



**Mercer's  
Asia HR Roundtable**

“The rise of HR in the new Asia”

13-14 April 2010

# MERCER

Consulting. Outsourcing. Investments.



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## Cross Border Initiatives

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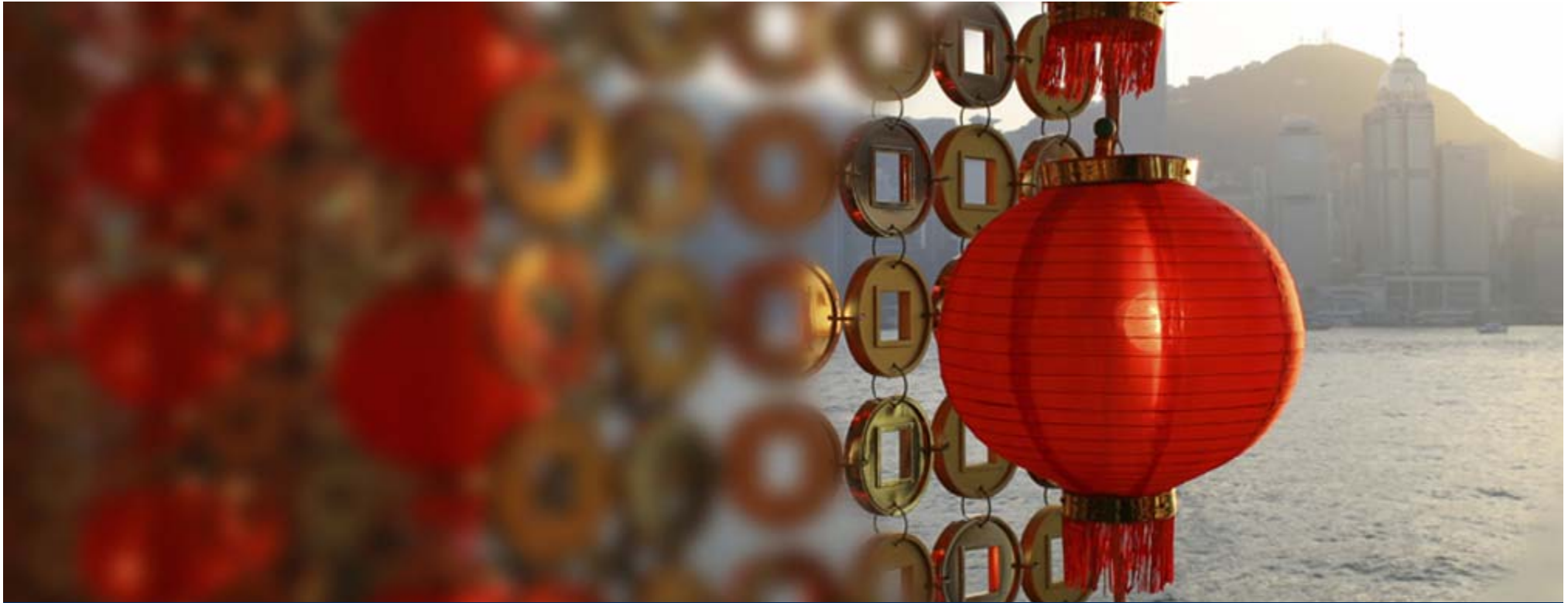
## Agenda

- Introductions
- Opening discussion
- Cultural considerations
- Effectively managing transactions
- HR Practices
- Wrap-up and close

## Opening Discussion

- **Cross-border transactions**
  - What makes them complex?
  - What is different?





# Cultural Considerations

## National Culture vs. Corporate Culture

### National culture

“the collective programming  
of the human mind”

Hofstede (1980)

### Corporate culture

“the beliefs and values shared by  
senior managers regarding  
appropriate business practices”

Schein (1985)



National culture forms one's values through early socialization,  
corporate culture involves the subsequent acquisition of  
organizational practices and symbols in the firm.

Hofstede (1990)

## National vs. Corporate Cultural Distances in M&As

**Cultural distance defined:**

**"the sum of factors creating a need for knowledge..."**

**...on the other hand, barriers to the knowledge flow...between the home and the target countries"**

Luostarinen (1980)

**"National culture differentials better predict stress, negative attitudes towards the merger, and actual cooperation, than corporate culture differentials do."**

Weber (1996)

## Some National Cultural Stereotypes...

- The Humility of the **French**
- The Generosity of the **Dutch**
- The Candor of the **Japanese**
- The Charm of the **German**
- The Punctuality of the **Spaniard**
- The Compassion of the **English**
- The Gentle Tact of the **Australian**
- The Discipline of the **Italian**
- The Language Ability of the **American**

Source: Subramaniam, A. (2009). Culture: How to bridge the gap and use cultural diversity to your advantage.

## More National Cultural Stereotypes...

### Heaven is where...

the cooks are French

the mechanics are German

the policemen are English

the lovers are Italian

..and it is organized by the  
Swiss

### Hell is where...

the cooks are English

the mechanics are French

the policemen are German

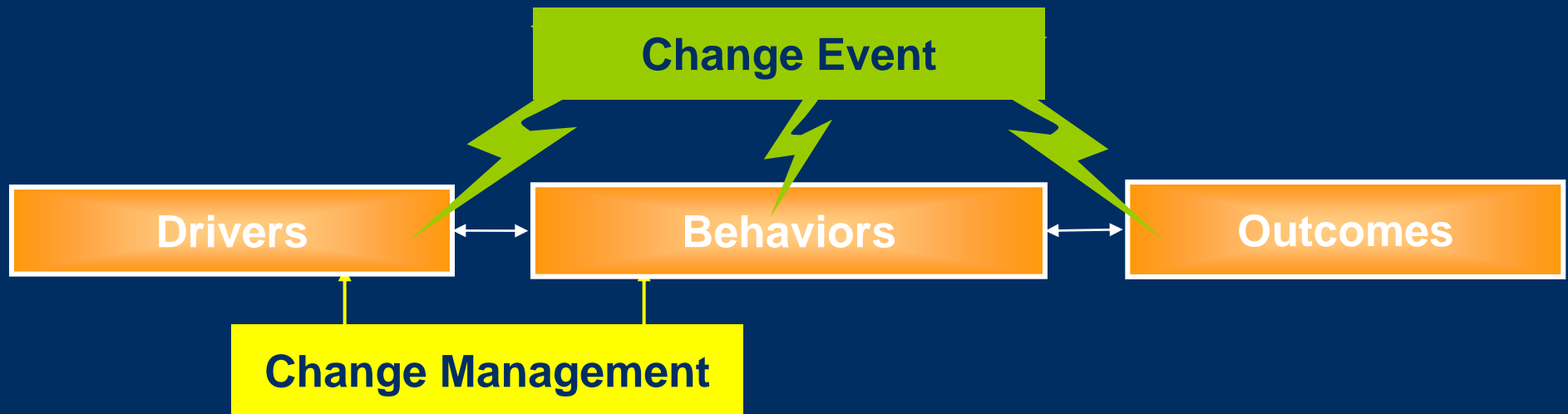
the lovers are Swiss

..and it is organized by  
Italians

Source: Subramaniam, A. (2009). Culture: How to bridge the gap and use cultural diversity to your advantage.

## Defining Culture in M&A

The impact of the “event”



What drivers are most likely to produce desired behaviors?

What drivers might produce undesired behaviors?

What behaviors are required to achieve the desired outcomes?

What behavior change is required to avoid undesired outcomes?

What outcomes change as a result of the event ...desired and undesired?

# BAE Systems, Inc. case study



## SITUATION

- **Global defense and aerospace company** headquartered in the UK with major operations in the US (BAE Systems Inc).
- **Highly acquisitive** – born out of over 50 transactions
- Recently acquired **Armor Holdings Inc**
- **Partnered with Mercer** to address short- & medium-term cultural integration challenges

## CHALLENGES

- What is BAE System Inc's organization culture? How do we leverage it for deal and business success?
- Improving cultural integration was identified as the priority issue from a recent integration audit process
- Leveraging BAE's strong process orientation, and tap into Armor's more entrepreneurial, fast and risk-taking culture
- Convincing leaders to "own" culture and cultural integration

# BAE SYSTEMS

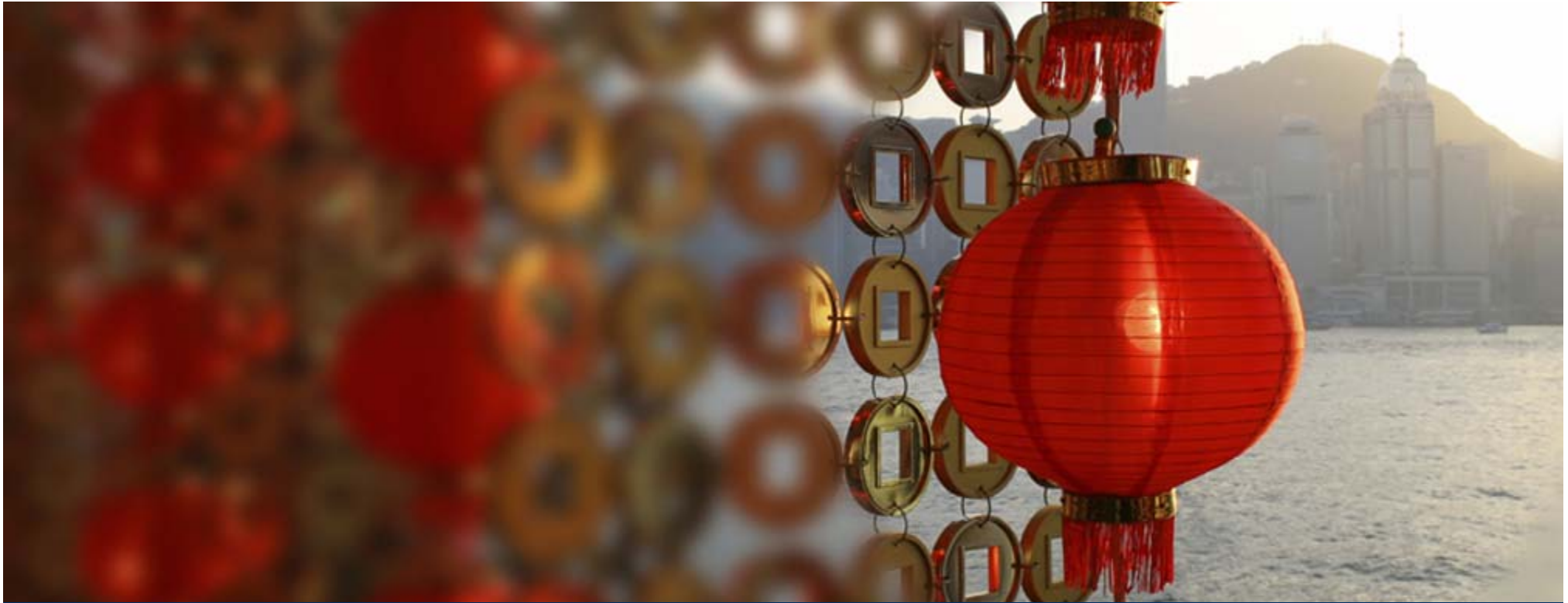
## ACTIONS

- Developed a **Cultural Integration Guidebook**, incl a cultural integration process linked tightly to their acquisition integration process
- Developed **8 toolkits**
- Developed a **Cultural Integration Executive Handbook**
- Defined clear "**culture**" **roles**, including a Cultural Integration Leader & Cultural Integration Specialists
- Completed work for the **integration of Armor**: ie, Cultural Artifact Analysis, Executive Culture Audit, Organization Assessment Interviews, Cultural Integration recommendations report.

## RESULTS

- ✓ Now have a cultural integration 100-day plan in place
- ✓ Standard process for assessing cultural risks and opportunities, and managing cultural integration
- ✓ Simultaneously developed and applied several tools as part of preparing for Armor's integration.
- ✓ Strongly linked cultural integration with BAE's overall integration approach: Compliance-Connectivity-Culture
- ✓ Demonstrated value of cultural integration management through specific, tangible, relevant initiatives
- ✓ Senior leaders are taking ownership

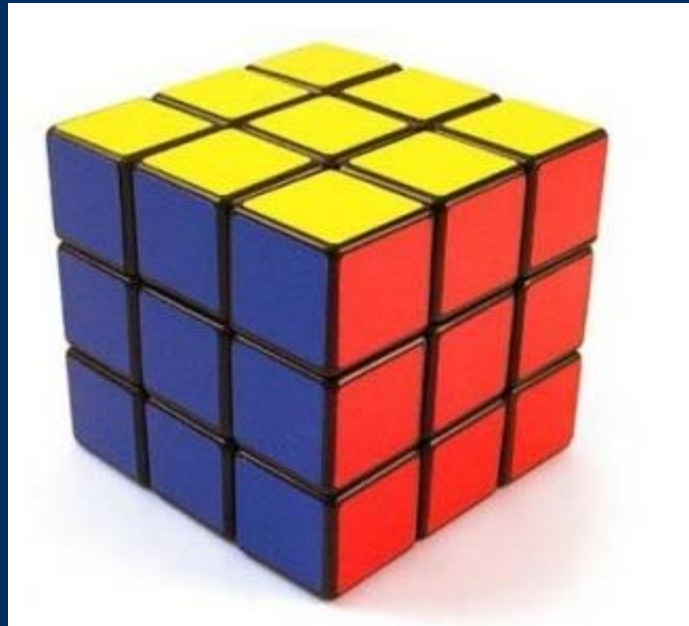




# Managing Global Transactions

## Managing the transaction process

### Rubik's cube of requirements



# Multi-country deals require defined responsibilities and coordination

**CORPORATE PMO:**

Division Presidents

Executive Leadership Team / Corporate PMO

Functional Leaders / Advisors

**HR LEADERSHIP / MANAGEMENT:**

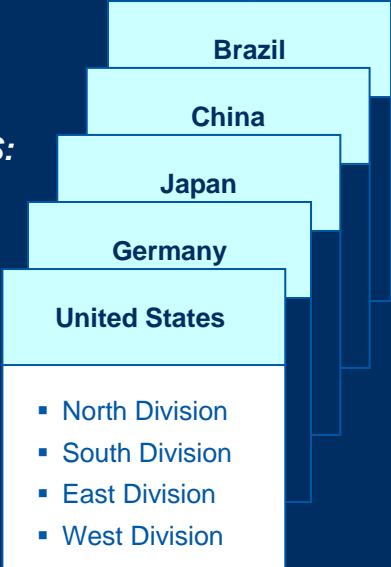
Region / Country HR Project Manager / Coordinator

HR Deal Lead / Strategic Advisor

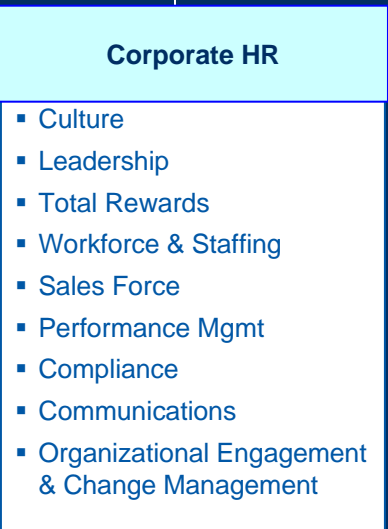
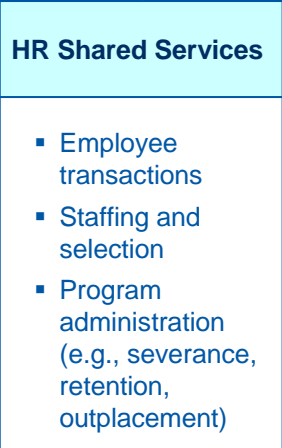
Project Manager

HR Project Coordinator

**HR WORKSTREAM LEADS:**



**HR WORKSTREAMS:**



**LEGEND**

Business / Functional Areas

HR Areas

## Experienced team and defined structure: M&A roles “track” existing roles to leverage expertise



### HR Business Partners

- Minimum requirement: knowledge of their business and the people issues that influence its success
- Role: represent interests of their business across all deal phases
- Full-time, especially in integration
- If deal is managed by the business making the acquisition (rather than from a corporate office), business partners typically play a larger role in the earlier phases of the deal
- In this case, they refer technical issues to the COE for advice, analysis, etc. (e.g., calculation of projected pension liabilities, CIC liabilities, retention program design, etc.)

### HR Leadership Team

- Often, the overall HR lead for M&A teams will come from the Leadership Team, especially for larger and more complex deals
- Regardless, this is the team ultimately responsible for HR's contribution to the deal, regardless of how the team is staffed for any specific deal

### Shared services

- Typically not involved in “doing the deal” except perhaps to provide employee data for “side by side” analyses
- More involved in “do by close” and integration phases where impacts on individual employees are managed (e.g., management of staffing / selection processes, production of offer letters at close, benefits enrollment, etc.)

### Corporate HR

- Minimum requirement: working knowledge of their area of HR
- Role: apply HR subject matter knowledge to M&A planning and problem-solving
- Full-time, especially in due diligence, do by close and integration planning

# Rigorous project and results management: What drives the right results in M&A?

## Project Drivers



### Results:

- Business
- People

### Time:

- When Results must be achieved
- Available time relative to other responsibilities

### Resources:

- Budget
- People

- The management of every project is influenced by the intended RESULTS, the TIME for the project and the RESOURCES required to work on the project.
- One of these three will be the “primary driver” based on the overall objectives of the project.
- *In M&A projects*, TIME is almost always the driver because of the need to move quickly to maximize value creation.
- As a result, in M&A projects, RESULTS and RESOURCES typically need to “flex” to meet the requirements of the deal timeline.
- The implications for HR are to (1) understand the “must do’s” so that HR knows where there is flexibility in RESULTS and (2) have a range of options to provide the needed RESOURCES.



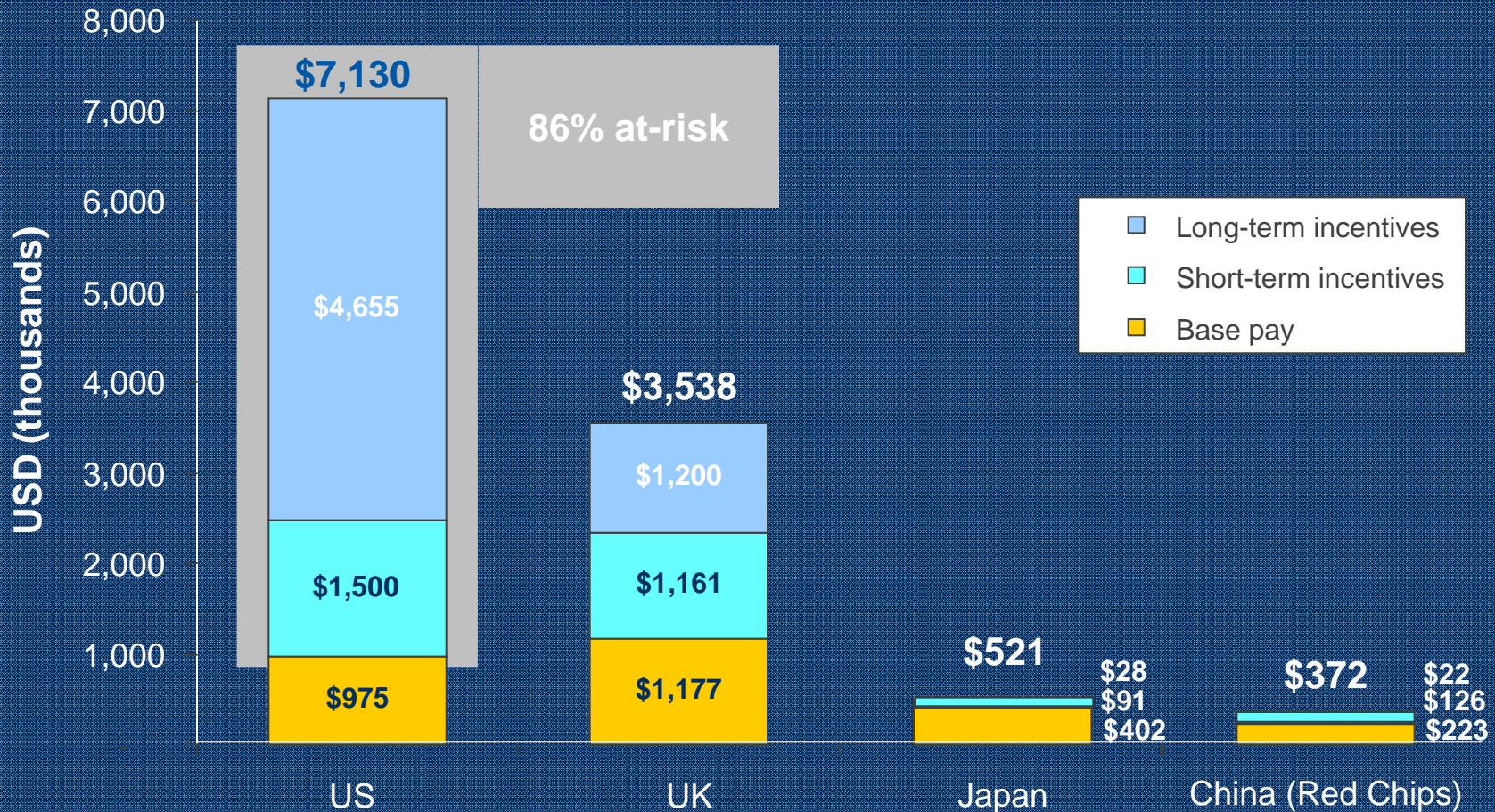
# HR Practices

## Compensation Approaches

Compensation approach	General EU/AP practices	US practices
Pay levels	Significant difference in pay levels between executive and “rank and file” employees; less difference in AP	Similar difference in pay levels, with high levels of executive pay
Pay-at-risk	Limited	Common
Use of long-term incentives	Top executives	Multiple levels
Goals and rewards	Team and individual	Individual
Complexity of plans	Complex EU, simple AP	Simple

# Relative US and European CEO total direct remuneration carries more pay at risk than other economies\*

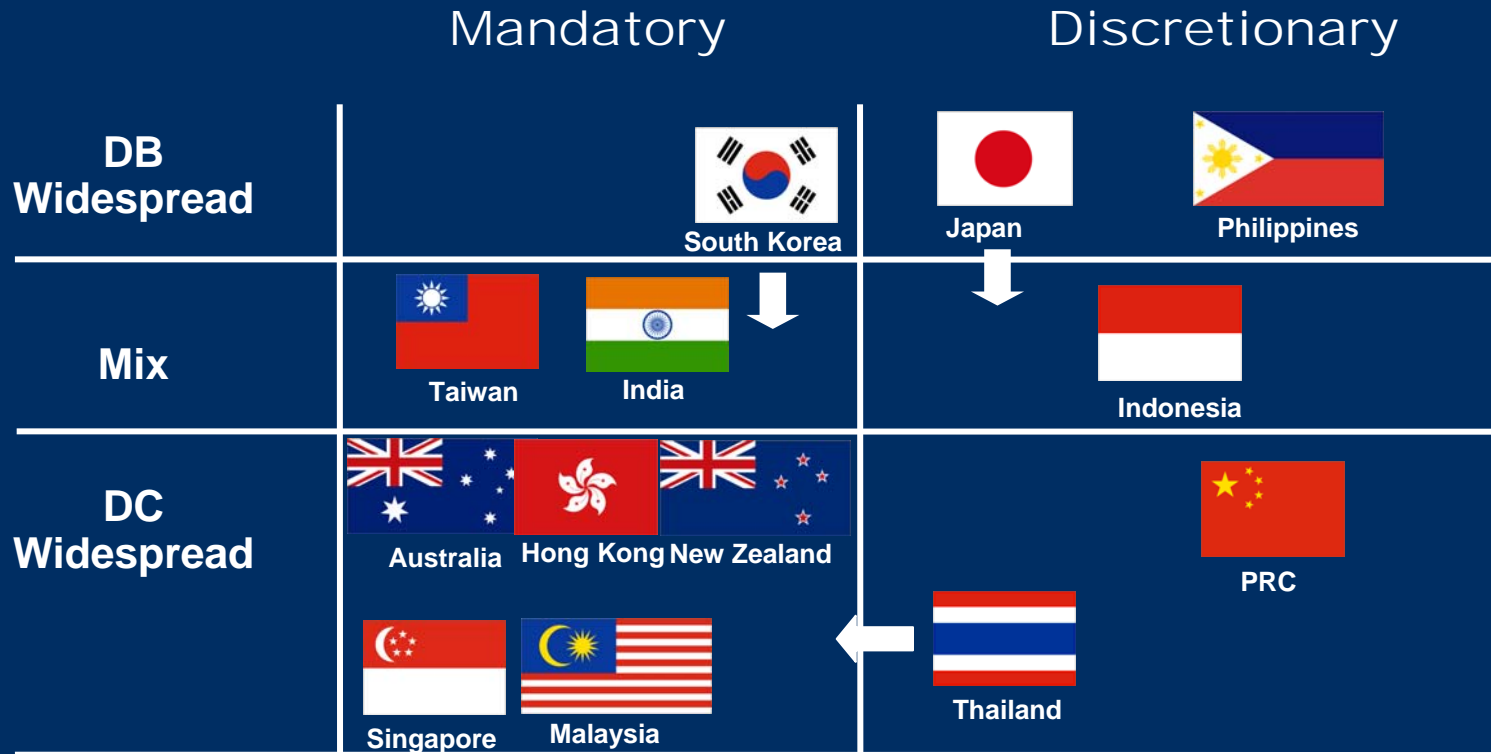
Annualized CEO total direct remuneration in top-listed general industry companies



\*Source: 2008 Mercer CEO 350 compensation survey

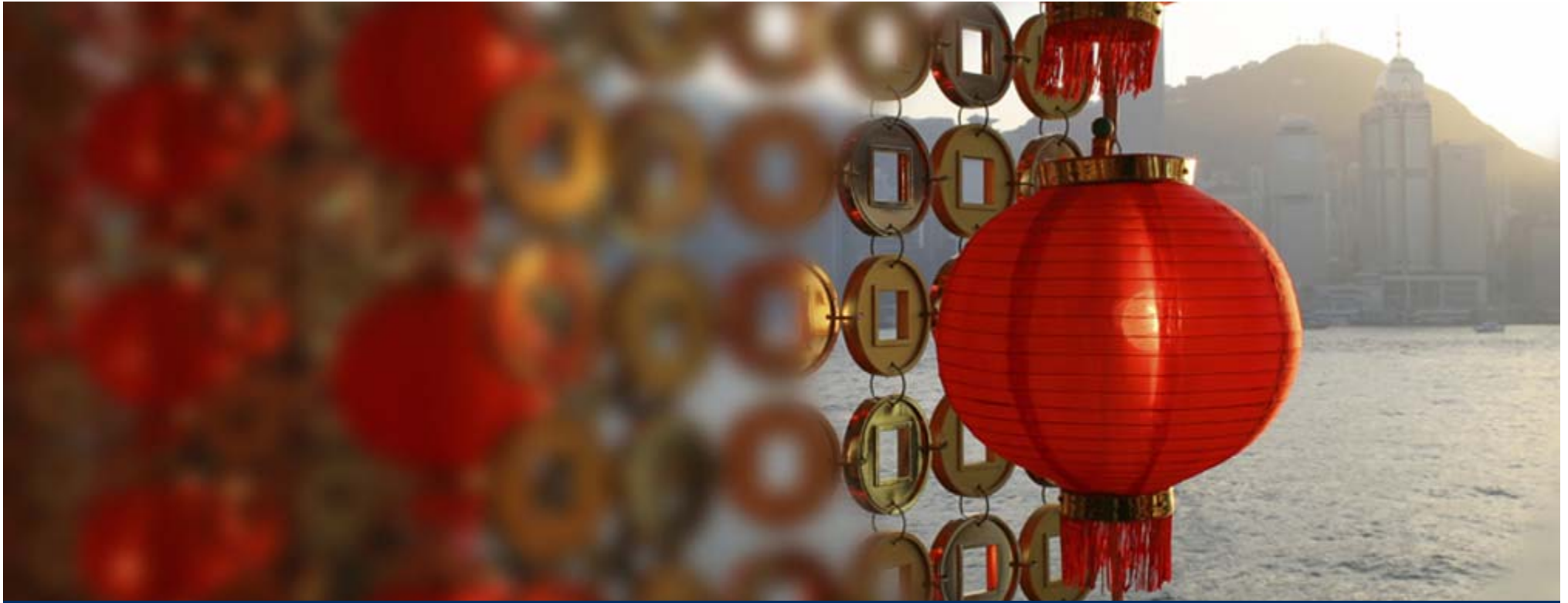
# Retirement Systems

Asia-Pacific: Types of corporate programmes by country

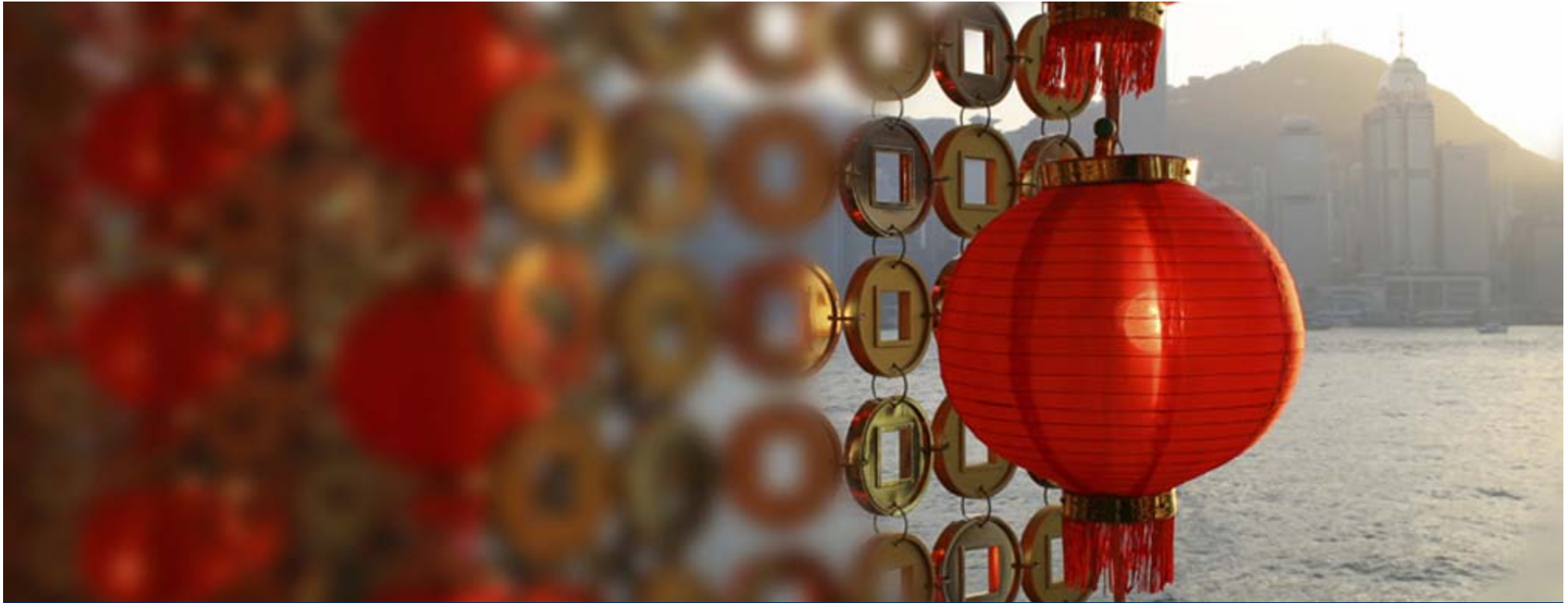


# Employee communication

Communication approach	General EU/AP attributes	US attributes
When to communicate	Once decisions are final	Early and often with honest information
Role of manager	Typically receive same information as employees	Special/more information shared with managers, with managers actively supporting change
Speed of communication	Less need for rapid communication	Rapid communications and extensive use of technology



# Questions



**Thank you**

Phil Shirley and Len Gray

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