GETTING A MERGER RIGHT

Avoid the Value-Eroding Talent Traps

Mergers are announced with much fanfare and attention to the value of the deal — in the form of cost savings or new revenue from sales and distribution synergies, the addition of new geographic markets or the combination of complementary products. Yet, many of these mergers never truly deliver the anticipated value and, two or three years later, the combined company quietly makes changes to the management team or writes off the goodwill generated from the deal.

Why don't these deals reach their potential? In short, talent issues are the major cause of most failed mergers today. Politics, poor communication and a lack of insight into the roles and individuals who will be needed in the new organization hobble companies' ability to make smart, efficient talent decisions; specifically, many companies fall short in four critical areas:

- Failing to act fast enough to identify and secure the people they want to keep
- Placing the wrong people in the most critical roles
- Failing to recognize the leadership capabilities that will be needed in the merged company
- Underestimating the organizational and cultural hurdles to integration

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Mismanaging talent: What's at risk

In the confusion and uncertainty following a merger announcement, anxiety and insecurity reign among employees of both organizations. Weak talent management practices and poor communication exacerbate these challenges, and threaten the combined company's ability to deliver on the value of the merger in three critical ways.

In an uncertain environment, the most valuable talent is most at risk.

New strategic, organizational and management challenges will confront the merging companies as they begin their integration, and they can ill-afford to lose the highest-performing people just as the need for strong leadership is at its greatest. It is not unusual for the most talented executives and other professionals to receive inquiries within days of a merger announcement — precisely when uncertainty is at its highest. With more options before them, top talent is most at risk unless they quickly receive a signal about their future in the new organization.

Unfortunately, many companies lack the processes and reliable data to identify the executives who are critical to the success of the merged company and who are vulnerable to leave during the transition. Nor do they apply the same cost-benefit analysis to people as they do to other business decisions; e.g., how much will it cost us to lose our critical chief sales officer? Without a retention strategy, the very people who the company will need to carry out the merger integration could be lured away.

The wrong people end up in the roles that are vital to the merger's success.

Research has found that, in a merger, roughly one-third of the new top team will create value, one-third will have a neutral impact, and one-third will struggle to adapt or create value, lacking the knowledge, skills or the commitment to be effective in their roles. The problem is magnified in a merger, which may double the size of the business, add new geographic markets and expand product or service lines. Companies frequently underestimate or fail to anticipate the new capabilities that will be needed in senior roles; even when job titles don't change, executives may be stretched to manage businesses or functions that can be markedly different in scale, scope and complexity, e.g., new geographies, culture or competitors. Furthermore, most companies lack an objective method for evaluating, comparing and selecting top talent, particularly in assessing certain soft skills that are important in planning and executing an integration. Without strong leadership in these critical roles, the combined company will never achieve the anticipated value.

Valuable time is lost for building a unified integration team and plan.

With senior management focused on the specifics of the deal and external communication, leadership decisions can fall low on the list of priorities. The longer it takes to make key leadership decisions — and the less transparency there is around those decisions — the more uncertainty grows in the post-merger announcement period. Not only does this increase the likelihood that the combined company will lose top leadership talent, it also breeds inaction, paralyzing some and encouraging others to view the integration process as a battleground to see who emerges victorious. In such an environment, no real progress can be made on the integration plan, or a makeshift plan is created, only to be revisited once the deal is complete and leadership decisions are finally made.

A better approach: Four talent management recommendations

In a merger, companies have little time to make important leadership decisions and often have to make these decisions with limited information. We offer the following four recommendations that serve as the foundation of a thorough and expedited talent management process:

1) Quickly identify the people the organization should retain and engage them in integration planning.

The highest-performing executives will generate the most value for the business; they have the skills and personal characteristics to drive the success of the merger. This group of high achievers — the top one-third or so, research has shown — is highly motivated, exceptionally smart and highly experienced, and they have the courage, confidence and emotional intelligence to handle complex and thorny issues. By retaining the highest performers and placing them in critical areas of the business, the merged company is more likely to achieve the anticipated value of the deal.

Get to those people quickly as part of the process. Involve them in the merger process or integration planning in some way and take action to ensure their retention. Oftentimes, a robust assessment program will help retain key players as part of a coaching process to integrate them into the new organization or as a career development opportunity. Also, act swiftly to decide who will not fit in the new organization, which can have as big an impact on defining the new culture as who is asked to stay.

2) Communicate merger milestones and provide some measure of transparency about the decision-making process.

Executives often feel uncomfortable communicating with employees after a merger announcement because so many of their questions can't be answered; but not meeting with key employees can be fatal. Anxiety increases in the absence of information, and the assumptions people make are always negative. Provide people support to get through the least stable, most anxiety-provoking parts of the process, or build groups to contribute to the integration effort. In this way, the problem becomes the solution: "Don't know how the merged organization will deal with this issue? You're on the team to fix it."

Across the broader organization, productivity in day-to-day operations often decreases as people wait for announcements or are preoccupied thinking about their future. Help ease anxiety by communicating intent, appointments, strategy and merger status. Interestingly, admitting when there is no certainty actually increases people's personal sense of clarity; that is, individuals assume the worst when they hear nothing from management, but are reassured when they are told that the leadership team isn't certain yet either.

3) Define the scope and responsibilities of key roles in the combined company.

It is not uncommon when filling senior roles for the combined business to rely on little more than job titles or dated job descriptions that do not take into account the requirements of the new role. It is very rare when two companies merge that their businesses match one to one; one may be organized by functions, another by region, for example. The responsibilities of many roles in the new organization, then, may be significantly different than before the companies merged.

So, for example, in the combined company, the country manager, who used to be more administrative, will now have to drive sales. Or, the chief marketing officer in the new company will oversee a team that is twice the size, more globally dispersed and includes new functional responsibilities. When companies don't acknowledge how roles will evolve in their planning, they can place people in important positions who are ill-equipped for their new responsibilities and expectations.

Furthermore, certain soft skills become important in an integration that may not have been as important or as valued before, both in planning for the integration and the execution. The ability to initiate and drive change is a hugely complex task requiring a very broad skill-set, including business judgment and strategic insight, social intelligence, self awareness and excellent people management skills. In addition, driving change requires influencing skills and, as one moves to the highest levels of an organization, the ability to inspire from a distance. As important as these competencies are, many companies do little to develop or assess them in the normal course of business.

4) Rely on fact-based, objective assessments that provide real insight into candidates for top roles.

The selection of leaders for key roles in a merged company is typically constrained by a lack of data. Not only do companies overestimate the value of their own assessment tools for understanding the capabilities of their people, they lack shared objective standards to compare executives from different organizations. And very few talent organizations have the capability to accurately assess the change management skills that are critical to the success of the integration.

An independent management assessment can evaluate individuals' strengths in those important areas, provide a consistent view of executives across companies, minimize fears of favoritism by applying objective standards, speed up decision-making and serve as a conduit for feedback from management to the very top of the organization. Such assessments also can identify gaps that may need to be filled by external hiring and potential assignments for internal candidates who did not get the roles they expected.

As valuation models and strategic analysis related to the legal, financial and operational elements of mergers and acquisitions have become more sophisticated, fewer deals fail because they are a poor fit strategically or because the buyer paid too much. More often, mergers and acquisitions fail to deliver the anticipated value because companies pay too little attention to cultural issues, organizational integration and talent selection, placing the wrong people in the critical, value-producing executive roles — the positions that are vital for achieving the aspirations for the merger. More often than executives would like to admit, a desire to avoid upsetting people and informal "you–get–one-I–get -one" understandings between companies drive talent selection in mergers, rather than the sort of analysis that is likely to produce a high-performing team to manage the integration. With so much at stake, traditional approaches to selecting executive talent must be replaced by a process in which important leadership decisions are made early; executive positions are defined based on the new scope of the business; and leaders are selected based on fact-based objective assessments.

ABOUT SPENCER STUART

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