Objective

To track and measure key human capital performance indicators and address employee performance and retention risks throughout the integration process

Description*

FPL Group's Employee Pulse Team tracks human capital metrics throughout integration to develop an ongoing understanding of employee morale and turnover. Insight from the integration dashboard enables the company to craft targeted responses to overcome root causes of employee performance and retention risks. FPL uses findings from the analysis to target responses to effectively address concerns and issues across the diverse employee population.

Application

- FPL's Employee Pulse Team populates the dashboard with specific merger-related metrics and human capital metrics that are currently monitored by different HR functional areas. The Employee Pulse Team analyzes findings to understand the root causes of employee actions and provide customized solutions to improve and maintain employee performance and morale.
- The Employee Pulse Team comprises HR staff, IT staff, and statisticians. The team would convene weekly to review findings, discuss and analyze problem areas, and propose responses, which are presented in regular meetings to the HR Merger Integration Team.

* The Employee Pulse Team was created at the onset of a large proposed merger. While the metrics were developed and captured, the merger and thus the team was suspended prior to the planned deployment of the survey portion of the initiative.

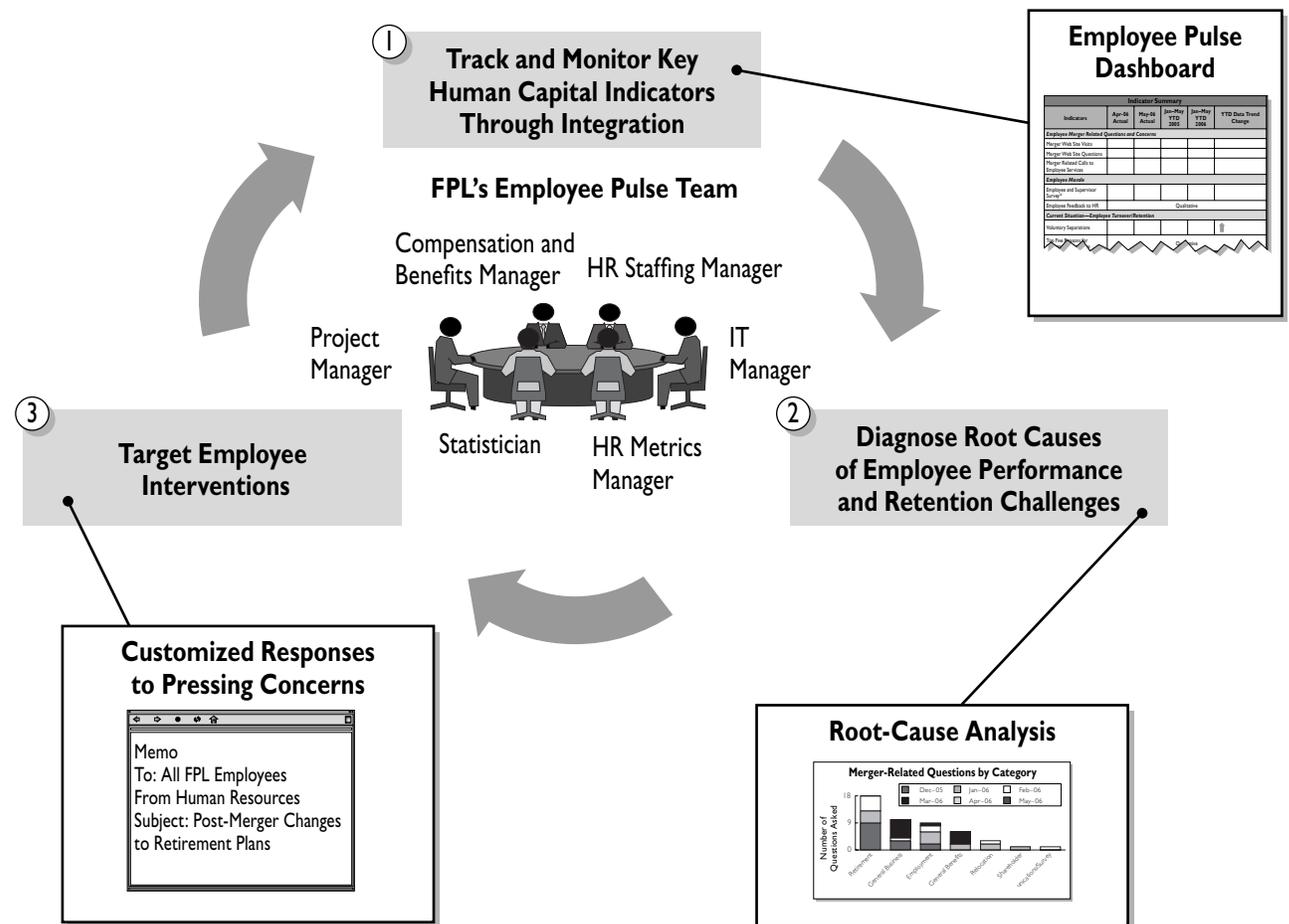
Practice in Context

FPL identifies human capital performance indicators to track and monitor employee performance and retention risks on an ongoing basis throughout the merger. Through in-depth analysis of findings, FPL diagnoses the root causes of identified areas of concern, and develops tailored interventions to employees to overcome human capital issues that negatively impact value creation.

PROVIDING TARGETED SOLUTIONS

FPL's Employee Pulse Team works to overcome employee performance and retention risks throughout integration by tracking and responding to human capital indicators

FPL's Employee Pulse Assessment and Response Process



GETTING TO THE ROOT OF THE PROBLEM

“One employee engagement survey is just a snapshot in time. Monitoring employee morale across the entire integration process is critical to understanding the reasons behind employees’ actions so that we can provide targeted responses.”

Mark Morgan
FPL Group, Inc.

Source: FPL Group, Inc.; Corporate Leadership Council research.

Component #1: Track and Monitor Key Human Capital Indicators Throughout Integration

FPL's Employee Pulse Team tracks up to six different metrics for each indicator category to develop a complete picture of employee performance and retention risks. Each metric is evaluated at regular intervals throughout the merger process and compared with data from the previous year to understand which issues are merger-related.

TAKING THE EMPLOYEE PULSE

FPL's Employee Pulse Team identifies key indicators of employee performance and retention to inform a complete assessment of the health of its employee population

FPL's Employee Pulse Dashboard Indicator Summary

Indicator Summary					
Indicators/Metrics	Apr. 06 Actual	May 06 Actual	Jan.-May YTD 2005	Jan.-May YTD 2006	YTD Data Trend Change
Employee Merger-Related Questions and Concerns					
Merger Web Site Visits					
Merger Web Site Questions					
Merger Related Calls to Employee Services					
Employee Morale					
Employee and Supervisor Survey					
Employee Feedback to HR	Qualitative				
Current Situation—Employee Turnover/Retention					
Voluntary Separations					
Top Five Reasons for Voluntary Separations	Qualitative				
Retirements—Actual					
Retirements—Planned					
Management Retention Rate					
Internal Applicants by Business Unit					
Employee Emotional and Physical Health					
Calls to EAP					
Absence Hours					
Lost Time Workers Comp Injuries					

The Employee Pulse Team uses external research and prior M&A experience to identify four critical indicators of employee performance and retention risks.

Indicators should be assessed on a monthly basis beginning at the first merger announcement.

It is important to compare data with the previous year before the merger announcement to determine which issues are merger-related.

Component #2: Diagnose Root Causes of Employee Performance and Retention Challenges

The Employee Pulse Team collects quantitative and qualitative data across the merger process and analyzes performance indicators by employee segments to more accurately diagnose root causes of employee performance and retention problems. The team meets regularly to draw conclusions and identify problem areas to drill down further.

ROOT-CAUSE ANALYSIS OF KEY ISSUES

FPL conducts an in-depth root-cause analysis of performance indicators to form a more accurate and comprehensive understanding of key human capital issues

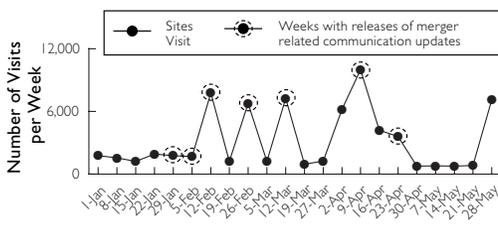
FPL's Employee Pulse Dashboard

Illustrative

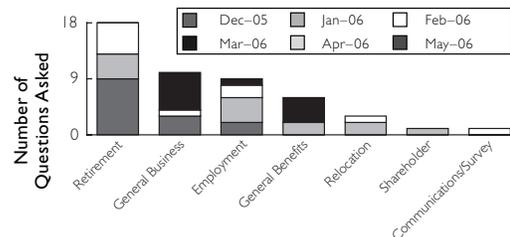
Indicator Summary					
Indicators	Apr. 06 Actual	May 06 Actual	Jan.-May YTD 2005	Jan.-May YTD 2006	YTD Data Trend Change
<i>Employee Merger Related Questions and Concerns</i>					
Merger Web Site Visits					N/A
Merger Web Site Questions					N/A
Merger Related Calls to Employees					N/A

Root-Cause Analysis: The Employee Pulse Team meets monthly to identify problem areas to drill down further.

Example: Merger Web Site Visits by Week



Example: Merger Web Site Questions by Category



FPL's Employee Pulse Analysis Guidelines

- Track quantitative and qualitative data to determine specific areas of employee concern.
- Monitor indicators at merger milestones and at quieter periods to understand which issues are merger-related.
- Review feedback from exit interviews to understand why employees are leaving the organization.
- Survey supervisors about their direct reports' morale, as employees may be more open and honest with their supervisors than to HR.
- Analyze indicators by employee segments to more precisely target interventions.

Source: FPL Group, Inc.; Corporate Leadership Council research.

Component #3: Target Interventions to Address Concerns of Different Employee Segments

FPL's Employee Pulse Team identifies specific root causes of performance and retention risks within the employee population, presents findings to the HR Merger Integration Team, and proposes customized interventions to address each problem.

ADDRESSING THE RIGHT PROBLEMS

Rigorous measurement and analysis enable FPL to pinpoint key issues and provide targeted employee interventions that address root causes

Employee Pulse Dashboard

Indicator Summary					
Indicators	Apr. 06 Actual	May 06 Actual	Jan-May YTD 2005	Jan-May YTD 2006	YTD Data Trend Change
Employee Merger Related Questions and Concerns					
Merger Web Site Visits					
Merger Web Site Questions					
Merger Related Calls to Employee Services					
Employee Morale					
Employee and Supervisor Survey*					

2 ...and the team presents findings and potential solutions to overcome barriers to value creation to the Merger Integration Team.

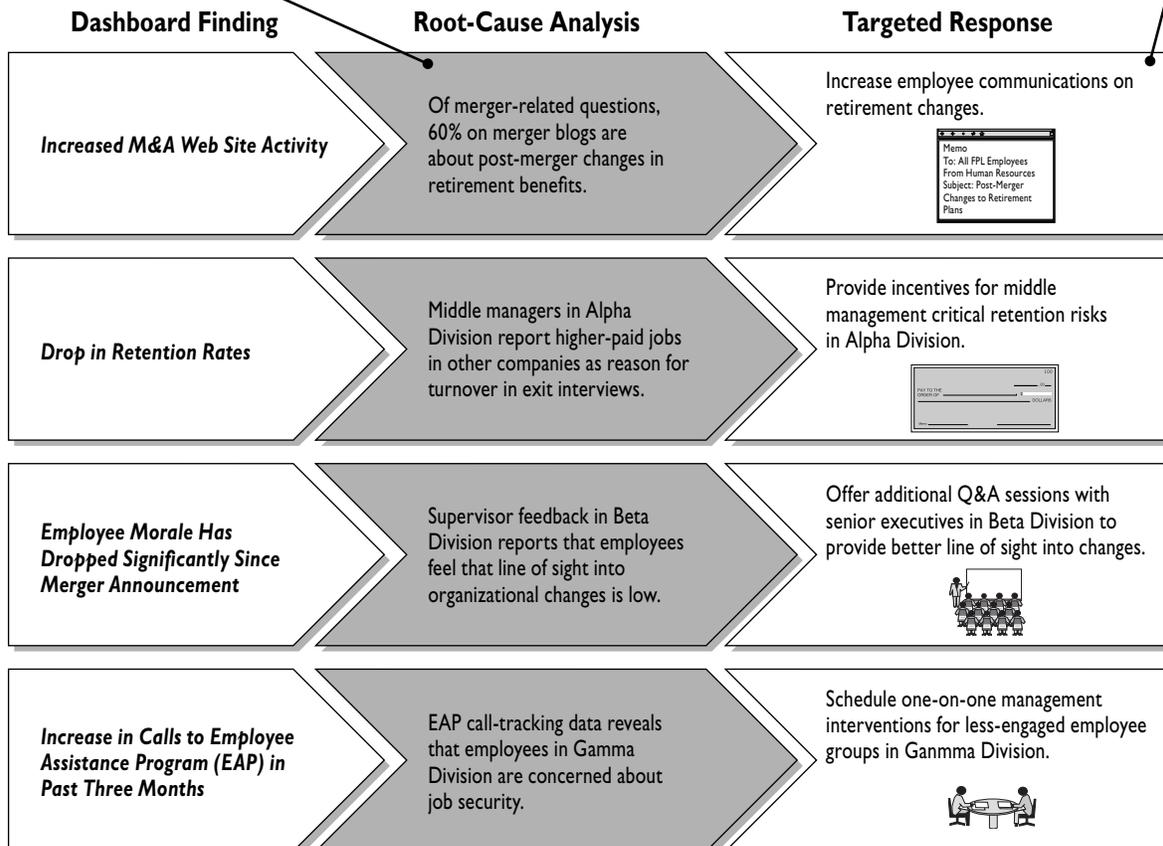


1 FPL's Employee Pulse team uses the Employee Pulse Dashboard analysis to draw conclusions about specific problems affecting different employee groups...



Data Analysis Findings and Employee Interventions

Data Findings Hypothetical



Source: FPL Group, Inc.; Corporate Leadership Council research.

MEMBER IMPLEMENTATION TIPS

- Consider historical data and recurring seasonal issues when diagnosing root causes of employee performance and retention risks during major change initiatives.
- Collect and track both quantitative and qualitative data on employee concerns to form a more complete and accurate understanding of employee performance and engagement issues.
- Survey supervisors on their employees' morale and engagement levels in addition to surveying employees themselves, as some employees may be more open and honest with supervisors than in a HR survey.

Integration Risk Survey



Organization: Danske Bank A/S
Industry: Financial Services
Net Profit: DKr12.8 Billion
Employees: 19,128
Headquarters: Copenhagen, Denmark

Objective

To identify and respond to employee concerns throughout integration, which have a potential damaging effect on employee performance and productivity

Description

Danske Bank recognizes that the talent-related risks identified during due diligence and integration planning constantly change during the execution of an acquisition. The human resources risks are altered by information asymmetry between the bidder and target, organizational change, and changes in the external environment. Danske Bank increases visibility into changes in employee commitment during the execution phase through a survey taken two months after deal close.

Application

- The survey tool is used to increase visibility into constantly changing human capital risks during the execution of an M&A transaction. The output of the survey is examined in a risk prioritization template that is used to assess the significance of the risk and its impact on value creation and to set next steps.
- The survey is designed, created, and maintained by the HR steering committee with direct input from the integration and communications heads.
- The first full integration survey is launched two to three months after deal close with a shorter pulse survey undertaken six months after deal close and another full integration survey 12 months after deal close.

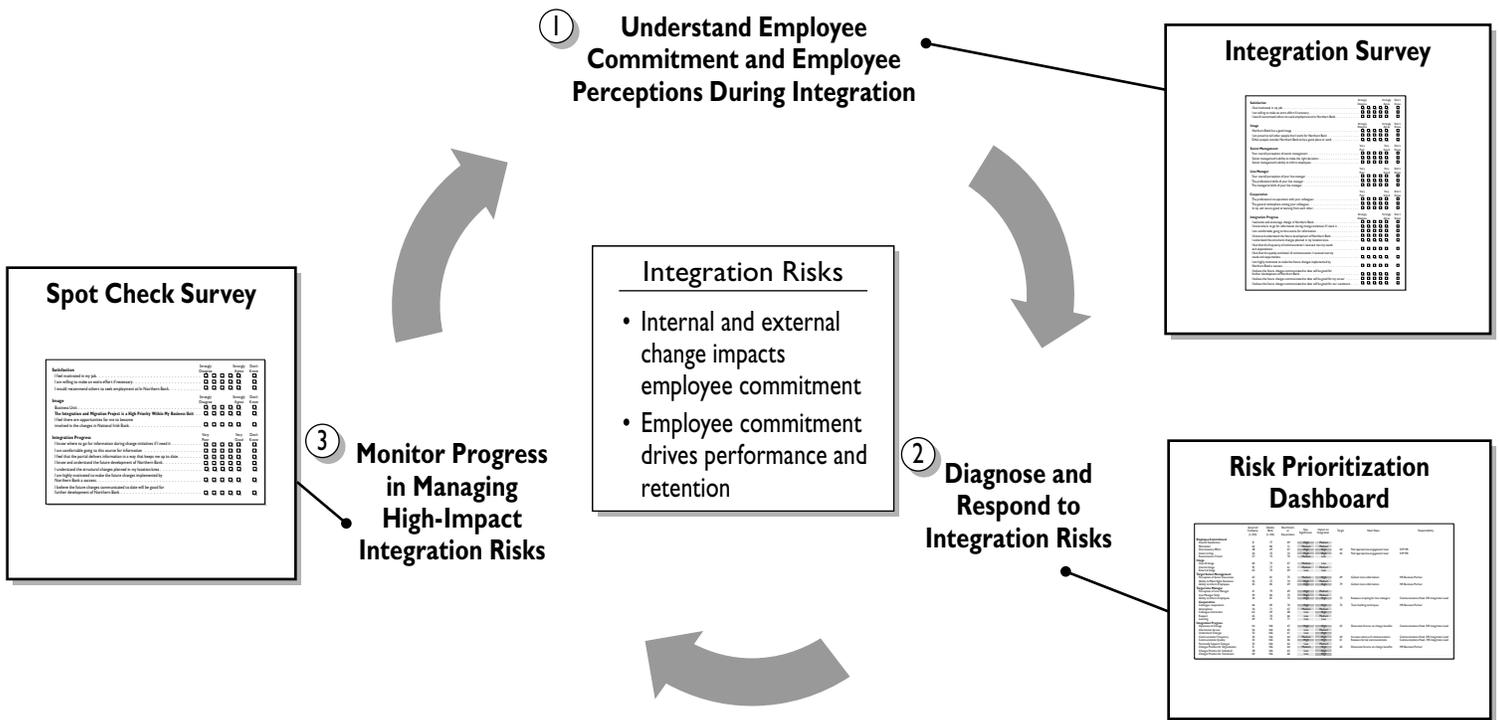
Practice in Context

Danske Bank recognizes that a constantly changing internal and external environment can have a significant impact on employee commitment, which drives employee performance and retention. It surveys employee perceptions and measures engagement levels using an integration survey tool, diagnosing and responding to risks that are highlighted in the survey results and monitoring progress until the next full integration survey.

PROACTIVELY RESPONDING TO INTEGRATION RISKS

Danske Bank proactively responds to employee commitment risk, driven by a constantly changing environment through the integration process

Danske Bank's Integration Risk Management Process



DANSKE BANK INSIGHTS

- Execute survey two to three months after deal close, when transaction noise has fallen and there is opportunity to identify and respond to risks.
- Prioritize risks that have greatest impact on integration success, decide next steps, and assign responsibility.
- Revisit affected elements of the integration plan and its execution to assess the need for adaptation.
- Refocus integration resources on tackling high-impact human capital risks.

Component #1: Survey Integration Risks

A comprehensive integration survey measures employee commitment levels and examines employee perceptions of image, senior management, line manager, cooperation, and integration progress. The survey identifies drivers of poor employee commitment and integration execution risks.

IDENTIFYING CRITICAL INTEGRATION PERFORMANCE RISKS

Danske Bank's integration survey measures employee perceptions of integration efforts and employee commitment levels to identify integration risks

Danske Bank Integration Survey¹

	Strongly Disagree	Disagree	Neutral	Agree	Strongly Agree	Don't Know
Satisfaction						
I feel motivated in my job	<input type="checkbox"/>					
I am willing to make an extra effort if necessary.	<input type="checkbox"/>					
I would recommend others to seek employment at/in Northern Bank ²	<input type="checkbox"/>					
Image						
Northern Bank has a good image	<input type="checkbox"/>					
I am proud to tell other people that I work for Northern Bank	<input type="checkbox"/>					
Other people consider Northern Bank to be a good place to work	<input type="checkbox"/>					
Senior Management						
Your overall perception of senior management	<input type="checkbox"/>					
Senior management's ability to make the right decisions	<input type="checkbox"/>					
Senior management's ability to inform employees.	<input type="checkbox"/>					
Line Manager						
Your overall perception of your line manager	<input type="checkbox"/>					
The professional skills of your line manager	<input type="checkbox"/>					
The managerial skills of your line manager	<input type="checkbox"/>					
Cooperation						
The professional cooperation with your colleagues	<input type="checkbox"/>					
The general atmosphere among your colleagues.	<input type="checkbox"/>					
In my unit we are good at learning from each other.	<input type="checkbox"/>					
Integration Progress						
I welcome and encourage change in Northern Bank.	<input type="checkbox"/>					
I know where to go for information during change initiatives if I need it	<input type="checkbox"/>					
I am comfortable going to this source for information	<input type="checkbox"/>					
I know and understand the future development of Northern Bank.	<input type="checkbox"/>					
I understand the structural changes planned in my location/area	<input type="checkbox"/>					
I feel that the frequency of communication I received met my needs and expectations	<input type="checkbox"/>					
I feel that the quality and detail of communication I received met my needs and expectations.	<input type="checkbox"/>					
I am highly motivated to make the future changes implemented by Northern Bank a success.	<input type="checkbox"/>					
I believe the future changes communicated to date will be good for further development of Northern Bank	<input type="checkbox"/>					
I believe the future changes communicated to date will be good for my career	<input type="checkbox"/>					
I believe the future changes communicated to date will be good for our customers	<input type="checkbox"/>					

Danske Bank measures overall engagement levels to diagnose employee performance and retention risks.

Image perceptions impact employee commitment as well as guide Danske Bank on how to approach corporate communication.

Employee perceptions of senior executives and line managers indicate the effectiveness of managers as conduits of organizational change.

Questions on integration progress indicate the overall effectiveness of early integration efforts and highlight areas where changes to the original integration plan should be considered.

¹ Find Danske Bank's Full Integration Risk Survey in the appendix, p. 113.

² Danske Bank acquired Northern Bank.

Source: Danske Bank A/S; Corporate Leadership Council research.

Component #2: Diagnose and Respond to Risks

Danske Bank's HR Steering Committee diagnoses risks by considering the gap between acquired employee scores, Danske employee scores, and an external benchmark, as well as the impact on integration performance. The committee agrees on next steps for survey items, where there is a high- or medium-sized gap between the acquired employee score and the Danske employee score or benchmark score and a high impact on integration performance.

DIAGNOSING RISKS AND DECIDING NEXT STEPS

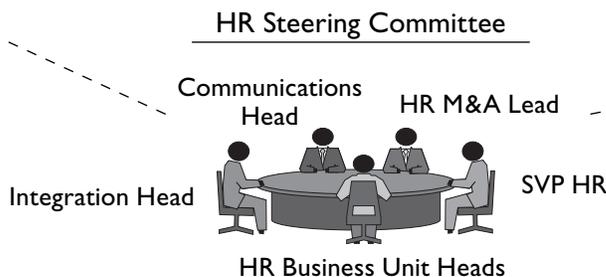
Danske Bank prioritizes critical integration performance risks and agrees on next steps

Danske Bank Risk Prioritization and Response Planning

Danske Bank considers the gap between acquired and Danske employees as well as the external benchmark, and takes into account the likely impact on integration performance.

HR Steering Committee focuses next-step action items on areas of medium or high gap and high impact on integration performance.

	Acquired Company (1-100)	Danske Bank (1-100)	Benchmark or Expectation	Gap Significance	Impact on Integration	Target	Next Steps	Responsibility
Employee Commitment								
Overall Satisfaction	51	77	69	High	Medium			
Motivation	62	80	71	Medium	Medium			
Discretionary Effort	48	69	67	High	High	60	Find appropriate engagement lever	SVP HR
Intent to Stay	52	75	72	High	High	65	Find appropriate engagement lever	SVP HR
Recommend a Friend	57	72	70	Medium	Low			
Image								
Overall Image	60	73	67	Medium	Low			
Internal Image	59	77	61	Medium	Medium			
External Image	65	70	69	Low	Low			
Target Senior Management								
Perception of Senior Executives	63	81	75	Medium	High	69	Collect more information	HR Business Partner
Ability to Make Right Decisions	55	77	74	High	Medium			
Ability to Inform Employees	45	85	69	High	High	79	Collect more information	HR Business Partner
Target Line Manager								
Perception of Line Manager	41	79	69	High	Medium			
Line Manager Skills	49	82	75	High	Medium			
Ability to Inform Employees	44	81	72	High	High	75	Reassess scripting for line managers	Communications Head, HR Integration Lead
Cooperation								
Colleague cooperation	66	85	76	High	High	72	Team building techniques	HR Business Partner
Atmosphere	54	71	67	Medium	Medium			
Colleague Interaction	64	69	68	Low	High			
Respect	65	70	66	Low	Medium			
Learning	69	75	71	Low	Low			
Integration Progress								
Openness to Change	44	NA	67	High	High	63	Discussion forums on change benefits	Communications Head, HR Integration Lead
Information Access	56	NA	65	Low	Medium			
Understand Changes	52	NA	61	Low	High			
Communication Frequency	45	NA	64	Medium	High	60	Increase volume of communications	Communications Head, HR Integration Lead
Communication Quality	43	NA	66	High	High	61	Reassess formal communications	Communications Head, HR Integration Lead
Personally Support Changes	55	NA	62	Low	Medium			
Changes Positive for Organization	51	NA	64	Medium	High	62	Discussion forums on change benefits	HR Business Partner
Changes Positive for Individual	58	NA	63	Low	High			
Changes Positive for Customers	60	NA	66	Low	High			



High-impact risks, which have broad integration implications, are escalated to the group integration steering committee by the senior vice president of HR.

Source: Danske Bank A/S; Corporate Leadership Council research.

Component #3: Monitor High-Impact Risks

Danske Bank monitors progress in integration risks through a monthly temperature check assessment by the HR Steering Committee that ensures integration execution is on a track, updates execution strategy based on employee feedback, and responds to any escalation in retention risk. The output of the temperature check is combined with the initial integration risk survey output to drive a spot-check survey undertaken six months after deal close to retest integration risks and test employee concerns.

MONITORING PROGRESS IN INTEGRATION RISK MANAGEMENT

Danske Bank monitors the progress of efforts to manage integration risks through a monthly temperature check assessment...

Monthly Temperature Check



...while an integration spot-check survey undertaken six months after deal close assesses the effectiveness of efforts to overcome integration risks

Integration Spot Check Survey

New questions based on output from the initial integration survey and the temperature check assessment.

	Strongly Disagree	Disagree	Neutral	Agree	Strongly Agree	Don't Know
Satisfaction						
I feel motivated in my job.	<input type="checkbox"/>					
I am willing to make an extra effort if necessary.	<input type="checkbox"/>					
I would recommend others to seek employment at/in Northern Bank.	<input type="checkbox"/>					
Business Unit						
The Integration and Migration Project is a High Priority Within My Business Unit						
I feel there are opportunities for me to become involved in the changes in Northern Bank.	<input type="checkbox"/>					
Integration Progress						
I know where to go for information during change initiatives if I need it	<input type="checkbox"/>					
I am comfortable going to this source for information	<input type="checkbox"/>					
I feel that the portal delivers information in a way that keeps me up to date	<input type="checkbox"/>					
I know and understand the future development of Northern Bank.	<input type="checkbox"/>					
I understand the structural changes planned in my location/area	<input type="checkbox"/>					
I am highly motivated to make the future changes implemented by Northern Bank a success	<input type="checkbox"/>					
I believe the future changes communicated to date will be good for further development of Northern Bank	<input type="checkbox"/>					

Integration spot-check survey retests previously identified high-impact risks to identify effectiveness and impact of HR actions.

MEMBER IMPLEMENTATION TIPS

- Include questions from your employee engagement survey in the integration survey for acquired employees. This will enable effective gap analysis between bidder and target and support goal setting for acquired employee engagement.
- Include questions from the acquired organization's historic employee engagement survey to identify trends in employee engagement pre- and post-acquisition.
- Conducting an initial integration survey provides a baseline on employee commitment and employee perceptions of integration, against which HR can demonstrate performance and value creation across the transaction.

HR Integration Execution Dashboard



ABN AMRO

Organization: ABN AMRO Holding N.V.

Industry: Banking

Revenue: €20 Billion

Employees: 110,000

Headquarters: Amsterdam, The Netherlands

Objective

To monitor execution of the integration plan and proactively respond to integration milestone delivery risk

Description

ABN AMRO monitors integration execution on a dashboard that supports identification and proactive responses to integration milestone delivery risk. ABN AMRO determines delivery risk as failure to deliver on a critical task, and HR tracks progress against task milestones, highlighting tasks that are likely to be completed late or ineffectively. HR uses the dashboard to monitor the effectiveness of execution of the integration plan and to report any critical human capital integration risks to the wider Project Integration Team.

Application

- The integration execution dashboard evaluates HR's progress against key integration milestones.
- The integration execution dashboard is owned by the HR integration leader. He or she uses the dashboard on a weekly basis to assess the team's progress against milestones and to report critical human capital integration risks to the Project Integration Team.
- The HR integration leader distributes the dashboard to integration leaders in other functions and to the Project Integration Team. The dashboard forms part of a wider, integration execution-risk monitoring process.

Monitor Execution of Interaction Plan

ABN AMRO's integration execution dashboard tracks HR's progress against human capital integration tasks. The dashboard tracks key task milestones and identifies areas of significant delivery risk for tasks that may not be completed on time. The HR integration leader uses the dashboard to report key integration risks to the business and to the Project Integration Team.

A HIGH-LEVEL ASSESSMENT OF EXECUTION RISK

ABN AMRO monitors integration execution on a dashboard and proactively responds to integration milestone delivery risk

Integration Execution Dashboard*

Integration Execution Dashboard						ABN·AMRO
Date: 12 March 2006		Leader: Mary Graham		Project: HR RJC M&A		
Task	Owner	Task Milestones	Delivery Risk	Task Progress	Action Steps	
Retention: Execute retention plan for key management talent	Local HR	Anticipated Start: March 3	High	Modified completion date 22 April	Execution risk identified and reported to integration team. Conducting HIPO engagement survey to create retention plan with corporate HR	
		Actual Start: March 3				
		Anticipated End: March 18				
		Actual End:				
		Not on Track				
Staffing: Review processes, resources, and tools	Local HR	Anticipated Start: March 3	Medium	Modified completion date 10 April	Target company tracks different recruiting metrics causing a delay to beginning analysis. Have established a taskforce to standardize metrics	
		Actual Start: March 9				
		Anticipated End: March 31				
		Actual End:				
		Not on Track				
Cultural Integration: Understand work philosophy and values	Corporate HR	Anticipated Start: March 5	Normal	Completed	Cultural integration analysis completed March 10	
		Actual Start: March 5				
		Anticipated End: March 12				
		Actual End: March 10				
		On Track				
Training and Development: Design change management program for the line managers	Local HR	Anticipated Start: March 5	Normal	On Track	Proposal for training curriculum currently with CU. Final confirmation on track for approval 22 March	
		Actual Start: March 5				
		Anticipated End: March 30				
		Actual End:				
		On Track				
HRIT Systems: Identify gaps in HR related study	Corporate HR	Anticipated Start: March 8	Normal	On Track	Gap analysis on track for completion on 15 March	
		Actual Start: March 8				
		Anticipated End: March 21				
		Actual End:				
		On Track				

The HR integration leader tracks task milestones on critical integration tasks and assesses whether the team is on track to meet the predetermined deadlines.

Delivery risk is determined as risk of failure to deliver on a critical task.

The HR integration leader formulates corrective action steps where necessary to respond proactively to delivery risk.

The HR integration leader uses the dashboard to report key integration business risks to the Project Integration Team.

- Key Steps in Cultural Integration**
1. Pulse survey employees
 2. Identify cultural gaps
 3. Set next steps to manage and/or close cultural gaps

* All names and data are fictional.

Source: ABN AMRO Holding N.V.; Corporate Leadership Council research.

MEMBER IMPLEMENTATION TIPS

- ABN AMRO monitors task milestones in the context of a wider integration plan which stretches across all functions of the company.
- The HR integration leader has access to other dashboards from key stakeholder functions to ensure a high-level of overall understanding of critical delivery risks across the business.
- All critical tasks are driven by risk analysis conducted at the due diligence stage and are ongoing through the integration planning and integration execution stages.



STAGE V

Post-Deal Assessment

KEY QUESTIONS

- Does HR assess its performance during the M&A process to capture best practices and lessons learned and improve its future M&A performance?
- Does HR measure human capital outcomes to assess achievement of human capital objectives that align with the deal's strategic intent?

PROFILED TOOLS AND PRACTICES

HR M&A Performance Assessment

Deutsche Bank 

HR M&A 360-Degree Performance Assessment



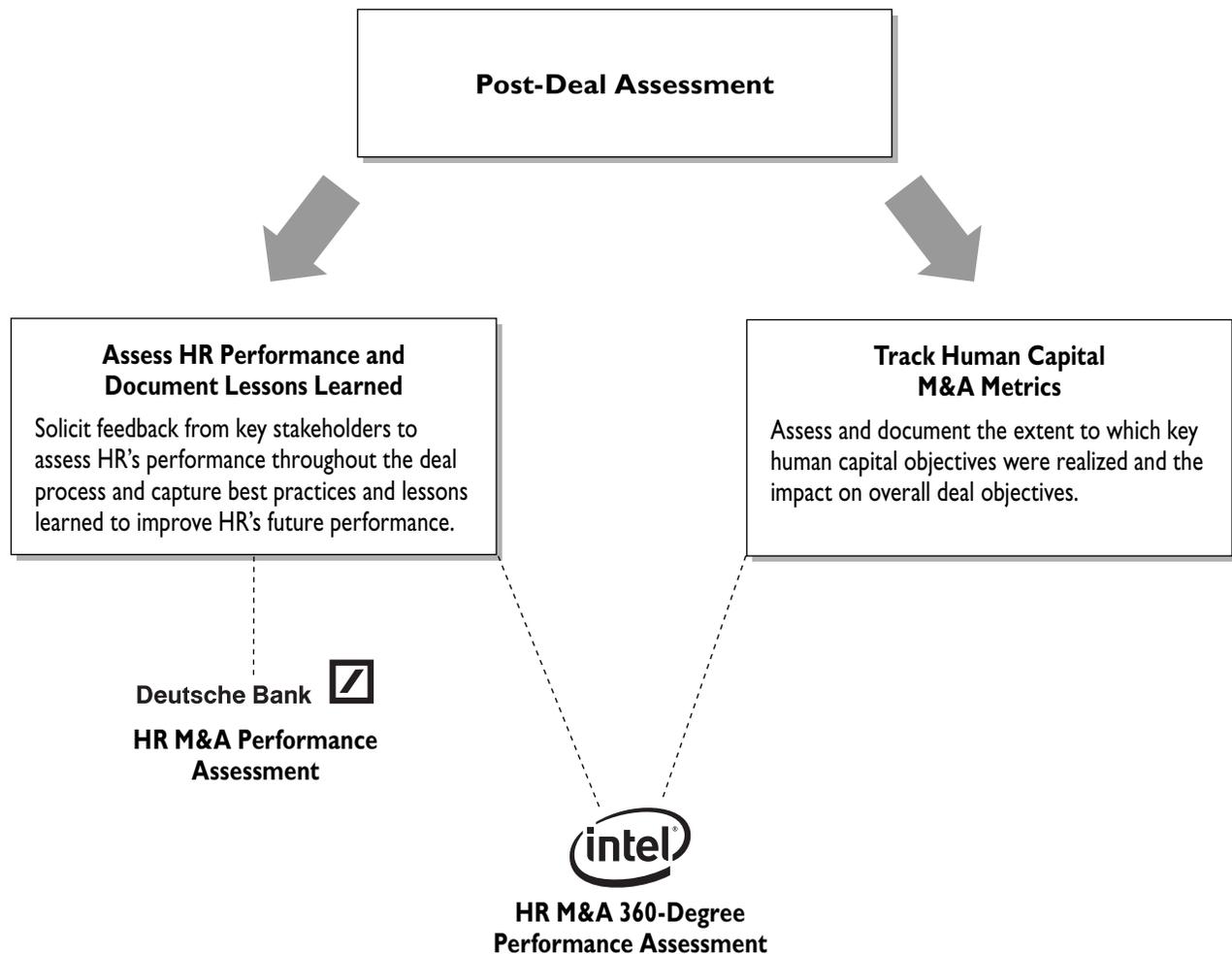
Stage V: Post-Deal Assessment

Following integration, CHROs must address two key mandates during the post-deal assessment stage of the M&A process: track human capital metrics to document the impact on overall deal objectives and assess HR performance and document lessons learned to improve future M&A performance. These mandates are addressed by the following profiled practices and tools from Deutsche Bank and Intel.

CHRO MANDATES FOR POST-DEAL ASSESSMENT

The following two profiled company practices address two key mandates during the post-deal assessment stage of the M&A process

CHRO Mandates and Profiled Tools for Post-Deal Assessment



HR M&A Performance Assessment

Deutsche Bank



Organization: Deutsche Bank AG
Industry: Banking
Net Income: €3.5 Billion
Employees: 63,400
Headquarters: Frankfurt, Germany

Objective

To evaluate the performance of the HR M&A team throughout the M&A process

Description

Deutsche Bank assesses the HR M&A team's performance at regular intervals during the M&A process by using a team assessment template to elicit feedback from team members and third-party M&A stakeholders that have exposure to the team. The HR integration team measures its performance across 10 imperatives previously identified as critical to the M&A process. The HR M&A team uses this assessment to conduct in-the-moment analysis of its performance and to identify areas where the team needs to upskill or to re-address the process design in order to ensure M&A success.

Application

- The HR M&A performance assessment tool evaluates team performance against 10 predetermined imperatives critical for M&A success.
- The performance tool is owned by the HR integration leader. He or she uses the tool to assess the team's performance through eliciting feedback from team members and internal third parties who have exposure to the team.
- The HR integration leader conducts the assessment at monthly intervals during the early transaction stages and later in the process at quarterly intervals, or more frequently if he/she deems it necessary.

Component #1: Analyze HR M&A Team Performance

To ensure HR-related M&A risks are successfully managed, Deutsche Bank's HR integration leader assesses the team's performance on a monthly basis against the 10 most critical performance imperatives, identified through previous M&A experience. Assessment is based on in-the-moment feedback collected from interactions with the team and key stakeholders.

HOW ARE WE DOING?

Deutsche Bank's HR Integration Leader assesses the HR M&A team's performance against 10 critical performance metrics

HR M&A Performance Assessment Tool

M&A Team Assessment Form						
Team Name: HR Integration Team Leader: Richard Parker			Date: October 2006		Deutsche Bank <input checked="" type="checkbox"/>	
Area	Team Needs Improvement			Team Excels		
	1	2	3	4	5	6
1. The team understands M&A objectives.				X		
2. The team performance goals are defined to the M&A objectives.				X		
3. All team members are familiar with the M&A offer.						X
4. The team operates and communicates effectively as a unit.					X	
5. The team recognizes and appreciates individual contributions.			X			
6. The team develops new ideas and solutions proactively.					X	
7. The team uses the M&A tools effectively.		X				
8. The team is cost and time conscious.						X
9. The team effectively confronts internal conflicts.					X	
10. The team effectively manages external conflicts.						X

Based on experiences from previous M&A activity, Deutsche Bank developed the 10 most critical performance criteria to ensure successful M&A execution.



HR Integration Leader

Identification of Underperformance

The assessment identifies areas where the HR M&A team should focus effort in order to improve performance against its goals.

The HR M&A Performance Assessment Tool

- HR integration leader completes the assessment tool after eliciting feedback on the team's performance from other function leaders, business unit leaders, and the team itself.
- HR integration leader uses direct feedback rather than a more formal performance management process because it ensures that deal team resources remain focused on supporting the transaction.
- HR integration leader assesses team performance during the early transaction stages at monthly intervals and later in the process at quarterly intervals, or more frequently if he/she deems it necessary.

Component #2: Identify Root Causes of Underperformance

The HR integration leader leads a troubleshooting and problem-solving session with Deutsche Bank’s M&A Center of Expertise, HR leaders, and stakeholders from other key functions to identify the root causes of particular areas of HR M&A team underperformance.

DEEP DIVE INTO UNDERPERFORMANCE

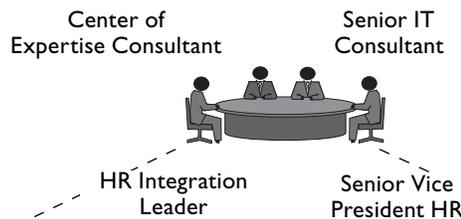
The HR integration leader leads a session with key M&A stakeholders to identify reasons for underperformance and corresponding corrective actions

HR M&A Performance Assessment Session

M&A Team Assessment Form						
Team Name: <u>HR Integration Team</u>			Date: <u>October 2006</u>		Deutsche Bank <input checked="" type="checkbox"/>	
Leader: <u>Richard Parker</u>						
Area	Team Needs Improvement			Team Excels		
	1	2	3	4	5	6
1. The team understands M&A objectives.				X		
2. The team performance goals are defined to the M&A objectives.				X		
3. All team members are familiar with the M&A offer.						X
4. The team operates and communicates effectively as a unit.					X	
5. The team recognizes and appreciates individual contributions.			X			
6. The team develops new ideas and solutions proactively.					X	
7. The team uses the M&A tools effectively.		X				
8. The team is cost and time conscious.						X
9. The team effectively confronts internal conflicts.					X	
10. The team effectively manages external conflicts.						X

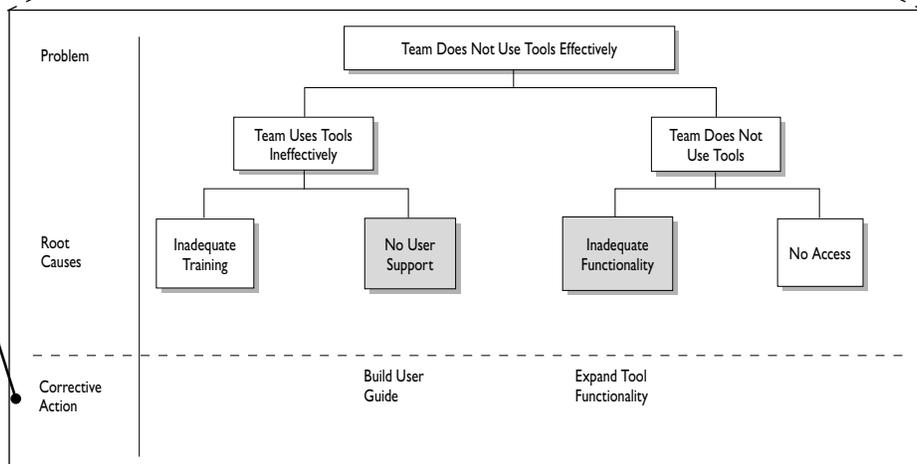
Ensuring Rapid Corrective Action

- Set timeline for action
- Assign accountability for action
- Monitor progress through weekly updates



The HR integration leader and key stakeholders (in the area of HR M&A team underperformance) identify the root causes and decide on corrective action and next steps.

Root-Cause Analysis



MEMBER IMPLEMENTATION TIPS

- The pace of M&A transactions often prohibits the significant data collection and analysis needed for comprehensive performance management.
- HR integration leaders should solicit in-the-moment feedback, on a regular basis on and from the HR M&A team, as well as from other functions and stakeholders supporting a transaction.
- Undertaking a performance assessment snapshot shortly after implementing changes in individual responsibilities within the team quickly captures potential areas of underperformance.

HR M&A 360-Degree Performance Assessment



Organization: Intel Corporation

Industry: Technology

Revenue: US\$38.826 Billion

Employees: 99,900

Headquarters: Santa Clara, California, United States

Objective

To evaluate and improve HR's M&A performance by assessing key M&A stakeholders

Description

Intel's HR M&A team surveys all stakeholders impacted by the recent M&A deal, including Intel's deal team, the target's deal team, HR business partners, newly acquired employees, and existing employees, on the effectiveness of the HR M&A team using four different surveys.

Application

- Key stakeholders provide feedback to the HR M&A team through four different surveys on performance of the HR M&A team, effectiveness of M&A communications, general feedback on the recent deal, and overall employee engagement levels.
- Results of the surveys are used to identify areas of improvement for the HR M&A team through Intel's Continuous Learning Improvement Process (CLIP). The team reviews and analyzes survey findings, assigns owners to follow-up actions, and tracks progress on improvements through the CLIP dashboard.

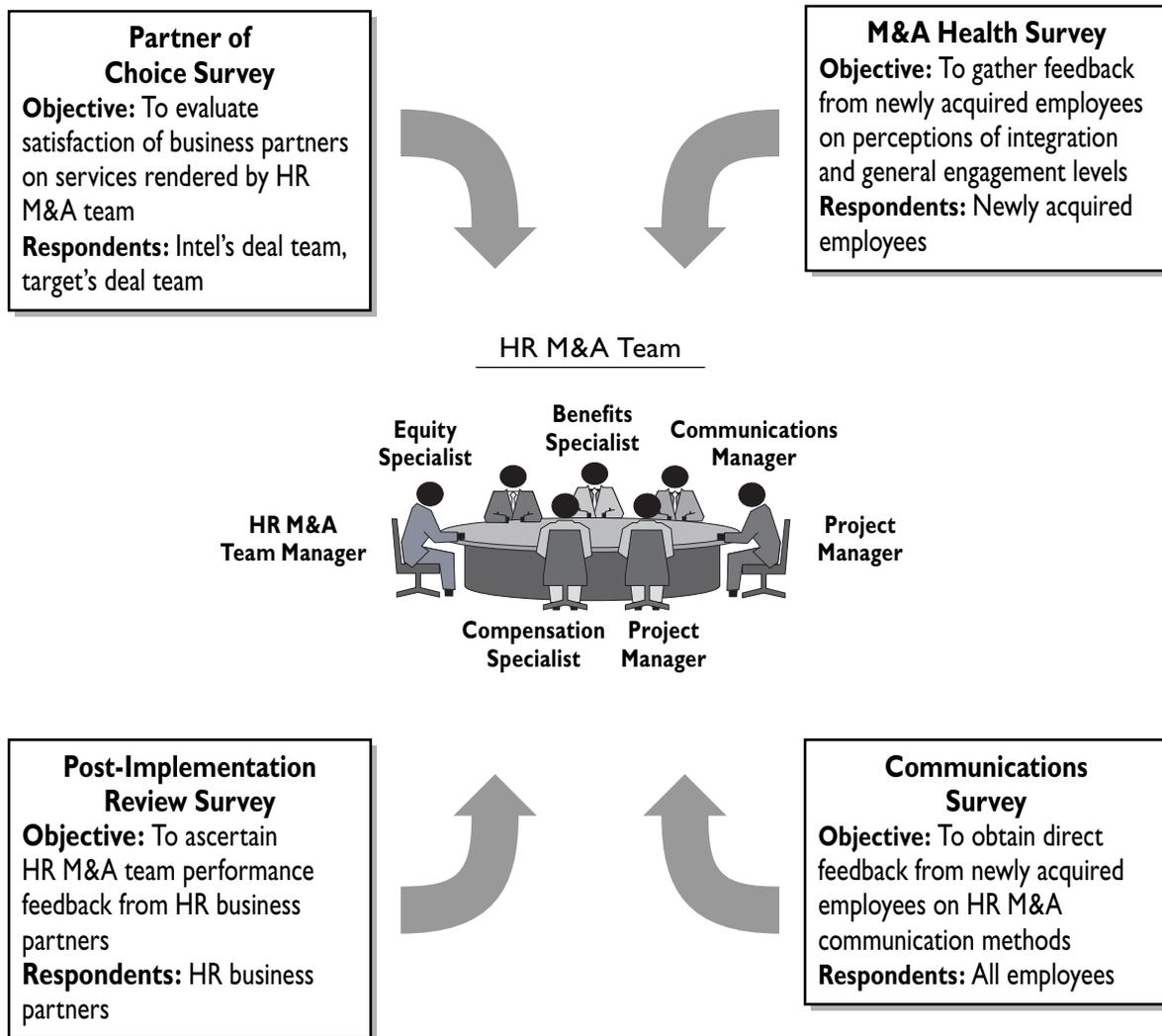
Practice in Context

Intel's HR M&A team uses four different surveys to collect performance feedback from key stakeholders with whom the team interacts, including Intel's deal team, the target's deal team, HR business partners, existing Intel employees, and newly acquired employees, to obtain a complete understanding of the HR M&A team's performance and identify areas for future improvement.

CROSS-ORGANIZATIONAL PERFORMANCE FEEDBACK

Intel's HR M&A team surveys all key stakeholders impacted by HR's activities throughout mergers and acquisitions

Intel's 360-Degree HR M&A Assessment Process



Source: Intel Corporation; Corporate Leadership Council research.

Partner of Choice Survey

Intel’s Partner of Choice survey is administered to Intel’s deal team and the target’s deal team one month following global handoff of HR responsibilities to HR business partners. The deal teams evaluate effectiveness of the HR M&A team in providing needed support throughout the different M&A stages.

SURVEYING DEAL PARTNERS

Intel’s HR M&A team collects quantitative and qualitative feedback on HR’s effectiveness from Intel’s deal team and the target’s deal team

Intel’s Partner of Choice Survey

Survey Participants: Intel’s Deal Team (Legal, Treasury, Corporate Services, IT, etc.), Deal Team from acquired company
Administration Details: Survey conducted one month after global handoff
Objective: To evaluate satisfaction of business partners on services rendered by HR M&A team

The HR M&A team solicits feedback from the deal teams on five major focus areas of HR’s activities throughout the M&A process.

Business Partner of Choice Survey					
	Strongly Disagree	Disagree	Neutral	Agree	Strongly Agree
Focus Area 1: Due Diligence					
Preparation of HR DD and supporting analysis fully comprehended people, legal, and financial risks					
Overall due diligence support was provided in a timeline manner					
DD materials were provided in expected timelines					
Focus Area 2: Employee Communications Strategy					
Employee communications strategy met business/employee needs					
Employee communications products/services were delivered effectively and timely					
Communications handoff to target was effective					
Focus Area 3: Compensation, Benefits, and Equity Solutions					
Analysis of existing Intel benefits for target was accurate and comprehensive					
Key employee agreements were well-managed					
Planning and execution of the transition to new compensation, benefits, and equity plans was well-managed					
Focus Area 4: Overall HR Transition Management					
The team effectively managed all of the HR transition activities up to successful close					
HR Transition deliverables were met per the project schedule					
The team was responsive and flexible in meeting customer needs/issues					
The team was effective in partnering/ coordinating with business partners					
Focus Area 5: Overall Satisfaction					
Overall, the HR M&A team met my needs					
Please provide recommended feedback and suggestions for improvement(s) on the services HR M&A provided.					

The HR M&A team requests qualitative and in-person feedback from members of both deal teams.

Post-Implementation Review

Intel's HR M&A team hands off HR responsibilities to HR business partners at integration. HR business partners assess the HR M&A team's performance one to two months following the transition through the Post-Implementation Review Survey. Results of the survey are presented by the HR M&A team manager back to the HR business partners, and actions for follow up are identified.

SURVEYING HR BUSINESS PARTNERS

Intel's HR business partners evaluate effectiveness of the HR M&A team in transitioning HR responsibilities

Intel's Post-Implementation Review Survey for HR Business Partners

Survey Participants: HR Business Partners

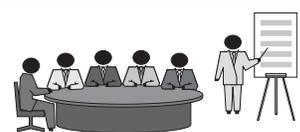
Administration Details: Survey conducted four to eight weeks following HR transition following integration

Objective: To identify opportunities for improvement for future M&A and new business deals

Post-Implementation Review

	Strongly Disagree	Disagree	Neutral	Agree	Strongly Agree
Deal download information was provided in a timely manner.					
Documents and information were made available to me at the appropriate time.					
The data I received was complete and accurate.					
I clearly understood the success indicators associated with this deal.					
The HR project manager clearly communicated Integration Team decisions to the HR Transition Team members (project timeline, legal entity, special deals).					
The process utilized to manage the project was effective.					
Overall, HR M&A provided good project management for the HR transition team.					
The HR M&A team roles were clear.					
Overall, the HR M&A team members met their stated deadlines.					
The HR M&A team worked well together.					
Ideas and problem solving were encouraged and welcomed.					
The HR M&A project manager involved the right HR partners at the right time.					
HR M&A partnered well with sustaining HR.					

The HR M&A project manager on the most recent deal presents findings of the survey to all respondents on the HR team and discusses which items require follow-up actions.



Communications Survey

Intel administers the Communications Survey to all Intel employees to understand satisfaction levels and effectiveness of the content, timing, and channels of acquisition-related communications from the HR M&A team.

SURVEYING EMPLOYEES ON COMMUNICATION EFFECTIVENESS

Intel surveys all employees on communication effectiveness to understand how M&A communications should be improved in future deals

Intel's Communications Survey for All Employees

Survey Participants: All employees
Administration Details: Survey conducted four to eight weeks following integration close via e-mail
Objective: To obtain direct feedback from all employees on HR M&A communication methods

Communications Survey	Strongly Disagree	Disagree	Neutral	Agree	Strongly Agree
Announcement Communications					
The information provided was useful.					
I was given sufficient information about what was going on.					
The level of detail provided was the right amount.					
The communications were easy to understand.					
There were enough opportunities to get answers to my questions.					
My questions were answered in a timely manner.					
My questions were answered in a detailed manner.					
Compensation/Benefits Communications					
The information was distributed in a timely manner.					
The level of detail provided was the right amount.					
The information was easy to understand.					
The information was useful.					
The presenters were able to effectively present the materials.					
The presenters were able to answer audience questions effectively.					
Transition Communications					
The information provided was useful.					
The information was provided at the right time.					
The level of detail was the right amount.					
The communications were easy to understand.					
Overall Satisfaction					
Overall, the communications received met my needs.					

M&A Health Survey

The HR M&A team sends a short engagement survey via e-mail to newly acquired employees to obtain a quick read on employee perceptions of the recent acquisition and general engagement levels. The survey is administered at two different points, at three and nine months following an acquisition.

M&A EMPLOYEE PERCEPTIONS SURVEY

Intel surveys newly acquired employees following an acquisition to gather feedback on the recent acquisition and a quick read on general employee engagement levels

Intel's M&A Health Assessment Reporting Tool for All Employees (Data Hypothetical)

Survey Participants: Newly acquired employees

Administration Details: Administered via e-mail three months following deal close and nine months following deal close

Objective: To gather feedback from newly acquired employees on perceptions of integration and general engagement levels

Intel surveys newly acquired employees at two different points following the integration.

M&A Health Survey Assessment Data Reporting Tool				
Survey Date:				
Company Surveyed:				
Three or Nine Month Survey				
Question	1 Strongly Disagree	2 Somewhat Disagree	3 Somewhat Agree	4 Strongly Agree
Q1: "I understand the business strategy behind this acquisition."				
Q2: "I understand my short-term objectives and deliverables."				
Q3: "I have the tools and resources to do my job."				
Q4: "I'm challenged and engaged by my work."				
Q5: "I believe the important issues relating to this deal are discussed and acted upon."				
Q6: "I believe the integration process for this deal has been handled well."				
Comments:				
Survey Participation Results				
Number Surveyed	5,000			
Number Responses	640			
Response Rate	12.8%			
Demographics				
Location	Group	Individual Contributor	Managers	Employee Total
Thousand Oaks, California	Sales	200	50	250
Santa Clara, California	Engineering	350	40	390
Environment and Comments That Are Reflective of the Input				
Comments <i>Employees feel uneasy about corporate culture, reporting too many meetings.</i>				
Environment <i>Employees are somewhat dissatisfied with variable compensation plan.</i>				

The HR M&A team uses the tool to review aggregate survey results and report key findings to Intel's board of directors.



The HR M&A team summarizes qualitative feedback to begin planning follow-up actions.

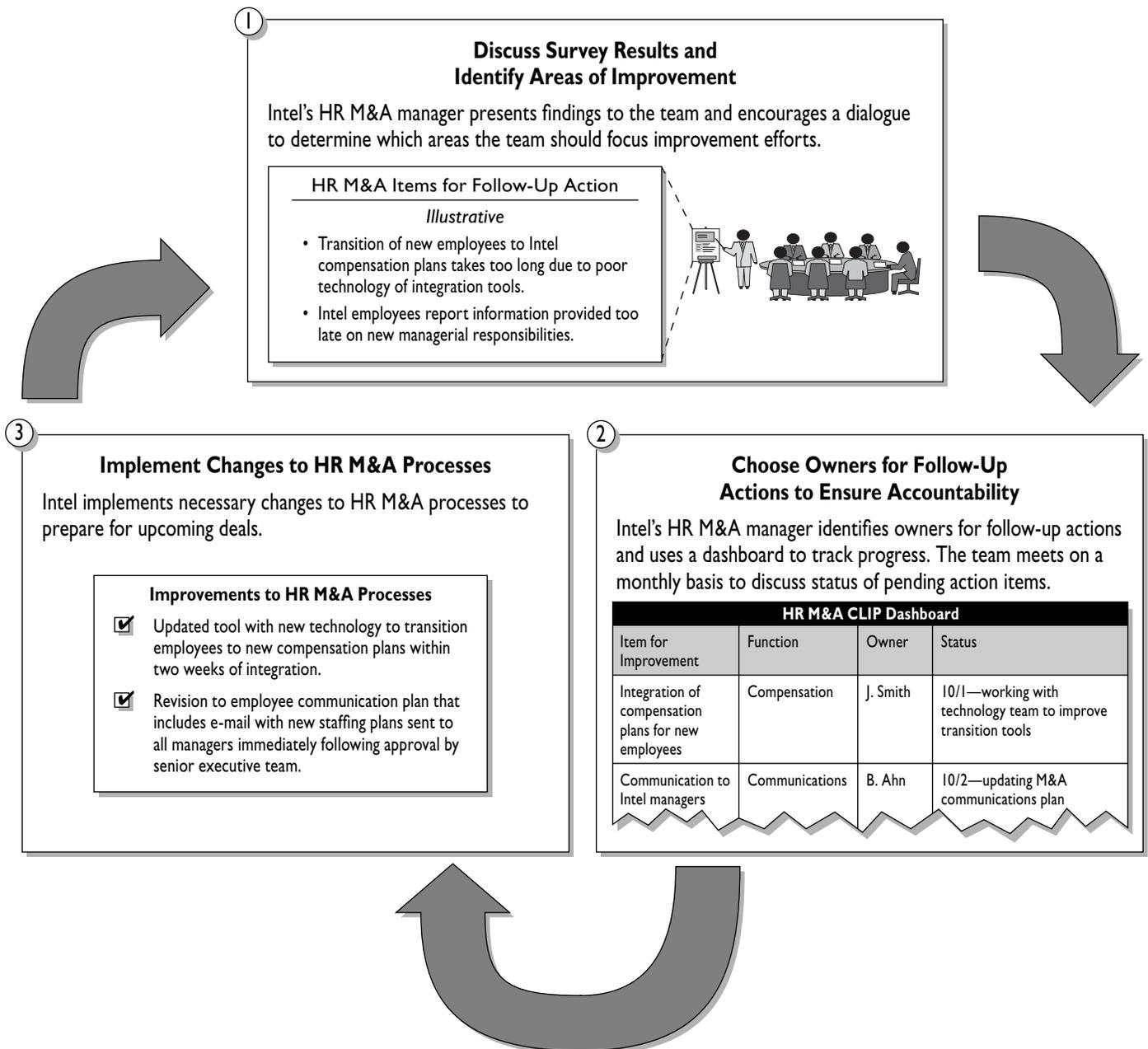
Continuous Learning Improvement Process (CLIP)

Intel’s HR M&A team uses assessment results to inform improvement plans, leading to a cycle of continuous improvement of the HR M&A team and processes. The team discusses survey findings and identifies items for improvement with follow-up actions. The HR M&A manager pairs each item for improvement with an appropriate owner and tracks progress through a comprehensive dashboard. Once changes are implemented, the process is restarted and the same areas are assessed by the HR M&A team’s key stakeholders following the next acquisition.

CLOSING THE FEEDBACK LOOP

Following analysis and review of survey findings, Intel’s HR M&A manager identifies owners for follow-up actions and continually checks on progress of improvements

Intel’s Continuous Learning Improvement Process (CLIP)



MEMBER IMPLEMENTATION TIPS

- Collect quantitative and qualitative feedback on HR effectiveness to more accurately pinpoint areas of improvement.
- Regard performance feedback as a networking opportunity, and schedule in-person meetings to solicit feedback from the deal team to further build relationships between the HR M&A team and senior executives on the deal team.
- While it is important to document all processes, tools, and procedures that can be consistently applied across different deals, they should be reviewed regularly to ensure effectiveness and efficiency.
- Assign owners for all improvement action items to ensure accountability and follow through.



APPENDIX

∞ Seagate: Due Diligence Dashboard	Page 102
∞ Brambles: M&A Integration Playbook— People-Related Pages	Page 104
∞ Danske Bank: Full Integration Risk Survey	Page 113



SEAGATE: DUE DILIGENCE DASHBOARD

Evaluation of Target's HR Information Pre-Announcement: Highly Confidential

Green: All Information Received/ Low Risk

Yellow: Partial Information Received

Red: No Information Received/ High Risk

Areas of Review	Specific Information Requested by Seagate	Received?	Low Risk/ High Risk	Issues/ Exposures/ Areas of Risks
Base Salary Program	Base pay plans: Eligibility criteria, participation numbers, targets, historical payouts, future obligations/ costs, timing/cycles.			
	Variable pay plans (including any retention policies/ plans): Eligibility criteria, participation numbers, targets, historical payouts, future obligations/costs, timing/cycles.			
	Sales Pay Plans: Eligibility criteria, participation numbers, targets, historical payouts, future obligations/ costs, timing/cycles.			
	Executive Pay Plans/Deferred Compensation: Eligibility criteria, participation numbers, targets, historical payouts, future obligations/costs, timing/cycles.			
Equity Plans and Obligations	Stock Plans (omnibus plan document/details, restricted stock plan details, stock option plans, ESPP): Eligibility criteria, participation numbers, guideline amounts and vesting criteria for new hires and refresher (ongoing) stock, details and participation rates of ESPP, details of restricted stock in terms of eligibility, current recipients, vesting during a change in control.			
Benefits Plans and Costs	Plan documents/contracts by country for health and welfare and any pensions/retirement/defined benefits plans.			
	Costs of benefits plans.			
Voluntary Turnover Overall and by Key Employee	Turnover by major site and level of employee for current calendar year and prior 1-2 years.			
	Listing of any key executive (VP and above) departures in previous year as well as any groups/levels of employees who have had major turnover in previous year.			

Source: Seagate Technology.



SEAGATE: DUE DILIGENCE DASHBOARD (CONTINUED)

Evaluation of Target's HR Information Pre-Announcement: Highly Confidential

Green: All Information Received/ Low Risk Yellow: Partial Information Received Red: No Information Received/ High Risk

Areas of Review	Specific Information Requested by Seagate	Received?	Low Risk/ High Risk	Issues/ Exposures/ Areas of Risks
Employee Headcount, Management Layers/Spans	Headcount by major site, level of employee and functional organization. Organization charts for top levels and for all other levels available.			
	Management layers from CEO to lowest level layer that supervises people and average manager spans of control.			
	Listing of any expatriate employees, terms, costs.			
Employment Agreements	Listing of any executives with employment agreements or offer letters with details on the contractual obligations related to unpaid bonuses, stock options/restricted stock, change in control terms, etc.			
	Explanation of types of employment contracts by country (e.g., contract labor terms/costs/risks).			
Severance Policies/ Costs	Severance policy details (pay, policy caps, outplacement costs) by country and level of employee.			
Union Contracts/ Labor Risks	Listing of details of any union/ collective bargaining contracts, annual costs, and risks in Singapore and China.			
	List any current labor disputes, pending labor court cases or formal grievances by issue type, country, level of employee involved.			
Succession Plans/ Executive Risks of Departure	Reports of current successor pools for VP and above positions as well as profiles/résumés for all VPs.			
	Identify which execs are greatest risks of departure.			
Compliance Risks	Minimum hiring age policies.			
	Overtime policies/practices.			
	Immigration policies/risks.			
Open Personnel Requisitions	Number and level of open personnel requisitions by country and site.			
Employee Survey Results or 360-Degree Results	Provide reports of any recent employee surveys/ 360-degree feedback results that can provide us with an insight into the culture, morale and opinions of employees.			

Source: Seagate Technology.

BRAMBLES: M&A INTEGRATION PLAYBOOK

The authors introduce the people-related section of the playbook with an overview of key imperatives and tips to manage critical HR elements of integration

Introduction to People-Related Aspects

Section 5.0: Introduction to People-Related Aspects of Integration

Brambles

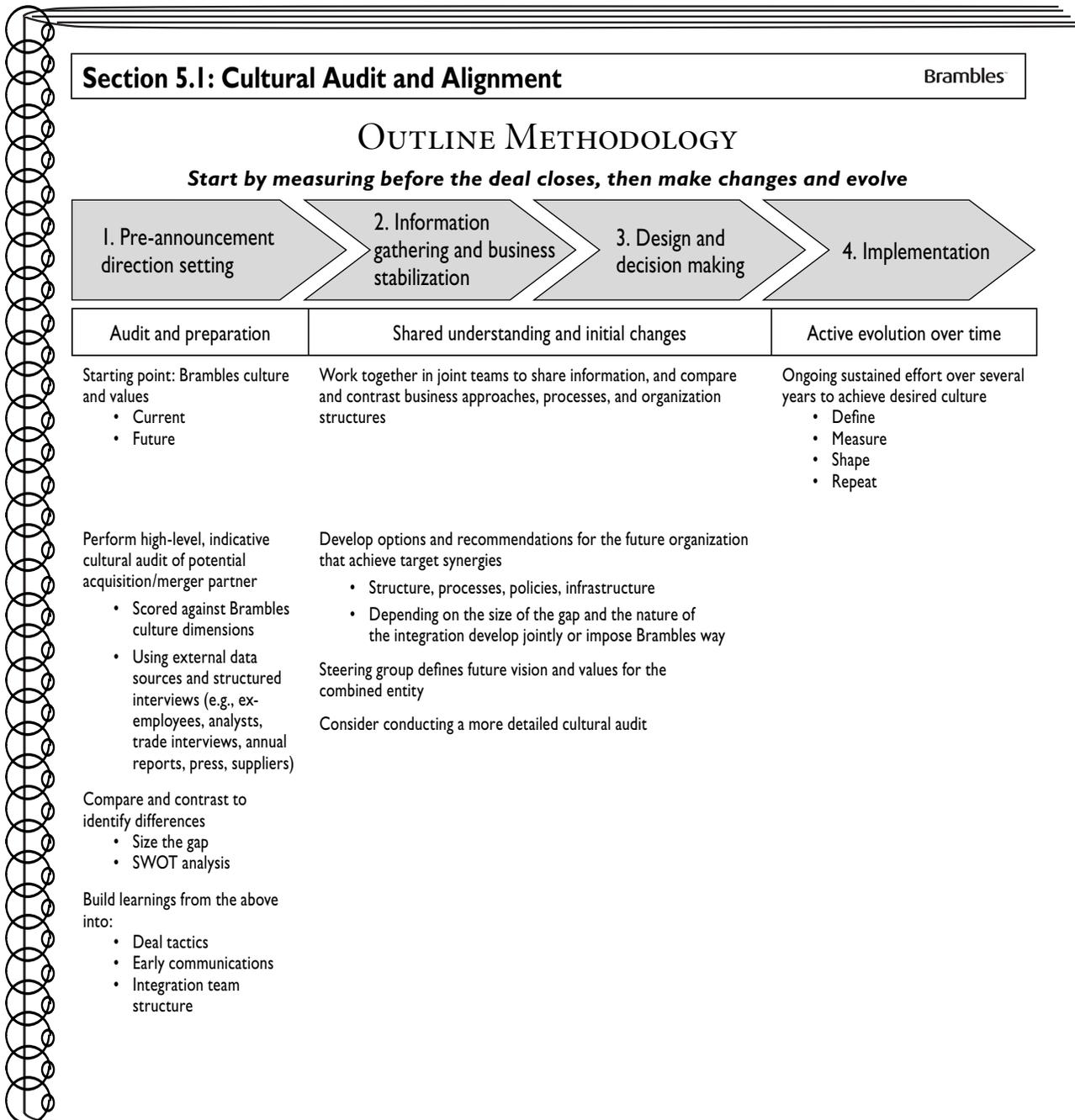
Managing People-Related Aspects of Integration—Must-Do's, Hints and Tips

Element	Must Do's	Hints and Tips
Cultural audit and alignment	Measure and compare company cultures up front and address cultural differences during and beyond integration.	This may take a long time to sort out. It helps to describe clearly Brambles' culture to an acquired company.
Organizational design	Set clear organizational guidelines for the taskforces: <ul style="list-style-type: none"> • Overarching organization structure • Organizational design guidelines, e.g., number of reports, number of levels, principles 	It is important to set rules both to ensure consistency of approach and to support step-change thinking rather than incrementalism.
Appointments/designation/staffing process	Manage the appointments process tightly and objectively for the first couple of levels of the new organization. <ul style="list-style-type: none"> • "Grandfathering" principle for approvals • Process managed centrally, with coordinated decisions and communications • Manage displaced talent and transition/redundancy 	Early decisions are critical as they will be watched closely for signals about the future and for balance between heritages.
Retention of key talent	Identify key talent up front, and find ways of reassuring them without compromising the integrity of the process.	These steps are usually best handled informally and sensitively, and must not compromise the integrity of the overall process.
HR policies	Compare and harmonize broader HR policies over time.	Make sure these decisions are taken based on an assessment of the economic and business impacts, and discussed and agreed properly with the steering group. Prioritize the decisions to be made and document decisions fully.

BRAMBLES: M&A INTEGRATION PLAYBOOK (CONTINUED)

The playbook outlines the different stages for aligning organizational cultures and the different activities within each stage

Cultural Alignment Timeline and Methodology



BRAMBLES: M&A INTEGRATION PLAYBOOK (CONTINUED)

The playbook suggests beginning planning for the new integrated organization design structure by responding to five key questions

Key Questions to Begin Redesigning Organizational Structures

Section 5.2: Organizational Design

Brambles

Key Questions to Ask to Begin Integration Planning

- 1. What do the two current organizations look like?**
 - Look behind the job titles to compare roles properly
- 2. What do we get using one of the existing organizations as a base?**
- 3. Where would we like to get to over time?**
 - What “givens” are we working with?
 - Any agreements negotiated as part of the deal (e.g., which employees stay in which roles)
 - What is going to be the future shape of the business?
 - Portfolio composition?
 - Core versus tail brands
 - Geographical spread of business?
 - Region specific variations
 - Parts of the value chain in which the business will operate?
 - Decentralized versus centralized structure?
 - Linkage to culture and current shape of the two businesses
- 4. What do the answers to the three questions above tell us about the scale of change required?**
 - Life span of the structure
 - Recognize the likely need to make corrective/further changes 12 months or so down the line
- 5. What guidelines do the taskforces need to be able to progress to the next levels of organizational design once the top two levels are specified and once they have synergy targets to aim for?**
 - How many layers?
 - How many reports?
 - How flexible?

BRAMBLES: M&A INTEGRATION PLAYBOOK (CONTINUED)

Brambles follows four principles in designing an integrated organizational structure and highlights common pitfalls

Brambles' Principles for Designing an Integrated Organization

Section 5.2: Organizational Design

Brambles

Principles for Designing an Integrated Organization

Principle 1: Ensure deep understanding and comparison of the structure of both acquired and acquiring businesses—superficial similarities (especially department names) can mask significant differences

Principle 2: Try to avoid an untested new structure as much as possible

- More complexity, upheaval, uncertainty at a stressful time
- Difficulty in accounting fully for everything in preexisting organizations
- Harder to realize merger benefits

Principle 3: Use integration as a way to break old habits and develop a world-class organization

- Make sure new organization is aligned to long-term aspirations
- Make sure it does not block desired evolution

Principle 4: Focus on the top two levels of the organization initially

Section 5.2: Organizational Design

Brambles

Common Pitfalls in Organizational Design

1. Avoiding the tough decisions, especially senior management positions
2. Selecting untested new structure
3. Retaining overlaps and/or failing to account fully for both existing organizations
4. Not tracking headcount movements to new structure
5. Empire-building: oversized jobs, very narrow spans of control, too many layers
6. Insufficiently linking structure to merger benefits
 - Merger mathematics typically requires that 1 + 1 is much less than 2
7. Building the structure around the people

BRAMBLES: M&A INTEGRATION PLAYBOOK (CONTINUED)

The playbook outlines the timeline for integration staffing appointments and key staffing principles

Integration Staffing Timeline

Section 5.3: Appointments/Staffing/Design Process

Brambles™

SYNCHRONIZE APPOINTMENTS WITH THE OVERALL TIMELINE FOR THE INTEGRATION

Who	Top Management Team	First Line Reports	Second Line Reports
When	Coordinated, one week after access	Coordinated at end of information-gathering phase	No centrally enforced coordination, but do coordinate where possible <ul style="list-style-type: none"> Within a location Within a function
Why	Resolve ambiguities around leadership immediately Get top team in place to drive merger forwards decisively	Information-gathering gives breathing-space for objective, appointments to be made Coordinated announcements maintains impression of order in appointments process Puts top management in place to take control during decision-making phase Allows management of senior non-appointees	

Section 5.3: Appointments/Staffing/Design Process

Brambles™

Key Principle: Set Expectations from the Appointments Process Early

1. Appointments process is the principal criterion by which integrity of the integration principles will be judged
 - Emphasize that a successful process is contingent on people actually following the established principles
2. Be explicit about the likely outcome of the process
 - Actual outcome may be viewed with suspicion and hostility in some areas
3. Be explicit about the reasons for the likelihood of a certain outcome
 - Some factors may suggest skew toward acquiring company appointee is probable, particularly in higher levels
 - Retrospective justifications help but by then damage to morale is done
4. State the outcome for those not appointed at the same time as those appointed, and have outplacement, retention, etc., schemes ready to roll out upon announcement of result of appointments process.

Source: Brambles Industries Ltd.

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BRAMBLES: M&A INTEGRATION PLAYBOOK (CONTINUED)

The playbook includes lessons learned on general staffing, timing, and communications on staffing appointments from the authors' prior integration experiences

Key Lessons Learned on Staffing Appointments

Section 5.3: Appointments/Staffing/Design Process

Brambles

LESSONS FROM MANAGING THE APPOINTMENTS PROCESS

In General

Maximize transparency of the process

- Clear communication to both organizations about general criteria for appointments and about which announcements can be expected when

Principles apply to all levels of the organization, including support staff

- Resist temptation to take line of least resistance when appointments fatigue sets in

Be prepared to manage some lapses in integration work during period of appointments process

- Some teams will stall during appointments
- less likely to happen where outcome of appointments is less in question

A talent pool is a good mechanism for ensuring that high-caliber people who do not secure their first choice of appointment are considered for other positions within the organization

- Needs clear instructions about who goes in to it and how it is to be used
- Clear commitment to it from the executive
- A respected human resources person running the pool
- Manage actively—don't leave people in limbo for long

Timing

Not all parts of the organization can be tied to the same appointments timeline

- For example, manufacturing appointments dependent on decisions about site closures
- Recognize and plan for fact that instability may hit these areas at different times from the rest

Center has to be authoritative about the timings of the appointments process

- Stop local-level appointments from being made prematurely
- Announcing senior appointments in coordinated fashion confirms operation of an orderly process

Speed is always critical

- Providing all the cautions have been taken

Communications

Be clear about what is changed when an appointment is made: a person, a structure, or a philosophy

- Does the appointee have a mandate to implement his own organizational design?
- Clarify what the appointment implies before this situation arises

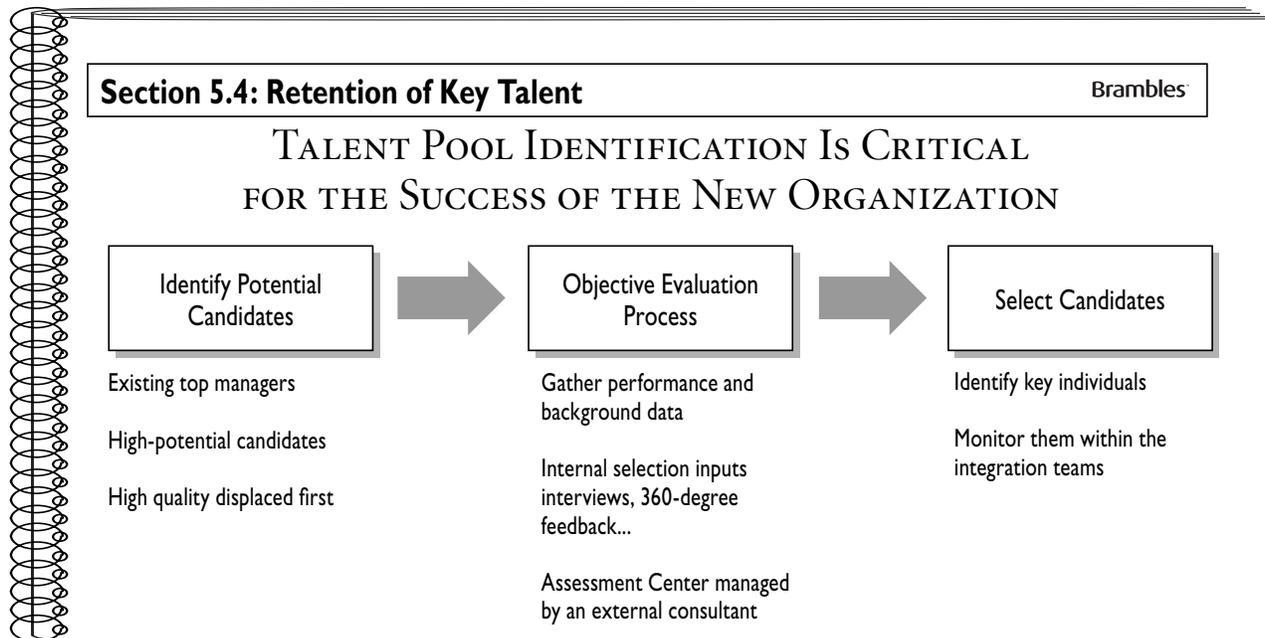
Careful planning of acquired appointments will pay dividends for the combined organization

- Send visible signals that the capabilities of acquired staff are being taken seriously
- Local organizations should focus early appointments where possible on areas with high external demand
 - Communicate aggressively and appoint quickly if good people are to be retained
- Actively attract staff into jobs once they have been offered them
 - Acquired staff who are offered jobs are still liable to feel unwanted
 - Acquirer staff can help to 'sell' the job, answering questions and talking through it

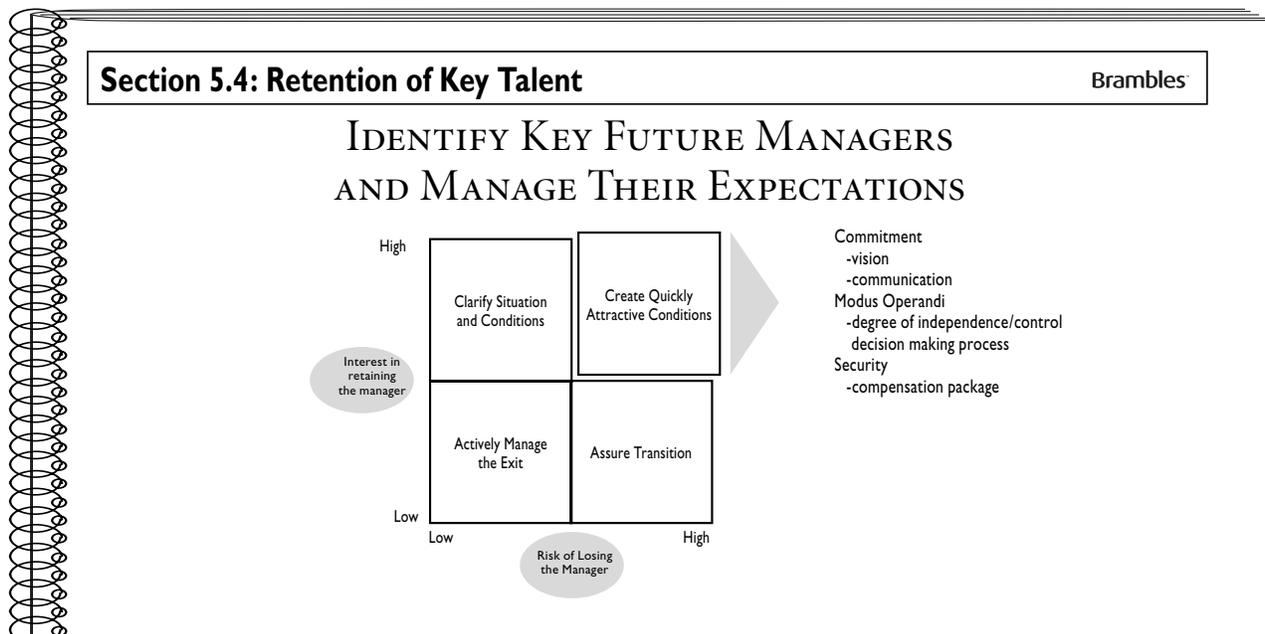
BRAMBLES: M&A INTEGRATION PLAYBOOK (CONTINUED)

The playbook outlines the process for identifying key talent and the framework for managing talent risks

High-Level Process Steps for Identifying Key Talent



Talent Risk and Retention Framework



BRAMBLES: M&A INTEGRATION PLAYBOOK (CONTINUED)

The playbook identifies severance policy issues that may surface during integration and suggests potential resolutions

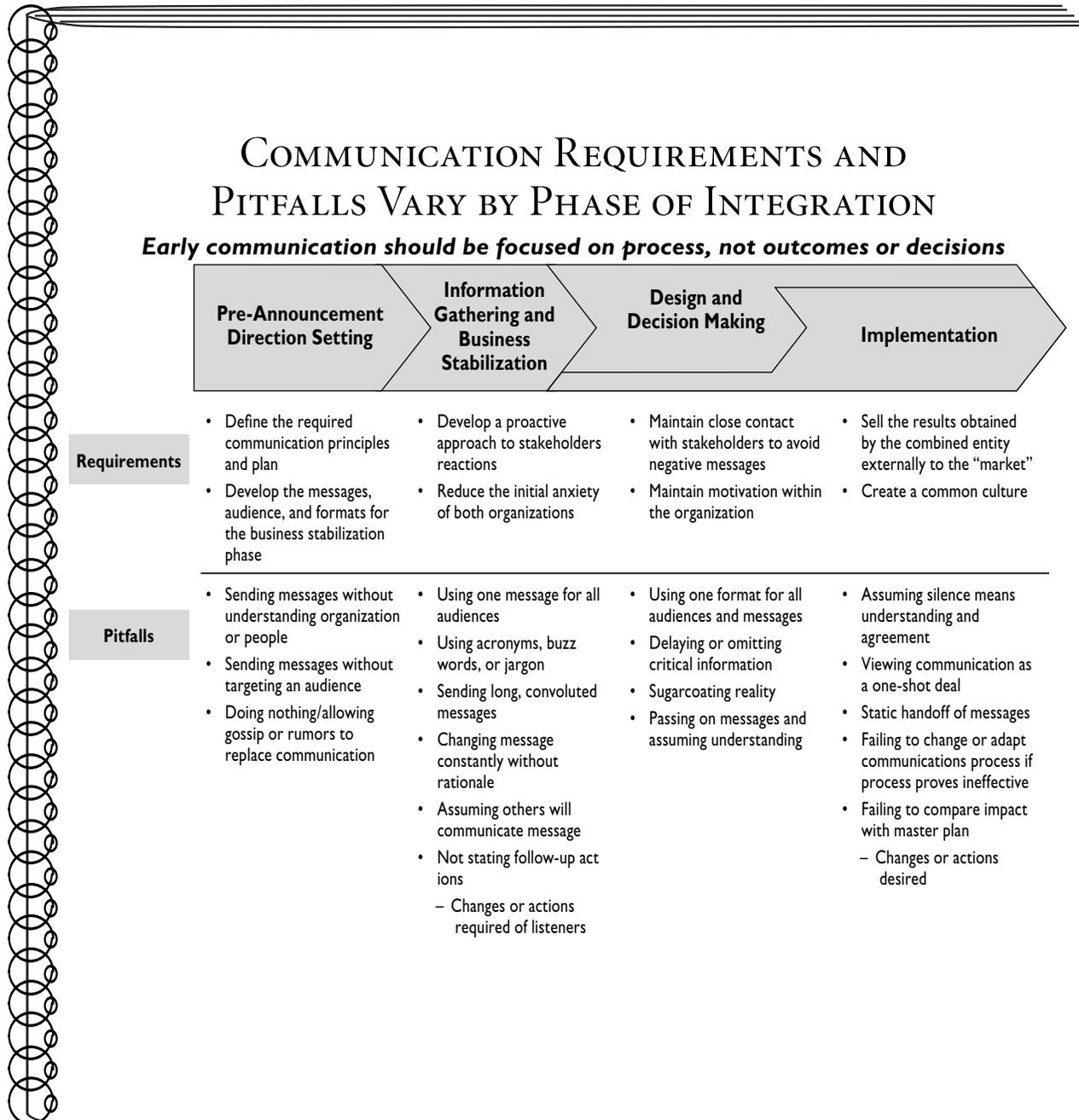
Issues and Potential Paths to Resolution in Severance Policy

Section 5.5: Reward/Redundancy		Brambles
Severance Policy Issues and Potential Resolutions		
Issues	Potential Resolutions	
Need to honor existing contracts and commitments <ul style="list-style-type: none"> • Position of redundancies currently in progress 	Measure and compare company cultures up front, and address cultural differences during and beyond integration	
Do severance packages need to be in line with competitive market practice? <ul style="list-style-type: none"> • Or will two companies' packages be considered in isolation? 	Set clear organisational guidelines for the taskforces <ul style="list-style-type: none"> • Overarching organisation structure • Organizational design guidelines, e.g., number of reports, number of levels, principles 	
Different compensation and notice formula in the two companies <ul style="list-style-type: none"> • What is the scope of employee choice? 	Manage the appointments process tightly and objectively for the first couple of levels of the new organization <ul style="list-style-type: none"> • "Grandfathering" principle for approvals • Process managed centrally, with coordinated decisions and communications • Manage displaced talent and transition/redundancy 	
Short-term requirement for people made redundant to stay for handover	Identify key talent up front, and find ways of reassuring them without compromising the integrity of the process	

BRAMBLES: M&A INTEGRATION PLAYBOOK (CONTINUED)

The playbook outlines the employee communications required in each phase of integration, and identifies potential communications pitfalls

Phases of Integration and Potential Communication Pitfalls



DANSKE BANK: FULL INTEGRATION RISK SURVEY

Questionnaire

Welcome to the Spring Employee Survey 2005 Northern Bank.

The Questionnaire

The questionnaire is divided into six main areas:

- Image
- Senior Management
- Line Manager
- Cooperation
- Conditions of Work
- Integration Process

DANSKE BANK: FULL INTEGRATION RISK SURVEY (CONTINUED)

Satisfaction

Please rate your overall satisfaction as an employee.

- | | Very Dissatisfied | | | | Very Satisfied | Don't Know |
|---|--------------------------|--------------------------|--------------------------|--------------------------|--------------------------|--------------------------|
| 1. How satisfied are you overall as an employee? | <input type="checkbox"/> |
| 2. Imagine a place of work that is perfect in all aspects.
How close to this ideal do you consider your current job to be? | <input type="checkbox"/> |

Overall assessment

Please indicate to which extent you agree or disagree with the following statements concerning Northern Bank:

- | | Strongly Disagree | | | | Strongly Agree | Don't Know |
|---|--------------------------|--------------------------|--------------------------|--------------------------|--------------------------|--------------------------|
| 3. I feel motivated in my job..... | <input type="checkbox"/> |
| 4. I always look forward to going to work | <input type="checkbox"/> |
| 5. I am willing to make an extra effort if necessary..... | <input type="checkbox"/> |
| 6. I believe my colleagues think I do a good job..... | <input type="checkbox"/> |
| 7. If the conditions were to change for Northern Bank,
I would be open to changes that would affect me | <input type="checkbox"/> |
| 8. I would like to be working for Northern Bank
in two years' time..... | <input type="checkbox"/> |
| 9. I rarely look for other jobs..... | <input type="checkbox"/> |
| 10. I feel that I have many alternative job possibilities
if I were to leave Northern Bank..... | <input type="checkbox"/> |
| 11. I would recommend others to seek employment
at/in Northern Bank..... | <input type="checkbox"/> |

Please indicate to which extent you agree or disagree with the following statements concerning the Danske Bank Group:

- | | Strongly Disagree | | | | Strongly Agree | Don't Know |
|--|--------------------------|--------------------------|--------------------------|--------------------------|--------------------------|--------------------------|
| 12. I would like to be working for the Danske Bank Group in two years' time..... | <input type="checkbox"/> |
| 13. I would recommend others to seek employment with the Group..... | <input type="checkbox"/> |



DANSKE BANK: FULL INTEGRATION RISK SURVEY (CONTINUED)

Image

Please rate the image of Northern Bank. “Image” is the reputation that Northern Bank enjoys in the world around you. Please indicate to which extent you agree or disagree with the following statements:

	Strongly Disagree				Strongly Agree	Don't Know
14. Northern Bank has a good image	<input type="checkbox"/>					
15. I am proud to tell other people that I work for Northern Bank	<input type="checkbox"/>					
16. Other people consider Northern Bank to be a good place to work.....	<input type="checkbox"/>					

Senior Management of Northern Bank

The following questions concern your rating of the senior management of Northern Bank. “Senior management” is the person/persons who make the strategic decisions for the area. Please rate the overall leader on the basis of your impressions and views—also if you do not have any concrete examples or direct contact with him/her/them.

	Very Poor				Very Good	Don't Know
17. Your overall perception of senior management	<input type="checkbox"/>					
18. Senior management’s ability to make the right decisions.....	<input type="checkbox"/>					
19. Senior management’s ability to inform employees.....	<input type="checkbox"/>					
20. The ethics of senior management.....	<input type="checkbox"/>					

Line Manager

Please indicate to which extent you agree or disagree with the following statements concerning the Danske Bank Group:

	Very Poor				Very Good	Don't Know
21. Your overall perception of your line manager.....	<input type="checkbox"/>					
22. The professional skills of your line manager.....	<input type="checkbox"/>					
23. The managerial skills of your line manager	<input type="checkbox"/>					

Please indicate to which extent you agree or disagree with the following statements:

	Strongly Disagree				Strongly Agree	Don't Know
24. I have received sufficient information from my line manager since the sale of Northern Bank was announced.....	<input type="checkbox"/>					
25. My line manager keeps me updated with changes as they affect me/my location.....	<input type="checkbox"/>					
26. My line manager is committed and supporting of the implementation of the changes communicated over recent weeks	<input type="checkbox"/>					

DANSKE BANK: FULL INTEGRATION RISK SURVEY (CONTINUED)

Cooperation

Please rate cooperation at your place of work. Cooperation is a broad term and consists of cooperation within your unit as well as cooperation between your unit and other units in Northern Bank and the Danske Bank Group.

	Very Poor				Very Good	Don't Know
27. The professional cooperation with your colleagues.....	<input type="checkbox"/>					
28. The general atmosphere among your colleagues	<input type="checkbox"/>					
29. Social relations and interaction with your colleagues	<input type="checkbox"/>					

Please indicate to which extent you agree or disagree with the following statements:

	Strongly Disagree				Strongly Agree	Don't Know
30. I feel that the colleagues in my unit respect each other.....	<input type="checkbox"/>					
31. In my unit we are good at learning from each other	<input type="checkbox"/>					

Conditions of Work

Please rate your conditions of work. Consider the aspects that concern your daily work, your salary and benefits, and your professional and personal development.

	Very Poor				Very Good	Don't Know
32. Your job objectives and the contents of your work.....	<input type="checkbox"/>					
33. The physical working environment at your place of work.....	<input type="checkbox"/>					
34. The workload/pressure (if the workload/pressure is a problem give a low rating)	<input type="checkbox"/>					
35. Your salary (including supplements and bonus) compared to what you could get in a similar position elsewhere.....	<input type="checkbox"/>					
36. Your benefits (holidays, flexible working hours, pension, clubs and other benefits) compared to what you could get in a similar position elsewhere.....	<input type="checkbox"/>					
37. Your job security.....	<input type="checkbox"/>					
38. Your opportunities for professional and personal development.....	<input type="checkbox"/>					
39. The attention given to your professional and personal development.....	<input type="checkbox"/>					

DANSKE BANK: FULL INTEGRATION RISK SURVEY (CONTINUED)

Integration Process

Please indicate to which extent you agree or disagree with the following statements:

	Strongly Disagree			Strongly Agree			Don't Know
40. I welcome and encourage change in Northern Bank	<input type="checkbox"/>						
41. I know where to go for information during change initiatives if I need it	<input type="checkbox"/>						
42. I am comfortable going to this source for information	<input type="checkbox"/>						
43. I know and understand the future development of Northern Bank	<input type="checkbox"/>						
44. I understand the structural changes planned in my location/area	<input type="checkbox"/>						
45. I feel that the frequency of communication I received met my needs and expectations	<input type="checkbox"/>						
46. I feel that the quality and detail of communication I received met my needs and expectations	<input type="checkbox"/>						
47. I am highly motivated to make the future changes implemented by Northern Bank a success	<input type="checkbox"/>						
48. I believe the future changes communicated to date will be good for further development of Northern Bank	<input type="checkbox"/>						
49. I believe the future changes communicated to date will be good for my career	<input type="checkbox"/>						
50. I believe the future changes communicated to date will be good for our customers	<input type="checkbox"/>						



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