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INTRODUCTION

The booming economy has prompted U.S. companies to pursue growth through mergers and acquisitions (M&A) at an unprecedented pace over the past decade. Companies in every industry and of every size are striving to create unique competitive advantage by buying, joining, or spinning off companies in the same, related, or even unrelated markets. By building market share, creating economies of scale, linking different but related business processes, increasing economic stability, funding growing businesses, or simply creating a larger version of themselves, many companies hope to increase revenue and profit at an accelerated pace that would otherwise be impossible.

Source

The pace of new mergers and acquisitions shows no signs of slowing. In 1999, mergers and acquisitions deals amounted to a total valuation exceeding $3.4 trillion in corporate America alone. This figure represents a 30 percent increase over the activity of 1998, which was already 20 percent more than 1997.2

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Even though studies indicate that up to 70 percent of M&A transactions fail to deliver value, companies continue down this external growth path. Why? If companies carry out M&A transactions effectively, mergers and acquisitions can be an excellent, perhaps unparalleled, vehicle to create rapid growth and value for shareholders.

However, carrying out a successful merger or acquisition has proven illusive to even the most experienced and successful of companies. The challenges presented by a merger or acquisition are enormous and typically underestimated.

As many companies are discovering the hard way, the human resources and HR systems functions are critical to the success of a merger or acquisition. In our increasingly knowledge-intensive marketplace, the acquisition of human capital is at the top, or close to the top, of many companies’ lists of M&A objectives. In light of this, employee retention and satisfaction are key goals that warrant increased focus throughout the M&A process.

In Section I, we will address the challenge of M&A, looking at both failures and successes, and examine some M&A best practices for both HR and the enterprise as a whole.

In Section II, we look more closely at the functions that HR performs during a merger. We will examine HR’s role during both the due diligence phase and the post-announcement, integration phase. We will address both the functions HR performs on an enterprisewide basis as well as internal, HR departmental integration issues.

In Section III, we will examine some best practices of HRMS merger integration. We will look at topics such as how to structure your HRMS integration team, key HRMS integration decisions, setting priorities, and data integration strategies.

Finally in Section IV, we will examine HRMS selection criteria that are important for you to consider when choosing an HRMS solution for an M&A environment. We will also look at how Oracle’s PeopleSoft Enterprise HRMS addresses many of the issues important to successful M&A integration.

In an appendix we have included a case study of a PeopleSoft Enterprise HRMS customer who has proven success in M&A system integration.

SECTION I: EXECUTING WITH SUCCESS: THE CHALLENGE OF M&A

The Challenge of Successful M&A

Despite the dramatic increase in M&A activity over the past decade, the success rates that enterprises achieve are suspect at best. In one recent study, barely one-half of the M&A deals of recent years delivered shareholder value that outperformed even the relevant industry averages; and for large-scale acquisitions
or mergers, that rate was less than 25 percent.\(^4\) In fact, some of the brightest minds and most prominent business leaders openly disparage mergers as a growth solution. Warren Buffett, the famous investor and CEO of Berkshire Hathaway, recently commented, “I am very skeptical of most big mergers. The assumptions made tend to be very optimistic. People want to do deals—you start with that. There’s a lot of Darwin going on in companies. And people who get to the top want action. I’ve been on 19 boards in my life, and I’d say that the great majority of deals that I’ve seen were not very good deals.”\(^5\)

A recently completed study showed that 75 percent of mergers fail to deliver shareholder value greater than the industry average and that 90 percent of high-tech mergers fail to deliver expected revenue increase.\(^6\) Another found that up to 70 percent of M&A transactions fail to deliver value.\(^7\)

Apparently this failure rate is nothing new and, in fact, is rising. In 1995 Mercer studied 150 $500MM+ deals and found that 50 percent failed to meet financial objectives. Primary causes cited were inadequate due diligence, overestimation of synergies, conflicting corporate cultures, and poor/slow integration process. In 1996 Coopers & Lybrand studied 125 acquisitions and found that 66 percent failed to meet financial objectives. Primary causes cited were slow pace of integration and weak post-merger management.\(^8\)

**The Importance of HR from Due Diligence to Integration**

Each of the studies we cited above show poor or slow business integration (encompassing people, systems, and processes) as a key reason for deal failure. Since human resources departments are in the business of managing people or human capital, typically own one of the only systems with which all employees come into contact (benefits enrollment, personal data change, absence reporting, or paycheck review, for example), and are responsible for the processes about which employees care most (compensation, benefits, leave, and training), it would seem logical to include HR in the merger planning process.

However, according to a 2000 report by The Conference Board, a global business membership organization:

In many companies…HR is not being called to the table to discuss these issues during the merger planning process. Data from an earlier Conference Board study (conducted in 1994) among human resources officers demonstrate that less than

\(^7\) “Performance Measurement During Merger and Acquisition Integration,” The Conference Board, Research Report 1274-00-RR, p.3.
one-third of those surveyed reported having a major influence in the early stages of merger negotiation. However, after they concluded the deals and problems emerged, 80 percent of the companies surveyed said that the HR department then became a significant part of the merger team, drawing the attention of senior management.9

Because they focus so much on concrete product and financial goals, many organizations fail to identify the human capital risks and opportunities that are critical to achieving their M&A goals. If legal and finance experts drive the strategic work behind an integration, and human resources departments are largely ignored, many important human capital considerations will be overlooked and greatly impair the success of the deal. The most important of these human capital considerations are employee retention and productivity. One recent study of failed acquisitions found that management attrition rates soared 47 percent over the three years following the acquisition. Employee satisfaction dropped by 14 percent and productivity dropped by 50 percent.10 Such statistics illustrate just how high the human capital stakes are during a merger or acquisition.

One of the reasons that companies do not give the human capital component of a deal enough attention is, in fact, the immense complexity of the related issues. The following is a sample of the human capital challenges presented by a merger or acquisition:

- Align HR programs and policies with merger objectives.

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9 “Employee Communication During Mergers,” The Conference Board, Research Report 1270-00-RR, 2000, p.34.
• Analyze and address cultural differences.
• Evaluate and align compensation and benefit plans.
• Evaluate, select, and implement HR service models.
• Develop concrete retention goals and retention programs.
• Create new organizational structures.
• Integrate highly visible, mission-critical HR systems such as payroll.

Tackling such a diversity of human capital issues in the time allowed by merger integration deadlines can challenge even the most experienced, best-funded of HR departments. Adding to this complexity is the fact that each merger presents challenges that are unique to the particular company, country, region, or industry. If the deal is international, the complexities are simply compounded.

However, the risks of not tackling these large HR issues from the earliest stages of the integration planning process are enormous. Common failures that companies cited include:  

• Low retention of key value contributors and attendant replacement costs.
• Low productivity due to unclear and slow communications about job security and compensation.
• Selection of inappropriate levels of employee benefits for the industry or desired culture.
• Continuation of incompatible HR processes.
• Inadequate HRMS integration funding.
• Inability to provide mission-critical corporate reports on the combined organization.
• Funding of redundant or non-integrated people, systems, and processes.

The Success Secret

Despite the complexity and number of challenges faced by two merging organizations, there is a crop of companies that have achieved success in this area. Many, in fact, have been wildly successful. These companies have shown that with well-managed systems, practices, and formulas, successful integration of two entities can be achieved. Their success is measured by enhancements in shareholder value, market dominance, and employee and customer satisfaction.

The market is full of examples of companies that have achieved stellar success in the wake of one or more successful mergers or acquisitions. Tyco International experienced a 2100 percent growth in revenue. With over 60 mergers, Cisco

Systems’ stock has grown 45,000 percent in ten years, compared with 270 percent for the S&P 500. They have retained 98 percent of their key personnel and have demonstrated exemplary CEO retention. GE Capital and Citigroup have each topped $10 billion in annual net income as a result of their mergers and acquisitions. Fortune magazine’s #1, 3, 5, and 8 Most Admired Companies (GE, Microsoft, Berkshire Hathaway, and Intel) are all known for their successful M&A history. Fortune’s #2, 3, 4, 7, and 8 large employers Best Places to Work (Deloitte & Touche, MBNA, HP, Cisco, and Microsoft) also have demonstrated an outstanding M&A track record.12

Why is it that companies such as these have achieved such dramatic improvements in revenues, stock growth, and retention through M&A, while others experience such problems as attrition, stagnant growth, or drop in employee satisfaction?

Although we can cite a host of factors contributing to failure (cultural clashes, mismanagement, poor planning, timing, technology issues, and so forth), factors that contribute to an organization’s success are more illusive. There is a large body of research dedicated to unraveling the mystery of successful corporate integrations. It is not the intent of this paper to summarize that research, but to cull from it the HR-relevant findings and to examine how best practice HRIS departments respond to the challenge. Whether you are part of a larger corporatewide integration team or managing the integration of HR or HRMS, the following best practices will contribute to your success.

1. **M&A integration is a core competency and a dedicated business process.**

   Many companies have a dedicated team focused on the M&A deal-making process but few have teams dedicated to the M&A integration process. Successful integration requires a staff solely dedicated to the integration efforts and experienced in corporate mergers. For example, Cisco sees M&A integration as a key core competency and has invested in it with 35 full-time staffers from human resources, information technology, sales, and customer advocacy all dedicated to integration excellence. 14

   Companies that have a track record of M&A successes view M&A integration as an important system to be managed, resourced, and continuously improved. It’s a business process as important as any other key process. Like Cisco, many world-class integrators maintain permanently standing teams of experienced integration professionals.

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12 “Merger & Acquisition Integration Excellence - Executive Summary,” Best Practices, LLC, 2000, p.iv
managers. Like highly trained special forces teams, integration teams are always ready to handle the next acquisition or merger.\textsuperscript{15}

Even within an HR or HRIS department, you can cultivate and reward M&A expertise. If mergers are to occur on a semi-regular basis, you should establish a team that analyzes and implements integration best practices on an on-going basis. This team can turn a merger from a fire drill into a planned and organized event driven by staff experienced in M&A integration. This team should be responsible for ensuring the HR issues are addressed early in the M&A life cycle.

2. Starting early in the due diligence phase, people are made a priority and human processes are effectively managed.

Companies that have undertaken a number of mergers and acquisitions echo a common theme. That is the importance of aggressively addressing human capital issues from the very earliest stages of the merger, even during the due diligence phase. Philip H. Mirvis and Mitchell Lee Marks write in Managing the Merger, “The key to countering merger madness is to manage the human processes effectively—before the sale, as the companies combine, and in the aftermath.”\textsuperscript{16}

Cisco has been rated especially successful at retaining key employees in no small part due to their focus on people issues. Its annual acquisition turnover is three to six percent—well below the industry average and most of the 60 CEOs from acquired companies are still at Cisco. The people focus means that Cisco typically wants all employees at the acquired company to stay on after the merger. It treats people as the primary asset from the earliest stages of negotiations. Cisco integration staff spend a great deal of effort mapping employees into their new positions and typically stay onsite for two to four weeks after announcement listening to and addressing employee concerns.\textsuperscript{17}

3. Integration management team crafts an action plan and then executes upon it.

Upon deal announcement, many organizations are shocked to discover just how many aspects of the business require strategy, headcount, resources, and time to effectively integrate. They have closely examined the value of the deal yet they often overlook the impact of the deal—on things other than revenue. The best way to circumvent this problem is to craft and assiduously implement an integration management action plan that is highly structured and yet flexible enough to reflect individual deal nuances.

The plan guides the integration team through the complex tasks of selecting management teams, blending cultures, communicating regularly to stakeholders,

\textsuperscript{15} “Merger & Acquisition Integration Excellence - Executive Summary,” Best Practices, LLC, 2000, p.vi.
\textsuperscript{17} “Performance Measurement During Merger and Acquisition Integration”, The Conference Board, Research Report 1274-00-RR, p.8-9.
removing redundancies, combining operations, divesting facilities, meshing policies, combining products, consolidating brands, and carrying out many other critical integration activities.

4. Performance measures are set early and closely monitored.

Many companies with proven M&A integration excellence use performance measures throughout the integration process to monitor business functions critical to the success of the merger. In a survey of senior executives at companies that had recently undergone mergers and acquisitions, Cisco, GE Capital, Lucent, and Hill-Rom testified to how M&A integration activity, when programmed as a regular business process, can benefit from performance targets and tracking. 18

The strategic drivers of the deal should determine the choice, priority, and level of performance targets. For example, if you were to undertake an acquisition primarily to acquire the talent of the company, you should target very low turnover rates. If, however, the primary driver of the acquisition was customer base, then you should expect higher turnover.

According to The Conference Board study Performance Measurement During Merger and Acquisition Integration, during the critical initial phase of the integration there are a number of measures that help to guide the integration team regardless of deal strategy:

- Management retention and satisfaction.
- Employee retention and satisfaction.
- IT and communication systems integration.
- Customer retention.
- Sales force integration.
- Cultural integration 19.

By reporting the results of these measures at regular integration team meetings, companies have a much greater chance of not losing sight of their targets and of successfully integrating two corporate entities.

It’s remarkable to note that four of the six measures cited by The Conference Board are HR-or HRMS-related measures: employee and management retention, employee and management satisfaction, cultural integration, and IT and communication systems integration. Oracle’s PeopleSoft Enterprise system offers assistance in several of these areas. Oracle’s PeopleSoft Enterprise Workforce Analytics product line offers in-depth retention analysis. Companies can measure employee and management satisfaction as part of the retention toolset. And the

18 “Performance Measurement During Merger and Acquisition Integration,” The Conference Board, Research Report 1274-00-RR, p.3.
open architecture of internet-based PeopleSoft Enterprise HRMS products enables rapid systems integration and deployment. Once again Cisco serves as an example of M&A integration best practices. As a key component of the integration business process, Cisco’s business unit manager and target-company CEO use performance measures to set revenue, product, technology, and people goals for the acquired company. “During weekly planning meetings prior to closing, cross-company virtual team members set integration plans and performance milestones. Once an acquisition is publicly announced, the integration process goes into action. Weekly progress reports on milestone deadlines help determine where additional resources and attention should be directed.”

5. Employee retention is a key goal from the beginning phases of the deal.

With the expanding role of the knowledge worker in all industries, we can not overstate the importance of employee retention. Companies with a history of M&A integration success almost invariably set retention goals at the earliest phases of the integration planning. In fact, you should address retention goals even during the due diligence process. During this phase, you should establish the relative importance of retention and retention goals. This will help to identify the extent to which employee retention is a risk factor and therefore help to determine deal value. Also during the due diligence phase, we recommend that you identify all senior management positions, thus reducing turnover in the most critical positions.

Once you set retention goals, the programs and processes required to meet the goals will automatically gain greater visibility. Traditional retention tools such as increased compensation, benefits, stock, and responsibility are more likely to be worked out in a timely manner and communicated early in the integration process if you set such goals from the beginning. Other factors leading to turnover such as employee communication and cultural integration will also gain increased visibility if you set retention goals early on.

Mary Jane Raymond, merger integration vice president at Lucent, explains:

> Employee retention is the most universally monitored performance measure at Lucent for every acquisition. Our acquisitions are all about growth and talent; we are buying the intellectual power of the people. To understand the dynamics, we first look at the historical retention. In fact, we discuss this during initial discussions with the new company. We then monitor new hires and losses in every one of our weekly integration meetings after the announcement. We discuss the losses, the reasons, the efforts to keep the people (discussion of opportunities, financial packages, equity, “getting to know Lucent” talk, and so forth), and what we may need to do differently with the next person. The new hires and losses are reviewed with the senior management every two weeks.

6. M&A experience is codified to enable even greater success in future mergers.

Most companies that excel at M&A integration have made it a priority to articulate and codify what they have learned from numerous acquisitions. As they gain new experience they constantly refine manuals, guidelines, project planning templates, and presentations describing the integration process. Since M&A integration teams and HR staff experienced in the company’s integration processes are subject to turnover like any other position, the only way you can develop a true core competency and business process is to codify what you have learned. Over time these documents become key to cultivating and maintaining M&A integration know-how.

SECTION II: THE FUNCTION OF HR FROM DUE DILIGENCE TO INTEGRATION

Now let’s take a closer look at the functions that HR performs during a merger. We’ll examine HR’s role during both the due diligence phase and the post-announcement, integration phase. We will address both the functions HR performs on an enterprisewide basis and the internal, HR departmental, integration issues.

The impact of a merger or an acquisition reaches both broad and deep into the HR function. We can break down this impact into two categories:

- Merger-related activities in which HR performs functions that facilitate deal analysis and enterprisewide integration.
- HR/HRMS business integration activities.

Deal Analysis and Enterprisewide Integration

Successful mergers call upon both HR and HRIS to participate in important activities during the due diligence phase. Human resources managers typically provide data and analysis on the target company’s management, talent, compensation and benefits, HR practices, technology, cultural fit, and change management risk factors. This information enables a more accurate analysis of the feasibility, value, risk, and cost of the deal.

Once the company announces the deal, HR management has numerous enterprise integration functions that they need to handle. Executive management looks to HR to provide recommendations on strategies for communication, workforce redundancy analysis, staffing, and transition teams. HR typically takes a leadership role in the cultural integration of the newly combined enterprise.

HR/HRMS Integration Activities

In addition to these enterprisewide functions, HR and HRIS departments have, of course, the enormous task of integrating two companies’ HR policies, processes, and technologies. At a bare minimum, each employee needs to be assigned to a job (even if these change over the course of the integration). You also need to in some
way account for basic employee data that you need to generate paychecks, such as personal, job, and compensation data for all the employees of the new enterprise. Beyond assigning jobs and generating paychecks, there lies an enormous field of HR/HRMS activities that you need to address.

HR/HRMS M&A integration activities resemble accelerated business process reengineering projects in many ways. However, the more complicated issues of aligning HR programs and polices with merger objectives, cultural compatibility, HR service models, and deals spanning multiple countries can be fairly complex and unique to the particular company, industry, region or deal, and certainly unique to M&A integration. It is the identification of these idiosyncratic issues that requires experience with many M&A deals. It is also these same nuances that require a flexible HRMS solution with deep functionality to codify and accommodate the combined enterprise’s complexity.

We can break down the HR/HRMS business integration activities into three categories:

- HR policy and plan alignment.
- The organization of the HR function.
- HR service delivery model.

HR needs to review all its plans and policies with an eye toward the new, combined enterprise. It must ensure that all plans and policies, from incentive compensation to dress code, support new business goals, merger objectives, and the merged company profile. Analytical tools can assist in the process of new plan creation. Using their modeling and planning capabilities, you can create multiple iterations of your proposed compensation and retention plans and evaluate the impact on cost and employee satisfaction.

The organization of the HR function will sometimes change as a result of an acquisition but very often does change in the case of a merger. You need to evaluate and often refine roles, responsibilities, and skills of the HR staff and revisit previous outsourcing/insourcing decisions with new analysis of business value and cost to the combined enterprise.

The evaluation and integration of the HR service delivery model often involves a relatively high level of risk. If you’ve previously made an investment in an HR or payroll system that cannot accommodate the new, and typically more complex requirements of, the combined company, you may have wasted millions of investment dollars. If, on the other hand, either company previously implemented a flexible, intelligent, global solution, you may have saved millions of dollars. In such an instance, you can execute the integration of the new company onto the system in a relatively short period of time.

During integration planning and execution, upper management relies heavily on the HRIS department to produce headcount, redundancy, compensation, executive compensation, and turnover reports on the combined company. Given the
likelihood that the HRIS department will have to collect, synthesize, and analyze enormous amounts of information during these earliest phases, enabling technology is absolutely critical to the rapid and effective execution of HR M&A activities.

You must also evaluate and modify workflow, self-service, data platforms, and other HR technologies to accommodate the needs of the new company.

SECTION III: HRMS M&A INTEGRATION: BEST PRACTICES FOR HRMS MANAGERS

Now we're going to examine HRMS merger integration best practices. The following should assist HR/HRIS practitioners to prepare for an upcoming merger and to structure your HRMS integration based on integration strategies of best practice companies.

Anytime a company acquires, merges, or divests another, it means that resources and systems are being reorganized or reshuffled in some significant way. As IT executives and managers plow through the issues posed by M&A, they must figure out how to combine technologies and systems. According to CIO magazine,

> The key to creating a final entity that will be up and running swiftly with grace and power is to perfectly splice the tendril-thin nervous system of the living organism. … Information technology may be a small item on a finance report, but if you neglect the basics of IT management in a merger, one dark and stormy night you will be sure to have an angry mob of stockholders marching on your office waving pitchforks and torches …

To maximize the new efficiencies offered by a merger or acquisition, strive to pick [one] single, intact technology suite from one of the pre-merger companies as the basis for the merged companies.22

Integrating two companies with often widely divergent workforces, benefit plans, compensation plans, organizational structures, payroll and time capture solutions, union contracts, and other HR practices onto one HRMS is challenging even under the best of circumstances. Adding to this challenge is the fact that today many mergers and acquisitions involve multinational companies, or at least companies in different countries. The legislative, regulatory, and cultural requirements compound the complexity of the merge.

It helps to think of HRMS M&A integration as just another implementation project. A significant percent of your analysis and system modification will, in fact, be similar to a single-company implementation.

However, there are two important differences with an M&A HRMS integration/implementation project. First is the extremely short period of time you have to go live with combined company data. Second, you are working with two sets of HR policies and plans. You'll reengineer some of the most important policies and plans into one set prior to having to codify them in your HRMS, while

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others will have to coexist in your HRMS indefinitely or until HR can roll out new policies and plans to the combined enterprise.

**Getting Things Rolling**

Before you make any decisions, you need to establish a project team. If your company has been involved in previous M&A activity, you will hopefully have M&A-experienced HR/HRIS staff. As we discussed earlier, companies that participate in mergers on a semi-regular basis should have a project team at the ready to begin tackling the integration.

Typically you will want a project manager, and one or more business analysts, systems managers, information analysts, and payroll specialists, as well as project support and accounting representation. Depending on the size of the two companies, you will want to involve HR representation from both companies to varying degrees. In the case of cross-border deals, you’ll likely need both a country team and a functional team due to the country subsidiary/functional structures and to the legislative, regulatory, and cultural requirements of the country.

A key area often neglected or forgotten during the initial phases of a merger is obtaining funding for the HRMS M&A integration activities. As anyone who has been involved in an implementation knows, adequate funding is key to project success. From the outset determine the target production date, drop-dead date, and the repercussions if the date is missed.

The necessity of IT involvement at an early stage in the integration cannot be overstated. According to the Corporate Leadership Council:

If the HR director can talk to the IT manager at an early stage, explain how the HR functions as a whole are likely to be integrated, what changes, if any, may be initiated, and what the HR department would like its IT system to do, there is a better chance that HR will get a system it can work with. If the IT department does not know about any strategic plans, proposed changes and the like, it cannot possibly develop a system which suits the newly merged HR department and its needs for servicing a restructured group.

**Selecting and Structuring your Combined HRMS Solution**

Before you can address any specific HR functions in your HRMS, the project team needs to address some fundamental questions:

- To what extent will we keep HRMS in-house?
- Will we centralize or decentralize the overall service delivery model?

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23 “Acquisitions and Mergers: Is there a right way?,” Linda Wells, IHRIM.link, June/July 2000, p.25.
• Which HR functions will we centralize and which will we decentralize?
• How will end users and internal customers access the needed data and services?
• Which company’s HRMS solution should we adopt?

To make these high-level decisions, the project team will typically gather data on both companies and compare it to benchmark data from either a best practices study or from one of the two existing companies. This analysis typically will indicate which company’s HRMS solution comes closest to accommodating all of the combined company’s strategic HR plans.

Once you select the HRMS solution, the project team should now begin to structure the new target system. Centralized/regional/local/business unit/functional teams need to begin constructing their piece of the system.

Of course, before anything is actually done to the HRMS system, these teams will examine the HR functions of the two companies to determine how congruent the processes, practices, plans, policies, and workflows of the companies are. Where they are different, the project teams will either map out new practices for the combined company, or determine how to accommodate two different sets of practices in one system.

**HRMS Integration Topics**

There is almost no facet of HRMS that M&A integration does not touch. The following is a list of the areas that you need to consider during integration.

**Phase I - Tactical M&A Considerations**

• Salary
• Training
• Incentive compensation plans
• Labor relations
• Stock options/ESPP
• Budgeting
• Benefit plans
• Payroll
• Pension
• Time capture
• 401(k) plans
• Absence management/leave administration
- HR structure: Multiple jobs? Concurrent jobs? Position management? Expatriates?
- Organization structure
- HRMS data management
- Employee/management access to HRMS data
- Staffing
- Communication program

Phase II - Tactical M&A Considerations
- Performance evaluation
- Career planning
- Competency management
- International assignment
- Succession planning management
- Recruiting processes

Process Reengineering
- HR process flow
- Workflow
- Signing authorities

HR Technology
- System architecture: centralized versus decentralized
- HR technology selection: HRMS, database, workflow, self-service selections
- Data integration
- Interface creation
- Self-service vehicle; service delivery mechanism
- Access rights (line management data access and decision support tools; employee access)

The Pay Function
- Pay frequency
- Taxes
- Calculations
- Garnishments
• Time reporting
• Check distribution
• Arrears balances
• Interfaces: banks, direct deposits, credit unions
• Labor distribution
• General ledger

The Benefits Function
• Number of programs offered
• Event maintenance rules
• Eligibility rules
• Defaults
• Open enrollment rules

Data Integration

From the earliest stages of an M&A integration, management expects HRIS to produce critical reports on the combined organization—reports that answer questions critical to the bottom-line corporate vision. Therefore, you need to focus on key report fields for the combined organization. Very often, top executives require summary headcount, compensation, and retention data broken out on a business unit and global/regional/local level during the initial phases of integration.

In addition to addressing the immediate reporting needs of upper management, the project team should determine for how long they can collect other (not yet integrated) data from other sources. If the integration will dissolve any of these sources, the team needs to create a back-up plan.

As the merger progresses, additional data elements, employee-level data, HR functional reports, end user access, and history will emerge as priorities as requirements for drill-down information arise.

The project team will need to determine how extensive an archive the company requires and how much history to bring over from the company being integrated. Job, compensation, and status history are the most commonly required fields; yet statutory requirements in some countries may require that you maintain more extensive history.

To integrate the data of an acquired company into your HRMS, you will typically use some form of conversion software or middleware. Conversion software is the likely choice when a full integration of the two companies’ HRMS functions takes place. If you are replacing one or the other’s HRMS or HR database, conversion
software will efficiently translate the data in the acquired company’s databases into a form that the acquiring company’s HRMS can understand.\(^\text{26}\)

On the other hand, you are most likely to employ middleware in situations where both companies’ HRMS solutions will coexist for a determined or indefinite period of time. Middleware enables multiple applications on different platforms to share data with one another. The acquiring company will typically employ middleware to facilitate communication among the systems at corporate and those at subsidiaries.\(^\text{27}\)

Finally, in small acquisitions, keying the data in by hand is the most efficient route.

The final data integration consideration is the creation of interfaces to outlying systems. Many HRMS/HR database solutions interface with one or more third-party applications that may require modification as a result of the merger. For example, many companies’ financial systems, pension, payroll, recruiting, or health and safety applications all come from different vendors and require separately maintained interfaces. If this is the case, then any change to the core HR solution will require a change to each of the interfaces.

**HRMS as M&A Process Facilitator**

Effective integration of HR technologies and systems can have a powerfully positive effect on the value creation generated by M&A. Research by Best Practices, a leading business to business research and consulting firm specializing in best practice benchmarking, indicates that the first order of business is to “quickly link communications and computer systems to enable the workforce to begin working as one.”\(^\text{28}\) Developing a solid infrastructure system is critical for the organizations to move forward as one. Without this infrastructure, the entity cannot effectively set strategic direction, manage relationships, and realize maximum efficiency. Effectively managed technology and systems integration can be a great source of growth synergy and cost savings. Best Practices indicates that successful technology integration requires assessing and prioritizing integration opportunities, implementing the integration plan, and managing to retain key technologists.

**SECTION IV: HRMS VENDOR SELECTION: M&A CONSIDERATIONS**

In this final section, we will examine HRMS selection criteria that are important to consider when choosing an HRMS solution for an M&A environment. We also look at how PeopleSoft Enterprise HRMS addresses many of the issues important to successful M&A integration. You can use this section to assist you in either of the following activities:


• Selecting an HRMS vendor for a company with M&A activity in its future.

• During a merger, choosing between the two HRMS solutions that are in-place at each company involved the merger.

Nowhere does a poor HRMS vendor selection become more apparent than in a merger or acquisition. The HRMS provider you select can make the difference between a quick, relatively pain-free integration period during which you continue to meet the combined company’s data requirements, and a long, tortuous integration period during which many key HR functions, reports, and data are inaccessible.

According to Lisabeth Capozzi in HR Journal,

The (problem) was that the AMP employee policies, benefits, compensation, and payroll systems had become so enmeshed over time that it was difficult to change one component without affecting all of the others…(acquired) companies that wanted to alter vacation or personal time policies were faced with a payroll system that could not accept such changes without programming alterations.29

Whether you are selecting an HRMS solution for a regular implementation and anticipate mergers and acquisitions in your company’s future, or if you are choosing between the HRMS solutions of each company involved in a merger or acquisition, there are several critical factors to consider in your evaluation.

**Time to Production/Rapid Deployment**

Since a company can lose millions of dollars if HRMS systems are not up and running quickly and efficiently following the announcement of the merger, it is imperative to select a system that will enable rapid implementation and deployment. The application configuration, organizational values, employee data, integration with disparate systems, and distributed application access must each be able to respond with lightning speed during a typically very short integration period. As mentioned above, from the earliest stages in the integration, upper management relies heavily on HRIS for turnover, redundancy, and compensation reports on the combined enterprise.

The PeopleSoft Enterprise application toolset, architecture, and intuitive GUI enable extremely rapid customizations, conversions, and deployment in an M&A environment.

The technology foundation for all PeopleSoft Enterprise applications is PeopleTools. This easy-to-use, visual toolset enables a wide range of users—from systems analysts to functional experts—to quickly develop, change, and maintain complete, flexible business solutions. PeopleTools contributes greatly to the overall speed of implementing PeopleSoft Enterprise applications. According to a 1999

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Implementation Study, the implementation time for PeopleSoft Enterprise HRMS was 4.8 months. PeopleSoft Enterprise M&A customers use PeopleTools to quickly and effectively tailor PeopleSoft Enterprise applications to address the unique requirements of the newly combined company.

Another important factor in rapid deployment is the ability to standardize on one technology architecture. If everyone can use a browser access, for example, you can eliminate PC upgrades and achieve substantial cost savings. Also, organizations can finally make ubiquitous system access a reality. As long as users have a thin client (laptop or PDA) they can access the corporate application anywhere, anytime through industry-standard Web browsers without downloading any additional software. Since none of the PeopleSoft Enterprise applications require installation and implementation on the client, rolling out the HRMS solution to the newly merged company (even on a global basis) is fast and easy.

PeopleSoft Enterprise’s open architecture makes integration a less daunting task. As a result of a merger, your HRMS may need to be rapidly integrated with third-party solutions, legacy systems, and strategic suppliers. Powerful integration technology provided by Oracle’s PeopleSoft Enterprise Open Integration Framework enables third-party systems to be seamlessly integrated into PeopleSoft Enterprise applications through XML messaging, EDI, or component interfaces. Typical development and testing may take hours, not weeks. And this may be essential in producing payroll, executive reports, and organizational analysis during the weeks and months following a merger.

Finally, PeopleSoft Enterprise’s intuitive user interface enables the new users at the acquired/merged company to get up and running quickly. PeopleSoft Enterprise applications are designed on internet/browser standards so they are readily recognizable as internet applications, not Windows client/server applications ported to the internet.

**Ability to Handle Unique Requirements**

Typically when companies select an HRMS vendor, they base their decision upon a single (their current) set of business requirements. When these companies are later faced with a merger or acquisition, suddenly a whole new set of requirements surface. Julie Williams, the Personnel Systems Manager at Colonial, a global financial services group of almost 30,000 employees, comments on her company’s HRMS selection process,

> In retrospect, the one item that should never be underestimated (during the evaluation) is the capacity of the application to handle multiple streams of employment conditions and business rules that are constantly changing for individuals or groups of employees…With each acquisition there are new configuration elements with which to contend.\(^{30}\)

The product breadth, depth, and ease of customization of PeopleSoft Enterprise HRMS enable companies to accommodate the new company’s unique employment conditions with ease. The PeopleSoft Enterprise suite of applications can handle the majority of the complex and varied employment conditions you will encounter during your M&A activities. Even in HR functions that typically have the greatest variety of rules, the comprehensive rules engines of Oracle’s PeopleSoft Enterprise Global Payroll and Oracle’s PeopleSoft Enterprise Time and Labor enable you to create your own rules using a user-friendly toolset.

Historical clauses and conditions, and grandfather rules are the norm in an M&A environment. Within PeopleSoft Enterprise HRMS, multiple, unique, even contradictory, rules, and plans can coexist in a single database and be applied to different employee groups.

On those occasions where our delivered PeopleSoft Enterprise applications do not meet the requirements of the newly combined enterprise, the PeopleSoft Enterprise Application Designer toolset enables you to customize the application to meet your needs. The PeopleSoft Enterprise Application Designer was created with the end user in mind—functional as well as technical staff, with no hard coding required. In a matter of minutes, you can add new fields, reorganize a page, create default values, or perform endless other application customizations.

**System Flexibility**

The flexibility of HR systems is truly put to the test in the case of mergers and acquisitions due to the incredible variety and fluidity of HR practices and technologies. The PeopleSoft Enterprise architecture, global design and functionality, workflow, security, data manipulation tools, and technology work together to create a flexible HRMS solution.

The PeopleSoft Enterprise architecture enables you to operate in either a centralized or decentralized environment. You can run all your HR applications at a single, centralized site or distribute the processing out to your business units, regions, or locations. Full integration with Directory Servers LDAP enables you to set up security on a centralized or decentralized basis. You can securely replicate application data across multiple databases via Application Messaging.

An ever-increasing percentage of mergers involves companies with operations in more than one country. Even if you currently operate in only one country, the flexibility to expand globally is imperative. A global workforce requires tremendous application flexibility to accommodate the diversity of HR processes, policies, and plans found around the world.

The PeopleSoft Enterprise solution delivers a truly global enterprise architecture that provides clear access to a collective view of your worldwide operations while at the same time seamlessly integrating local functionality. You can manage your entire worldwide operations from a single database and with one code line, not many. Oracle’s PeopleSoft Enterprise HRMS delivers a complete global solution.
for Human Resources, Payroll, and Time and Labor. Each product features a “one engine, many countries” architecture.

You can change, slice, and dice data in your PeopleSoft Enterprise system with tremendous flexibility, enabling you to keep pace with the often-rapid organizational changes accompanying a merger. You can structure and alter the actual data in the database through powerful GUI tools such as the Tree Manager and Mass Change. The Tree Manager enables you to create organizational structure, departmental org charts, succession plans, and department security using point-click-and-drag technology. Mass Change offers secure and reliable updates to selected groups of people. With PeopleSoft Enterprise’s Group Build, OLAP, Performance Measurement, SetID, and Query technologies, you can slice and dice your employee population in endless ways to perform both transactions and analysis. Historical, current, and future data and metadata are maintained and seamlessly updated via effective dates.

Analytics

Close monitoring of performance metrics throughout the merger integration period will greatly enhance your chances of success. If you can identify areas of trouble, such as high turnover and employee dissatisfaction, as soon as they emerge, you can put initiatives into motion to correct the problem.

PeopleSoft Enterprise Workforce Analytics enables you to perform these important functions through a customized portal. Upper management can gain insights such as, “Are all managers handling the merger effectively?” and “In what region is this merger working best?” Departmental managers can use Oracle’s PeopleSoft Enterprise Workforce Scorecard to review important merger metrics such as staffing, turnover, and compensation.

Through Oracle’s PeopleSoft Enterprise Workforce Rewards you can proactively set up specific plans to retain key individuals acquired in a merger or acquisition. It helps you to track newly acquired employees who possess critical skills, represent a high development investment, or show high potential for future development. Using third-party employee survey data, you can assess the turnover risk for these key employees and proactively counter market and competitive pressures. You can analyze retention issues, conduct defection analysis, and evaluate the impact and effectiveness of your merger retention policies.

In order for you to get the most out of analytics, the tool must do more than just give you a mere window into current HR practices. It must enable you to simulate scenarios to determine the impact of M&A change. Based upon Oracle’s PeopleSoft Enterprise Performance Management toolset, the PeopleSoft Enterprise Workforce Analytics data warehouse enables you to model the newly merged organization and compare, contrast, and change significant organizational categories, such as titles, levels, and job codes. You can analyze the distribution of your workforce, helping to identify redundant workers. PeopleSoft Enterprise Workforce Analytics provides you with an easy-to-use toolset with which you can
plan your future organization, simulate change, and provide feedback to your core enterprise applications. This is where the true power lies, and it can revolutionize HR’s impact on the merger and acquisition process.

**Scalability and the Internet Computing Model**

One of the greatest HRMS challenges during a merger or acquisition is extending the infrastructure to include a new sizable group of employees. This includes database volume, distributing the system to new locations, and providing new end users access to the system. Julie Williams describes the challenges a company can face with a legacy HRMS: “Not all sites use the same desktop software suite, and those that do can be running different versions. The complexity, size, and cost of network conversion projects mean they make slow progress, but business integration (during a merger) is an immediate imperative, and there is a need to work around these obstacles.”

The PeopleSoft Enterprise internet architecture, however, enables you to easily expand and distribute your HRMS solution to include the new company without the nightmare and expense of desktop and network conversions. As long as your new locations and end users have a browser and TCP/IP they can use all of the PeopleSoft Enterprise HRMS functionality. No installation on the client is required. PeopleSoft Enterprise HRMS applications are scalable as a result of the internet-based architecture. This pure internet, server-centric architecture enables you to easily scale your system as your company grows. Doubling your workforce as a result of a merger? No problem. You can add Web servers and application servers to easily scale your system to meet your new processing requirements. We have partnered with leading middleware vendor, BEA Systems, and embeds BEA’s WebLogic and Tuxedo products to deliver highly scalable, comprehensive enterprise applications.

**CONCLUSION**

As you can see from the above paper, when M&A integration is managed with forethought, expertise, a focus on human capital, and a state-of-the-art HRMS, it can prove to be an opportunity for tremendous HR/HRMS success. From an IT and process standpoint, well-managed M&A integration can provide the opportunity to build one global system, retire legacy systems, streamline processes, reduce data entry, achieve ROI, enhance global reporting, and provide better access to better information.

Oracle’s PeopleSoft Enterprise HRMS provides the rapid implementation technologies, the ability to handle unique requirements, the flexibility, the analytics, and the scalability and internet computing model to enable you to achieve these opportunities while quickly and seamlessly integrating two corporate entities.

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APPENDIX: CASE STUDY—VERIZON
Computing Environment:

- Hardware: IBM S/390
- Database: IBM DB2

Products:

PeopleSoft Enterprise Human Resources, PeopleSoft Enterprise Payroll

“We achieved significant efficiencies related to information access, the processing of information, the approval process, and leveraging the Web. PeopleSoft clearly contributed to the savings that we achieved for the new merged company.”

Michael Bott, Senior Vice President of Information Technology and Corporate Systems.

Verizon Manages Mergers with PeopleSoft Enterprise HRMS

One of the largest and most dynamic companies to arise from the recent spate of mergers and acquisitions is Verizon Communications. Verizon took the fast track to become one of the world’s largest global communications companies—it is the offspring of a series of mergers and acquisitions dating back to 1997. C-level executives in several communications companies saw mergers and acquisitions as a good way to increase market share and profitability—and they turned to PeopleSoft Enterprise software to make it happen.

For a better understanding of the Verizon success story, we can take a look at the history of Bell Atlantic, one of the former companies that was merged into Verizon. Bell Atlantic became the second-largest communications company in the United States in April 1996 when it announced a $50 billion deal to merge with Nynex, another regional communications company. The merger enabled Bell Atlantic to serve the communications market from Maine to Virginia.

A company growing on such a scale should expect some difficulties in absorbing its many components and employees. After all, the deal combined 68,000 Nynex employees with 65,000 Bell Atlantic employees, and the two companies used different HRMS systems. Nynex had been a PeopleSoft customer since 1993, having implemented PeopleSoft Enterprise Payroll and PeopleSoft Enterprise Human Resources. At the time of the merger, Bell Atlantic was still using a legacy HRMS system, which was not Y2K compliant. When the merger was announced, Bell Atlantic took the opportunity to evaluate Nynex’s PeopleSoft Enterprise implementation. As a result, they decided to convert their employees to the Nynex implementation on the PeopleSoft Enterprise HR platform. Bell Atlantic also decided to consolidate its financial and human resources systems on PeopleSoft Enterprise.
The migration to PeopleSoft Enterprise enabled Bell Atlantic to retire one legacy payroll system and seven time-recording collection systems that were not Y2K compliant. Aside from ensuring that the systems would work at the turn of the millennium, the move to one new, integrated system had other benefits. “We definitely had improved accuracy of data and created a more attractive front-end process for the most part,” says Anthony Puzzo, former director of HRMS and now executive director for procurement and logistics systems at Verizon. “We were able to attain some of the synergy savings we were looking for by reducing costs within the information system organization by consolidating a number of the staff functions and putting them on one platform. Putting them onto the PeopleSoft Enterprise platform meant they took fewer people to maintain.”

Today the PeopleSoft Enterprise HRMS implementation is complete in most of the old Bell Atlantic. The effect on the bottom line was impressive. By 1999, Bell Atlantic had revenues of $33 billion and was using it PeopleSoft Enterprise system to keep track of 150,000 employees in 110 business units.

Michael Bott, senior vice president of information technology and corporate systems at Verizon says, “We achieved significant efficiencies related to information access, the processing of information, the approval process, and leveraging the Web. PeopleSoft Enterprise clearly contributed to the savings that we achieved for the new merged company.”

One System, 150,000 Users

The results mirrored Bell Atlantic’s objectives going into the project. The company wanted to implement common systems that were more flexible and improved the timeliness and accuracy of data. Achieving operating efficiencies through best practices was a priority, together with retiring outdated and inflexible legacy systems. Functions and processes that would be impacted included asset management, human resources, financial management and reporting, labor relations, and treasury management.

Bell Atlantic was able to consolidate its operations to one global server during the transition. “Because the product is so diverse, you can look at international as well as full domestic coverage, so it allows you to easily accommodate merging two companies together,” says Puzzo. “We now have one global database that can be accessed by anyone in the company.”

Moving to one database gave Bell Atlantic an opportunity to rethink many of its business processes. “Overall, the plan of action was to identify gaps in processes,” says Puzzo. “We looked at different things like pay cycles and different benefit programs that we would have to accommodate. Then we put teams in place to document those gaps and come up with strategies for either migrating people and communicating changes, or modifying the existing process. We changed some things within the PeopleSoft Enterprise application to accommodate gaps, but we tried to stick to existing processes as much as we possibly could. PeopleSoft
Enterprise applications really accommodate you when you do have gaps, and help you fill them within a short time frame.”

During the merger, the PeopleSoft Enterprise system helped Bell Atlantic handle unique requirements such as new classes of employees, reward systems, and different types of workers. “Overall it functions very well,” Puzzo says. “The difficulties that we have really come in on the time side and the number of different possibilities that we have in order to calculate gross pay. This is not necessarily a unique situation for Bell Atlantic. I think within the telecom industry and any utility industry where you have lots of unionized employees, you’re going to have many different ways of calculating pay. PeopleSoft Enterprise is flexible enough to allow us to introduce changes.

“PeopleSoft Enterprise definitely helped our HRIS environment,” Puzzo continues. “One of the big advantages for our customer organization was that they were able to go to a shared services model.

The tools and processes within PeopleSoft Enterprise applications allowed for an easy migration to the shared-services environment.”

The company used PeopleSoft Enterprise Payables over its intranet for employee expense reimbursement and payment of supplier invoices. PeopleSoft Enterprise Payables users initially numbered 40,000, with another 30,000 joining in later. Performance appraisals, external job postings, and other HR functions also came to be handled over the Web as the system was rolled out to even more users. The PeopleSoft Enterprise solutions’ ability to bring employees together over the Web proved a boon to Bell Atlantic.

“Bell Atlantic was probably one of the largest users of PeopleSoft in the world,” notes Bott. “We collected time for approximately 150,000 employees using an integrated time collection system, and paid everyone through PeopleSoft Enterprise Payroll. The ability to pay 150,000 people—representing numerous pay cycles, union contracts, and tax jurisdictions—out of the new system was quite an achievement.”

**Becoming Verizon**

Shortly after consummating the Nynex merger, Bell Atlantic announced its intention to merge with another communications powerhouse, GTE Corporation. The deal was completed in July 2000, and the resulting company is called Verizon Communications. Bell Atlantic formed a separate alliance with Vodaphone/AirTouch in September 1999 to create Verizon Wireless, the largest wireless provider in the United States.

Before the GTE merger, PeopleSoft Enterprise was involved in seven separate evaluations within Bell Atlantic. In each case the evaluation teams selected PeopleSoft Enterprise software for its flexibility, ease of use, scalability, and reporting capabilities. These same attributes are what prompted Verizon to select PeopleSoft Enterprise as its ERP solution. While the company is completing the
deployment of its PeopleSoft Enterprise system for the former Bell Atlantic, it is developing plans to migrate the former GTE to a PeopleSoft Enterprise platform. Converging the entire new Verizon onto a PeopleSoft Enterprise system will represent one of the largest ERP implementations in the world. At $65 billion in revenue, Verizon is one of the largest companies in the world, and it plans to use PeopleSoft Enterprise to support significant corporate functions. Its fixed asset base is approximately $135 billion. The PeopleSoft Enterprise system will be used to manage acquisitions, retirements, transfers, and depreciation. Compensation, staffing, and training for over 250,000 employees will be supported by PeopleSoft Enterprise. Financial management and reporting will be supported with the PeopleSoft Enterprise general ledger and budgeting modules for more than 370 business entities. Employee expense management and payment of supplier invoices will be supported with the PeopleSoft Enterprise accounts payable and expense modules. These modules will assist Verizon in managing approximately $36 billion in annual disbursements.

Verizon will be looking to achieve additional savings as a result of converging the company onto one common ERP software platform. This will be done as the company moves to common processes in each of the functional business areas.

The transaction volume for Verizon will be significant. Ensuring that the software can scale to meet these volumes will be a key focus. Their implementation is in the DB2/MVS environment. After the last merger Verizon used a concurrent processing model. In doing so, they were able, with the payroll systems, to process multiple pay groups simultaneously. That was a big advantage for them because it cut their batch window from five hours to about two and a half hours. “Overall within PeopleSoft Enterprise HRMS, the information process flows are very fluid. With proper training and the experience that we’ve had with PeopleSoft Enterprise over the years it has become very easy to move people into our processes and have them functioning very quickly,” says Puzzo.
Poised for Growth: Mergers, Acquisitions, and HRMS
April 2001

Oracle Corporation
World Headquarters
500 Oracle Parkway
Redwood Shores, CA 94065
U.S.A.

Worldwide Inquiries:
Phone: +1.650.506.7000
Fax: +1.650.506.7200
oracle.com

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