Case Study:

How an Energy Company Transformed its Acquisition Experience

BY FRED L. HENCKE

IN THE HIGHLY REGULATED ENERGY INDUSTRY, law firms play a key role in mergers and acquisitions because there are so many boxes to check for the Federal Energy Regulatory Commission — from evaluating environmental issues to ensuring compliance with regulations is up to date and considering any past transfer of control issues. Despite legal counsel's diligence, some transactions fall short of expectations for other reasons, most notably, focusing on people, culture and leadership aspects too late in the M&A lifecycle.

That was an energy company's unfortunate experience with several acquisitions. Learning from those disappointments, the company transformed its acquisition experience by creating a comprehensive M&A playbook.

This case study shows how the company made its next acquisition a success. Your M&A clients may benefit from following this strategy.

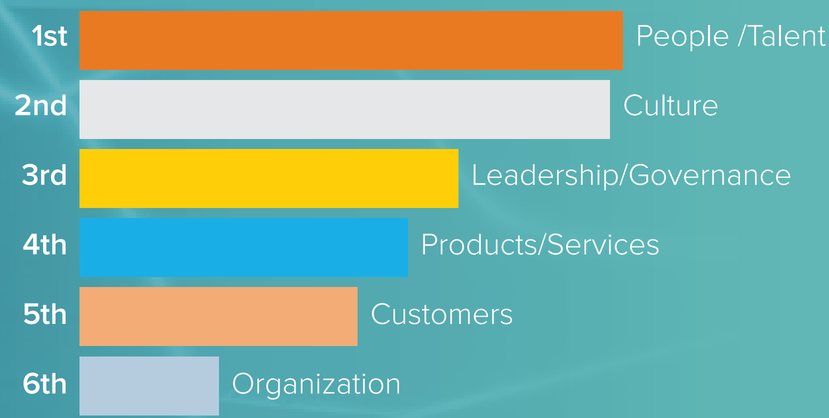
Setting the Stage: The Company and Lessons Learned from Previous Acquisitions

The company in this case study, provides power for the grid to a large portion of the U.S. It's a strategic buyer focused on increasing market share by expanding into new regions.

Over a two-year period, the company made four acquisitions. The first three did not go smoothly because there were numerous people-related issues. In fact, the post-acquisition surveys the company conducted to evaluate the success of each deal revealed that out of 17 functional areas, HR received the lowest possible scores. The first three acquisitions were conducted in a very compressed period, with little time to adjust their approach. The time gap between the third and fourth acquisitions provided an opportunity.

Among the lessons learned for the HR function, improving project management, change management, communications, data conversion and manager training were the top priorities. Many of the internal HR workstream leads lacked project management experience. Change management had been treated as a "training-only" exercise. Communications did not fully explain what was expected or what to expect. Poor quality data led to issues with workflows. Managers had been left on their own to figure out the organization, including its policies, procedures, systems and reports. The long-term success of the next acquisition depended on both applying these lessons learned and getting much better at addressing the related issues.

RANKING THE FACTORS THAT ENSURE LONG-TERM M&A SUCCESS



Source: Segal and Chief Executive joint CEO Surveys, 2020 and 2021

High HR Expectations Set for the Next Acquisition

The company's leadership recognized that the success of future acquisitions would depend on addressing broader HR issues. Consequently, they set the following wide-ranging goals for the HR aspects of its next purchase:

- Engage and retain employees.
- Minimize disruption to plant operations.
- Maximize synergies and manage risk.
- Accelerate post-close "time to productivity."

The company's leadership also acknowledged the importance of defining HR success metrics up front and then monitoring and measuring progress.

A New Approach

The company's leaders realized that meeting those goals required a fresh approach to the HR aspects of an acquisition. They decided to add several people, culture and leadership related activities to their M&A playbook prior to the fourth acquisition.

In general, a comprehensive M&A playbook provides a roadmap for a successful integration, starting from before a potential buyer or seller decides whether to move forward with a deal, continuing through multiple phases and ending with optimizing the deal by fully achieving the desired Target Operating Models (TOMs). The playbook outlines the sequencing of phases, activities and steps and includes frameworks and techniques based on best practices. It's also dynamic to allow for adjustments. (I discussed these and other aspects of a winning M&A playbook in my previous article for the Maryland Bar Journal, "Help Your Clients Achieve Greater M&A Success, Starting with a Winning Playbook.")

Following its revised M&A playbook, the company developed or contracted for the following:

- **Governance structure and discipline**
  The company created a project management office charged with establishing the HR integration governance processes and structures and developing the HR TOM, among other tasks. The company also set up an integration management office to oversee integration planning and execution across all 17 functional areas (e.g., facilities, administration, HR, IT and operations). (For more details about project management office and integration management office responsibilities, see the sidebars.) For changes made to the deal timeline or any functional area project plan, the integration management office was responsible for facilitating impact analysis.
- **Project management and integration skills**
  Since the HR Workstream Leaders had limited M&A and project management experience, a partner was needed to assist them. The partner helped with the development and management of project plans, risk analysis and management, creating relevant due diligence questions, developing integration strategies, designing employee experiences and identification of additional synergy opportunities.
- **Processes and templates for "repeatability"**
  Knowing they were going to do more acquisitions in the future, the company's leaders saw the value of creating reusable due diligence, integration, Day-1 and training templates, as well as change-management, communication frameworks and content.

The M&A playbook also helped the company determine what was needed to achieve its HR goals. The following chart summarizes some of the key strategies and tactics they decided to use.

Project Management Office

- Established HR integration governance processes and structure
- Facilitated HR discover sessions
- Facilitated HR "expidited close" impact analysis
- Assessed impact of different commercial arrangement structures
- Developed TOMs for all HR workstreams (Day-1, 30, 90+)
- Provide HR intergration synergy estimates
- Provided HR integration inputs to master training schedule
- Developed T-30/T+30 cu-tover plans for all HR work-streams
- Managed detailed project plans and risks across all HR workstreams
- Facilitated cross-functional, intergrated change manage-ment and communications strategy and tactical plan

HR GOAL	STRATEGY/TACTICS
Engage employees	Scheduling Day-1 ceremonies and activities at each of new locations, including raising the flag, providing hard hats, coffee mugs and other "swag" with the company logo, handing out onboarding packages and explaining the purpose of the acquisition and what needs to happen for it to be successful. Developing targeted communications across multiple channels, including town hall meetings, video conferences, emails, posters and one-on-one conversations with mem-bers of a "SWAT" team comprising subject matter experts from operations, HR and IT (available to provide immediate support 12 hours each workday for the first four weeks).
Retain employees	Conducting stay interviews with every acquired employee, providing clarity on their role in the new organization and what to expect moving forward, including the company's mission, vision and values, leadership styles, available benefits, compensation, pay practices, policies and an introduction to their new manager.
Minimize disruption to plant operations	Creating a prioritized and normalized plan for all neces-sary training for days 1–30, 31–60, 61–90 and beyond.
Manage change effectively	Conducting a comprehensive analysis of the changes impacting all employees and creating role-specific job aids to help each employer understand what they should stop doing, start doing and continue doing. Developing a failure risk-analysis model to anticipate what could potentially fail (e.g., payroll, workforce scheduling system, ordering supplies, etc.) and what steps would be taken in these situations to remediate the risk.
Improve HR's business impact	Equipping, enabling and empowering the HR business partners to develop strategic relationship with the business leaders and add more value (e.g., through trend and issue spotting, predictive analytics relative to the workforce, increasing productivity, retaining employees and attracting top talent). Improving the HR shared services function by equipping the "AskHR" customer service to address all employee inquiries related to HR and benefits, and centralizing all administration and transactions related to pre-payroll pro-cessing, post-payroll reconciliation, employee data and records management, support for annual performance management process, support for workforce planning and annual benefits enrollment.
Accelerate post-close "time to productivity"	Identifying what needed to happen within the first 30 days to minimize business disruption and get integrated operations running smoothly. This included establishing email addresses, enabling single sign-on, communicating organizational changes, new work practices and policies, rationalizing workforce and time off schedules and ensur-ing new employees understood where to go for answers to their questions.

The following is a brief timeline view of the critical activities performed, the key (reusable) templates and deliverables created and the outcomes produced.

First Six Weeks

- Project plans for all nine HR workstreams
- HR project management office established, including protocols, reporting requirements, weekly meeting schedule and integration with the integration management office

First Six Months

- Discovery sessions completed (detailed in the sidebar)
- Data and information requests submitted and tracked
- Due diligence completed
- Integration plan developed
- Change management and communication strategies developed
- Risk identified with mitigation strategies for each

First 12 Months

- Successful integration
- Good Day-1 experience for all acquired employees
- TOM projects either completed or well underway
- Original synergies achieved and additional value identified

Excellent Outcomes

HR, Operations and IT all played pivotal roles. By collaborating closely, the three functional areas ensured that the goals for the acquisition were achieved:

ENGAGE EMPLOYEES.

The ceremonies held in all locations on the day of the acquisition and the clear messages conveyed from the outset on the rationale for the deal and next steps all contributed to this goal's success. The team received positive feedback on the roadshows. Several new employees who had been part of prior acquisitions said that this was the smoothest acquisition they ever experienced.

RETAIN EMPLOYEES.

The company rolled out the red carpet to retain key employees and the effort paid off. They exceeded their goal of retaining more than 90 percent of the designated employees.

MINIMIZE BUSINESS DISRUPTION.

Despite some challenges with conversion codes (e.g., floating holiday allocations converted to overtime), personnel changes and initial payroll were both executed without major problems.

MAXIMIZE SYNERGIES AND MANAGE RISK.

Each functional area was asked to add more synergies to the deal beyond what was originally estimated. They focused on finding additional value by leveraging the combined organization's larger scale to renegotiate and consolidate service provider and technology vendor contracts, share best practices, reduce compliance risks and financial penalties and automate highly manual work activities.

ACCELERATE POST-CLOSE "TIME TO PRODUCTIVITY."

Providing timely information to employees and training new managers on policy and procedures helped everyone get up to speed quickly. Observations, focus groups and employee surveys were used to measure productivity during and after all integration stages.

Discovery Sessions

- Current workflows, volumes exceptions, and challenges
- Roles and responsibilities
- Improvement ideas
- Potential change impacts
- Effective Communication approaches
- Total rewards strategies
- Talent strategies
- Recognition and rewards strategies
- Technology, tools, and data inventory and ratings

Typical Time Frames for the Three Phases of Integration After a Merger or Acquisition

Responding rapidly to emerging issues is essential to enable change and support employee productivity and engagement.

Your Clients Can Benefit from Following an Effective M&A Playbook

It's important to keep in mind that problems will arise with technology, operational workflows, methods and organization structures, potentially prompting the development of short-term solutions. Responding rapidly to emerging issues is essential to enable change and support employee productivity and engagement. The expected outcomes of the deal are very dependent on how people contribute and their sense of belonging and purpose, the evolution of team-based and overall corporate cultures and belief in leadership.

As their legal counsel, your clients depend on you and your partners for guidance on how best to ensure the success of their merger or acquisition. An effective M&A playbook will be highly sensitive to industry variations and tailored to the size and complexity of deal.

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