

The Human Factor in M&A Transactions

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When considering the most critical components of mergers and acquisitions (M&A), parties typically focus on deal structure, legal due diligence, and financial modeling. While important to getting a deal done, this focus often overlooks the importance of the human element in successful M&A.

[Deloitte](#) data shows that 30% of failed M&A transactions can be attributed to cultural integration issues as the root cause. Deloitte also points to the loss of key talent, as well as a lack of engagement among employees, as factors that can cause significant issues during the integration process. Deloitte makes an important point that it might be financials that drive the initial M&A decision, but the human focus is key to lasting success.

Below, we look at what can go wrong during deal negotiations and integration and the essential role leadership can play in creating a much smoother process and setting the stage for long-term success.

The Human Factor: Key Concerns During Integration

Loss of Key Talent

Founders, senior leadership, top talent, and high-performing employees are the backbone of every company. When a transaction is looming, it can trigger anxiety that may cause the people who made the business successful to consider leaving at one of the most crucial points in the company's life cycle. When people go, so too can institutional knowledge, customer relations, and, in some cases, the value of the acquisition.

Cultural Clashes

Every organization has its own set of values, norms, and ways of working. Each company's culture is vital to the organization yet can be a threat to a successful transaction. If there is not thoughtful and sufficient preparation for cultural integration of employees, it can lead to confusion and resentment. Cultural conflicts can create friction that slows productivity, disrupts morale, and impacts retention.

Employee Disengagement

The integration process can be taxing on teams, stretching them thin. During this process, employees on both sides of a transaction may experience burnout or disengagement, especially if they are unsure of their roles in the “new” organization or don’t feel included in the process. Employee engagement (or disengagement) is a critical factor to the ultimate success of the new entity.

The Role of Leadership in Successful Integration

Be Strategic and Start Early

Cultural due diligence should begin early in the M&A process. This can be a more complicated, and sensitive, process than traditional financial and legal due diligence. Leadership should actively compare values, leadership styles, communication practices, and operational assumptions and decide whether they can be addressed. Cultural alignment often matters just as much as EBITDA.

Identify and Manage Critical Talent

Every business has mission-critical employees. Identifying and offering incentives to these employees can improve engagement in a transaction process and prevent an exodus of the most important talent. These types of incentives can take many forms, including retention bonuses, post-closing equity compensation, pre-negotiated employment and severance agreements, leadership opportunities, or clear paths for growth within the post-closing entity, and they can be offered to employees on both sides of the transaction. If certain employees will not be retained in the transaction, then handling their transition out of the business thoughtfully will also have a positive impact on overall morale.

Communicate Transparently and Openly

Silence creates a sense of unease, and that is especially true for employees who are experiencing uncertainty about their roles, job security, or the closing of certain locations. When rumors fly, it can lead to attrition. Confidentiality concerns often prevent wide-spread communications earlier in the transaction process, but leadership should be ready to roll out a well-crafted communications plan to the front lines as early as possible. This thoughtful and proactive approach will help to establish trust, reduce anxiety, and maintain momentum. Leadership should also continue to listen to and learn from the front lines post-closing, regularly checking in with teams to understand how the integration is *really* progressing.

Utilize Cultural Stewards and Integration Teams

Leadership should select individuals or teams that can be “cultural stewards” throughout the post-closing integration phase. These teams can help identify pain points and keep employees aligned on shared values and goals. They also play an important role in keeping leadership apprised of progress and issues that may need to be addressed. As legal counsel in M&A transactions, our focus is on protecting clients from legal risk, selecting the right structure, drafting airtight deal terms, and navigating antitrust concerns. But even the most sophisticated deal structure can’t salvage an acquisition that fails on the people side. The best deals don’t only align on paper, but also in purpose, leadership, and people. Effectively addressing the human side is instrumental in turning a promising acquisition into a long-term success.

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