

# Human Resource Integration

*Aligning HR operations with  
integration strategy to deliver  
people value*

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## **At a glance**

HR operates on the frontline of several critical aspects of the integration process.

HR designs and manages the programs that attract, grow, and retain the talent needed to deliver deal value.

Effective HR integration planning and execution will equip newly combined companies to obtain the flexibility they need to engage talent and drive growth.



# Introduction

People are at the forefront of deal success or failure, and the Human Resources (HR) function plays a central role in driving the people agenda throughout the integration process. Changes in work practices, decision making styles, reporting relationships, organization structure, and operating models all impact how employees will perform in the combined company.<sup>1</sup>

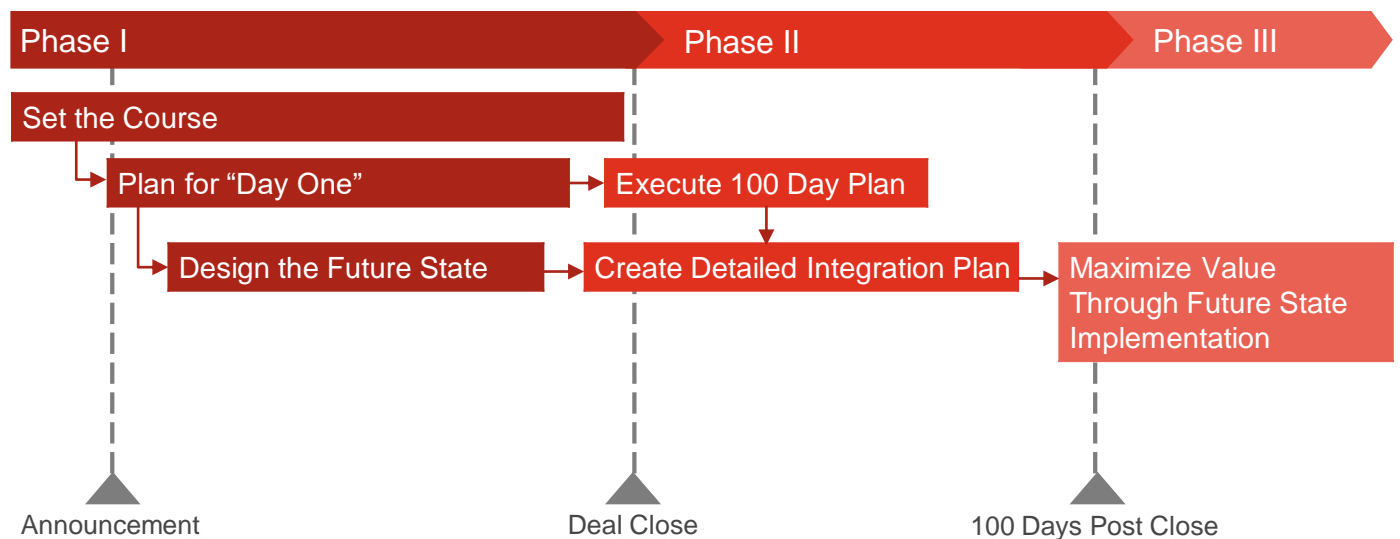
If HR's integration roles are not well coordinated, risks mount and there is a greater likelihood of business interruption, talent defection, declining sales, and market confusion over the direction of the organization.

Managing the myriad of HR roles and requirements during integration demands an effective HR integration plan that aligns to the overall integration strategy. With a dedicated HR leader and integration team executing the plan, the newly combined company should obtain the flexibility they need to engage talent and drive growth.

<sup>1</sup>[PwC's 2017 M&A Integration Survey Report](#)

# The issues our clients face, the actions we help them take

An effective integration process emphasizes the importance of getting the fundamentals of integration in place as quickly as possible during a deal to help minimize disruptions and achieve synergies. Rapidly launching integration efforts to Set the Course, Plan for and Execute Day One, and Design and Maximize Future-State Operations is a critical success factor. Figure 1 illustrates the integration process.



**Figure 1.** The PwC integration process follows a sequence of coordinated steps to focus resources and capital on the right activities at the right times.

# Set the course

An acquisition, like other large scale corporate change, is an excellent opportunity to set a new course, both operationally and across the various support functions of the newly combined business. Setting the Course involves defining clear objectives and establishing clear leadership and role clarity during the transition. This empowers members of the integration team—like Human Resources—to communicate effectively and take decisive action.

Setting the course for HR requires immediate attention to address critical matters important in the early stages of a merger or acquisition. Setting the course typically addresses the following areas.

**Manage people and rewards** – People follow leaders. Early selection of future company leadership will help accelerate the integration process. Selection of key talent for retention and transition should also be swift and supported by a total rewards program. The people and rewards activity should follow a systematic process and be effectively communicated throughout the combined company. The total rewards strategy should also strike the right balance between deal synergy achievement and supporting the business' future talent needs. Missteps in any of these areas are highly visible and present reputational risk for the acquiring organization.

**Drive HR operational efficiency** – Integration is an opportunity to evaluate how best to deliver HR services to the combined organization. Driving HR operational efficiency in an integration context means designing a future-state combined HR function that eliminates duplicative effort and optimizes the cost of running the HR function. HR should outline the appropriate go-forward HR structure and services that define the HR Service Delivery model. The supporting plan should outline changes to policies, processes, and support systems.

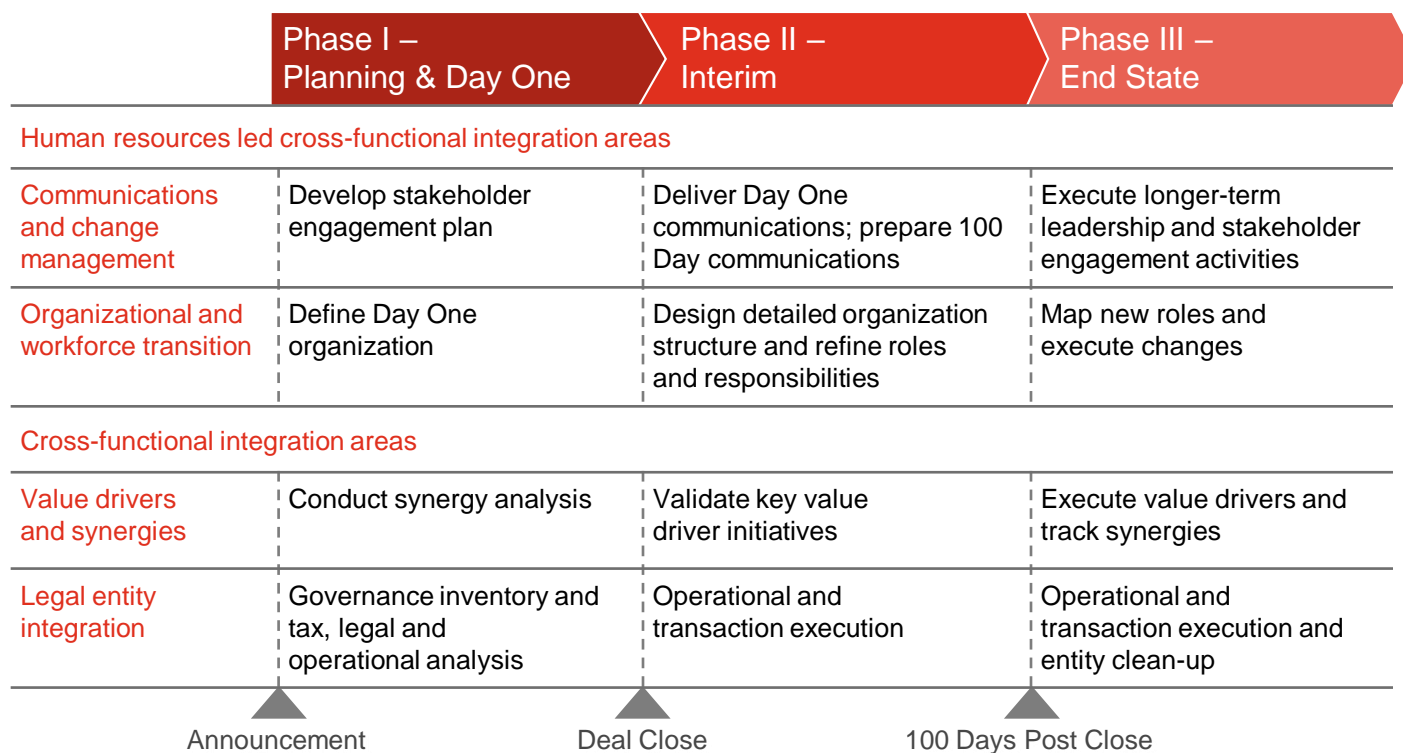
**Address regulatory bodies and compliance matters** – Cross-border deals inherently bring complexity through legal entity and regulatory matters. The activities to manage employee transfers can be extensive, including employment contract union negotiation, interactions with government bodies, and management of immigration policies and laws that govern the employment of foreign nationals and expatriates. Cross-border transfers require additional coordination and employee relations expertise to ensure local jurisdiction and labor regulation requirements are met. It is important to inform leadership about employment negotiation requirements early in the deal process to avoid unforeseen deal delays.

Once the immediate actions are defined, the longer term strategy for HR integration should be outlined. HR integration strategy should be aligned with the enterprise-wide integration strategy to ensure alignment in realizing transaction value and integration objectives. As HR activities impact the human capital assets of the company, HR activities should also align to the newly combined company's mission, vision, and values. HR integration strategy serves as a guide for all decisions within the HR function, spelling out the degree of integration for what will be combined and what will be kept separate, including people, process, systems, and organizations. Please see Figure 2 for key areas of HR integration focus.

	Phase I – Planning & Day One	Phase II – Interim	Phase III – End State
HR organization and services	Day One operating model defined	Future state operating model (including shared services or outsourcing) determined	Future state operating model and structure finalized and implemented
HR information system (HRIS), payroll and talent systems	HR systems, payroll, and time and attendance systems roadmap developed; payroll delivered on Day One	Long-term HR/Payroll systems strategy defined; vendor selection started; data migration strategy defined	Migration to combined HR / Payroll system completed
HR processes and procedures	Governance structure and decision making for Day One until processes and procedures are aligned	Define future state processes and procedures across functions – KPIs, reporting, work flows	Business processes harmonized across function (KPIs, reporting, work flows) implemented and aligned with systems integration
Total rewards analysis and harmonization	Total rewards due diligence, including current employment agreements and change of control requirements, conducted; retention program defined	Harmonization strategy for all programs developed, including base salary / pay, incentives, and benefits; compensation / title leveling reviewed	Total rewards programs, job structures and performance cycles aligned
Employee transfer, onboarding approach and legal entity changes	Employment transfer requirements defined based on legal entity structure decisions; offer transfer letters prepared and issued	Onboarding program implemented for transferred employees	Track and monitor transfers as legal entity structure requires
Employee relations and policy analysis and harmonization	Day One policies and procedures defined and implemented	Plan and timeline to harmonize HR policies and employee handbook defined	Combined employment and HR policies/employee handbook harmonization completed
	Announcement	Deal Close	100 Days Post Close

**Figure 2.** This chart outlines key areas of integration focus for Human Resources, along with their typical timing across the PwC integration process.

The HR integration strategy should also align to cross-functional areas that are part of the enterprise-wide integration. Please see Figure 3 for the key cross-functional areas that are HR-led or impact HR, and the typical timing across the integration process for large-scale and middle market transactions.



**Figure 3.** This chart outlines key cross-functional areas of integration focus for Human Resources, along with their typical timing across the PwC integration process.

To manage the myriad HR integration activities, it is important for company leadership to quickly identify an HR integration leader, who should then establish an HR integration team, structure, and program management office. The HR integration leader should select a team with the institutional knowledge of the buyer organization (and the target company, if possible) in areas of focus for the integration strategy. Often times an HR Integration Management Office can be launched prior to deal announcement, focusing on areas such as organizational structure, key talent, executive agreements, compensation and benefits, culture, and legal matters. The HR integration leader may build upon the pre-announcement team in place, expanding activities to include areas of integration focus not yet covered, including transactional and operational areas. Concurrently, the HR integration leader should lead in the development and execution of the enterprise change management strategy and plan encompassing the seven critical change drivers.<sup>2</sup>

<sup>2</sup>PwC's Change Management in M&A Integration

# Plan for and execute Day One

Even if the best decisions are made as you Set the Course, much can go wrong at close without proper planning and execution. While Day One is a milestone for celebration, it is also the time for a smooth transition of essential operations. The HR integration team should define what is in and what is out for Day One, rapidly prepare for employee onboarding, and develop an interim and go-forward vision for the combined HR function.

## Focus areas for Day One integration

<b>HR organization and services</b>	Define Day One combined HR organization structure, with reporting lines, decision rights, processes that aligns with the overall organization strategy and business needs. HR operating model and delivery model is defined and adjusted to meet the needs of the combined organization. Once the HR delivery model is finalized, then assess the alignment of the current HR infrastructure to support the delivery of HR services.
<b>HR information system (HRIS), payroll and talent systems</b>	Processing payroll is one of the more important Day One requirements. The HR function should be properly equipped for Day One and beyond as it relates to payroll, time and expense, and time and attendance. This includes both the policies and processes along with the supporting technology. Engage Finance and IT stakeholder (and other appropriate functions) to align on Day One data migrations. Determine how best to integrate the target's HR technology, infrastructure, systems, processes and policies with the acquirer's existing HR systems, policies, technology, and infrastructure.
<b>HR processes and procedures</b>	Critical HR processes are harmonized and streamlined to ensure HR services are delivered in alignment with the Day One HR operating model and business strategy. Governance and decisions rights for the combined HR team are clearly defined and understood.
<b>Total rewards analysis and harmonization</b>	Executive agreements are evaluated for change in control provisions and to understand triggers and Day One payout requirements. New agreements may be required (or desired) for executives retained post close. Financial retention program is developed and budgeted for pre-close. Equity conversion and payout (as defined in the purchase agreement) also needs to be analyzed and executed.
<b>Employee transfer, onboarding approach and legal entity changes</b>	Identify employee transfer requirements based on deal structure and/or legal entity changes and plan to execute transfers on Day One. In some cases, transferring employees may need new offer letters, to meet the buying company's employment requirements (background and drug tests for example), and to complete new HR paperwork (such as I-9s) on or before Day One.
<b>Employee relations and policy analysis and harmonization</b>	Determine compliance, regulatory and other high-priority HR polices – for example, code of conduct or inside trading polices – that require Day One implementation. Once Day One policy requirements are defined, an implementation plan for employees to acknowledge the new polices is developed and deployed on or soon after Day One.

# Design and maximize future state operations

Achieving a smooth transition for Day One is critically important, and often a key indicator to company management for how the integration is going. However, executing the go forward operating model is mission critical for realizing long-term synergies and related transaction objectives. These results serve as the key measure for integration success (or failure) for external analysts and stakeholders.

Integration is an excellent opportunity to evaluate how best to deliver HR services to the combined organization at a competitive cost. HR delivery models may take several forms, including whether to manage with in-house or outsourced resources or a combination the two. HR leadership should carefully consider the overarching vendor strategy and available options in terms of the fee structure relative to the level and quality of service delivery. During the delicate transition stage, HR should balance cost against the risk of jeopardizing a smooth process. HR service delivery should also have an interim state and a future state, and consider the following initiatives:

- Simplify and standardize policies—from hire to retire
- Optimal sourcing strategy (outsourcing, co-sourcing, insourcing) to address unique business needs
- Optimize systems and data management

The HR function will also play a substantial role in designing and maximizing future state operations for cross-functional integration areas, including organization design, workforce management, communications, and change management. The HR function will frequently work closely with the Finance and Information Technology functions to plan and prioritize overlapping areas related to HR systems and the HR organization.

## Cross-functional focus areas for future state operations

Organizational and workforce transition	HR typically works closely with leadership of each function to design and implement the future state organization. Interim transition requires an assessment of work, people selection, and staffing process. An integrated roadmap detailing the timing of all organizational movements, including workforce transitions, should be developed to manage the magnitude and pace of change so as not to disrupt the business and to ensure capabilities are in place when needed. Transition to the end state operating model by integrating process and aligning with changes in the overall enterprise wide integration strategy.
Communications and change management	Manage the transition through communications tailored to each category of HR employee group, including permanent hires, transitional employees, and terminated employees. Communications should leverage retention strategies, including compensatory for transitional employees and primarily non-compensatory for permanent hires.
Value drivers and synergies	Leverage the synergy analysis and financial model developed during the diligence process and work across functions to include the most current information from Day One planning in developing HR value driver business cases. The overall synergy tracking effort is managed by Finance, and HR plays a key role in facilitating activities related to talent attrition.
Legal entity integration	As tax designs a tax efficient legal entity structure and step plan, cross-functional coordination is required to align tax steps with operational and financial integration changes. The aim is to minimize business disruption while optimizing tax structuring steps. HR collaborates across functions to determine the structure that minimizes disruptions to human capital assets.



# Conclusion

Capturing and communicating deal value requires successful HR integration in all areas—within HR and across functions.

HR operates on the frontline of several critical aspects of the M&A Integration process that drive or erode deal value. HR designs and manages the programs that attract, grow, and retain the talent needed to deliver desired deal outcomes. HR also plays a critical role in stabilizing the organization through leadership selection and organization transition.

Following the approach to HR integration articulated in this paper can guide companies along the path to a successful integration, achieve early wins, build momentum, and position the company to deliver results while instilling confidence among stakeholders.

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