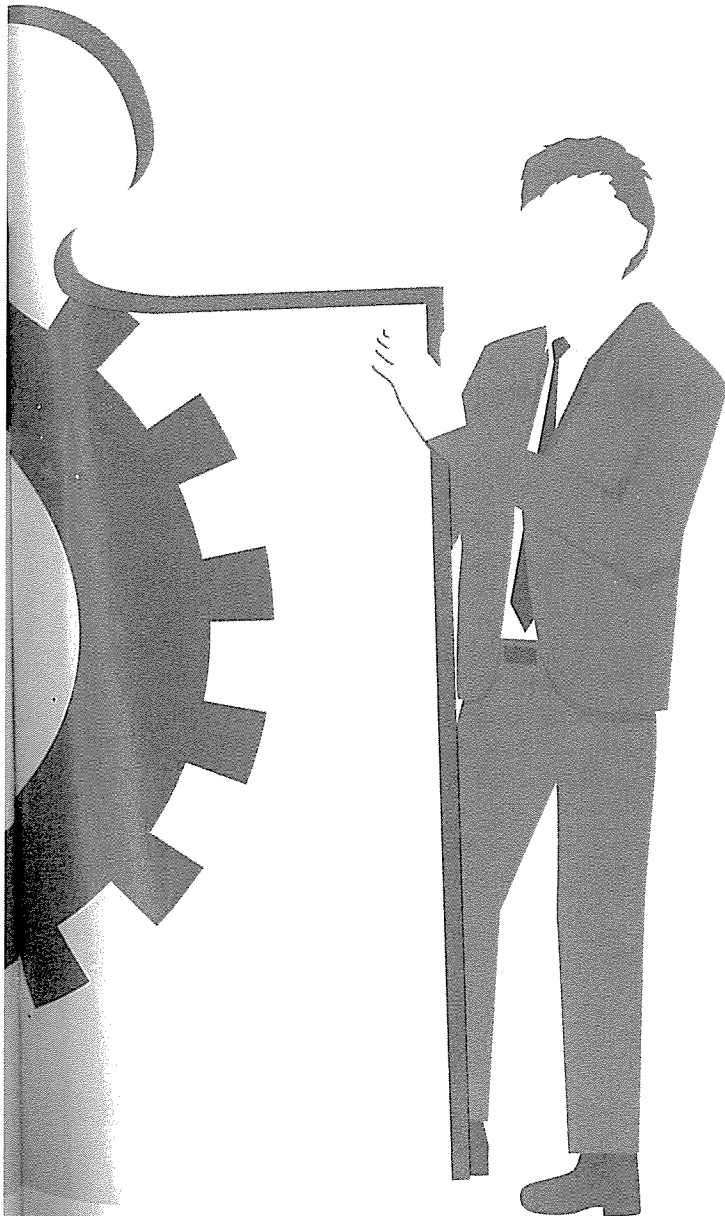


Payroll Plays a Critical Role in Mergers, Acquisitions

BY MICHAEL J. BATEMAN, CPP



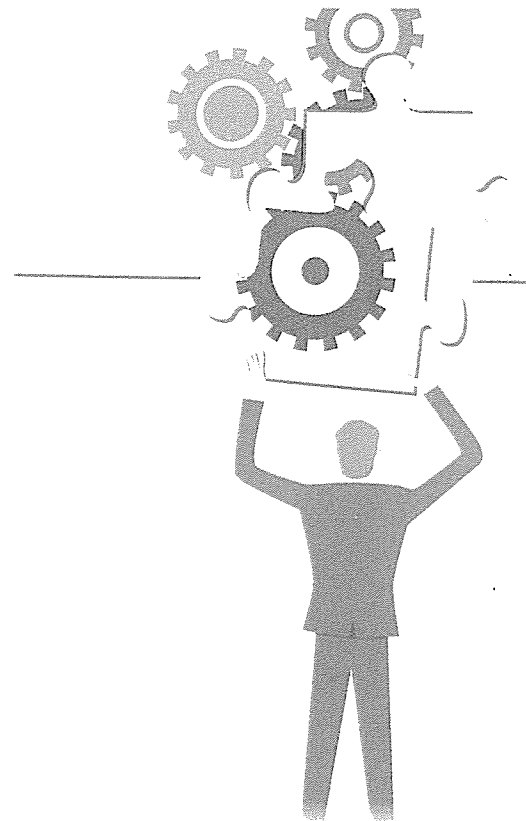
Mergers and acquisitions are an increasingly popular growth strategy for businesses of all sizes as it allows them to acquire new clients, talent, technology, and intellectual property much faster than would otherwise have been possible. Chances are, if you have not been affected by a merger or acquisition, you soon will be as buying or merging companies is proving to be a mainstay in organizational growth.

As organizations tend to focus on the financial success of the consolidation and keeping shareholders satisfied, payroll can easily fall to the sidelines. But if handled improperly, payroll can become an issue that directly impacts employees and the overall success of the merger or acquisition.

Employees are the most important part of the organizational change, and what you do will influence how much they help make it successful. They may already be worried about the security of their positions when the merger or acquisition is announced. If there's a paycheck error, or worse, missed paychecks, this fear may cause some to begin looking for new jobs—something more secure. In fact, study after study puts the failure rate for mergers and acquisitions between 70% and 90%. That's typically because of issues that occur from a lack of focus on payroll.

Michael J. Bateman, CPP, is Payroll Manager for ISEC Inc., and a member of the Board of Contributing Writers for PAYTECH.

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This is why it is vitally important that payroll be involved in the merger and acquisition conversation from the earliest possible stage. The aim is to minimize as much as possible both the cost and impact of change on both the business and its employees.

Move Quickly But Carefully

Speed is important in a merger or acquisition. You'll need to keep up with the pressures from leadership to complete tasks as quickly as possible. The main objective is to move quickly without missing opportunities and with a minimum number of disruptions to the organization.

In an ideal situation, the go-live date will be the start of a calendar year. However, that is not always possible, and you must be prepared to manage mid-year accumulations (see article on page 22). This means you'll need to be prepared to audit annual and quarterly totals.

Plan your project and any sub-projects with clearly defined time frames. This will allow you to keep track of your progress and to ensure you don't fall behind. If you don't have an experienced project manager, now is the time to enlist one.

People First

Management must be upfront in communicating the goals for the merger as well as how business processes will change. Concerns regarding topics such as relocation, the shifting of job roles, and any new tools or software that will need to be learned are often prevalent in a merger or acquisition environment. The fear of the

unknown can be very real for those affected, and it can have a significant effect on productivity.

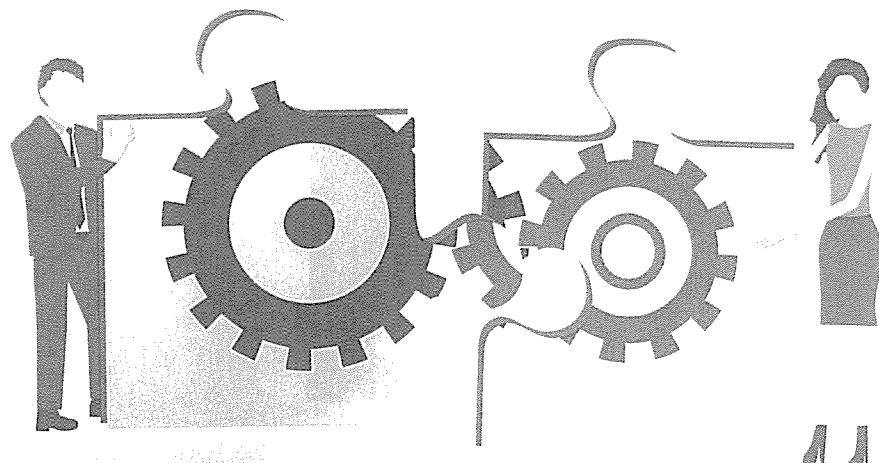
Taking a people-first approach from the start of this transition can lead to success during and after the deal. Addressing the concerns of your employees mitigates risks such as low morale, diminished productivity, and, as mentioned earlier, the potential loss of employees.

Systems, Technology

Being able to successfully integrate the payroll and HR systems of each organization will be critical to the overall success of the deal. The goal is to ensure that employees continue to seamlessly receive accurate and timely paychecks, as well as being able to access important documentation, such as their pay statements, throughout the duration of the merger or acquisition activity.

Research by EY described IT as "the lynchpin of success" for mergers and acquisitions. Being able to identify and analyze any potential challenges early is essential to ensure that systems can be integrated successfully and potential risks can be identified and mitigated.

This means that payroll professionals need to work



closely with their IT counterparts to identify which technologies and systems need to be retained, merged, or scrapped. The integration work itself then needs to take place quickly in order to avoid any downtime in terms of payroll service delivery.

Merging Employee Sets

One of the most daunting challenges for most payroll professionals is merging the two sets of employees. In some cases, the acquired company will remain independent from the parent company, which means that payroll systems and the employer identification numbers also remain separate. In others, the two companies will come together to form a new company, which generates much more complexity.

In the latter situation, it will be necessary to speak to the relevant tax authorities as early as possible about the process of transferring employees over to the new payroll in order to ensure their taxes are not adversely impacted.

Every merger or acquisition is different, so there is no one-size-fits-all approach to handling this situation.

However, it is important to remember "complex" does not necessarily mean "complicated." The tools and methods for bringing data sets together are not the nightmares they were a few years ago. Data mapping and integration have become routine.

Testing, Auditing

It is critically important to run end-to-end tests of each pay element and data transfer. This includes performing parallel testing to identify potential errors. Make sure you are also giving yourself adequate time to correct any errors before go-live.

Conclusion

In the end, we can see that many factors go into the overall success of a merger or acquisition and why a representative from payroll needs to be involved in the process from the outset. Payroll professionals need to be able to plan, prepare, and be confident that the organization has addressed each of these areas to ensure long-term success. ■

