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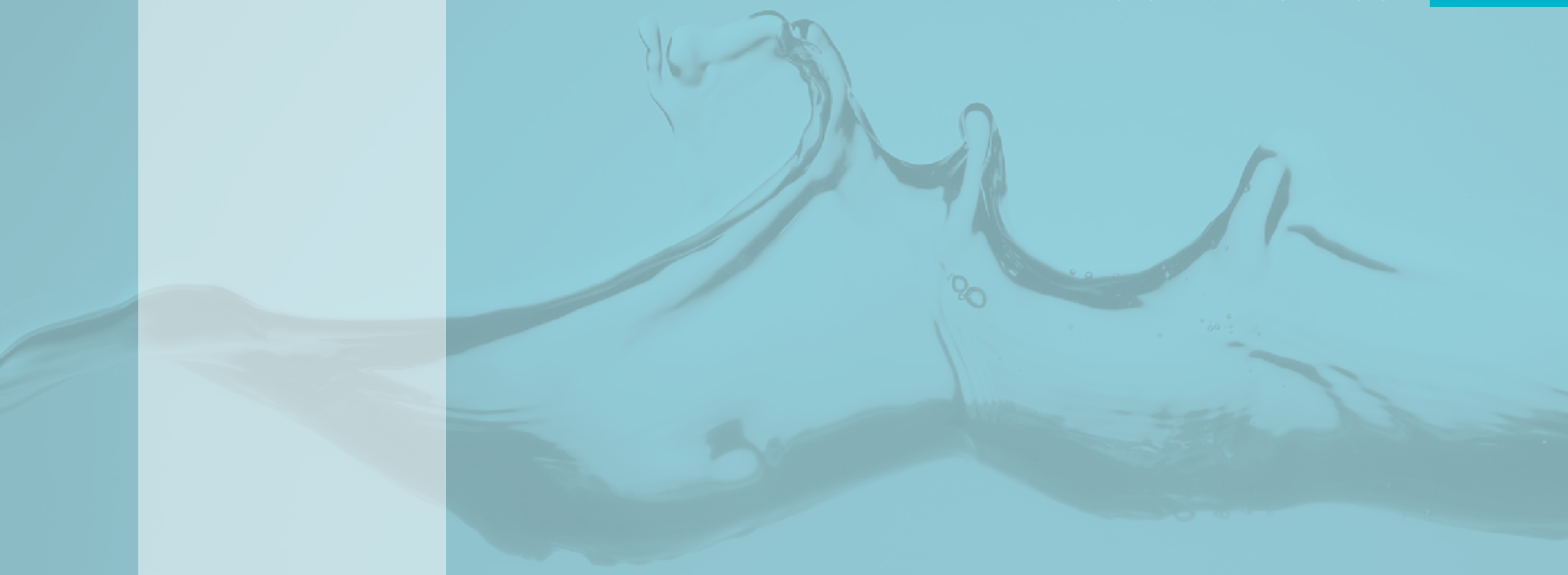

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K. Hovnanian's Approach to Preserving Intangible Assets After Acquisitions

By Paula Caligiuri, Ph.D., and William Castellano, Ph.D.

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Case Study—Student Workbook

Case Summary

This case study examines homebuilder K. Hovnanian's approach to acquisitions, with a focus on how the organization retains key intangible assets – such as leaders' knowledge and social capital – of their acquired companies. K. Hovnanian's strategy has not been without its human resource (HR) challenges, however, including centralization/decentralization concerns, inconsistent HR policies and dual allegiances among subsidiaries' employees. K. Hovnanian's HR strategy for acquisitions, the intended goals of their strategy, the challenges of implementing their strategy, and the resulting outcomes are examined in this case.

Learning Objectives

This case introduces you to the HR and business strategy issues associated with acquisitions. By the end of the case study, you will be able to:

- Identify HR's role in retaining intangible assets during a strategic acquisition.
- Understand the challenges to managing acquisitions when retaining key intangible assets is a strategic goal.
- Develop HR strategies and implementation plans to integrate the intangible assets of both organizations.
- Address key HR challenges during the post-acquisition phase.

Additional Resources

The following readings are recommended and will provide additional information to complement this case study.

Bower, J. (2001, March). Not All M&As Are Alike—and That Matters. *Harvard Business Review.*

Hitt, M.A., Ireland, R.D., Hoskisson, R.E. (2007). *Strategic Management: Competitiveness and Globalization*. Thompson South-Western. Cincinnati OH.

Marks, M.L., Mirvis, P.H. (2000). Making Mergers and Acquisitions Work: Strategic and Psychological Preparation. *Academy of Management Executive*, 15(2).

Schuler, R.S., Jackson, S.E., Luo, Y. (2004). *Managing Human Resources in Cross-Border Alliances.* Routledge, London.

Shaver, J.M. (2006). A Paradox of Synergy: Contagion and Capacities Effects in Mergers and Acquisitions. *Academy of Management Review*, 3(4).

Case Overview

K. Hovnanian's History and Business Strategy

K. Hovnanian is one of the largest residential homebuilders in the U.S. Founded as a family-owned business in 1959, K. Hovnanian has expanded through acquisition efforts to become a Fortune 500 company consisting of a family of homebuilders with localized expertise in markets throughout the country. K. Hovnanian consists of two business lines: homebuilding, which is the dominant operating entity, and financial services. This case study focuses on the homebuilding division of K. Hovnanian's business. The homebuilding division designs, builds, markets and sells single-family detached homes, attached town homes and condominiums, mid-rise and high-rise condominiums, urban community development and adult active communities (i.e., communities of homes for those over 55 years of age) in planned residential developments. They also manage a portfolio of build-on-your-own-lot homes in several markets. K. Hovnanian currently offers homes for sale in 427 communities in 48 markets in 19 states throughout the U.S. By the end of 2007, K. Hovnanian had approximately $5 billion in annual revenues and more than 4,000 employees.

As with many other leading homebuilders, a key business strategy for K. Hovnanian is growth through the acquisition of smaller builders. At the height of the building market at the start of the millennium, K. Hovnanian acquired approximately two to four companies a year (considered very rapid growth for this industry); each of these acquisitions cost between $50 and $500 million.

Growth Through Acquisitions

Organizations make acquisitions for several reasons. Some organizations may acquire another organization to expand into a new product or geographic market, thereby increasing the speed of market entry and achieving a competitive advantage through greater market power. Acquisition of a competing organization is a *horizontal acquisition*. The acquisition of a supplier or distributor is a *vertical acquisition*.

A *merger* occurs when two organizations agree to integrate their operations on a relatively co-equal basis. An *acquisition* occurs when one organization buys a controlling interest in another organization with the intent to make the acquired firm a subsidiary business within its portfolio. An overview of the different characteristics is presented in Figure 1.

Figure 1

DIFFERENTIATING CHARACTERISTICS OF MERGERS & ACQUISITIONS		
STATUS	**ACQUISITION (One Company Dominates)**	**MERGER (Both Companies Participate)**
Time Frame	Short	Long
Transition Structure	Less Important	Important
Transition Plan	High Need for Pre-Planning/ Lead Company Drives	High Need for Post-Planning/Both Companies Develop Plan
Resources	High–Lead Company Experts and Consultants	High –Both Companies Management and Staff
Communication	One-Way	Two-Way
Influence	Unilateral	Mutual
Problem Solving	During and Immediately Afterward	Ongoing
Cost/Benefits	High Turnover with Quick Turnaround	Lower Turnover with Slower Turnaround
Speed	Quick but Painful	Slower but Less Painful

Adapted from Hitt, M.A., Ireland, R.D., and Hoskisson, R.E. (2007). Strategic Management: Competitiveness and Globalization. Thompson South-Western, Cincinnati OH.

While mergers and acquisitions are common growth strategies in the homebuilding industry, K. Hovnanian's focus on retaining the intangible assets of the acquired organization – in particular, the leaders' knowledge and social capital – is unique in this industry. In their 15 most recent acquisitions (a few of which were classified as mergers), K. Hovnanian retained all executive teams for a substantial period of time, allowing the acquired organization leaders to run their businesses in a decentralized and more entrepreneurial manner. This strategy preserves the human capital of the acquired organization, enabling K. Hovnanian to develop location-specific knowledge (e.g., an understanding and appreciation for local markets, demographics, land availability and building regulations) and to leverage critical social capital (e.g., relationships with local municipal authorities, zoning boards and local contractors). This acquisition strategy also makes K. Hovnanian a more attractive partner for future acquisitions, because many owners still want to run their businesses but want the attachment to a larger organization for investment capital purposes.

K. Hovnanian strives to retain the intangible assets of an acquired company because they have an interest in leveraging the capabilities of both organizations. Many large homebuilders pursue acquisition strategies where the focus is first and foremost on land acquisitions. Thus, when most homebuilders acquire another organization, they often replace key strategic management with their own people. Their rationale for this strategy is to use their own human talent to quickly standardize all processes and systems throughout the acquired organization. This acquisition strategy also enables larger companies to manage multiple-acquired businesses centrally and develop a national brand. While this strategy to focus on more tangible assets helps in coordination and brand management, it can hinder the companies' abilities to retain key employees who may have valuable knowledge. In the long term, these homebuilders may be viewed as less attractive acquirers for those homebuilders who want to remain active in the industry.

K. Hovnanian's Acquisition Strategy: How They Differ from Others in Their Industry

Joe Riggs, one of K. Hovnanian's group presidents, characterizes the typical strategy of other homebuilders this way: "Many large companies don't care about the intangible assets; their philosophy is to leverage their current leadership team and organizational developmental systems. They will buy the land and use their own management team to build the business. They don't want to deal with all of the headaches of gradually aligning systems and dealing with the entrepreneurial spirit of owners."

Many owners and managers of homebuilding companies are highly independent entrepreneurs who built their companies from the ground up and are accustomed to doing things their own way. With most acquiring companies in the industry, these independent owners, if retained, must adapt to a very different operating philosophy in which they are no longer at the helm; and this can result in a clash of cultures. Typically, the former entrepreneurs and their management teams leave shortly after the acquisition because it is difficult to adjust to the new culture. In describing other homebuilding companies' acquisition strategies, Riggs notes that "there is no possible clash of cultures if you decimate a company and put your management team in place. It takes a unique culture like ours to work with a new acquisition and align our cultures. In the end we believe we all benefit."

The preservation of the intangible assets of acquired companies permeates the culture of K. Hovnanian – and it starts at the top of the organization. CEO Ara Hovnanian described the company's growth strategy: "We seek successful companies with strong management and have no desire to change their formula for success. We are very patient with our acquisitions and seek to understand the company and what makes them successful. Our goal is to retain the management know-how of the company, which provides us with valuable knowledge of local markets and helps us expand our portfolio of products. As a result, we are able to leverage our capital and expertise while maintaining a culture that fosters entrepreneurialism."

Financially, the preservation of intangible assets is a highly successful strategy. According to Larry Sorsby, CFO of K. Hovnanian, "We price the acquisition on their tangible assets and get the intangible assets for free. It's a win-win for us. We also believe that keeping the intangible assets is critical to ensure the future success of the acquisition, which is positive for our ROI." The management teams of acquired companies stay with K. Hovnanian because they can continue to manage and grow the business. According to Riggs, "We provide them with capital, help expand their portfolio of products and give them a bigger sandbox to play in. We are not arrogant and don't feel we have all the answers. We take the best practices of both companies and help to expand them. In turn, we continually learn from each other and that benefits the entire company."

Instead of building a national brand, K. Hovnanian develops an in-depth knowledge of local markets and fully leverages the capabilities of their newly acquired builders. It is difficult for a national homebuilder to have an intimate knowledge of every local market. K. Hovnanian, however, acquires this knowledge when they retain key staff of their acquired companies. According to Hovnanian, "It is a critical advantage to retain people who know where the best land deals are, who are knowledgeable of the nuances of local markets and know how to work with local politicians and zoning boards." The retention of its intangible assets enables K. Hovnanian to diversify their offerings by tailoring to the local markets where they compete.

Because of the way it values flexibility and entrepreneurialism, K. Hovnanian's culture is an important component of K. Hovnanian's acquisition strategy. This respect for the power of the entrepreneurial spirit comes from the company's own history. Sorsby describes the historical roots of their organizational culture: "We are a blend of a public and private company. Ara and his family still own nearly 50 percent of the stock. He started working in this business sweeping floors on construction sites, so he really knows this business. He highly appreciates the entrepreneurial spirit of the owners we acquire and believes that is what makes us so successful."

K. Hovnanian appreciates the family feel of the companies they acquire and works to preserve it. According to Bobby Ray, K. Hovnanian Plano Group president, "Many homebuilders feel a commitment to the people who helped build the company and made them successful. They don't want the company broken apart and are protective of their employees. Our practice of retaining people is attractive to them. They would not even consider selling to a company that plans to completely take them over."

Challenges of K. Hovnanian's Approach to Acquisitions

Retaining and managing highly entrepreneurial talent under the umbrella of a larger organization can be a challenge. In many cases, these individuals have never worked for anyone else and are used to running their own show. Typically, the acquired company is a family business with loyal employees and multiple generations of family members. It is a challenge for K. Hovnanian to allow enough autonomy to keep these entrepreneurs motivated while integrating the newly acquired management team into the new decision-making processes associated with a larger company. Riggs notes that "as expected, it can be difficult to get all of these strong-minded individuals to agree. Many are accustomed to doing things a certain way, and it's difficult to change."

Evelyn Oster, a former co-owner with her husband, Tom, of a recently acquired company, now serves as a co-division president at K. Hovnanian. She explains, "Transitioning to a larger company requires a very different way of operating. There is a strong culture of meeting the numbers and budget management, which put a greater emphasis on data and reporting. There were also challenges in merging back-office systems."

For the typical second-generation home-building entrepreneur, this is a different way of working. According to Hovnanian, "Some owners are too independent and are unwilling to be part of a larger organization. They may be too much of a wild card for us. We seek a true partnership and people who are team players. For our part, we must always fight the bureaucracy to homogenize. There is a tendency for large companies to standardize operating practices. However, you must balance this tendency with flexibility. You never want to quell the entrepreneurial spirit of the company and of newly acquired management. We are a Fortune 500 public company and certain practices need to be consistent, but not all."

Thus, K. Hovnanian's philosophy of entrepreneurialism and flexibility, while helpful to attract and retain key talent, comes with the challenge to manage inconsistencies of operating practices while striving to maintain its identity and continuing to grow the business.

There are many challenges facing two organizations that agree to merge, and many mergers fail to deliver expected results. Figure 2 highlights some of the reasons why mergers do not always work. For a merger to be successful, it is critical that every phase of the acquisition process – pre-acquisition identification, post-acquisition integration and post-acquisition management – be managed effectively.

Figure 2

WHY MERGERS DON'T WORK
■ Lack of a compelling strategic rationale.
■ Unrealistic expectations of possible synergies.
■ Paying too much.
■ Inadequate due diligence by acquirer or merger partner. **
■ Conflicting corporate cultures. **
■ Failure to move quickly to meld the two companies. **
**** Where HR Can Have an Effect: Pre- and Post- Soft Asset Due Diligence**

Adapted from Hitt, M.A., Ireland, R.D., and Hoskisson, R.E. (2007). Strategic Management: Competitiveness and Globalization. Thompson South-Western, Cincinnati OH.

Pre-Acquisition Identification Phase of Due Diligence

The focus on human talent and the preservation of intangible assets permeates all three phases of K. Hovnanian's acquisition process. In the pre-acquisition identification phase, senior leaders ensure that there is a strategic fit with K. Hovnanian and the potential organization to be acquired. "Above and beyond ROI, we look for a good philosophical and cultural fit. We want to complement our current business portfolio and gain an expertise in new markets. We seek companies that have a unique niche, where we can learn from them and in turn help them grow," reports Hovnanian. Echoing this sentiment and the importance of this pre-acquisition due diligence, Sorsby states, "We look for companies that have a track record of financial success that are a good cultural fit. We focus on both their tangible and people assets. We seek companies that we can make more successful, that are receptive to change and are flexible. We look at the acquisition process as an ongoing give-and-take."

When identifying a potential acquisition during this phase, K. Hovnanian seeks to ensure that there is a good fit strategically and culturally. "We consider their reputation in the industry. Integrity is very important for us. We are also very interested in customer satisfaction and how this company treats its customers. We seek a management team that is flexible enough to recognize the value of migrating to a common operating philosophy over time," says Hovnanian.

There is more than just a financial assessment during this due diligence phase. Sorsby and his colleagues want to see not only financial success, but how that success is achieved. "Have they outperformed their peers? Do they show flexibility and a willingness to change? Just like we have to change to align with them, there are things that they must change to align with us," notes Sorsby.

It's also important to know when it's just not going to work. Hovnanian recalls, "We have decided not to go forward with acquiring some companies because we were concerned about their reputation. Other times we got a sense that they were just too inflexible."

Assessing a target company's organizational culture and values takes time. Sorsby explains, "We might meet with a company we are interested in two to four times before we agree to the terms of the acquisition. We spend time with them to get to know each other and to understand how they run their business. We don't like to pressure an owner; we tell them to contact us when they're ready to talk." Hovnanian notes that cultural fit can be assessed mostly by observing the executive management and seeing how they interact with others, and assessing their communication and decision-making styles.

One recently acquired executive, Scott South, who is now a division president at K. Hovnanian, notes that "We spent a lot of time getting to know each other and developing a relationship before we struck an agreement. We were able to see what type of a fit it would be between the two companies. Beyond working out the numbers, we wanted to be sure that we would keep our people. K. Hovnanian was good to their word, allowing the company to stay intact; they even offered employment contracts to some of our key people."

In describing the due diligence process from the acquiring company's perspective, Oster explains, "There are challenges to maintaining secrecy. A major concern is how to show all of our competitive advantages without giving away our trade secrets in case the acquisition doesn't go through. We were interested in assessing what it would take to make this merger work. K. Hovnanian is more automated and has more processes in place due to their larger size. Overall, we laid out exactly how to achieve the best operational alignment and highest ROI. Once the decision was made public, many of our people were fearful of losing their jobs and fearful of the unknown. However, K. Hovnanian always made it clear that they value how we ran our business and did not want to change things that could negatively affect our success. They made it very clear they were intent on keeping us whole."

HR's Role in the Identification Phase

An important component of the pre-acquisition identification phase is including HR. Robyn Mingle, senior vice president of HR for K. Hovnanian and a member of the executive management team, explains that "potential acquisitions are discussed during preliminary 'go/no go' meetings. Once a letter of intent is issued, HR is actively involved in due diligence to ensure the potential acquisitions are a good fit from a talent perspective." Hovnanian notes that HR is an important member of their due diligence team, helping to identify the key talent of the organization to be acquired and how to integrate them into the company.

Mingle explains that “K. Hovnanian’s HR team has a detailed due diligence plan that includes gathering extensive information. Often, the process is very confidential and only a handful of key people from both companies are involved in exchanging information. Speed is critical, and so is accuracy. Data is acquired through plan documents, manuals, reports and interviews.”

HR uses a three-step process to manage due diligence. The first step focuses on HR financials, such as the cost of benefits, programs and personnel, all of which factor into ROI projections. The second step is to conduct a thorough risk assessment. The final step is to conduct an organizational culture assessment. Mingle reports, “We analyze the company’s track record and philosophy for managing and leading their people, how they reward and develop employees, and the overall implications of their culture.”

This process is further described by Marie Schultz, Edison Group vice president of HR for K. Hovnanian. “We want to understand how they run their business. What is it about their culture that defines them? How do they lead? How do they make decisions? We want to identify the key leaders and understand what it will take to retain these people. Everyone operates differently. Our strength is acknowledging this and creating an environment where these individuals will be comfortable working. We want to understand how sophisticated their processes are with respect to recruiting, training and developing their workforce. You can learn a lot by having conversations with people. You can see their communication styles and listen to what they consider to be important issues.”

Describing her own experience on a due diligence team, HR Director Sherrie Dean adds that “selection of an acquisition team to conduct the due diligence process is critical. Additionally, you need to clearly define what information and documentation is needed from the target organization, which we provide to them on a checklist.”

The final step of the pre-acquisition phase is to ensure that key employees of the acquiring company stay after the acquisition. According to Ray, “We look at the organization chart and focus on the top leaders and their direct reports. We look very closely at the Number Two people because these are the ones who may be running the company in the future. We spend long hours getting to know them and their families. All in all, we try to address their needs and help make the transition as painless as possible.”

Focusing on how key talent is retained through motivation and reward practices, Sorsby explains that "a large part of the purchase price is based on how they will perform over the next two or three years. It's a huge incentive. We also help them expand their product mix and enter new markets." Riggs adds, "The key people are the owners and their direct reports. Oftentimes, we provide the owners an earn-out program, whereby they receive 'X' monies today and 'Y' monies in the future if the business grows profitably. Most important, we create an environment where they can continue to run their business and do what they do best. We don't want to stifle their entrepreneurial zeal, because that is what made them and their company successful – which is why we acquired them in the first place."

HR plays an important role in the identification/due diligence phase, particularly for organizations that merge two organizations with often disparate cultures and operating practices. To ensure all the necessary information is collected and analyzed, an "HR Due Diligence Template for Mergers and Acquisitions" (see Figure 3, page 11) is commonly used.

Post-Acquisition Integration Phase of Due Diligence

During the post-acquisition integration phase, the process of merging the companies begins. Describing the process, Hovnanian says, "We try not to be too disruptive to their operations and don't want to be too bureaucratic. We focus primarily on key operating principles and ensure we have a timeline to integrate certain processes. The key is to be respectful and flexible and not change everything all at once. Our primary focus on Day One is on accounting and banking procedures. In addition, we need to get everyone on board with financial reporting and customer satisfaction surveys. However, there are many things we do not change. We allow them to develop products their way. We don't want to be disruptive with how they run their business. However, for the benefit of all, we ultimately seek a common technology and operating platform that can help us streamline certain processes and reporting needs and increase speed and productivity. We have learned that providing flexibility and soliciting input creates ownership in any change initiative."

Keeping the management team fully engaged is an ongoing challenge during this phase. According to Sorsby, "Early on, we invite the key leaders to an integration meeting. Their primary concern is usually keeping their jobs. Once they realize that is not an issue, it becomes much easier to get things done. The key is not to overwhelm them and try to solve everything at once. We start with the priority items and develop a transition plan. Then some time in the future, we will look at other evolving things that make good business sense. Throughout the process, we want them involved in the decision making. In the past, we would immediately communicate everything that would most likely change over time, but we learned this was extremely overwhelming. Now it's more of a gradual process; as one newly acquired owner said, 'it's like a slow inoculation.' "

Figure 3

HR DUE DILIGENCE TEMPLATE FOR MERGERS & ACQUISITIONS		
Conducted by Human Resources. Serves as a framework for collecting and bringing forward information about the organizational capabilities of a target company and its suitability for purchase, and subsequent integration.		
Executive Summary	■ Concise overview of HR audit	■ Recommendations and integration risks
Company Profile	■ Company name, headquarters, site locations ■ Number and type of employees at each site	■ Date and history of company founding
Culture Audit	■ Assess work environment ■ Stated or implied values of company ■ Morale of employees ■ Degree of shared vision among leaders and employees ■ Frequency and results of employee surveys ■ Communication style favored	■ Effectiveness of teams ■ Degree of customer focus ■ Degree to which the organization applies learning ■ Attractiveness to potential new hires ■ How and when the company celebrates success ■ Comparison to acquiring corporation's culture
Management Audit	■ Management style at company ■ Decision-making process used ■ Importance of values to managing the company ■ Overall management capability	■ Management training conducted ■ Likelihood of key managers remaining post-acquisition ■ Comparison to acquiring corporation's management's strengths
Employee Audit	■ Overall talent of the employee base ■ Strength of technical talent ■ Strength of marketing talent ■ Strength of functional talent ■ Key employees' company origin ■ Ability to recruit/retain employees	■ Ratio of regular vs. contract employees ■ Headcount growth plan through fiscal year ■ Likelihood of key employees remaining post-acquisition ■ Comparison to acquirer corporation's employee strengths
Compensation Audit	■ Compensation philosophy ■ Compensation components ■ Grading system ■ Job titles/families ■ Performance evaluation system	■ Salary review process/ frequency ■ Stock option distribution/ holdings ■ Comparison to acquirer corporation's compensation
Benefits Audit	■ Benefits philosophy ■ Benefits components ■ Trend of benefits development	■ Potential savings with merged benefits plans ■ Comparison to acquirer corporation's benefits
Integration Issues	■ Compensation plan blending ■ Benefits plan blending ■ Employee communications plan	■ Geographic considerations ■ Likelihood of employees to relocate ■ Willingness of company to be integrated into acquirer corporation
Comments/Edits		

Adapted from Beatty, R.W. (2004). Mergers and Acquisitions Program, Rutgers University School of Management and Labor Relations.

Riggs adds that "we don't want to completely change how they run their business. We want them to continue to do those things that have made them successful. Therefore, we look at the transition into K. Hovnanian as a true partnership. We even allow them to keep their name if they feel it's compelling. We have enough experience with acquisitions that we now have this down to a science. But we know and expect that each acquisition will be different."

An interesting part of K. Hovnanian's integration process is the existence of adjunct teams. These teams interface with all K. Hovnanian companies that have been either created through internal expansion or added through external acquisitions. With representatives from each operating unit, the main objective is to identify best-in-class operating practices that focus on production, quality, marketing, etc. It can be a challenge to get everyone to agree. According to Riggs, "It's important to listen to their concerns and make them part of the process. Our goal is to foster entrepreneurialism while creating common operating best practices." The individuals selected to be on adjunct teams play a critical role during the integration phase. Figure 4 lists what it takes to be an integration manager.

According to South, recollecting his experience of being acquired by K. Hovnanian, "We were surprised to find out how detailed the requirements were to comply with Sarbanes-Oxley. There was also some debate about whose best practices are best. The timeline provided to change certain back-office processes and systems – such as accounting, treasury, IT support – helped make the transition manageable." Echoing South's sentiment of having been acquired by K. Hovnanian, Oster noted, "The transition to a much larger, more sophisticated company is difficult; however, we were able to work out a transition plan that enabled us to migrate to their systems at a reasonable pace that did not disrupt our business. Importantly, there was always a give-and-take, which made for a smoother transition."

Along with adjunct teams, K. Hovnanian's organizational culture helps to make the integration process successful; for example, knowledge sharing is encouraged. Sorsby explains, "We don't create situations where one leader is afraid to share information for fear of a person leapfrogging over them. If a new company is interested in developing a new product, we have them meet with someone elsewhere in the company who has that expertise. They have a unique opportunity to learn what worked, what didn't work and why. In the end, we avoid what I call the 'dumb tax': the price you pay the first and second time you do something before figuring out the best way. And most important, we learn from that new company as well. We don't have a culture that says we're the big guys and you can only learn from us. It's an entirely different approach from many of our peers."

Sorsby further notes that "many large companies are not willing or able to be as flexible as we are. It is very difficult to allow policies and practices to vary. We have a decentralized management philosophy that encourages entrepreneurialism. We are an amalgamation of many companies and many cultures, which creates a unique environment that values flexibility and entrepreneurialism."

Figure 4

WHAT IT TAKES TO BE AN INTEGRATION MANAGER	
Manage the integration process by	■ Working closely with managers of the acquired organization to make critical practices consistent with the acquiring organization's requirements and standards. ■ Creating strategies to quickly communicate important information about the integration effort to employees. ■ Helping the acquired organization adopt business initiatives that may not have existed before the acquisition.
Help the acquired company understand the new company by:	■ Assisting managers of the acquired organization as they navigate through the new organization's systems. ■ Educating the new management team about the acquirer's business cycle, reviews and other processes, such as strategic planning, budgeting, and HR assessments. ■ Translating and explaining the new organization's various acronyms. ■ Helping the acquired organization's managers understand the new organization's culture and business customs. ■ Introducing the acquiring organization's best business practices to the new management.
Help the acquiring organization understand the acquired business by:	■ Not swamping the newly acquired firm with too many requests for information. ■ Assessing the capabilities and best practices of the acquired organization. ■ Briefing the acquirer's executives about the newly acquired organization to help them to explain why things work the way they do.

Adapted from Beatty, R.W. (2004). Mergers and Acquisitions Program, Rutgers University School of Management and Labor Relations.

HR's Role in the Integration Phase

Communication and expectation-setting are critical to successfully integrate two organizations. Mingle and other members of the executive team, including Ara Hovnanian, are involved with the formal welcome to new associates during a town hall meeting with the newly acquired organization. Mingle notes, "These are extremely positive sessions where we focus on ensuring that all employees feel good about the transition and understand the benefits of our combined teams. We find that providing them with videos about K. Hovnanian's history and past successes with other acquisitions is helpful to ensure that associates and their families feel good about the new partnership. They also find comfort in hearing directly from leaders that we acquired this company because of the people in the room and the success they have achieved as an organization. Decisions about benefits, programs and policies are often accelerated so that information can be provided to associates early in the integration process. HR plays a lead role in facilitating those decisions, since the cost implications of enhanced benefits or programs are an important consideration. What we find is that many leaders are interested in adopting our benefits and programs quickly because they are more generous. In those cases, we provide a summary and timeline for the changes. In other cases, we may transition them to our platform over a period of time. Regardless, we provide the acquiring company the flexibility to decide."

Underscoring the challenges of this phase, Schultz explains, "A major challenge for us is determining how to manage the inconsistencies. We can't always go to a policy manual and say 'this is how you must do it.' In order for us to be flexible and maintain our entrepreneurial spirit, we need to embrace and manage change. We don't look to micromanage the HR practices. Instead, we seek to understand the differences and then determine the best course of action. Clearly, it can be more difficult to manage HR this way, but the positive impact to our culture and business is what counts the most."

Schultz continues that it "can be a challenge to keep track of and manage the different benefit plans and HR policies. Most of our policies are flexible and focus on general guidelines. However, there can be show-stoppers that must be addressed immediately. Some policies are core to what K. Hovnanian represents and are non-negotiable, such as our legal and ethics guidelines, and how we conduct business with our trade partners and vendors. Basically, we take a holistic approach and assess what we gain or what we lose if we make a change and when. Our experience is that each acquisition is different, and they truly appreciate that we recognize those differences. After all, we are acquiring successful companies and we need to be careful when tinkering with key elements that may affect that success in the future."

Mingle adds, "Our approach is to ask what works best in that market or location, and under what set of circumstances. When practical, we seek certain consistencies that will work across multiple markets. After all, we are definitely in the business of ensuring that best practices can thrive."

Oster recalls, "HR made it clear that K. Hovnanian encouraged entrepreneurial leadership, and there was a strong people-management focus. They made our team feel part of the decision-making process from Day One. There wasn't a one-size-fits-all mentality. They clearly communicated why this was a good move for us. They outlined how things would transition and what effect it would have. There were certainly challenges being part of a larger organization, but HR was very flexible and helpful. Most important, they assured us that we would keep our people and then worked closely with our management team to address any concerns."

To help support the acquired company, HR develops a partnership with local management. They provide functional expertise and support in critical areas, including staffing, compensation, benefits, training and leadership development. According to Mingle, "We work very closely with acquired management to ensure they are engaged, energized and prepared for growth. Our philosophy is to allow them to continue to do what they do best, yet encourage best practices where possible."

Post-Acquisition Management Phase of Due Diligence

In the post-acquisition management phase, the acquiring organization continues the integration process. It is critical that HR stay involved. Reflecting on what it takes to successfully integrate and manage new acquisitions, Mingle notes that K. Hovnanian's culture encourages innovation and flexibility, which allows them to attract companies and leaders who would otherwise not want to be part of a larger organization.

For success during the post-acquisition management phase, communication remains critical. K. Hovnanian makes it a point to continually communicate to ensure there are no major barriers to success. Riggs notes, "Many of these companies are not used to sophisticated performance metrics, so it can be a big change for them. It's worth the effort to explain why certain things are so important. We may insist on something, but we'll then be flexible not to change other aspects of their business. Explaining why we need something and demonstrating how it aligns with our business strategy is vital. Once they see how it can benefit them, it's easier to achieve agreement."

Data collection during this phase is important for K. Hovnanian to monitor progress. "We are mostly concerned about keeping track of the important performance metrics on financial results, quality and customer satisfaction reporting. We use our performance metrics to motivate individuals to conform to the best practices we want all our operating units to follow. Interestingly, when we see a group with outstanding results who are still not following the best practice being advocated by the adjunct team, we question the usefulness of the practice. Perhaps it needs to change for all or perhaps there is something unique about this market where it makes sense to allow them to do things their way. Once again, it's our willingness to be flexible that allows this to happen," explains Riggs.

HR's Role in the Management Phase

While navigating this process as an HR leader, "you need to be a true ambassador and set the proper tone when you meet with new management and their employees. You need to be proactive but flexible, and you must recognize that a one-size-fits-all approach may be met with resistance. We spend one-on-one time with leaders and employees and we show that we're willing to listen and learn; if there is something they are doing better, perhaps we should consider a change. We are willing to accept a long transition period to ensure we address all of their concerns. We are also willing to accept a degree of ambiguity that may be difficult for other companies," notes Mingle. "Facilitating this learning process can be delicate, but the end result has been very rewarding for our business."

During this post-acquisition management phase, HR continues to play an important role. As Mingle explains, "The key is to understand the full-value proposition. When you navigate through the HR issues, you must consider the affect on the business and the employees and then determine what works best. At the same time, recognize that there are situations where flexibility isn't an option and doesn't make the most sense. For that reason, the joint decision-making process becomes critical."

Echoing this advice, Schultz notes, "HR should seek to understand first, and change second. Understand what it is that made the company successful. Where change is necessary, you must nail down the business rationale for what you recommend and be able to effectively communicate it to others."

Conclusion

K. Hovnanian's acquisition strategy has enabled them to grow from a family-owned company in New Jersey to a Fortune 500 company with operations nationwide. This case provides insight into the challenges and decisions that are encountered when there is a strategy that focuses on preserving the intangible assets of acquired companies. Reflecting on this strategy, Hovnanian advises, "K. Hovnanian is a very unique company. We are a Fortune 500 company that is closely held. The K. Hovnanian family owns nearly 50 percent of the company. Thus, we have the advantages of a well-capitalized, professionally managed company that has a strong entrepreneurial spirit. We still relate to and are respectful of the owners of newly acquired companies and understand how they would want to be treated. We try not to be too disruptive to their operations or to become too bureaucratic. Most important, we believe we need to be patient and flexible with change."

Indeed, merging two organizations takes planning and time. As noted in this case study, there are a number of critical phases and the entire process can take years to complete. The goal is not to simply merge the cultures and capabilities of two organizations, but to create synergies that achieve results that exceed what both firms may accomplish separately. Thus, the process continues during the post-acquisition management phase to go beyond integration and to seek a renewed business strategy that can sustain the newly created company well into the future. In closing, Figure 5 describes the post-merger integration and renewal process.

Figure 5

POST-MERGER INTEGRATION AND RENEWAL PROCESS		
PHASE I Announcement of Merger	**PHASE II** 1- 2 Years	**PHASE III** 2-3 Years
■ Assess structures of both organizations. ■ Assess “lines of business” provided by both organizations. ■ Determine transaction costs for each line of business. ■ Assess staffing needs for critical positions. ■ Issue retention bonuses to key employees. ■ Implement communication strategy.	■ Begin business assessment and renewal process. ■ Establish cross-functional teams for new business initiatives, e.g., marketing, technology, etc. ■ Examine current lines of business vs. functional lines of business. ■ Keep everyone informed on an ongoing basis. ■ Develop renewed business strategy. ■ Identify necessary human capital to have best-in-class strategic workforce.	■ Finalize and implement renewed business strategy. ■ Communicate to workforce. ■ Develop new structures to realize renewed business strategy. ■ Develop criteria for key positions in new structure. ■ Identify candidates to staff new organization. ■ Staff the new organization through a cascading process. ■ Communicate the staffing of the new organization to all.

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