Case Study

Integration Planning at SFB (A)

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Extra teaching materials are available at https://publishing.insead.edu/case/integration-planning-sfb-a

"We must be cautious at every step," Maurice insisted, referring to the closure of the Lyon office of Société Française de Biotechnologie (SFB) with his colleagues Nikhita and Kusha, as part of the integration with Big American Pharmaceuticals (BAP). "After GE-Alstom, American firms don't have a great reputation in France. We must make the transition as smooth as possible for all employees – those who stay as well those who leave."

Nikhita agreed. "We don't want to do anything that could harm our prospects – either here in France or in the US."

"There will always be repercussions on reputation and morale," said Kusha. "The key question is – can we make unbiased, informed, data-driven decisions that hit our targets and minimize negative repercussions?" As a former consultant, she had been involved in several acquisition transactions and was familiar with the challenges. Starting out in a new full-time role with BAP, she wondered if she could do things differently now that she had decision-making power.

BAP Acquires SFB

On 14th January 2019, Big American Pharmaceuticals (BAP) announced the acquisition of Société Française de Biotechnologie (SFB), a biotech firm headquartered in Paris, in a deal worth €1.5 billion. The acquisition was anticipated to achieve two goals. First, the expansion of its R&D capabilities in the immuno-oncology therapeutic area, where SFB had recently made significant advances. Second, the diversification of its commercial operations in France through the inclusion of sales team members from SFB specialized in immuno-oncology.

It was one of several deals BAP was planning to complete. The business case projected €50 million in cost synergies through site closures and the merging of R&D, sales and back-office operations. BAP had six months to close the acquisition from the announcement. Its corporate strategy team had already arrived in Paris and with the remaining top management of SFB had responsibility for the integration of operations and making sure the deal was closed within the planned time frame.

The CEO of SFB would not be a part of the future French operation – he was moving on to set up another biotech venture. The COO of SFB, Maurice Duperré, would stay on as Head of France Operations for BAP. Nikhita Porter, Head of Corporate Strategy at BAP, would lead the integration planning for the combined French operations. She had come to Paris directly from the office of a previously acquired company where she had held a similar integration planning role.

Within Nikhita's team, Kusha Ahmad led the workforce planning workstream – her first assignment at BAP. She had joined the company from a consulting firm where she'd managed similar projects for pharmaceutical clients. Her responsibilities on the SFB deal included planning the workforce transition within the redesigned French operation and resolving contractual and regulatory labour issues during the integration.

As a first priority, Nikhita and Maurice tasked her to look into the closure of the SFB Lyon office. Lyon was the only city where both BAP and SFB had regional offices, each with over 400 employees. The leadership and deal negotiation teams agreed that the SFB office in Lyon would shut down, and Sales, R&D and HR would shift to the BAP office 50kms away. They had projected savings of €3 million in annual salary costs.

To minimize regulatory issues they would propose a severance agreement known as a *rupture conventionnelle collective* (RCC), an option introduced by French President Emmanuel Macron in 2017. At the Lyon office, management expected 10% of the workforce (40 employees) to leave voluntarily and accept severance compensation – thereby helping to meet the target savings. This required planning on several fronts, including negotiations with elected staff representatives.

Nikhita and Maurice asked Kusha to come up with an analytical model to facilitate the headcount reduction. The office was due to shut a few weeks after the deal closed. The reduction plan, including the one-time severance compensation offer, had to be finalized and announced to employees three months in advance (Exhibit 1A).

Kusha ponders the task

Kusha had led workforce transition planning in several acquisitions as a consultant – eight years working for XYZ Consulting LLP in Chicago. After her MBA, she joined their Human Capital practice as a senior associate, but had left the company as an associate partner, seeking a better balance between her career and family life.

She was aware of what her new task entailed. Typically, to develop a headcount reduction plan, she (and her team of consultants) would meet with senior leadership to understand on what factors they evaluated each employee's performance and intention to stay – typically performance ratings, years of experience and job satisfaction. Subsequently, her team collected relevant data points from the employee census, arrived at a cumulative score for each employee, and then, based on the score and other factors such as salary and the number of employees at each job level/role, they came up with a headcount reduction "recommendation" plan.

However, the leadership team rarely acted per the consultants' recommendations and often went with their "gut feeling". It was common for sales team leaders to vouch for their favourites. She wondered if she could convince Nikhita and Maurice to be 'data-driven' when making decisions.

French regulations did not permit targeting specific employees for headcount reduction. Being unfamiliar with French labour law, she asked for a meeting with Nikhita to discuss them.

Kusha meets Nikhita in her office

"Yes, I am on board with a data-driven approach," Nikhita confirmed when Kusha brought up the topic of data-driven decisions in her makeshift office at the SFB Paris office. She also shared two lessons from her experience leading the prior transaction, which would help Kusha plan the headcount reduction in Lyon:

"In Europe there is greater scrutiny of wrongful termination. It is unlikely that firms get regulatory approval to terminate employees just because of an acquisition, so they typically make collective bargaining agreements with workers' representatives. These give employees the option to leave voluntarily in return for compensation over and above the amount stipulated in their contract. They serve to give dissatisfied employees a 'nudge' to look elsewhere.

In a previous transaction, we had to shut down an office almost the same size as the Lyon office and regulations about collective agreements were similar. Without data analysis, the team simply offered everyone the opportunity to leave voluntarily with three months' salary on top of the base severance compensation. As a result, we couldn't control who left or stayed and ended up losing almost all employees at certain job levels and roles. We had to resort to external recruitment right after the acquisition closed."

She added, "I fully support your idea to use data to make informed decisions. Let me show you the employee census from the previous transaction – I have indicated the employees who left in a separate column."

"Thanks. Anything else to keep in mind?"

"There is one thing. While using data to guide our decisions, we should be careful with the results of our models to ensure we don't discriminate among different groups when we make decisions."

"That's fair – and important too."

"I'm having lunch with Maurice. Why don't you join us and we can go over what we discussed."

Kusha and Nikhita meet Maurice

"I agree with a data-driven approach," said Maurice, as Kusha summarized their discussion. "It's great the three of us are thinking in the same direction. Let me give you both the link to access the employee census for the Lyon office. It's available on the deal room site – I assume you have access?"

"I made sure everyone in the integration team had it when they arrived," said Nikhita.

"Also, let me share an overview of the features of the collective bargaining agreement we can set up in France. It's called a *rupture conventionnelle collective* or RCC and was introduced in 2017 by President Macron. They give employees the option to choose what works best for them. The previous procedure was similar to a termination offer in the US and triggered employee revolts and investigations by regulators, which I want to avoid. To overcome the problems you faced before, Nikhita, perhaps we can offer an RCC to certain categories but not every job role and level. Maybe Kusha has a cool model that can automate the decision for us?" (Exhibit A2)

"Definitely worth a try. Let me think about it," replied Kusha.

They agreed to meet in two weeks to discuss preliminary ideas.

Kusha Reviews Emails from Maurice and Nikhita

Back in the conference room, Kusha noticed emails from Nikhita and Maurice. As she went through the census files and Maurice's overview of the RCC, three things concerned her:

- The context in Europe was very different from the US M&A context. With that in mind, what changes would she have to make to her typical headcount reduction methodology from consulting days?
- How could she avoid the problems faced in the previous transaction? She understood that there were contradictory forces on the motivation to leave. The longer people had worked for the firm, the higher the severance pay, so the more inclined they were to leave. Yet the stronger their attachment to the firm, the less likely they were to leave. Could she find a way to rate employees on the likelihood of leaving given these opposing forces?
- What "cool model" could simultaneously identify employees likely to leave and help BAP achieve its reduction targets yet avoid a mass exodus (as in the previous transaction)?

She wrote a brief reply to Nikhita. "Thanks for the census from the previous transaction. One more thing to ask – could I have John, the new strategy analyst, help me for the next two weeks?"

Exhibit A1

Timeline of activities: SFB acquisition and Lyon office closure

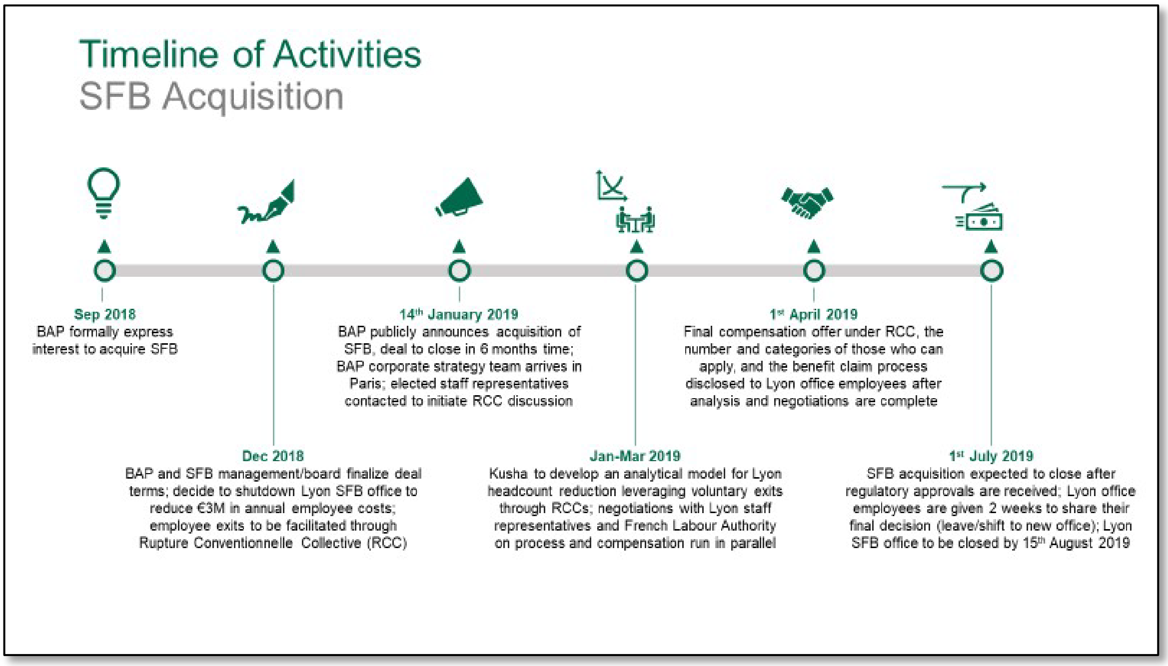

Exhibit A2

Rupture Conventionnelle Collective (RCC) Summary

DUPERRÉ Maurice

From:	DUPERRÉ Maurice
Sent:	Monday, 21 January 2019 2:15 pm
To:	PORTER Nikitha; AHMAD Kusha
Subject:	RCC Overview, Lyon Employee Census

Hi Nikitha, Kusha,

Please see below the link to the Lyon employee census.

https://www.ibank-dealroom.com/project-extreme/files/refid/00087634262890/

Also, please see below an overview of the RCC agreements we could offer in France. I look forward to discussing this with you in 2 weeks time.

Best,

Maurice

Rupture Conventionnelle Collective

In 2017, the so-called "ordonnances Macron" introduced the "Rupture Conventionnelle Collective" (RCC), a procedure to facilitate termination of employment contracts (art. L1237-17). Unlike other procedures, in an RCC, the termination of an employee's contract is agreed upon by both the employer and the employee, though it can only be initiated by the employer.

From an employer's perspective, the RCC presents numerous advantages. First, the RCC does not suffer from the negative publicity associated to other termination procedures such as the Plan de Sauvegarde de l'Emploi (PSE). PSE announcements have at times in the past triggered employee revolts, including attacks on HR personnel and kidnapping of managers. An RCC announcement does not – for the moment, at least – generate such extreme reactions. Second, to initiate an RCC, the employer does not need to provide proof of economic hardship as it needs to for a PSE. It does not have to make a case in front of a judge or bring in a chartered accountant either. Finally, it has no obligation, in the case where the situation improves, to re-employ the employees that have left. Thus, it can be the case that long-term contract ("Contrat a Duree Indeterminee" or CDIs) employees are immediately replaced as needed. From an employee's perspective, an RCC can be a good opportunity for an employee to leave a job that (s)he no longer enjoys, without having to resign or be terminated, and search for a new job while benefiting from the statutory unemployment benefits. This is often made easier for the employee by the employer, who is obligated to provide financial packages to each employee as well as training and outplacement opportunities. In the case where an employee does not wish to leave however, there is no obligation on him or her to do so.

The RCC is a three-way dialog between (1) the Comite Social and Economique (CSE) of the company, which includes a delegation of elected staff members (unionized or not) among which in practice are often to be found the appointed union representatives; (2) the employer themselves; (3) the French Labour authority called the Dreets. The process, as mentioned above, is triggered by the employer, who has an obligation to inform the

Exhibit A2 (Contd.)

Dreets and the CSE immediately. The employer together with the union representatives then negotiate an RCC agreement containing:

- The process through which they will keep the CSE informed, as well as the frequency at which they will keep them informed.
- The number of employees concerned by the RCC and the maximum number of contracts that can be terminated as well as the duration of the RCC.
- The conditions under which an employee can apply for the RCC.
- The process that an employee must follow to benefit from the RCC and the applicable withdrawal period.
- The amount of compensation each employee is entitled to if they decide to benefit from the RCC.
- The measures taken by the employer to procure for the employee outplacement opportunities and training

Importantly, not all employees are necessarily offered the RCC. Rather, categories of employees are given the option to apply for the RCC. These categories must be given upfront and chosen on objective criteria, the goal being to avoid discriminating between employees.

Negotiations on the RCC agreement end when a majority of the unions approve the document. While all points can in theory be the subject of the negotiation, it is often the compensation which is the main bone of contention and we discuss this in more detail below. Once an agreement is reached, it is then transmitted to the Dreets, whose goal it is to check that the conditions of the document are fair and objective, among other things. Once the Dreets has approved the document, the previously defined categories of employees are given the option to apply for the RCC. Each individual employee who has been offered an RCC must then decide if they wish to benefit from the RCC or not. If they do wish to do so, they must reach out to HR Dept to make their intentions known and sign an individual mutual termination agreement. The process stops when the maximum number of contracts that can be terminated or the time limit of the RCC are reached.

As mentioned above, to be successful, an RCC needs to provide attractive compensation packages for employees. The legal minimum is given by the compensation that an employee would receive if the employer unilaterally terminated his or her contract. Unless more favorable provisions resulting from a mandatory collective bargaining agreement, this is given by:

- 1/4 of monthly salary per work year for up to 10 years of non stop work with the same employer
- 1/3 of monthly salary from 10 years onwards
- The monthly salary is taken to be one twelfth of the total amount obtained over the past year

This applies to any employee that has worked for the employer for 8 months or more. Note that the work year is pro-rated to account for full months of work of the employee. If an employee has worked, e.g., 10 years, 3 months and 4 days in a company, then (s)he will receive 10.25*1/3* monthly salary as compensation. An RCC will typically offer packages that are much improved compared to this "base" package to encourage unions to approve the agreement: typically, 2 to 8 months salary is added on top of the initial package.