Christopher Kelly & Candice Ma

EXECUTIVE SUMMARY

ORIGINAL QUESTIONS

How do established companies acquiring startups retain the innovative/disruptive/big thinkers and leverage this thinking? What environment and opportunities encourage former startup employees to stay with an acquiring company?

INTRODUCTION

As the economy continues to rebound from the recent global recession, M&A activity shows signs of continued growth[i]. Effective integrations of acquired companies, therefore, is a topic that is top of mind for many corporations. During any acquisition, it is important to manage the organizational and other human resource issues, as these are key drivers of acquisition success. This report focuses mainly on key talent retention post-acquisition, describes what startup talent values most, and introduces several practices HR professionals can implement pre- and post-acquisition to enable and engage this talent.

WHAT STARTUP TALENT VALUES

Employees are attracted to startups for a variety of reasons, many of which are different from reasons that employees join larger, more established companies. Three key considerations include:

- *Potential Stock Appreciation*. While large companies also offer equity incentives, venture-backed startups can offer equity to early employees ranging from 10-20% of the total shares of the business, which can appreciate quickly when the company experiences rapid growth.[ii]

- *Responsibility and Opportunity*. Employees at startups often work in small teams with large individual responsibility. These teams offer fast ramp-up times, rapidly scaling responsibilities, and opportunities to diversify any one individual role.[iii]

- *Recognition*. Startup companies offer high recognition, which is especially valued by millennials, the generation in which 62% want to start their own business and 72% believe startups "are essential for new innovation and jobs".[iv] The small, intimate environment of startups offers recognition of both successes and failures, which only shows that startup employees embrace risk and the possibility of failure in light of the possible success attributed to their own hard work.[v]

HR PRACTICES/COMPONENTS

High-retention companies, defined as those that succeed at retaining 60% or more of desired talent over a full retention period, behave differently from low-retention companies in several critical ways[vi]. Notably, these companies do not seek to mimic the unique aspects of startups described above and hope for retention. Rather, companies identify eligible retention candidates as early as possible, develop a global retention philosophy and strategy that allows for local and regional variations, management discretion, cash bonuses, and formal retention agreements. Among all HR practices, effective culture integration is crucial for ultimate acquisition success, but can be time-consuming to implement successfully. Other key HR practices include the following:

- *Find the hidden gems:* In addition to identifying key talent, HR and line managers should work together to identify average performers whose skills or social networks may be critical—both in "keeping the lights on" during the change effort itself as well as in delivering against its longer-term business objectives. The key is to view each employee through two lenses: first, the impact his or her departure would have on the business given the focus of the change effort and his or her role in it; and second, the probability that the employee in question might leave.[vii]

- *Culture:* A formal culture integration plan is critical to acquisition success. HR should focus on culture during due diligence, set a cultural integration agenda, diagnose key differences, define the future culture, and develop a culture-change plan—then sustain and measure progress. When developing the new culture, HR should define it not just with themes or adjectives but with specific behaviors, and with the measures and incentives that will be used to encourage those behaviors.[viii]

- *Family Benefits:* For companies with strong familial cultures and environments, it is important to customize benefits for incoming employees and understand the needs of incoming talent. A survey shows that startups often offer gym memberships, meals and subsidized transportation rather than generous paid parental leave policies. However, offering substantial and documented parent benefits can help corral and keep talent, and can be a key differentiator for the acquirer. As potential employees consider working in a big company, they will think more broadly about whether working for that company is in the best interest of their whole lives and not just their work lives.[ix]

- *Personalization:* Leaders in large firms need to embrace job personalization as a marketing and management technique that will entice the best talent around[x]. Employees want a working environment that accommodates their needs, strengths and interests. Specific personalization initiatives could include:
  - ➢ Personalized office space: One study showed that workers who could personalize their office space with plants or pictures were 32 percent more productive.
  - ➢ Location Independence: Embrace a distributed team, and, if possible, let employees work virtually from a location of their choice.
  - ➢ Flexible Hours: Value employees' deliverables rather than their hours on the job, and allow employees to create their own schedules.

BEST PRACTICES

Cisco Systems and General Electric are two large multinational companies well-known for their successes in integrating acquired companies, many of which are startups. Their successful practices include the following:

- *Cisco* has a process-driven integration approach that encompasses formalized and centralized integration management. Their process consists of creating cross-functional teams for each acquisition that plan, manage and monitor integration activities across Cisco, and they apply standard principles, metrics, tools, and processes that are repeatable in new integration efforts, yet are adaptable to the unique issues and parameters of each deal. This approach has allowed Cisco to successfully integrate more than 120 companies since 1993, many of which are startups, with a very high level of retention.[xi]

- *General Electric* addresses culture issues early on by executing a systemic process of cross-cultural analysis. This process encompasses (1) focus groups and interviews with customers and employees to understand the target company's culture as well as GE's own culture, recognizing that culture is not static and changes over time, (2) holding a three-day workout to understand areas of cultural convergence and discrepancy, and (3) ultimately agree on a common vision and shared future for the acquired company, through the creation of a "first 100-day plan". This approach allowed GE's former Capital business to complete more than 100 acquisitions over a five-year period, resulting in a 30% increase of its workforce and doubling its net income.[xii]

CONCLUSION

Established companies seeking to retain and leverage top startup talent should recognize that employees join startups for different reasons than they join established companies. Rather than seeking to mimic the startup environment, HR can increase retention and enable success by identifying eligible retention candidates as early as possible, developing a global retention philosophy and strategy that allows for local and regional variations, and carefully plan for cultural integration in a manner that identifies and reconciles differences.
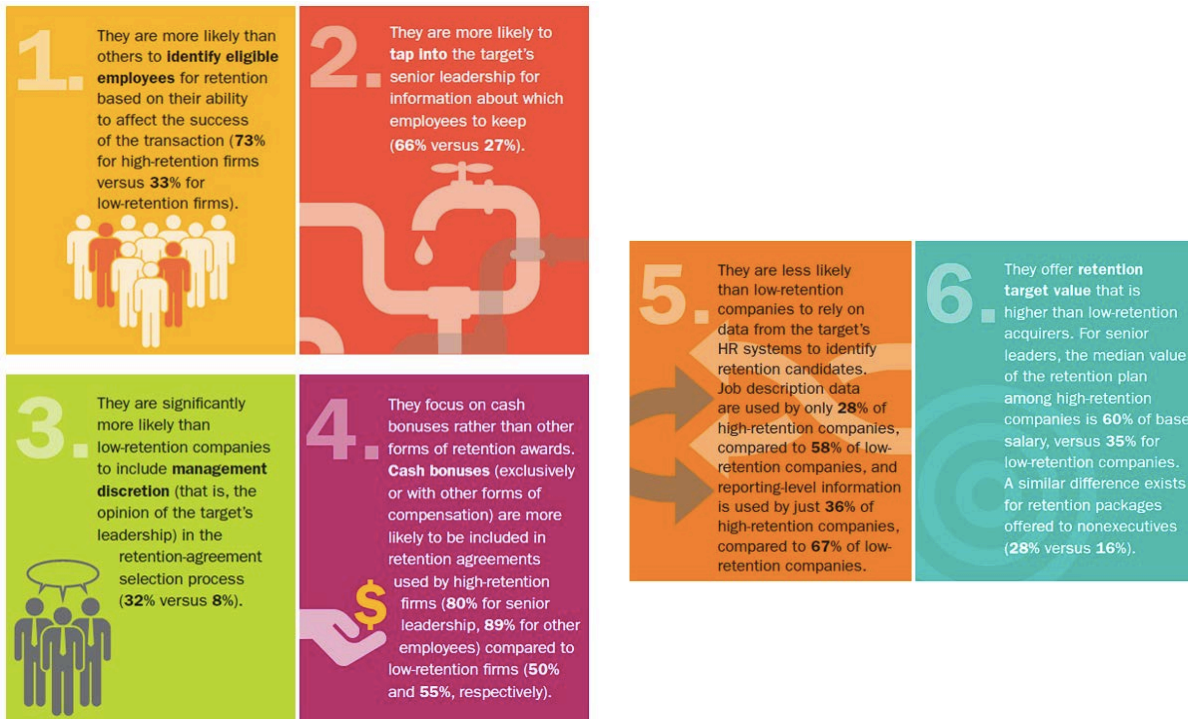
Appendixes

During a reorganization effort, one company found that 44 employees critical to the company's success were likely to leave.

Risk heat map for European industrial company, figures indicate number of employees in category (total = 497)

Q: Use three adjectives to describe your company

Company B's view of itself
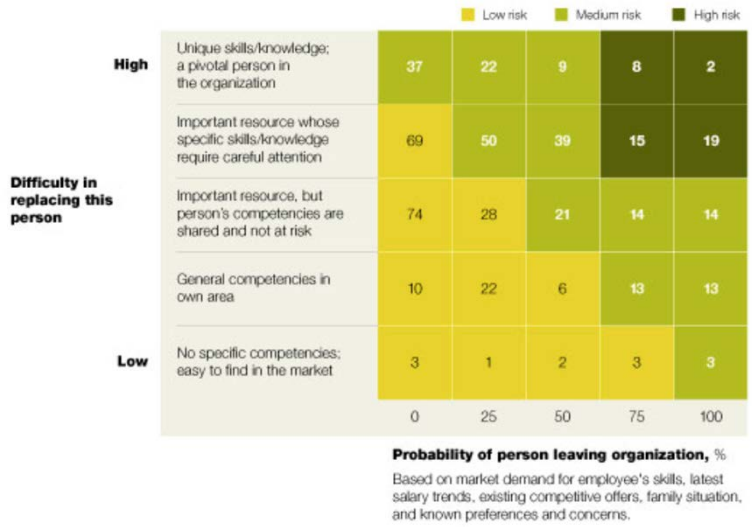
References

1)Aon. 2011. *Culture integration in M&A*. Survey Findings Retrieved from:
http://www.aon.com/attachments/thought-leadership/M_A_Survey.pdf

2)Chad Halvorson. 2015. *How to Attract Top Talent to Join Your Startup in 2016.* Gearing up to hire more people to join your startup in 2016? Follow this advice to attract and hire the very best. Retrieved from:
http://www.inc.com/chad-halvorson/how-to-attract-top-talent-to-join-your-startup-in-2016.html

3)Fast Company, 2012. *8 Reasons to Choose a Startup Over a Corporate Job*. Retrieved from:
https://www.fastcompany.com/1824235/8-reasons-choose-startup-over-corporate-job.

4) Ernst & Young, 2016. *The Millennial Economy: National Public Opinion Survey*. Retrieved from:
eig.org/wp-content/uploads/2016/09/EY-EIG-Millennial-Poll-Findings.pdf

5)Fast Company, 2012. *8 Reasons to Choose a Startup Over a Corporate Job*. Retrieved from:
https://www.fastcompany.com/1824235/8-reasons-choose-startup-over-corporate-job.

6)Willis Towers Watson. 2014. *How Companies Use Retention Agreements to Keep Top Talent.* Retrieved from
https://www.towerswatson.com/en-US/Insights/IC-Types/Survey-Research-Results/2014/10/2014-global-ma-retention-survey-report

7)Sabine Cosack, Matthew Guthridge, and Emily Lawson. 2010. *Retaining key employees in times of change.* Article McKinsey Quarterly. Retrieved from http://www.mckinsey.com/business-functions/organization/our-insights/retaining-key-employees-in-times-of-change

8)Chad Halvorson. 2015. *How to Attract Top Talent to Join Your Startup in 2016.* Gearing up to hire more people to join your startup in 2016? Follow this advice to attract and hire the very best. Retrieved from
http://www.inc.com/chad-halvorson/how-to-attract-top-talent-to-join-your-startup-in-2016.html

9) Cisco Systems, Inc. 2007. *Cisco IT Integration Case Study*. Retrieved from:
http://www.cisco.com/c/dam/en_us/about/ciscoitatwork/downloads/ciscoitatwork/pdf/Cisco_IT_Case_Study_Acquisition_Integration.pdf

10) Harvard Business Review, 1998. *Making the Deal Real: How GE Capital Integrates Acquisitions.* Retrieved from: https://hbr.org/1998/01/making-the-deal-real-how-ge-capital-integrates-acquisitions

11) Sabine Cosack, Matthew Guthridge, and Emily Lawson. 2010. *Retaining key employees in times of change.* Article McKinsey Quarterly. Retrieved from http://www.mckinsey.com/business-functions/organization/our-insights/retaining-key-employees-in-times-of-change

12) Willis Towers Watson. 2014. *How Companies Use Retention Agreements to Keep Top Talent.*
https://www.towerswatson.com/en-US/Insights/IC-Types/Survey-Research-Results/2014/10/2014-global-ma-retention-survey-report

13) Dale Stafford and Laura Miles. 2013. Integrating a culture after merger. Bain & Company. Retrieved from:
http://www.bain.com/Images/BAIN_BRIEF_Integrating_cultures_after_a_merger.pdf

[i] (Aon. 2011)
[ii] (Chad Halvorson. 2015)
[iii] (Kerrin Sheldon, 2012)
[iv] (E&Y, 2016)
[v] (Kerrin Sheldon, 2012)
[vi] (Willis Towers Watson, 2014)
[vii] (Sabine Cosack, Matthew Guthridge, and Emily Lawson. 2010)
[viii] (Aon. 2011)
[ix] (Chad Halvorson. 2015)
[x] (Chad Halvorson. 2015)
[xi] (Cisco, 2007)
[xii] (HBR, 1998)
[xiii] (Sabine Cosack, Matthew Guthridge, and Emily Lawson. 2010)
[xiv] (Willis Towers Watson, 2014)
[xv] (Dale Stafford and Laura Miles. 2013)